

AP7

Sustainability Report 2020

AP7 Theme Report Water

Report on the Fresh Water Theme 2016-2018

A large blue outline of a water drop with a smaller blue outline of a wave underneath it.

USD CO₂ EUR CNY
CHF SEK GBP JPY
NOK RUB

Investerare i en ny klimatekonomi

AP7 Theme Report Climate Lobbyin

Our work on the Corporate Climate Lobbying Theme 2017-2019

Two white speech bubbles with blue outlines, positioned on a dark blue background with white clouds.

Contents

Letter from the CEO	2
About AP7	4
AP7's climate-related risks	6
AP7's role in sustainable development	8
How AP7 works as an active owner	10
Guest interview with Bo Becker	14
Our themes	16
Theme: Working Conditions in Food Supply Chains	18
Theme: Sustainable Impact Measurement	20
Theme: Climate Transition	22
On savers' terms	24
GRI Supplement	26
GRI Index	30
Q & A	32
Definitions and explanations	33
Blacklist	34

"2020 – a year with light in a dark pandemic"

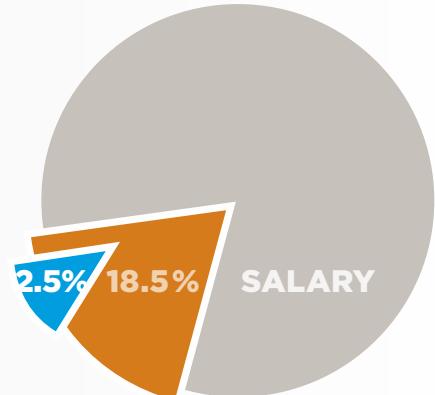
AP7's CEO Richard Gröttheim on how the sustainability work has moved in the right direction despite the pandemic's dominance.

pp 2-3



About AP7

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



pp 4-5

Engagement tools

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

pp 10-13

Actions at general meetings



AP7

AP7's mission. Good pension from generation to generation.

AP7's vision. A global role model for responsible pension solutions.

AP7's goal regarding return. Continual savings in the default option will generate a long-term return that is 2-3 percentage points higher per year than the income pension.

AP7 in brief. AP7 is a public agency tasked with managing premium pension funds for the Swedish population. Over five million Swedes currently invest their premium pension in AP7 Säfa. The total value of assets is approximately SEK 720 billion, so management is a major responsibility. AP7's asset management is exclusively aimed at securing the interests of the pension savers, both current and future pensioners.

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

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

Managed assets: **SEK 720 billion**

Number of savers: **over 5 million**

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

Number of employees: **38**
as of 31 December 2020

Our themes

AP7 deepens its corporate governance by working in themes. In 2020, the theme Working Conditions in Food Supply Chains was concluded.

pp 16-23

FINANCIAL TIMES

Deforestation ✓ Added

Brazil faces international backlash over Amazon land reform bill

Sweden's AP7 pension fund and Marks and Spencer among groups threatening boycott



AP7's role in sustainable development

As a global owner of equities, we can make the biggest impact as active owner, facilitator, and knowledge builder.

pp 8-9

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Bo Becker

Professor in the Department of Finance, Stockholm School of Economics. How should we view sustainability risks from a financial perspective? What should have the greatest impact if, globally, we are to bring about a transition to meet the climate goals?

pp 14-15

The Sustainability Report for 2020 has been prepared in accordance with the Seventh AP Fund's principles for sustainability reporting, which correspond to those in the Swedish Annual Accounts Act.
Stockholm, 11 February 2021

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Managing Director

On savers' terms

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

pp 24-25

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

For Seventh AP Fund, Corporate ID number 802406-2302

Assignment

The Board of Directors is responsible for the Sustainability Report for 2020, and for ensuring that it is prepared in accordance with the Seventh AP Fund's principles for sustainability reporting.

Focus and scope of the examination

Our examination has been conducted in accordance with FAR's recommendation RevR 12, Auditor's opinion regarding the statutory sustainability report. This means that our

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

Opinion

A sustainability report has been prepared.

Stockholm, 11 February 2021

Helena Kaiser de Carolis
Authorised Public Accountant

Peter Nilsson
Authorised Public Accountant

2020 – a year **with light** in a dark pandemic

When I look back on 2020, I can see that this extreme year has nevertheless brought a certain light in the major challenge we are facing globally. Corona has accelerated a mental reboot on how we can do things in new digital ways. It has been a year in which the pandemic has isolated the world, yet we have still managed to come closer together.



The digital meeting has become commonplace, both with colleagues in the same city and with contacts all over the world. I experienced this during the year in my role as the Swedish representative for the GISD network – Global Investors for Sustainable Development – where thirty of the world's biggest investors, together with the UN Secretary General, have the ambition to mobilise more capital in the work on the global goals for sustainable investments. Despite the special conditions, the collaboration has shown that the world benefits from this type of networking.

I am convinced that international collaborations like GISD are crucial if investors are to contribute to the two-degree target and to the other global goals for sustainable development. This has become even more important in the world created by the Corona outbreak. The inability to meet in person has been a challenge to strengthening relationships but, despite this, a lot was achieved by the network.

During Covid-19, I and certainly many others have been concerned that the world may not be able to focus on many important issues simultaneously, and that the climate transition would fall into the shadow of the pandemic. However, looking back on 2020, I can observe that sustainability has increasingly become a hygiene issue in our communities all over the world, and further steps have been taken in the right direction despite the pandemic's dominance.

In 2020, we clarified our mission and vision for the coming years. Our vision, *A global role model for responsible pension solutions*, is linked to bringing about sustainable change in the real economy, so our ambition to be a responsible active owner remains on a high level.

It was therefore pleasing that, during the year, we attained great impact when we sued Google after reports of widespread sexual harassment. Following the lawsuit, Google agreed to invest many billions of kronor in improving diversity and inclusiveness. This is a satisfying outcome for its employees and for us as investors, as we are convinced that a company that actively works to combat all forms of discrimination

or harassments and works for good working conditions becomes a stronger company.

The legal process against Google gave clear evidence that an active owner can generate impact. Legal processes are one of our corporate governance tools, along with voting and dialogue. In recent years, this has led to several large energy and mining companies increasing their transparency on climate lobbying, and distancing themselves from trade organisations that conduct activities in conflict with the Paris Agreement. These are important achievements that would not have been possible without collaboration with other global equity owners.

I am also proud that we are constantly developing and reflecting over what has greatest impact in our corporate governance. In order to attain the climate transition, we must globally reduce our use of coal as an energy source. Consequently, during the year we extended our method for blacklisting companies on the basis of the Paris Agreement. Our blacklisting now includes companies that continue to make new investments in the coal industry, thereby making it difficult to attain the goals in the Paris Agreement. In a first step, we blacklisted ten coal companies, and we intend to extend this process. If we are to attain the goal of keeping global warming well below two degrees, the energy companies must be part of the climate transition.

I feel optimistic about 2021, and believe that we will soon see the light at the end of the tunnel in the pandemic. But what is happening in the climate issue is urgent. The work must not slow down, because many of the world's companies with the greatest impact on climate have still not adapted their operations to keep global warming well below two degrees. Here, global owners have an important role to play in engaging with the companies to bring about rapid change.



Richard Gröttheim
CEO, AP7

About AP7

AP7 manages the default option, AP7 Såfa, for those savers who do not want to, or cannot, choose funds themselves.

In the state pension system, part of the pension contribution goes to the premium pension. The premium pension system is administered by the Swedish Pensions Agency, which in this context serves as a fund insurance company. AP7 is also a public agency, working as a fund company managing securities funds.

Our mission

Since the premium pension system was introduced in 2000, AP7's mission has been to manage the premium pension capital in the government default option. As the default base in the premium pension system, we give the savers an efficient and responsible premium pension saving scheme that increases their pension, while contributing to a well-functioning financial market and sustainable development. Everybody needs a pension they can live on and asset managers they can trust, regardless of income, education, and interest in financial matters.

Our values

AP7's values are based on trust, responsibility and development. Democracy and a scientific foundation are basic core values. Our activities will be carried out in a legally correct and impartial way, observing legislation and directives. Decisions will be made on a factual basis and implemented in a resource-efficient way, with equal treatment as a common theme.

Based on the mission, AP7 will maintain a clear profile with regard to responsibility issues in both asset management and corporate governance. For us, sustainability means, for example, that we are just as responsible for those who are already pensioners as for those who are starting to work today or in 20 years' time. If we maximise today's pensions at the cost of future savers, then we have not fulfilled our responsibility.

AP7's work with responsible investments is based on the value norms that characterise the international conventions that Sweden has signed with regard to human rights, labour, environment, and anti-corruption. The norms align with our role as a public agency, and can be assumed to reflect the perception of justice in the broad population group to which the savers belong.

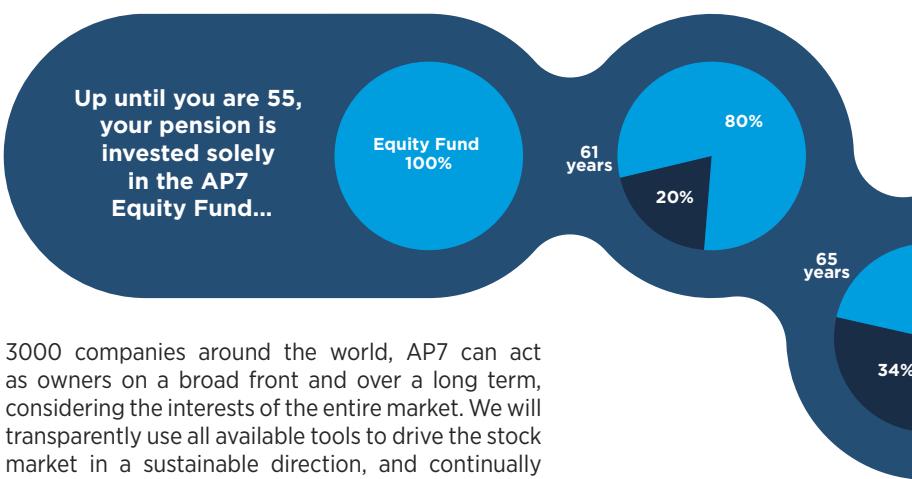
Our role as owners

AP7 is a universal and long-term owner. By this, we mean that we buy equity broadly on the global equity markets, and we do not buy to sell. For savers, the combination of high diversification and low fees generates financial value that makes a big difference over a period of 40-50 years. The asset management strategy also affects how we work with corporate governance.

With over SEK 700 billion invested in more than



AP7's mission: Good pension from generation to generation.

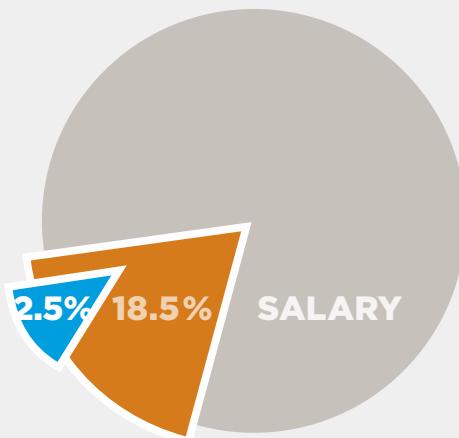


3000 companies around the world, AP7 can act as owners on a broad front and over a long term, considering the interests of the entire market. We will transparently use all available tools to drive the stock market in a sustainable direction, and continually develop new knowledge and methods.

Building block funds form the basis of our offer

In 2010, the Premium Savings Fund and the Premium Choice Fund were wound down, and replaced by the AP7 Equity Fund and the AP7 Fixed Income Fund. Based on these two funds, AP7 can offer premium pension savers six products, of which AP7 Såfa

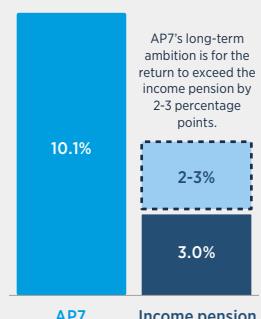
AP7 in figures



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

Average return 2000–2020*

(*Capital-weighted return)



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

(‘Statens årskulls förvaltningsalternativ’) is the default option. Apart from the building block funds, the AP7 Equity Fund and the AP7 Fixed Income Fund, the other three funds are AP7 Offensive, AP7 Balanced, and AP7 Cautious. The funds can be chosen separately in the fund market and combined with other funds in the premium pension system.

AP7 Equity Fund. Most of AP7's managed capital is invested in the AP7 Equity Fund. The strategy in the AP7 Equity Fund is based on three main elements: a global equity portfolio, diversification, and a risk framework. The global equity portfolio is the main pillar of the fund, with investment in a broad geographical and sector distribution in over 3000 companies, combined with financial instruments that raise the level of risk and expected return. Diversification enables the AP7 Equity Fund to spread and streamline its risk-taking by investing in assets that complement the global equity portfolio. We also apply a systematic risk framework to manage the risk level and protect the assets.

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

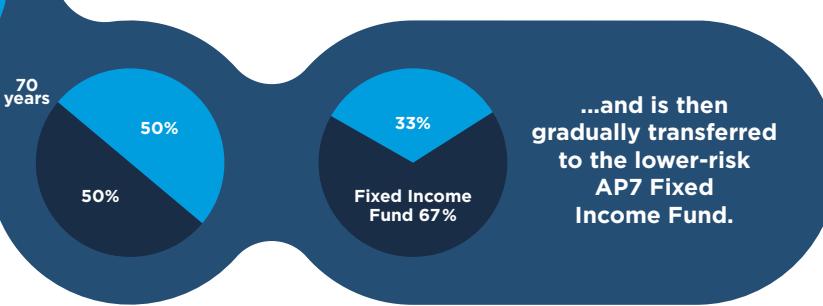
AP7 Såfa. AP7 Såfa is a fund portfolio package comprising the AP7 Equity Fund and the AP7 Fixed Income Fund. The distribution between the funds in the portfolio is adapted to the saver's age.

