

# AP7

Extract from  
the 2020  
Annual Report



Pension fund managers  
must see risk as an  
opportunity

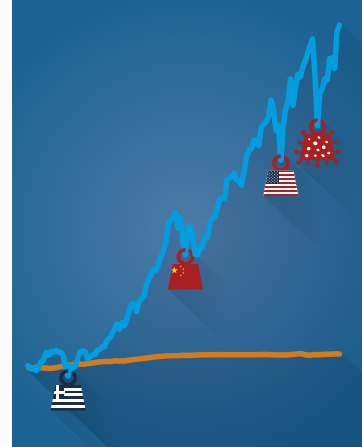
# Contents

Letter from the CEO	3
About AP7	4
Guest Article – Pensions in the wake of Covid-19	6
AP7's management	8
AP7's role in sustainable development	12
Our engagement tools	14
Our themes	15
Blacklist	16

## Risk must be seen as an opportunity in pension fund management

In the past ten years, return has been 13 percent for the AP7 Fixed Income Fund and 326 percent for the AP7 Equity Fund.

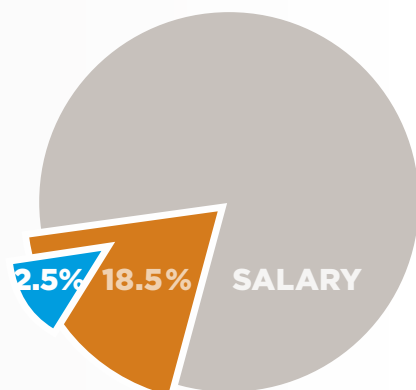
Front cover



## About AP7

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

pp 4-5



## The value of the risk framework became apparent when the markets fell

Ingrid Albinsson, Head of Asset Management, AP7 on management in 2020.

pp 8-11



## 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 Såfa. 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

## AP7's role in sustainable development

With a diversified and global portfolio, AP7 can act as owners on a broad front and over a long time.

pp 12-13



Working Conditions in Food Supply Chains 2018-2020

Sustainable Impact Measurement 2019-2021

Climate Transition 2020-2022

Deforestation 2021-2022



## Risk management in an unusually **turbulent year**

AP7's CEO Richard Gröttheim on how Covid-19 has shown the value of a long-term approach in pension fund management.