AP7 Såfa is suitable for savers who do not wish to spend time monitoring the securities market. Anyone not making an active choice about their premium pension has their pension money automatically invested in AP7 Såfa. The aim is that these savers will have a pension at least as good as other pension savers. The ambition is that continual saving in AP7 Såfa throughout a person's working life will generate a long-term return that is 2-3 percentage points higher per year than the income pension.

Combining the building block funds on the basis of the saver's age gives AP7 Såfa a profile that adapts the level of risk to the number of years remaining before the saver retires. In practical terms, this means that savers have their pensions invested in the Equity Fund up until the age of 55. Between the ages of 56 and 75, 3-4 percent of the money is transferred each year to the Fixed Income Fund and, after 75, two-thirds of the money is kept in the Fixed Income Fund for the rest of the saver's life.

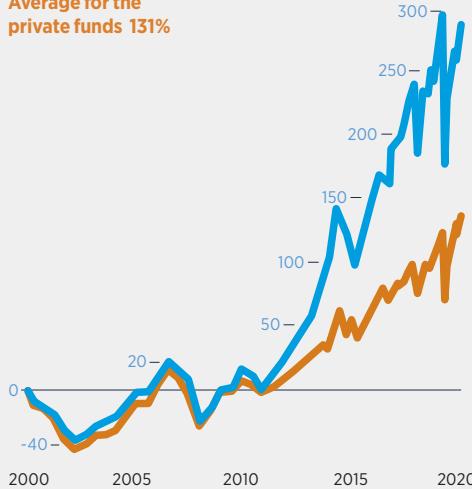
The three AP7 fund portfolios, AP7 Offensive, AP7 Balanced, and AP7 Cautious, have different combinations of the building block funds to suit savers who wish to choose the risk level, but not the actual funds on the fund market.

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

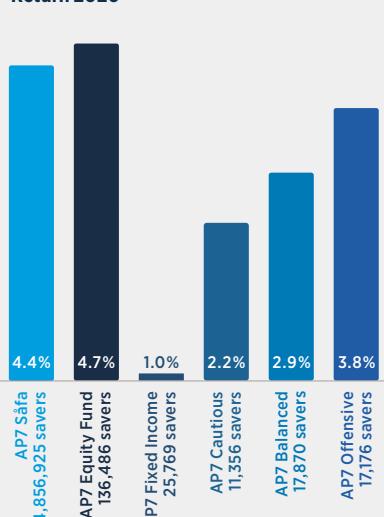


Return 2000-2020 in percent

AP7 Såfa 292%
Average for the
private funds 131%



Return 2020



The return for the average Såfa saver in 2020 was 4.4 percent. In the same period, the average return for the private premium pension funds was 8.2 percent. From the start in autumn 2000 until year-end 2020, the return on the default option was 292 percent, the equivalent of an average 7.0 percent per year in time-weighted return. In the same period, the private premium pension funds gave a return of 131 percent, an average annual return* of 4.2 percent.

Continual saving in AP7 Såfa throughout a person's working life should generate a long-term return that is 2-3 percentage points higher per year than the income pension. So far, the default option has exceeded the ambition for return. Since 2000, the capital-weighted return has, on average, been 10.1 percent per year, compared with the return in the income pension of 3.0 percent per year.

The world's climate risks are AP7's climate risks

Climate change is the key issue of our time. If the climate risks are not managed successfully, the effect on the world economy will be astronomical. With ownership in more than 3000 companies around the world, AP7 is well aware that our climate risks are therefore the same as those in the overall global economy.

As universal owner, AP7 is working to reduce global emissions. Our long-term mission, to generate good returns for our savers, is dependent on the implementation of the Paris Agreement and long-term sustainable development in the global market.

Our managed assets total SEK 720 billion and, as a responsible owner, we must be able to overview and analyse how our investments are affected by climate change. In order to influence the financial risk, in all our corporate governance processes we promote implementation of the Paris Agreement. As universal, long-term asset owner and state pensions fund, AP7 is in a stronger position than many other investors to engage in developing norms and methods for the entire market, and implementing these in companies all over the world. Collaboration with other investors with the same ambitions is a pre-requisite for attaining success in the work to engage with and support the companies in adapting their operation to the 2°C target, to keep global warming well below two degrees.

In 2020, AP7 carried out a climate scenario analysis that provides a theoretical picture of what companies' emissions would be like and how they would relate to the Paris Agreement if our current portfolio remained unchanged in the future. Even if the probability of this scenario is low, the analysis provides information about the companies where we can generate most benefit as owners, i.e. those companies that contribute with the largest emissions and thereby the risk of not meeting the 2°C target.

AP7's holdings in power supply and the materials industry account for the largest proportion of emissions, approximately 67 percent. One condition for us, globally, to successfully stay within the 2°C target is that companies adapt their activities. The scenario analysis shows that 16 percent of the companies in

the portfolio, based on company value, have undertaken to attain international climate goals, such as those in the Paris Agreement. Thirty-three percent have no goal at all, which in itself is a climate risk. The low proportion of companies that have set up goals in line with the Paris Agreement is also reflected in other measurements. A Transition Pathway Initiatives analysis for 2020 shows that over 80 percent of the most climate-impacting companies have not adapted their activities to the 2°C target.

Transition risks

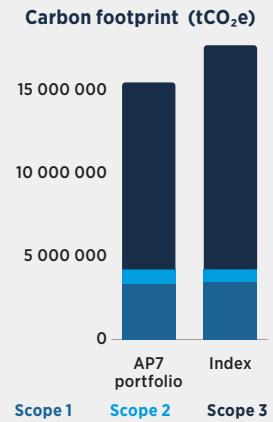
The process of phasing out fossil fuels from the economy and the transition to a more climate-smart society will be unfavourable to some companies in AP7's global portfolio and favourable to others. Because we invest in a large number of companies in different sectors and countries, we have reduced our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

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

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

The aim of AP7's climate work is to reduce emissions in the real economy through engagement with our portfolio companies. Based on the information in our scenario analysis, we conduct dialogue with companies, and demand that they work towards the attainment of the goals in the Paris Agreement and that they draw up an action plan for how this will be implemented. By including the Paris Agreement in our norms screening, we are involved in defining the boundary for acceptable conduct regarding the climate issue.

AP7 focuses dialogue activities on companies that we have identified as being especially important for a transition, for example in the energy sector and the mining industry. We have a number of ongoing engagement projects focusing on various aspects of the companies' climate impact. The climate is also



AP7 measures the carbon footprint. The companies in AP7's portfolio emit approximately 4 million tonnes of carbon dioxide equivalents from their direct activities, which is line with the comparison index. If emissions from the value chain are also included, in the supplier stage and from customers, the emissions amount to 15 million tonnes of carbon dioxide equivalents, compared with 17 million tonnes in the index. The difference may be due to the fact that we have excluded companies that violate conventions that Sweden has signed, including the Paris Agreement.

Source: ISS ESG

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



one of our focus issues at general meetings, where we usually vote in favour of resolutions to reduce greenhouse gas emissions and file our own share-owner resolutions on particularly important matters. Since 2016, the Paris Agreement has been one of the norms on which our blacklisting analysis is based. In 2020, we updated the method to also blacklist companies in our portfolio that have the greatest absolute impact on climate, and that are making new investments in fossil-based activities in coal production and coal energy.

At present, we cannot see how a divestment from energy companies in the portfolio would help to reduce the physical global emissions of carbon. We therefore believe that, in our role as a major global equity owner in collaboration with like-minded responsible actors, we achieve the greatest effect through active corporate governance. One example is in climate lobbying, where together with other investors we have filed resolutions that have led to companies reviewing their memberships of business organisations that engage in lobbying against the incorporation of the Paris Agreement in legislation.

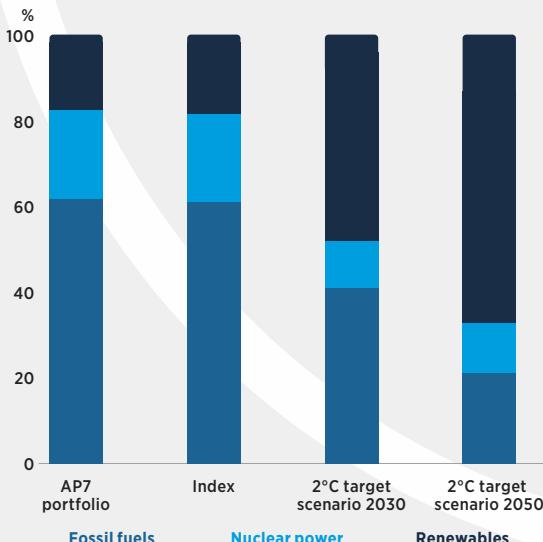
In AP7's active asset management, we are utilising

the opportunity to finance businesses that offer solutions to the climate issue. In this way, we have increased our exposure to businesses that can be favoured by a transition to a fossil-free economy. AP7 has 'green mandates' in the management of all asset classes (equity, fixed income, and private equity). In 2020, our investments in green bonds increased by SEK 146 million, to SEK 2.7 billion. Approximately 8 percent of our unlisted capital comprises Clean Tech, corresponding to SEK 1 billion. AP7 also has a green investment mandate in listed equity totalling SEK 2.5 billion.

Reporting of climate-related risks

Reporting of the underlying companies' climate-related risks must be improved if these risks are to be managed. The Task Force on Climate-related Financial Disclosures (TCFD) has had a great impact, and has become a pioneer for how companies can identify and report their climate-related financial risks and opportunities. AP7 supports TCFD and is working to increase transparency from our portfolio companies.

Exposure to energy production



Scenario analysis – exposure to energy production (AP7's portfolio, index and two-degree target) The diagram shows AP7's exposure to energy production, and how production needs to be developed to keep global warming well below two degrees by 2030 and 2050.

By 2030, energy production from fossil fuels must be reduced by one-third, and replaced by renewable energy. In order to attain the two-degree target by 2050, fossil energy production must be reduced further, to 20 percent of the total production. If the proportion of renewable energy is to be more than doubled, and account for 50 percent of the global energy production by 2030 and nearly 70 percent by 2050, energy companies must switch their production from fossil sources and increase investments in renewable energy.

Source: ISS ESG. Scenarios based on data from IEA and index at MSCI ACWI.

AP7's role in sustainable development

Using AP7's mission and investment philosophy as a point of departure, we can best promote sustainable development through our three roles: as active owner, as facilitator, and as knowledge builder. We collaborate with other investors on drawing up norms, guidelines, and positions for responsible ownership.

AP7 as active owner...

With a diversified and global portfolio, AP7 can act as owners on a broad front and over a long period of time. Our ambition is to use active corporate governance, in collaboration with other investors that share our values, to help solve problems rather than avoid them. In this way, AP7 secures the financial interests of both current and future savers. Read more about our engagement work on page 10-12.

svt NYHETER Nyheter Lokalt Sport SVT Play Bar

Arkivbild, sjunde AP-fondens vd Rickard Gröttheim. Foto: Lars Pehrson/SvD/TT/TT

AP-fond får Google att lägga 2,8 miljarder på mångfald

PUBLICERAD 2 OKTOBER 2020

Efter en två år lång rättsprocess har Googles moderbolag nått en förlikning med den stora svenska pensionsförvaltaren sjunde AP-fonden. Bolaget lovar att lägga 2,8 miljarder kronor på att förbättra

funds global **ASIA**

Sweden's AP7 divests from Asian coal producers



A number of Asian coal producers have been cut from Swedish pension fund AP7's equity portfolio as it expands its blacklist.

The pension fund, which has more than \$51 billion in assets under management, introduced a blacklist in 2017 that was tied to the Paris Agreement on climate change.

Any companies that conducted activities that counteracted the agreement would be cut from the fund's portfolio.

been expanded to exclude any company that has continued or

excluded, eight of which are Asia-based. The
Holdings; Coal India; Inner Mongolia Yitai Coal
Power Holding; Shandong DIC Power Holding; Shaanxi Coal

FINANCIAL TIMES

Deforestation ✓ Added

Brazil faces international backlash over Amazon land reform bill

Sweden's AP7 pension fund and Marks and Spencer among groups threatening boycott



Engagement to protect Amazon rainforest.

Together with other international investors, AP7 is exerting pressure on the Brazilian president to respect the Amazon Soy Moratorium, an agreement that has had great effect and reduced deforestation caused by soy production. Together with some of Europe's biggest retail groups and investors, we have supported the Cerrado Manifesto, an initiative in which companies undertake not to deforest the Brazilian savanna area, the Cerrado.

Blacklisting of coal companies. In 2020, AP7 extended the method for blacklisting companies on the basis of the Paris Agreement to increase impact. Companies are now blacklisted that have a large absolute impact on climate and that continue to make new investments in the coal industry, thereby making it difficult to attain the goals in the Paris Agreement. In a first step, ten coal companies were blacklisted in 2020.

knowledge builder...

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

Onsdag 13.01.2021

AH Aktuell Hållbarhet

Nyheter Miljö Socialt ansvar Strategi Rapporter Event Utbildning Jobb

Svenska företag kan vända negativ klimatlobbying

Publicerad: 30 November 2020, 18:59

Johan Flaten, Charlotta Dawidowski Systrand och Richard Grönholm från AP7
Foto: Peter Knutson

Lobbying som motverkar Parisavtalet är ett globalt problem. Men svenska företag som ligger långt fram inom hållbarhet missar ofta möjligheten att påverka internationella intresseorganisationer att arbeta för Parisavtalet. Vi uppmanar därför svenska företag att engagera sig för global utveckling av effektiv klimatlagstiftning. Det skriver ledande företrädare för Sjunde AP-fonden.

Bättre arbetsvillkor i livsmedelskedjan



Hur kan institutionella investerare förbättra arbetsförhållanden i livsmedelskedjan?

alecta



Folksam

Corporate Climate Lobbying. In 2020, AP7 presented the conclusions of the Corporate Climate Lobbying theme. In the three-year duration of the theme, AP7 and other active owners have prompted many global companies to demand that their interest organisations' lobbying be aligned with the Paris Agreement climate goals.

Labour conditions. Within the Sida initiative, Swedish Investors for Sustainable Development, AP7 together with Alesta, AMF and Folksam explored what investors could do to improve labour conditions in food supply chains. The work was based on dialogue with a number of companies and international experts on sustainability and human rights, and concluded with the report, *Better working conditions in food supply chains*. The results were communicated to retail companies and food companies in an SISD webinar in December 2020.

and facilitator.

As investors,
we can provide
funding for businesses that
contribute solutions to various
sustainability challenges, such as
companies specialising in climate
innovations. Our goal is to include
these types of green mandates in all
our asset classes.

AP7 has a green mandate totalling SEK 2.5 billion with the Irish asset manager KBI Global Investors and the British asset manager Impax Asset Management. In collaboration with the asset managers, we are carrying out a research project on how to effectively measure the effects of impact investments. In addition to the two green investment mandates totalling SEK 2.5 billion, in 2020 we increased our investments in green bonds to over SEK 2.7 billion.

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

4405

In 2020, AP7 voted at 4405 of 4466 possible general meetings, nearly 99 percent.

A strongly diversified portfolio with holdings in many countries and sectors sets the framework for AP7's corporate governance. As a universal and active owner, AP7 has the ambition to influence the entire market in a sustainable direction over the long term.

AP7 has been conducting active engagement since the start in 2000. We base our work on the norms pertaining to human rights, labour, environment, and anti-corruption enshrined in the international conventions that Sweden has signed.

AP7 works with four engagement methods to attain sustainable and responsible asset management – taking action at general meetings, engagement dialogue with the companies we own, public blacklisting, and legal processes. Since 2014, our norm-based work has been supplemented with thematic in-depth work in selected areas (see page 16).

Actions at general meetings

The general meeting, every company's highest decision-making body, gives shareholders the opportunity to actively engage with the governance of the company. Voting at general meetings is AP7's most important tool for reaching and influencing the absolute majority of the companies in the fund's portfolio. As a universal and active owner, it is important to influence the entire market. Voting at general meetings enables us to drive the fund's principle-based position on various issues, by applying AP7's voting policy on environmental, social, and corporate governance issues.

Company executives propose the agenda for the general meeting. In certain countries, AP7 can file its own shareholder proposals (resolutions) at general meetings. To attain greater impact in particularly important issues, AP7 often joins forces with other shareholders and drives proposals jointly.

According to the AP Funds Act, AP7 may not vote at Swedish general meetings, but since 99 percent of AP7's shareholding is outside Sweden, we can still vote at virtually all general meetings – over 4000 general meetings every year.*

General meeting season 2020

In 2020, AP7 voted at 4405 of 4466 possible general meetings, nearly 99 percent. At 40 percent of these general meetings, AP7 voted against the board's recommendation on at least one item, either voting against a board resolution or in favour of a shareholder resolution that the board did not support. AP7 voted at general meetings in 55 different countries. Of these, China, the US, and Japan dominated, where 60 percent of all general meetings were held.

In 2020, AP7 voted on a total of 209 resolutions on various sustainability issues. We supported a majority of these, 66 percent, abstained in 14 percent of the cases, and voted against 19 percent of the resolutions. Through its voting, AP7 has first and foremost promoted the issue of transparency regarding corporate lobbying and political advocacy, and climate reporting. AP7 voted on a total of 29 resolutions regarding greater transparency on lobbying, voting in favour in all cases.

Examples of other shareholder-initiated sustainability resolutions that AP7 voted in favour of in 2020 concerned labour conditions and deforestation in Amazonia. In 2020, we filed two resolutions on climate lobbying in the US that were taken up at the general meetings of Chevron and General Motors. The shareholder resolution to Chevron was supported by a majority of the votes at the general meeting, and the resolution at General Motors' meeting was supported by a third of the votes. We also initiated a resolution to Anglo American's general meeting about corporate lobbying, but this was withdrawn when the company agreed to our demands.

16

AP7 makes use of the option to drive legal processes against companies that have treated shareholders in an improper manner and/or influenced the share price negatively. At the end of 2020 AP7, together with other institutional investors, was involved in 16 ongoing legal processes.

Effecting change through dialogue

Engagement through dialogue is the most effective way of bringing about change when the company itself wants to improve. AP7 is currently engaging in a large number of dialogues concerning reported violations of norms. In 2020, AP7 conducted dialogue with 142 companies on a total of 214 cases of verified or potential violations of norms. In addition, a large number of dialogues were conducted regarding reported

* The total number of general meetings does not correspond to the number of companies that AP7 has invested in, because in certain countries, such as China, it is common for a company to hold several general meetings every year.

214

In 2020, AP7 conducted in-depth engagement dialogue with 142 companies on a total of 214 cases of verified or potential violations of norms, with the aim of influencing the companies to act responsibly.

**Actions
at general
meetings**

Dialogue

**Legal
processes**

Blacklisting

84

AP7 does not invest in companies that violate international norms regarding the environment, human rights, labour, and anti-corruption. In December 2020, a total of 84 companies were blacklisted.

incidents, and dialogue was held with 66 companies within the frame of the thematic work.

AP7 is participating in Climate Action 100+, a five-year investor-led initiative to drive necessary climate measures in the world's largest corporate greenhouse gas emitters.

Blacklisting – a way of shining the spotlight

AP7's norm-based approach means that we do not invest in companies that violate the international norms enshrined in the UN Global Compact's ten principles regarding human rights, labour, environment,

and anti-corruption. Since 2016, the Paris Agreement has been part of the UN Climate Convention.

The method of blacklisting is mainly incident-based, which means that we blacklist companies that are involved in a controversial incident that has been reported. In 2020, we extended the application of the Paris Agreement in the blacklisting process, and AP7 now blacklists the companies in the portfolio that have the absolute biggest impact on climate and that continue to expand their fossil-based activities within coal production and coal power. The focus is on coal companies because research shows that the single most important measure for mitigating climate change is to stop using coal as a source of energy. After the first screening with the new method, which was presented in December, ten coal companies were blacklisted, and the equity sold with immediate effect.

>>>

As part of our engagement, we publish twice a year the names of the companies we are excluding, together with the reason for the exclusion. The method is aimed at exerting pressure on companies, whose activities are not responsible, to change their conduct. AP7's ambition is to once again be able to invest in a blacklisted company, as soon as it can show that its norm violations have ceased.

To identify and verify violations involving companies, AP7 collects information from a large number of sources, including the UN system and other inter-state organisations, public agencies, courts, mass media and non-governmental organisations. The accuracy of the information is checked, and the company's responsibility for the situation is investigated. An assessment is then made of whether the company is conducting activities that are in conflict with the norms framework. In this process, AP7 is supported by many external experts.

Blacklisted companies 2020 In December 2020, a total of 84 companies were excluded from AP7's investment universe. The complete list of blacklisted companies is presented on the back cover of this report and on ap7.se.

During the year, 14 companies were added to AP7's blacklist. Ten coal companies were blacklisted as a result of the blacklisting method based on the Paris Agreement. Cronos Group was blacklisted for involvement in cannabis in conflict with international conventions against drugs. Booz Allen Hamilton Holdings was blacklisted because of its involvement in the production of components for nuclear weapons, Elswedy Electric for violations of environmental norms in Tanzania, and SK Holdings for violations of human rights.

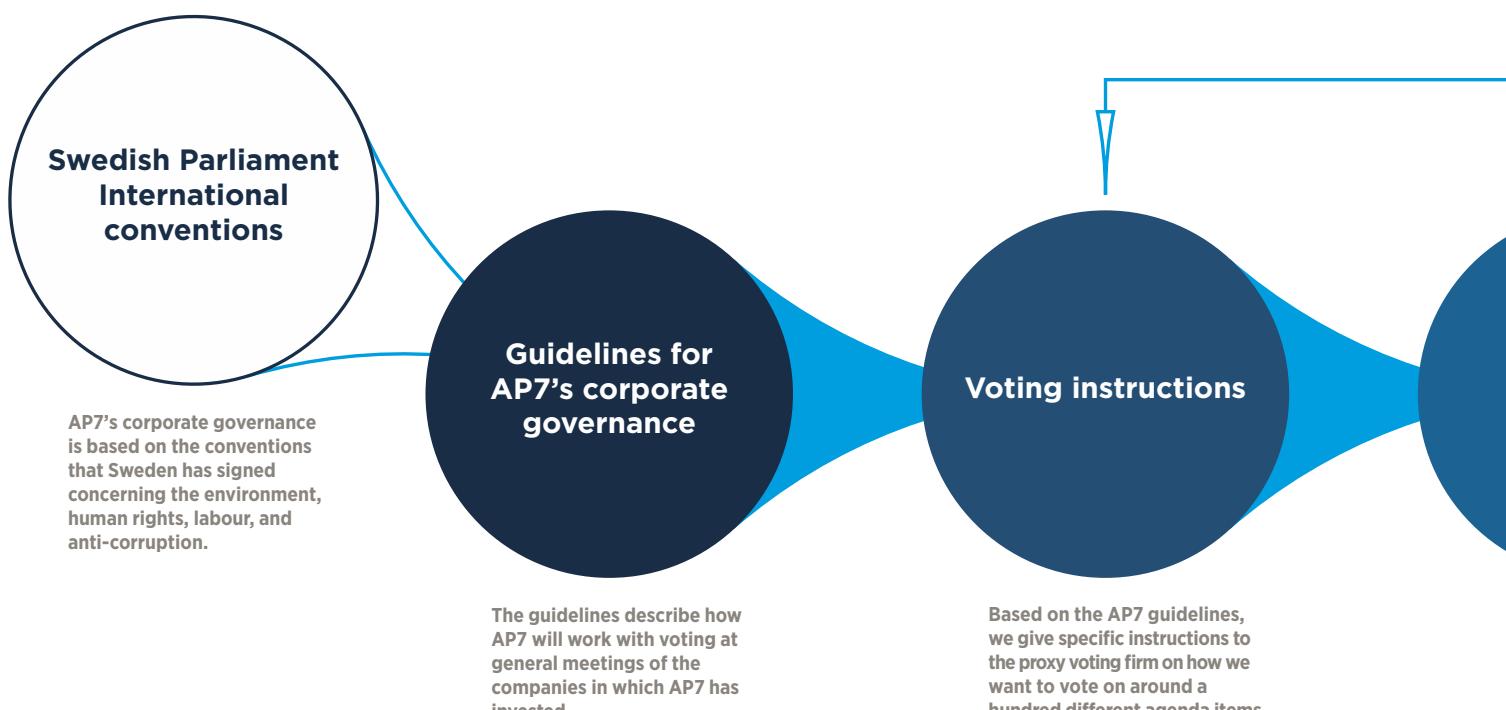
Companies removed from blacklisting 2020

China Railway Group Ltd was removed from the list during the year, so AP7 can once again invest in the company. The company had been blacklisted for five years and, in accordance with AP7's five-year rule, the blacklisting has ended because no new violations have been reported.

Legal processes bring results

Through securities class actions, AP7 uses the option to drive legal processes against companies that have treated shareholders in an improper manner and/or influenced the share price negatively. Examples are companies that have withheld accurate information, thereby affecting the share price. The aim of the legal processes is both to criticise and discourage companies from irregularities, and to ensure shareholders get their money back. The majority of the legal cases usually result in a settlement. So far, the legal processes in which AP7 has participated has returned approximately SEK 75 million to savers.

In 2020, AP7 reached a settlement with Alphabet. The company is to take a number of measures and, in the next ten years, invest USD 310 million (SEK 2.8 billion) in measures to improve diversity and inclusion, and counteract harassment in the group. During the year, we initiated two new legal processes, against Luckin Coffee and Nissan Corporation. At the end of 2020, together with other institutional investors, AP7 was involved in 16 ongoing legal processes against Cobalt, Vivendi, Petrobras, Toshiba, Volkswagen, Allergan, Deutsche Bank, Mitsubishi, General Electric, BHP, Steinhoff, Qualcomm, Goldman Sachs, and Kraft-Heinz.



AP7 sustainability goals

The core of AP7's overarching sustainability strategy is collaboration with other global investors on system-critical sustainability challenges to bring about effects in the real economy.

AP7's sustainability work is based on the norms reflected in Global Compact's ten principles and Agenda 2030. These norms therefore also characterise our sustainability goals. One of the most urgent sustainability issues is climate transition. Consequently, we focus especially on the overarching objective to reduce global emissions.

Objectives

Contribute to a secure pension

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

Be an active owner

AP7 will act as an active owner and exert influence on companies to move in a sustainable direction. The fund will vote at a minimum of 95 percent of the general meetings of the companies in the equity portfolio.

Corporate governance for climate transition

By 2025, three of every four portfolio companies in the energy sector will have reached level 3 or higher in the Transition Pathway Initiatives assessment of Management Quality.

Green investments

AP7 will have green mandates in all asset classes that AP7 invests in. By 2025, AP7 will have doubled the proportion of green investments compared with 2020.

Establish sustainable norms

AP7 will be involved in driving the development of norms and corporate governance in relevant national and international collaboration forums.

Contribute to increased knowledge

AP7 will contribute to increased knowledge about sustainable investments and corporate governance by making accessible and disseminating research and knowledge.

Follow-up 2020

Since 2000, the capital-weighted return has, on average, been 10.1 percent per year, compared with the growth in the income pension of 3.0 percent per year.

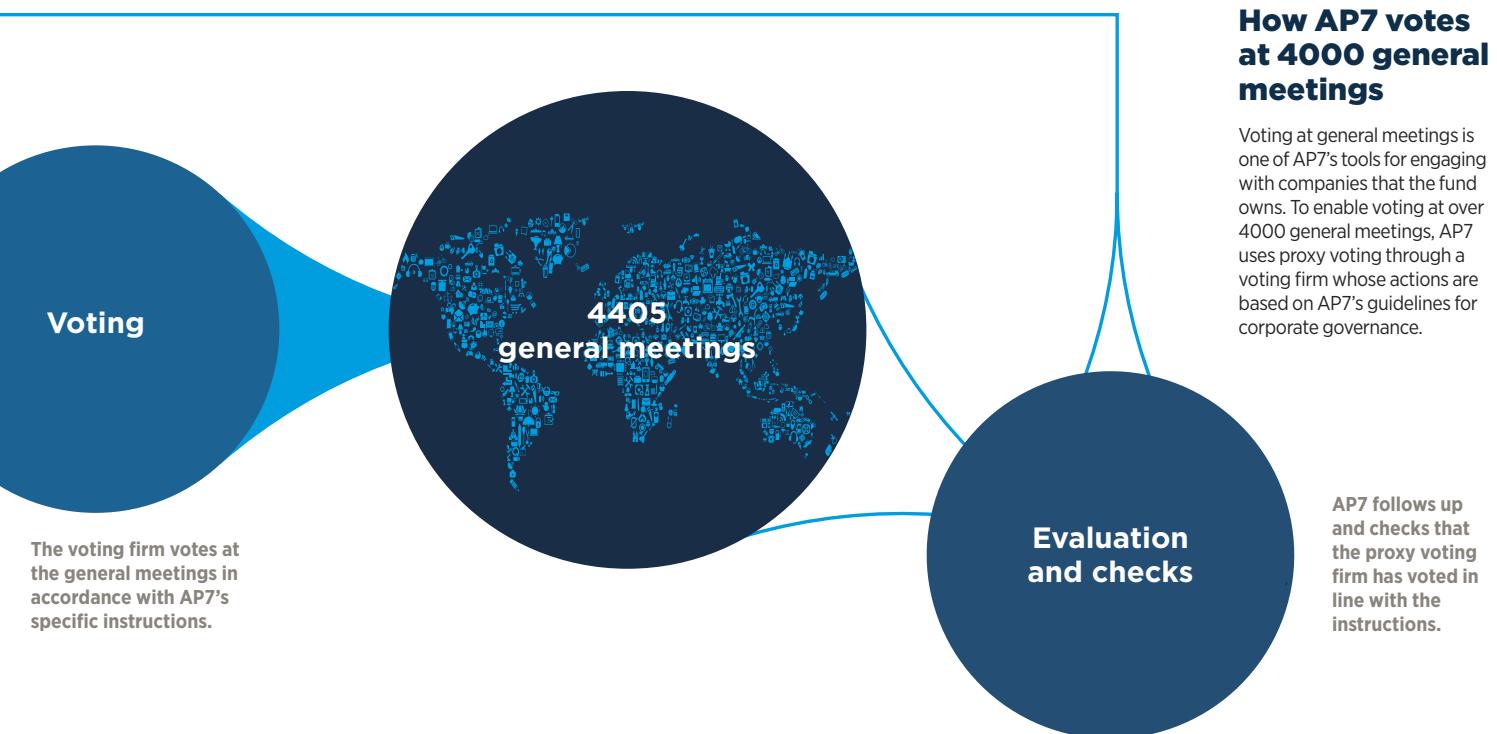
In 2020, AP7 voted at 4405 of 4466 possible general meetings, nearly 99 percent. AP7 conducted dialogues with 142 companies on a total of 214 cases of verified or potential violations of norms. At the end of 2020, 84 companies were blacklisted by AP7. Together with other institutional investors, AP7 had 16 ongoing legal processes at the end of 2020.

In 2020 (base year), 62 percent of the companies were at level 3 or higher.

Green bonds	SEK 2.7 billion
Green mandate in listed equity	SEK 2.5 billion
Green investments in unlisted companies	SEK 1 billion

In 2020, AP7 was an active member in Swesif, SISD, TPI, CA100+, IIGCC, and GISD. Read more on page 27.

In 2020, the conclusions from the theme on Corporate Climate Lobbying were presented through reports, seminars, and articles. Together with the Stockholm School of Economics, we presented *Active ownership on environmental and social issues: What works?* AP7's blog Förvalt reached over 110,000 readers in 2020 with informative articles about pensions and sustainability.



How AP7 votes at 4000 general meetings

Voting at general meetings is one of AP7's tools for engaging with companies that the fund owns. To enable voting at over 4000 general meetings, AP7 uses proxy voting through a voting firm whose actions are based on AP7's guidelines for corporate governance.

AP7 follows up and checks that the proxy voting firm has voted in line with the instructions.

Guest interview

Sustainability risk – just one of all the risks



Bo Becker, Professor in the Department of Finance, Stockholm School of Economics, gives his view on sustainability risks from a financial perspective. He also gives his opinion as an economist on what should have the greatest impact if, globally, we are to bring about a transition to meet the climate goals.

How do you think an investor should view sustainability risks in their pension in purely financial terms?

As a pension saver you really don't need to think so much about the exact risks. Of course, there are many major risks and uncertainties – the economy can go well or poorly, the technical development can go slowly or rapidly, the political dynamic can be more or less constructive. All this uncertainty affects the return on shares. But you don't have to take a position on this to invest in the stock market. As long as you have a broad, diversified portfolio, you can live with the risks, but the reward is a higher return than if the money was kept in the bank.

But what about the financial risk of assets losing value, for example, stranded assets?

There are already masses of stranded assets. For example, coal mines in Western Europe and the US are in principle already unsellable. It is part of the economic process that assets lose value, or even become worthless. That's why the stock markets go up and down all the time, by billions.

The climate transition will therefore inevitably lead to things going well for certain companies and badly for others, but sustainability is not special in that way. You don't need to think about the probability of a technology shift wiping out Apple's market shares, or that a pharmaceutical giant will fold because of new methods of developing drugs. There are examples of large and important risks, but you don't need to understand them to invest in shares. Investors in the stock market are exposed to everything that happens in the economy.

Diversification seems to lie behind that argument?

Yes, financial research and practice have shown the enormous importance and value of diversification, and how little else can be done to succeed on the stock market. Spreading the risk means that you are only exposed to the overall movement in the stock market, and then the risk is much smaller than

if you had invested your entire portfolio in one share.

Investment in the stock market today mainly takes place through diversified funds, and that needn't be expensive. This is an enormously value-generating function that the financial sector produces, and means that we can all have a share in listed companies' future profits without participating in their business operation.

When diversified funds were developed with broad content and low fees, it became possible for everyone to participate in the stock market. Now it forms the basis for many of the world's pension systems.

So from a financial perspective, you see no difference between sustainability risks and other risks?

In the long term, there are many big risks. Sustainability risks are large in the long term, say 20-30 years ahead, but over such a long horizon all companies face existential threats. Over that period, enormous numbers of things happen. In 1990, the three biggest US listed companies were IBM, Exxon, and General Electric. Only one of these companies (Exxon) now remains among the 50 biggest, and three of the five highest valued American companies did not even exist in 1990 (Amazon, Facebook, and Google).

Naturally, sustainability risks are large and important economic risks. However, in principle, you don't need to understand specific risks, not even such big risks, to invest in the stock market through broad funds. The premise is that you are paid for bearing that risk, but this not to say that the stock market is right about the climate or other long-term risks.

How can a pension saver contribute to sustainable development through their investments?

As investor, just like a consumer or employee, you can choose not to invest in, buy products or services from, or work for, a company that you think is not working sustainably. Not for financial reasons, but based on other considerations. Perhaps the financial consequence is negative: sustainable washing powder may be more expensive or less effective in some way.

The same could reasonably apply to sustainable investments in the long term and on a large scale: if the aim is to stimulate more sustainable activity you perhaps have to accept rather lower purely financial return. Not every time, obviously, because sometimes a sustainable investment is very profitable. But if we're talking about saving the climate, you have to

reckon with poorer return, because the transition is large and expensive. Is it investors who will bear the cost of this? Or taxpayers? Or consumers? I think it's a tough question.

So you're saying you must accept a lower return if you want to invest sustainably?

If an investor is to have a really big impact, they must change the investment calculations to include lower capital costs for the company, which reduces return for the investors.

Companies don't have loads of profitable, sustainable investment options, and the only thing missing is someone pointing out that the climate is important. Most major investments are made after careful planning and a great deal of consideration. If you want to change how decisions are made, the safe way is to change the capital cost... but the company's capital cost is the same as the return for the investors.

Take a Polish energy company as an example. How do you change their decisions? Say that they have to pay eight percent a year in interest if they build a coal-fired power station, and finance it with a bank loan. But a green bank loan is available at an interest rate of two percent if they build wind turbines. This changes their capital cost considerably. But it also means a really big difference in return for the investors, such as pension companies. Eight percent and two percent give completely different pensions. After twenty years, the wealth of someone who has invested at eight percent is three times greater. This is just an example of how, if you want to make a great impact, it costs money in the form of lower returns.

Does the same apply on the equity market?

Companies regarded as sustainable have risen more strongly than tobacco and fossil fuel companies in recent years.

The tobacco companies are the clearest example on the equity market, because there are so many investors that don't want to buy their shares. This has forced the share price down. This perhaps puts a dampener on growth and investments in these companies. On the other hand, these companies don't need to invest so much. The energy companies may be better targets.

But if all large funds refrain from investing in the shares, would we see an effect?

Yes, sooner or later. If a sufficient number of investors refuse to own a group of shares, this has an impact on the price. A highly valued share means that it is easy to finance investments, and the capital cost for the company is low. It would favour investments in, for example, wind power. But the higher valuation also means that the return from the company's cash flow is less for those who share the profit.

If many investors sell the oil companies' shares and buy shares in the wind power companies, the prices of the oil companies' shares have a low valuation, while those in the wind power companies have a high valuation. Naturally, this can attract investors who are only financially motivated, which then counteracts the sustainable investors.

This means that the stock market has a difficult way forward in the climate issue. It's not enough that a few large investors refrain. We must get round the problem that other investors are attracted to

investing in a share bought at a lower valuation. There are, for example, American funds that specialise in owning "sin stocks", i.e. alcohol, tobacco, and weapons. They are trading indirectly against sustainable investors, and aim to earn money at their expense.

The world is complex, and large companies have many aspects to consider. Consequently, input from large investors can obviously get companies to think in new ways. That can be beneficial, but decisions are primarily driven by financial considerations. If there are plenty of profitable opportunities in solar power, companies like BP will invest in it, and if coal power is not profitable, they will stop investing in it.

So what is really needed to bring about a sustainable transition?

Saving the climate costs money, and someone has to pay. Examples of major challenges are to divert the energy sectors in China and India away from coal. It doesn't sound like a realistic plan that the pension companies should offer this major transition by lower requirements for returns, and thereby low pensions. I think that anyone pushing for this has calculated wrongly in terms of the costs or the pension savers' capacity to bear this burden.

Economists are almost unanimous in saying that the smartest way to attain the climate goals is a global CO2 tax. The reason why it is so much better to go via the cost of financing is that a CO2 tax not only hits new investments but also existing facilities and investments that can be financed by the companies themselves. And it is effective, as nobody needs to assess which investments are sustainable or not. Everyone can do what is profitable as long as they realise what the CO2 tax will cost them.

However, it is difficult to win support for a CO2 tax in China and India like the one we have in Europe. A CO2 tax would have negative economic consequences, and force the countries' populations to refrain from cheap energy. It's economically costly and politically difficult. You might wish that the entire transition were brought about through the market, so it would not cost anything. But it's not like that, it costs just as much. The question is who is to bear the cost.

How do you think the equity market can nevertheless take responsibility in terms of the sustainability challenges we are facing?

Of course, you can consider sustainability. The important thing is to be clear about the proportions. It's like buying sustainable washing power or taking the bus instead of the car. It's a positive decision with a certain benefit, but not crucial for the world. The same applies for funds. We must scale down the expectations slightly. In order to bring about major change in the climate impact, taxes are far superior to activism via the equity market.

Consequently, I believe that the financial sector is less exciting than it sounds, in terms of sustainability. Investing in a way that really changes the game plan would require a much lower return. Here, the sector's responsibility is to be realistic. Either scale down the sustainability ambitions or the financial return ambitions, otherwise it becomes unrealistic promises. Attaining a completely normal return and major impact in the long term is unreasonable.

According to Bo Becker, professor in the Department of Finance at the Stockholm School of Economics, diversification is the basis for managing sustainability risks, as with many other risks an asset manager must consider.

Work in themes

supplements corporate governance

Private Equity

Climate

Fresh Water

Corporate Climate Lobbying

Private Equity

Unlisted companies play an important role for societal development, not least because it is here that many of the new business ideas are found that can deliver solutions to the challenges we are facing. The theme resulted in a new process for greater integration of sustainability aspects in our Private Equity investments. Together with other investors in PRI, we also developed a sector standard, *PRI Limited Partners Due Diligence Questionnaire*, for screening of PE managers.

Climate

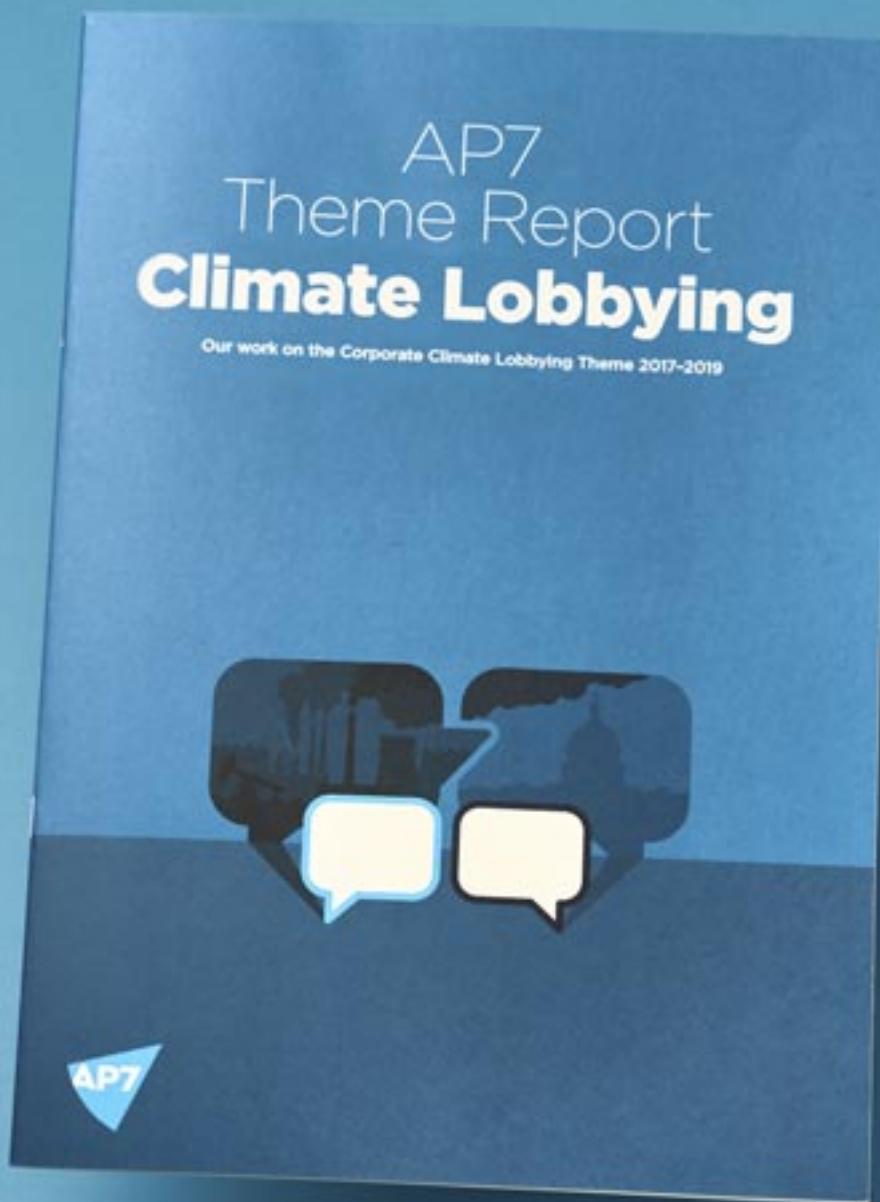
The aim of the theme was to investigate how AP7, through our investments and our ownership activities, could make a difference to climate change in a resource-efficient way. We drew the conclusion that universal, long-term owners, like AP7, have a unique holistic perspective that can favour the work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

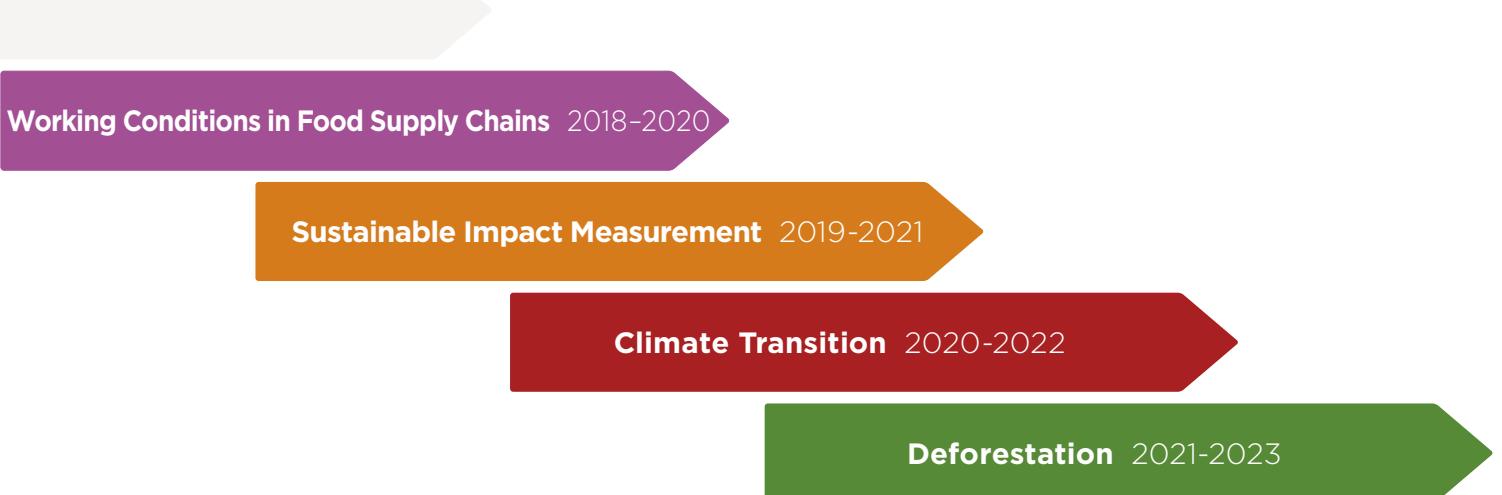
Fresh Water

What contributory role can institutional capital play, by financing solutions, satisfying investment needs, and engaging with companies, in encouraging them to adapt their activities towards the sixth UN Sustainable Development Goal: Clean Water and Sanitation? In the work on the theme, we analysed sectors and companies with high levels of risk regarding water, set up water mandates, and carried out a study of investments in water and sanitation infrastructure.

Corporate Climate Lobbying

Negative climate lobbying from sector organisations is a widespread problem internationally. Time and time again it has been shown that companies that have taken a clear position in supporting the Paris Agreement have, at the same time, been members of organisations that work against the agreement. Companies should ensure that all their climate policy engagement supports implementation of the Paris Agreement and that they work to ensure responsible climate lobbying.





For a number of years, AP7 has been supplementing its corporate governance work with continuous themed activities. This approach deepens and interlinks AP7's current working methods in selected and particularly urgent areas.

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

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

The theme guides AP7's prioritisations during its duration, and has consequences both for the work with engagement dialogues and at general meetings. It also brings greater collaboration with other actors on advancing standards and norms within the area.

In 2020 it was decided that the next theme, for 2021-2023, would be **Deforestation**. In order to attain the Paris Agreement goal to keep climate

warming well below two degrees, deforestation must be limited in view of the forest's importance for the climate, particularly Amazonia.

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

Sustainable Impact Measurement. Although demand from stakeholders and investors is great, knowledge about the effects of different measures on sustainable societal development is inadequate, and recognised measurement methods are lacking. Read more on pages 20-21.

Climate Transition. Through AP7's owner influence, we can exert pressure on companies to make responsible decisions, and thereby help to accelerate the transition to a fossil-free society. Read more on pages 22-23.

At www.ap7.se/hallbarhet/temaarbete we have compiled our knowledge and materials from our earlier themes: Private Equity, Climate, Fresh Water, and Corporate Climate Lobbying.

Theme Working Conditions in Food Supply Chains



Bättre arbetsvillkor
i livsmedelskedjan



Hur kan institutionella investerare förbättra
arbetsförhållanden i livsmedelskedjan?

alecta AP7 Folksam

Together with AMF, Alecta and Folksam, we compiled experts' perspectives on how investors can work to improve labour conditions in the food supply chain.

How can asset owners help to improve working conditions in food supply chains? In the theme Working Conditions in Food Supply Chains, AP7 investigated how we, through corporate governance, can work towards the eighth UN Sustainable Development Goal (SDG 8) – Decent Work and Economic Growth. The food companies' ability to exert influence was also investigated.

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

Particularly risky sectors

In the first year of the theme, 2018, AP7 together with the analysis company Sustainalytics produced

a study, Mapping Labour Rights Issues in the Food Supply Chain. The aim was to obtain an overview of which questions investors should focus on to have the greatest effect. We also wanted to find out how we can engage with companies and review the biggest risks for violation of labour rights, and improve their contingency for managing these risks. Conclusions from the preliminary study included:

- **Child labour and forced labour** are two of the most serious human rights issues in the food production sector. Migrant workers are a particularly vulnerable group.
- **Insufficient money** to live on is one of the main causes of child labour and forced labour.
- **Elevated risks of violations occur in the value chain of, for example, five crops:** coffee, rice, sugar, tea, and tomatoes.

In 2019, AP7 accompanied Sustainalytics on site visits to Italian tomato plantations to investigate the incidence of forced labour. According to the aid organisation, Oxfam, one of the main causes of forced labour on the plantations is downward pressure on prices exerted by the large buyers. The farmers are



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

place requirements based on the eighth global sustainability goal when placing orders.

- As investors we can hold dialogue with the companies on price mechanisms, and encourage them to collaborate with other actors on common, fair supplier chains.
- Withdrawing engagement does not lead to long-term improvement, so continued ownership gives greater opportunities to engage.
- Investors' own organisations should include sustainability expertise that can review the companies' sustainability work and audits regarding human rights.

The results were communicated to trading companies and food companies in an SISD webinar held together with Sida at the end of the year. The participating companies agreed on the report's conclusions, but emphasised that it is the trustful dialogue with the company that sends the right signals from the investors. In addition to the importance of placing concrete and relevant requirements, it is also important to address executives in the company, such as the managing director, CEO, or board of directors, to make clear investors' expectations.

1 NO POVERTY



2 ZERO HUNGER



4 QUALITY EDUCATION



8 DECENT WORK AND ECONOMIC GROWTH



10 REDUCED INEQUALITIES



small and, with their limited power to negotiate, the prices are forced down to such an extent that they are forced to reduce employee wages below the living wage.

Success factors for investors

To explore how investors could work to improve labour conditions in the food supply chain, AP7 has collaborated with Alecta, AMF and Folksam in the Sida initiative, Swedish Investors for Sustainable Development. We wanted to find out, for example, what demands we as investors can make that food companies could agree to, while also making a difference.

The work on how investors can engage was based on dialogue and knowledge exchange with a large number of companies and international experts on sustainability and human rights, and resulted in the report, *Better Working Conditions in Food Supply Chains*. The report contained a number of conclusions.

- Buyers have a key role. It is important that, as owners, we hold continual dialogue through which we work to ensure collaboration between the companies' sustainability departments and buying departments, and ensure that buyers

As owner in a large number of companies and sectors, AP7 can help to spread experiences between these companies. However, the food supply chain is difficult to overview, involving several stages and actors in countries regarded as risk countries in terms of violations of human rights. As investors, we are far from the producer and processing stage. However, as large buyers of agricultural products, the food companies usually have greater opportunity to engage with and place requirements on the actions of suppliers and producers.

To find out how large food actors work with labour conditions in the supplier stage, AP7 has collaborated with Sustainalytics, which has been holding dialogue with around twenty food companies over three years. The focus of the dialogue has been on the companies' work with preventive measures to prevent child labour and forced labour in their supplier chains. During the course of the project, Sustainalytics has also tried to exert influence on the companies to develop their work in the area.

The progress and remaining challenges were presented by Sustainalytics in a final report in December 2020.

Theme **Sustainable Impact Measurement**



Is water in the Nordic region worth as much as that in the desert?
 Unless the measurement data is placed in a relevant context, the information only shows a footprint, not a measurement of its effect. The burden of water consumption on society varies according to the local supply of water.

How can we make corporate governance effective, and how can we evaluate whether the companies' own sustainability work really contributes to a sustainable societal development? These are questions AP7 is asking within the framework of the theme Sustainable Impact Measurement, which was launched in 2019 and will be concluded in 2021.

Knowledge about the effects of asset management on sustainable societal development is currently inadequate. At the same time, transparent reporting of the effects is needed, and it is important that investors themselves can evaluate what societal impact can arise as a result of their investments and corporate governance.

The aim of the theme Sustainable Impact Measurement is to find reliable and easily accessible methods that can show the societal benefit of both corporate governance and the portfolio companies' own sustainability work.

With effective measurement methods that provide more information about what works, investors can collaborate better to increase engagement in their corporate governance, such as by scaling up responsible investments that have proven effect.

Limited measurement methods

Most of the standards used today only measure footprint, not impact. If a measurement value is to be interpreted, and the impact shown, it must be placed in its context. Many measurement methods aim to give portfolios a measurement value, such as carbon footprint or diversity in boards of directors. But it is difficult to establish whether a portfolio with a low carbon footprint is making a positive contribution to society. In order to achieve lower emissions in society, the companies themselves must reduce these by stopping certain emission-intensive activities or developing products or services with a lower carbon footprint. Investors can have an important role in supporting the companies in the transition.

In the theme, AP7 has chosen to distinguish between the impact we can have on society through our corporate governance and the impact the companies themselves have through their activities and their sustainability work.

Effect of corporate governance on sustainability

In collaboration with Misum (Mistra Center for Sustainable Markets) at the Stockholm School of Economics, Emma Sjöström, PhD, carried out an analysis of existing academic research on corporate governance, and compiled her findings into the report *Active Ownership on Environmental and Social Issues: What Works?*

One of the findings of the report is that a shareholder does not need a large ownership proportion in order to exert influence. The investors' credibility plays a greater role, and being able to show that the proposed measure also lies in the company's interest. According to the report, engaging at policy level, such as working for global carbon taxes or reduced subsidies of fossil energy, are other routes investors can take and that could have a positive effect in the future.

Effect of the sustainability work by the portfolio companies

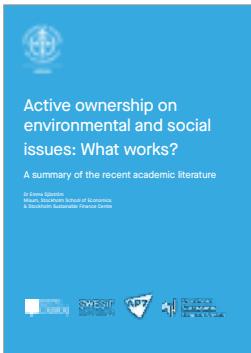
In 2019, together with our asset managers of impact funds (funds with a focus on solutions to sustainability challenges), we started a project to evaluate methods that measure the sustainability impact of the activities of portfolio companies. The work will give us a sense of the current state of knowledge regarding the measurement data available, and how it can be used to calculate sustainability impact. The important aspect here is to place the figures in a context, to be able to show the impact and not just the footprint.

- In the green mandates with KBI Global Investors, the ways in which investors can measure the portfolio companies' positive and negative impact on the environment are being investigated. What is the state of knowledge in the field, and what measurement methods are available?
- In our other green mandate, Impax Asset Management has chosen to focus on measurement of water as an indicator. The burden of water consumption on society varies according to the local supply of water. Impax Asset Management is therefore exploring how to effectively measure the impact of water consumption on the environment. How can investors examine the impact of portfolio companies on the environment in areas with limited access to water?

The results from the surveys by KBI Global Investors and Impax Asset Managements will be presented in 2021.

Collaboration with research centres

To help improve knowledge on sustainable finances, in 2021 AP7 will be starting a collaboration with a new research centre, the *Center for Financial Market Research - Competence Center*, which will be supported by Vinnova. AP7 will be represented on the advisory panel for the centre and will, for example, contribute its knowledge from the work in the theme Sustainable Impact Measurement.



The report from MISUM
 (Mistra Center for Sustainable Markets) compiled the results of the past ten years' academic research on active ownership on social and environmental issues.

Theme Climate Transition



In 2020, AP7 launched the theme Climate Transition, to investigate how to drive a transition in the companies with the greatest impact on climate. The work was deemed urgent in view of the slow pace of the global climate transition.

Since AP7 launched its first climate-related theme in 2015, knowledge has increased about the effects of climate change and on the impact of companies. A number of international initiatives and investor projects have also been set up, such as CA100+.

Today's emissions are not being reduced sufficiently quickly to attain the two-degree target in the Paris Agreement, and the climate issue has become even more urgent. At the same time, we are in a better position to work in a knowledge-based way in the field. Within the frame of our theme, we are therefore evaluating how we can use our influence as owners to exert influence on companies to make responsible decisions, and thereby help to accelerate the transition to a fossil-free society.

Objective to reduce emissions

Our new theme, Climate Transition, will run in the period 2020-2022. One main aim is to develop our corporate governance tools. In collaboration with investors and other actors, AP7 is also looking to contribute to method development and greater knowledge that will benefit other investors and

companies. Our overarching objective is to help bring about real reductions in emissions through transitions in the companies.

New studies show that it is a small number of companies that stand for most of the global emissions. To improve efficiency in the work to accelerate the transition to a fossil-free society, we are focusing our corporate governance on these companies that have the biggest impact on climate.

The Climate Transition theme focuses on how active owners can contribute to the transition to a fossil-free society.

Independent analyses form the base

The independent research institute Transition Pathway Initiative (TPI) comprises the hub in the new theme. TPI focuses on asset owners, and contributes academically verified and forward-looking scenario analyses of how company's business plans and actions align with the Paris Agreement. The fact that TPI's analyses look to the future is key, because decisions made today in the companies with the greatest climate impact are crucial for whether we will be able to keep global warming well below two degrees. AP7 joined TPI in 2020 and is a member of the institute's steering group for a three-year period.

The information and analyses that AP7 receives from TPI will be important material in the work to strengthen the climate component in our corporate governance, i.e. how we vote at general meetings, draw up shareholder resolutions, blacklist companies, and engage in dialogues.



Extended screening method

In 2020, we developed the climate aspect in our blacklisting. The method to identify companies whose activities conflict with the Paris Agreement is mainly incident-based, concerning controversial incidents involving companies. It has therefore been difficult to identify companies who work in silence against the Paris Agreement.

In developing the method, we have initially focused on the coal sector, because research shows the single most important measure for mitigating climate change is to stop using coal as a source of energy. This resulted in AP7, at the end of 2020, blacklisting ten companies. The blacklisting criteria that the companies satisfy is that they conduct large-scale coal-based activities and have extensive expansion plans. AP7 will not invest in the companies again until they stop expanding in coal. They must also show credible plans to transition their activities in line with the Paris Agreement, such as by adopting targets for emission reductions and increasing investments in renewable energy.

Standard for good corporate climate lobbying

AP7 is in a strong position to develop, together with TPI and other actors, new knowledge, and new norms in the market. The issue of corporate climate lobbying, which was a separate theme for AP7 in 2017-2019, has an epilogue within the framework of

the new theme. The focus will lie on developing norms and, in collaboration with the London School of Economics, create a global standard for responsible corporate climate lobbying, which will be launched in the first half of 2021.

Our collaboration with CA100+ will continue with a focus on engagement dialogue, which is an important tool for us in our corporate governance.

The ten blacklisted coal companies are:

- China Resources Power Holdings Co Ltd
- Coal India Ltd
- Exxaro Resources Ltd
- Inner Mongolia Yitai Coal Co Ltd
- Korea Electric Power Corporation (KEPCO)
- PT Adaro Energy Tbk
- SDIC Power Holding Co Ltd
- Shaanxi Coal Industry Co Ltd
- Washington H. Soul Pattinson (New Hope Group)
- Yanzhou Coal Mining Co Ltd

The coal companies that have been blacklisted according to the new method distinguish themselves through their negative impact on climate by engaging in large-scale coal production, and also by continuing to invest in large-scale expansion of fossil energy.



On savers' terms

Savers are at a great disadvantage in terms of information in the pension system, and many lack interest in the subject. AP7 has a responsibility for present and future generations, so we work actively to provide information about pensions and saving in a way that is adapted to the savers' situations.

The design of the premium pension system puts the savers in a position where they must make a choice, with a wide range of funds available and responsibility for their own premium pension. If savers are to make a considered choice, they need nuanced information. The pension system is complex, requiring a certain level of engagement before the information can reach the target group. At the same time, many savers feel that pensions is a difficult and complicated area, and those with many years left before retirement may find it hard to engage in the issue.

Informative communication

In recent years, AP7 has therefore been working actively with communication, providing information about pensions. Because of AP7's mission regarding responsibility issues, we also participate actively in the debate on sustainability and responsible investments.

Savers who do not make an active choice about their premium pension automatically have their pension money invested in AP7 Såfa. Their return and pensions are to be as good as those of other savers. By spreading information about private finance, the pension system, and AP7 Såfa, we are working to ensure that no saver should feel forced to choose, but that everyone should have as much information as possible to enable them to make informed decisions about their premium pensions.

Digital communication most effective

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

Our over five million savers is the ultimate target group for AP7's communication. For resource reasons, it is impossible to reach such a broad target group through, for example, advertising on TV and in the

national press. Consequently, we try to reach them cost-effectively through digital channels.

We use the blog, Förvalt, to offer nuanced and easily accessible information on sustainability, asset management, and pension savings. In 2019, we launched our podcast, Podd-Såfan, which focuses on behavioural economics and rational decision-making. In the stock market dip caused by the outbreak of the Covid-19 pandemic in spring 2020, AP7 initiated a communication campaign on the importance of a long-term approach in pension savings.

In 2020, we explained our investment philosophy in a more easily accessible way on ap7.se

AP7 has a clear investment philosophy

The basis is eight convictions that we work in accordance with but, expressed simply, it is a matter of risk, time, and responsibility. Here, we explain more about how it is all linked.



I have a long time left until I retire. Must I still do something in times of crisis?

Ibrahim, 28

As a young person, you should be patient with your premium pension.

Get
#premiepensionskoll
at ap7.se

Via social media, AP7 tries to inform and educate the savers on sustainability, asset management, and pension savings. During the stock market dip following the outbreak of Covid-19, we made information films aimed at our savers. All films can be seen on www.youtube.com/AP7se/videos

What do you really mean by “don’t rock the boat”?

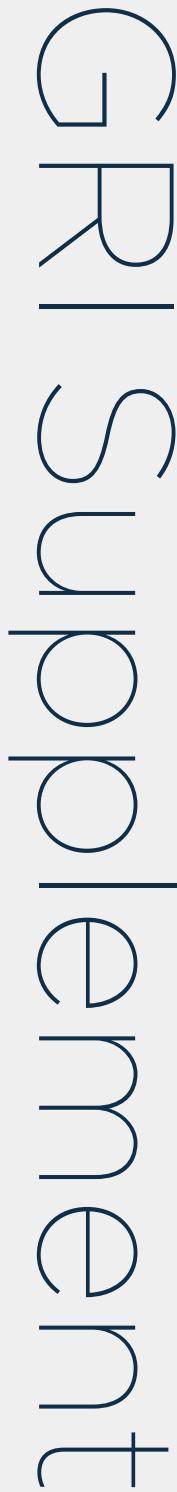
Katarina, 56

Equity Fund
Higher risk
Higher return over time

Fixed Income Fund
Low risk
Low return over time

Importance of openness

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



About the report

The GRI Report concerns the period 1 January - 31 December 2020, and covers the entire activities of the agency. AP7 issues sustainability reports annually, with the most recent report published on the website, www.ap7.se, on 29 April 2020.

Since then, no significant changes have occurred in the agency's mission or its value chain that would necessitate adjustments in this report. The Sustainability Report has been prepared in accordance with GRI Standards (Core level) and has not been subject to external auditing. AP7 has also considered the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) on reporting of climate-related risks, but currently does not report completely according to the framework. A GRI Index is presented on pages 30-31 of the Sustainability Report.

The contact person for sustainability reporting is Johan Florén, Head of Communications and Corporate Governance, +46 (0)8 412 26 64. The Sustainability Report for 2020 has been prepared in accordance with the Seventh AP Fund's principles for sustainability reporting, which correspond to those in the Swedish Annual Accounts Act.

Content of the report

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

Initially, AP7's key stakeholders were identified, i.e. the groups that have the greatest interest in AP7's operation and for whom the mutual influence is significant. The key stakeholders comprise: Regulatory Bodies, Core Suppliers, Employees, Swedish Pensions Agency, and Savers.

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

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

Through in-depth interviews, representatives of key stakeholders (excl. the Savers group) gave their views on the selected sustainability issues and on AP7's sustainability work. The stakeholders were given the chance to consider the issues in advance through a questionnaire. Views from the anonymous Savers stakeholder group were obtained from an analysis of questions and views submitted to AP7 in 2017. In summary, the stakeholders confirmed the selection of sustainability issues, and their comments extended and broadened the Materiality Analysis. In a concluding working meeting, involving the working group, the company's CEO, and the Head of Communications and Corporate Governance, the

prioritised sustainability issues as described above were adopted. The key stakeholders were supplemented with the stakeholder group, Collaboration Partners.

What do the stakeholders say?

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

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

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

Corporate governance

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

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

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

An ESG committee, comprising representatives for corporate governance, administration, and the asset management organisation, prepares certain ESG issues for decisions in the management team. The ESG Committee is also a collaboration body that coordinates and integrates the ESG issues in the various AP7 departments. The Committee meets once per quarter or when necessary. Companies to be blacklisted are decided by the Board's working committee, which may also be involved in other matters of particular importance.

Stakeholder group	Description	Form of dialogue	Issues
Regulatory Bodies	The Swedish Government's Pension Group which, through the AP Funds Act, tasks AP7 with asset management.	Continual dialogue	AP7's mission and confidence Financial performance
	The Ministry of Finance, which is responsible for monitoring and following-up AP7's activities.	Continual dialogue and annual reviews	AP7's mission and confidence Compliance with laws Financial performance
Core Suppliers	External asset managers, who make investments on behalf of AP7 or who perform services for AP7 in some other way.	Continual dialogue and annual reviews	AP7's mission and confidence Active ownership Impact investments Transparency
Employees	38 employees, who together carry out AP7's mission.	Appraisal interviews and employee surveys	AP7's mission and confidence
Swedish Pensions Agency	The agency that collaborates with AP7 by channelling equity into the funds and managing pension payments.	Continual dialogue	AP7's mission and confidence Information to the public Financial performance
Collaboration Partners, e.g. Sida	Actors that contribute to skills development in AP7 and in AP7's more in-depth work.	Within the framework of ongoing collaborations	AP7's mission and confidence Active ownership Impact investments
Savers	5.1 million Swedes whose pension capital is managed by AP7.	Continual contact with individual savers who ask questions, but also annual surveys to find out what the Swedish population thinks about various pension-related issues	Financial performance Active ownership Information to the public

All employees are obliged to follow AP7's guidelines on ethics, which place major emphasis on the conduct of employees and stipulate what applies on matters such as hospitality and gifts, procurements, secondary employment, and any conflicts of interest.

The aim of the guidelines is to prevent employees or their close relatives deriving any benefits from their connection to AP7, or being in a position of conflict between the fund's interests and their own private interests. All employees confirm annually that they have understood the fund's guidelines on ethics. In 2018, all employees underwent a training programme on corruption. AP7's business partners have been informed about the guidelines on ethics, by including the AP7 ethical policy in asset management agreements. The policy is also published on the website.

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

Memberships and voluntary agreements

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

- UN Principles for Responsible Investments (UNPRI)
- Carbon Disclosure Project (CDP)
- Sweden's Sustainable Investment Forum (Swesif)
- Institutional Investors Group on Climate Change (IIGCC)
- Swedish Investors for Sustainable Development (SISD)
- Global Investors for Sustainable Development (GISD)
- Transition Pathway Initiative (TPI)
- Farm Animal Investment Risk & Return (FAIRR)

AP7 as employer

AP7 is a government agency. At the end of 2020, AP7 had 38 employees, 18 women and 20 men. All employees have permanent contracts and are covered by the collective bargaining agreement, BAO-JUSEK (SACO). The agency has its head office on Vasagatan in Stockholm and has no other offices in Sweden.

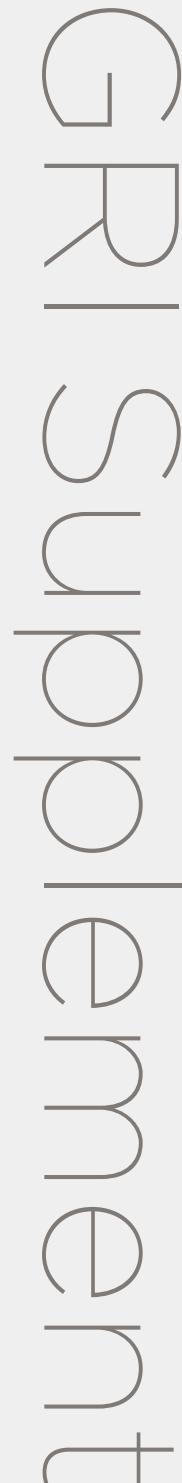
The agency conducts most of its business in Sweden, although investments are made all over the world. The CEO is Richard Grötheim. The management team comprises seven people, three women and four men. In 2020, one person left the agency, and three people were recruited. For AP7 it is important that employees enjoy working for the agency, and that the agency has the right skills and expertise. All employees had appraisal interviews during the year with their immediate supervisors.

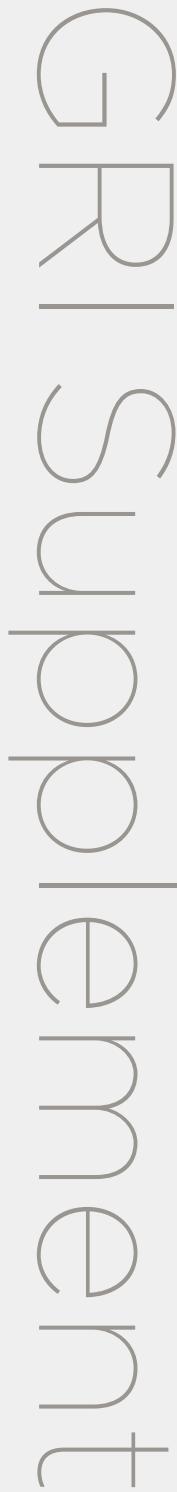
AP7's climate risks

AP7's managed assets total SEK 720 billion and, as a responsible owner, we must be able to overview and analyse how our investments are affected by climate change.

The risks that climate change entail for the financial sector can be divided into two main categories: physical risks and transition risks. Physical risks are those arising from increases in global average temperature, rising sea levels, and more frequent incidence of extreme weather. Transition risks are those deriving from the transition to a low-carbon society, where consumption patterns will be changed, new products replace old, and climate policy becomes more stringent. The transition risk is regarded as a financial risk, as the value of certain companies will fall when, for example, measures are implemented to phase out fossil fuels from the economy.

Because AP7 invests in such a large number of companies across all sectors and all regions, the physical risks and transition risks linked to our





holdings are largely the same as those applying to the entire global economy.

Physical risks

The biggest risk that could result in AP7 failing in its long-term mission to generate good returns and give our savers good pensions is that the world does not attain the 2°C target. This is because the economic values at risk of being lost if the climate risks are not managed successfully are astronomical. Estimates put the figure at SEK hundred thousand of billions.

Transition risks

The process of phasing out fossil fuels from the economy and the transition to a more climate-smart society will be unfavourable to certain companies in AP7's global portfolio and favourable to others. Investing in a large number of companies in a large number of different sectors and countries reduces our savers' exposure to the risks of each individual company. AP7's blacklisting process excludes a number of companies whose activities conflict with the Paris Agreement, so it can be assumed that our exposure to companies that are not favoured by the transition is less than that in our comparison index.

Strategy for managing climate risks

As a long-term asset owner and government pensions fund, AP7 is in a stronger position than many other investors to work on developing norms and methods for the market. In all corporate governance processes, AP7 is actively driving implementation of the Paris Agreement. For this to be a success, we collaborate with other investors and societal actors.

We expect that the companies in which we invest do not counteract implementation of the Paris Agreement. In 2017, for the first time we blacklisted companies whose conduct conflicts with the agreement. Starting in 2020, we have extended the blacklisting, by also including companies that continue to expand their fossil-based activities in coal production and coal power.

By including the Paris Agreement in our norms screening, we are involved in interpreting where the boundary goes for acceptable conduct regarding the climate issue. We engage in direct dialogue with a number of portfolio companies that we have identified as being especially important for a transition. We are running a number of engagement projects that focus on various aspects of companies' climate footprint. Climate also remains one of our focus issues at general meetings, where we usually vote in favour of climate resolutions and also file our own shareholder resolutions on particularly important matters.

In AP7's theme on Corporate Climate Lobbying, which ended in 2019, we explored in detail the issue of whether companies' industry organisations were working in line with the Paris Agreement, and the companies' reporting of memberships and positions. The theme resulted in 2020 in a project to develop a framework for responsible lobbying, which will enable investors to assess the extent to which lobbying is conducted in line with the Paris Agreement.

In parallel with engaging through ownership, AP7 can contribute to financing of climate solutions. The systemic change that we are facing requires innovations and investments in all sectors. Our invested capital enables us to benefit the climate by financing innovations and solutions for a new carbon-efficient economy. In this way AP7 can help to drive a transition, both in our role as active owner and through our directed investments.

AP7 measures the carbon footprint

In 2020, AP7 measured for the seventh consecutive year the collective carbon footprint of the AP7 Equity Fund. The carbon footprint gives an impression of the size of direct emissions from the underlying companies in the fund, but the practical value of the information is limited (see page 29).

AP7 supports method development in the market, and is working with asset managers in a project to measure and follow up the climate impact of investments. On 31 December 2020, the Equity Fund managed assets worth SEK 655 billion, and comprised 91 percent of AP7's total managed assets. Two percent of the Equity Fund is made up of unlisted private equity, which is not included in the measurement. AP7's carbon footprint has been calculated on the basis of investments in listed equity, which comprises 87 percent of AP7's total managed assets.

The analysis was carried out by ISS-ESG, and

Carbon footprint and carbon intensity in AP7 Equity Fund 2020		AP7 Equity Fund 2020	MSCI ACWI, comparison index, 2020
1	Absolute carbon footprint (million tonnes CO2e)	4.2	4.2
2	Carbon intensity (tonnes CO2e) per SEK million	6.8	6.9
3	Carbon intensity (tonnes CO2e) per SEK million	18.6	18.6
4	Carbon intensity, weighted average, tonnes CO2e per SEK million	15.9	16.0

For 2020, we report on the basis of the new EU guidelines.

1. The absolute climate footprint (Scope 1+2) corresponding to the owned proportion of the companies' collective emissions, in tonnes CO2e.
2. The carbon intensity, where absolute carbon footprint is related to the ownership proportion of the companies' market value, tonnes CO2e per SEK million.
3. The carbon intensity, where absolute carbon footprint is related to the ownership proportion of the companies' revenues, tonnes CO2e per SEK million.
4. The carbon intensity, weighted average, where the companies' carbon intensity in relation to revenues is multiplied by the company's percentage of the portfolio based on market value, in tonnes CO2e per SEK million.

covers emissions corresponding to Scope 1 and 2 according to the GHG Protocol. The calculations are based on 57 percent reported and 43 percent estimated emissions data from companies in the portfolio. The sector that contributed most to AP7's carbon footprint was the materials industry, which accounted for 40 percent of the footprint. Power supply comprised 27 percent, while the energy sector accounted for 13 percent.

In 2015, the AP funds published a joint proposal for standardisation of carbon footprint reporting. The proposal, which was developed in a collaboration project between AP7 and AP1-4 and AP6 has been embraced both in Sweden and internationally. Various data suppliers' services regarding carbon indicators for different asset classes have been evaluated, and this area is being continually developed. The AP funds have therefore chosen to wait with coordination on more asset classes. Because so much of AP7's managed assets comprise listed assets, we can nevertheless report the climate footprint for approximately 90 percent of our investments as of 31 December 2020.

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

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

The table to the right shows how the carbon footprint provides important knowledge for investors, but also that there are some limitations.

Advantages of the carbon footprint

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

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

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

Limitations of the carbon footprint

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

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

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

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

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GRI Standard	Comments	Page
Organizational profile		
102-1 Name of the organisation	Seventh AP Fund (AP7)	
102-2 Activities, brands, products, and services		4-5
102-3 Location of headquarters	Stockholm	
102-4 Location of operations	Sweden	
102-5 Ownership and legal form		A
102-6 Markets served		4-5
102-7 Scale of the organisation		A
102-8 Information on employees		27
102-9 Supply chain	AP7 has a small number of suppliers, mostly providing asset management and analysis services. The suppliers are mainly based in the UK and US. The risks in the supply chain are therefore deemed to be low.	
102-10 Significant changes to the organisation and its supply chain		26
102-11 Precautionary Principle or approach	AP7 conducts no manufacturing activities, but applies the Precautionary Principle by indirectly integrating it as part of its requirements.	
102-12 External initiatives		27
102-13 Membership of associations		27
Strategy and analysis		
102-14 Statement from senior decision-maker		2-3
Ethics and integrity		
102-16 Values, principles, standards, and norms of behavior		4, 26-27
Governance		
102-18 Governance structure		26-27, ÅR 27-28
Stakeholder engagement		
102-40 Stakeholder groups		26
102-41 Collective bargaining agreements		27
102-42 Identifying and selecting stakeholders		26-27
102-43 Approach to stakeholder engagement		27
102-44 Key topics and concerns raised		27
Reporting practice		
102-45 Entities included in the report		26
102-46 Defining report content and topic boundaries		26
102-47 List of material topics		26
102-48 Restatement of information	No corrections from previous reports were made in 2020.	
102-49 Changes in reporting		26
102-50 Reporting period		26
102-51 Date of most recent report		26
102-52 Reporting cycle		26
102-53 Contact point for questions regarding the report		26
102-54 Claims of reporting in accordance with GRI Standards		26
102-55 GRI content index		30-31
102-56 External assurance		26

GRI Standard	Relevant sustainability topics	Page
ECONOMIC PERFORMANCE		
GRI 201: Financial profit/loss 2016		
103-1/2/3 Significance and boundaries of the issue, sustainability governance and follow-up		26-29
201-2 Financial implications due to climate change	Product portfolio: Impact investments, Active ownership	6-7, 27-29
GRI 205: Anti-corruption 2016		
103-1/2/3 Significance and boundaries of the issue, sustainability governance and follow-up		26-27
205-2 Communication and training about anti-corruption policies and procedures	Anti-corruption, Transparency	26-27
205-3 Confirmed incidents of corruption and actions taken	No reported cases of anti-corruption 2020	
SUPPLIER SOCIAL ASSESSMENT		
GRI 414 incl. GRI 308: Supplier screening 2016		
103-1/2/3 Significance and boundaries of the issue, sustainability governance and follow-up		26-27, 32
308-1, 414-1 New suppliers that were screened using environmental or social criteria	Active ownership	32
GRI FS: Product portfolio		
FS6 Distribution of product portfolio by region, size and sector	Transparency	ap7.se
FS8 Economic value of products and services with special environmental objectives	Product portfolio: Impact investments	7, 9, 13
GRI FS: Active ownership		
FS10 Percentage and number of companies in the portfolio that the reporting organisation has interacted with regarding environmental/social matters	Active ownership	10-11
FS11 Percentage of managed capital covered by positive or negative environmental or social screening	Active ownership	32
GRI FS: Audit		
DMA Scope and frequency of audits to assess implementation of environmental/social policies and risk assessments	Active ownership, Transparency, Compliance with laws, ordinances, guidelines	32
GRI FS: Society		
FS14 Initiatives to improve accessibility to financial services for disfavoured groups in society	Mission and confidence, Information to the public	24-25

Page references to reporting in accordance with TCFD recommendations

Governance	Strategy	Risk management	Targets and performance indicators
a) 26-28	6-7, 27-28	6-7, 27-28	6-7, 27-28
b) 26	6-7, 27-28	6-7, 27-28	*
c) -	6-7, 27-28	6-7, 27-28	*

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



With five million savers, we receive a number of recurring questions about our corporate governance. Here are our answers to some of the most frequently asked questions.

What is the main purpose of your sustainability work? Our main promise to the savers is to generate a good return, and to use our power as owners to promote sustainable development. We base our work on the international conventions that Sweden has signed with regard to environment, human rights, labour, and anti-corruption. In this way, our activities are aligned with the perception of justice in the broad population group to which the savers belong.

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

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

What is AP7's strategy for responsible investments? The strategy for responsible investment is based on two main methods for contributing to sustainable development: by being an active owner and by investing in sustainability solutions.

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

Our other way to contribute to sustainable development is to invest in companies specialising in sustainable solutions. AP7 invests in green bonds, unlisted clean-tech companies, and green investment mandates in listed companies.

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

returns and a sustainability approach, the law allows us broad freedom to conduct responsible asset management.

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

How does AP7 work with external asset management? External fund management means that investments are made by external asset managers, often larger specialised firms. AP7 uses external asset management for the majority of its managed capital. In the agreements with the external asset managers, we stipulate that they must meet AP7's requirements regarding sustainability, such as by prohibiting investments in companies that we have blacklisted. AP7 holds continual dialogue with the external asset managers, and conducts annual screening of all of them, including any new asset managers. AP7 has opted not to outsource the governance of the companies we own to the external asset managers. AP7 itself handles voting at general meetings, engagement dialogues with companies, screening and blacklisting of companies, and legal processes.

AP7 holds equity in certain sectors, such as fossil-fuel companies, that other actors have excluded. Why is this? AP7 has chosen to invest in the entire stock market instead of certain selected sectors. This means that we have holdings in the companies that comprise the market. We are convinced that, as sustainable investors, our best way to influence these companies is by owning shares and by engaging through the ownership role. There is a lot of capital available for investment in the world, so the risk is great that, if companies do not have owners who value sustainability, they will take less responsibility.

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

- On the AP7 website, there is a blog about our sustainability work. Our previous sustainability reports and annual reports are also available at www.ap7.se.
- You can download the sustainability profiles of AP7's Fixed Income Fund and Equity Fund from the Swesif website, www.hallbarhetensprofilen.se.
- AP7 reports annually to PRI. The AP7 RI Transparency Report can be downloaded here: www.unpri.org/signatory-directory/ap7/866.article

Solutions and explanations

Blacklisting. One of AP7's tools for corporate governance, used to attain an engagement effect on companies whose conduct is unacceptable. No investments are made in companies that violate international norms regarding the environment, human rights, labour, and anti-corruption. The reason for the blacklisting is also published. Since 2016, the Paris Agreement to the UN Climate Convention has been included.

Carbon footprint. A calculation of the total emissions of greenhouse gases generated by a company, an organisation, or a product (such as an investment portfolio). AP7's carbon footprint estimates the size of the direct emissions from the underlying companies in the AP7 Equity Fund.

Climate risks. The risks to the financial system linked to climate change.

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

Default option. AP7 Såfa is the state default option in the premium pension system. Anyone not making an active choice about their premium pension automatically has their pension money invested in the fund.

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

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

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

Global Reporting Initiative (GRI). International initiative that has developed guidelines for reporting of organisations' sustainability work.

Impact fund. Fund that makes investments in companies that contribute solutions to sustainability challenges.

Institutional Investors Group on Climate Change (IIGCC). An investor network that works to increase collaboration on climate issues.

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

Norms screening. A method that continually monitors how companies are complying with international conventions on the environment, human rights, labour, and anti-corruption. Companies reported as violating international conventions are identified and analysed.

Physical climate risks. The negative consequences for the global economy that climate change entails, in the form of, for example, rising sea levels, greater average rainfall, and greater incidence of extreme weather events.

Principles for Responsible Investment, PRI. A global network initiative for institutional investors that is supported by the UN. PRI is based on six principles for integrating sustainability factors in investments. AP7 has signed the PRI Principles for Responsible Investments.

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

Resolution, shareholder proposal. A written proposal regarding a measure that the shareholder wants the company to implement. Most proposals at general meetings are filed by the company management itself, but in certain countries investors can also file their own resolutions for voting.

Scope 1, 2 and 3. In calculation and reporting of greenhouse gas emissions according to the Greenhouse Gas Protocol (GHG), the emissions are categorised in three categories called 'scopes'. Scope 1 is emissions from sources owned or controlled directly by the organisation. Scope 2 is emissions from energy that the company purchases, such as electricity. Scope 3 is other indirect emissions that relate to the organisation, such as emissions from business trips, transports, or waste management.

Stranded assets. Assets at a party's disposal that, for some reason, cannot be utilised and thereby comprise a financial risk.

Task Force on Climate-related Financial Disclosures (TCFD). An international initiative that developed a framework for identifying organisations' climate-related financial risks and opportunities. The guidelines are based on governance, strategy, risk management, and goals/measurement results.

Transition Pathway Initiative (TPI). An independent research institute that is steered by equity owners, and contributes free and academically robust scenario analyses of how companies' operational plans and objectives are in line with the Paris Agreement.

Transition risks. The consequences for the global economy arising from changed consumption patterns, development of new products and solutions, and more stringent legislation and regulations in the climate area aimed at reducing carbon emissions.

UN Global Compact. A corporate initiative in sustainability, launched by the UN Secretary General in 1999, which is based on ten principles regarding human rights, labour, environment, and anti-corruption.

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

84 companies that AP7 currently does not own shares in...

These 84 companies are blacklisted and excluded as of December 2020: **AECOM** Involvement in nuclear weapons. **AES CORP** Violations of human rights and environmental norms in connection with a dam construction project in Panama. **AIRBUS SE** Involvement in nuclear weapons. **AURORA CANNABIS, INC** Involvement in cannabis. **AVICHINA INDUSTRY & TECHNOLOGY** Violations of human rights through sales of weapons to Myanmar. **BABCOCK INTERNATIONAL GROUP PLC** Involvement in nuclear weapons. **BAE SYSTEMS PLC** Involvement in nuclear weapons. **BARRICK GOLD CORP** Violations of environmental norms in connection with mining operations in Chile and Argentina. **BHARAT HEAVY ELECTRICALS LTD** Violations of environmental norms through construction of a coal-fired power station adjacent to a national park with World Heritage status. **BHP GROUP PLC/LTD** Violations of environmental norms and human rights in connection with the collapse of a dam in Brazil. **BOOZ ALLEN HAMILTON HOLDINGS** Involvement in nuclear weapons. **BROOKFIELD ASSET MANAGEMENT INC** Involvement in nuclear weapons. **BWX TECHNOLOGIES INC** Involvement in nuclear weapons. **CANOPY GROWTH CORP** Involvement in cannabis. **CENTRAIS ELETRICAS BRASILIERAS** Violations of human rights in connection with a dam construction project in Brazil. **CHINA RESOURCES POWER HOLDINGS CO LTD** Activities in conflict with the Paris Agreement through large-scale coal-based activities. **CHINA SHIPBUILDING INDUSTRY COMPANY** Involvement in nuclear weapons. **CINTAS CORP** Violations of labour rights in the US. **COAL INDIA LTD** Activities in conflict with the Paris Agreement through large-scale coal-based activities. **COMPANHIA ENERGETICA DE MINAS GERAIS (CEMIG)** Violation of human rights in connection with a dam construction project in Brazil. **CRONOS GROUP** Involvement in cannabis. **DEUTSCHE TELEKOM AG** Violations of labour rights in the US. **ELBIT SYSTEMS LTD** Production of cluster munitions and sale of military equipment used in violations of human rights in Israel. **ELSEWEDY ELECTRIC CO** Violations of environmental norms in Tanzania through construction of a hydroelectric plant in a national park with World Heritage status. **ENBRIDGE INC** Violations of human rights in connection with construction of an oil pipeline in the US. **ENTERGY, INC** Activities that conflict with the Paris Agreement by counteracting climate legislation in the US. **EXXARO RESOURCES LTD** Activities that conflict with the Paris Agreement through large-scale coal-based activities. **EXXON MOBIL CORP** Activities that conflict with the Paris Agreement by counteracting climate legislation in the US. **FLUOR CORP** Involvement in nuclear weapons. **FORTIVE CORP** Involvement in nuclear weapons. **GAZPROM PJSC** Activities that conflict with the Paris Agreement by extracting oil in Arctic Russia. **GENERAL DYNAMICS CORP** Involvement in nuclear weapons. **HANWHA CORP** Involvement in cluster munitions and landmines. **HITACHI ZOSEN CORP** Involvement in nuclear weapons. **HONEYWELL INTERNATIONAL INC** Involvement in nuclear weapons. **HUNTINGTON INGALLS INDUSTRIES INC** Involvement in nuclear weapons. **INDOFOOD SUKSES MAKMUR** Violations of labour rights in Indonesia. **INNER MONGOLIA YITAI COAL CO LTD** Activities in conflict with the Paris Agreement through large-scale coal-based activities. **JACOBS ENGINEERING GROUP INC** Involvement in nuclear weapons. **JBS SA** Violations of labour rights in the US and Brazil. **KOREA ELECTRIC POWER CORPORATION (KEPCO)** Activities that conflict with the Paris Agreement through large-scale coal-based activities. **KOREA SHIPBUILDING & OFFSHORE ENGINEERING** Violations of labour rights in South Korea. **L3HARRIS TECHNOLOGIES INC** Involvement in nuclear weapons. **LARSEN & TOUBRO LTD** Involvement in nuclear weapons. **LEIDOS HOLDINGS INC** Involvement in nuclear weapons. **LEONARDO SPA** Involvement in nuclear weapons. **LOCKHEED MARTIN CORP** Involvement in nuclear weapons, cluster munitions and landmines. **LUKOIL PJSC** Violations of environmental norms in connection with oil extraction in Russia. **MARATHON PETROLEUM CORP** Violations of human rights in connection with construction of an oil pipeline in the US. **NORTHROP GRUMMAN CORP** Involvement in nuclear weapons. **NTPC LTD** Violations of environmental norms through construction of a coal-fired power station adjacent to a national park with World Heritage status. **NUTRIEN LTD** Violations of human rights through import of phosphate from the occupied West Sahara. **PEABODY ENERGY CORP** Activities that conflict with the Paris Agreement by counteracting climate legislation in the US. **PHILLIPS 66** Violations of human rights in connection with construction of an oil pipeline in the US. **POSCO** Violations of labour rights in Turkey. **POSCO INTERNATIONAL CORP** Violations of labour rights in Turkey. **PT ADARO ENERGY TBK** Activities that conflict with the Paris Agreement through large-scale coal-based activities. **RAYTHEON TECHNOLOGIES CORP** Involvement in nuclear weapons, and violations of human rights in connection with weapons sales linked to war crimes in Yemen. **RENAULT SA** Violations of labour rights in Turkey. **REPSOL SA** Violations of human rights in connection with a gas extraction project in Peru. **ROLLS-ROYCE HOLDINGS PLC** Involvement in nuclear weapons. **ROSNEFT OIL CO PJSC** Violations of environmental norms in connection with oil extraction in Russia. **ROYAL DUTCH SHELL PLC** Violations of environmental norms and human rights in connection with oil extraction in Nigeria. **SAFRAN SA** Involvement in nuclear weapons. **SDIC POWER HOLDING CO LTD** Activities that conflict with the Paris Agreement through large-scale coal-based activities. **SERCOP GROUP PLC** Involvement in nuclear weapons and violations of human rights in connection with operation of refugee camps in Australia. **SGL CARBON SE** Involvement in nuclear weapons. **SHAANXI COAL INDUSTRY CO LTD** Activities that conflict with the Paris Agreement through large-scale coal-based activities. **SK HOLDINGS CO LTD** Violations of human rights in connection with a gas extraction project in Peru. **TATA POWER CO LTD** Involvement in nuclear weapons. **TC ENERGY CORP** Activities that conflict with the Paris Agreement through a large-scale oil pipeline project in the US and Canada. **TEXTRON INC** Involvement in cluster munitions. **TALES SA** Involvement in nuclear weapons. **THE BOEING COMPANY** Involvement in nuclear weapons. **THE SOUTHERN COMPANY** Activities that conflict with the Paris Agreement by counteracting climate legislation in the US. **T-MOBILE US INC** Violations of labour rights in the US. **TOSHIBA CORP** Involvement in nuclear weapons. **VALE SA** Violation of human rights in connection with a dam construction project in Brazil, and violations of environmental norms and human rights after the collapse of a dam in Brazil. **WALMART INC** Violations of labour rights in the US. **WASHINGTON H. SOUL PATTINSON** Activities that conflict with the Paris Agreement through large-scale coal-based activities. **YANZHOU COAL MINING CO LTD** Activities that conflict with the Paris Agreement through large-scale coal-based activities.

AP7 invests in the companies that satisfactorily comply with the requirements of the international conventions that Sweden has signed, and that are enshrined in the UN Global Compact's ten principles, which describe corporate responsibilities regarding human rights, labour rights, the environment and anti-corruption. AP7 blacklists companies that participate in the development and production of nuclear weapons. Since the audit in December 2016, the Paris Agreement to the UN Climate Convention has been one of the norms on which our analysis is based. In December 2020 we tightened our requirements on the basis of the Paris Agreement, and ten companies in the coal industry were excluded.



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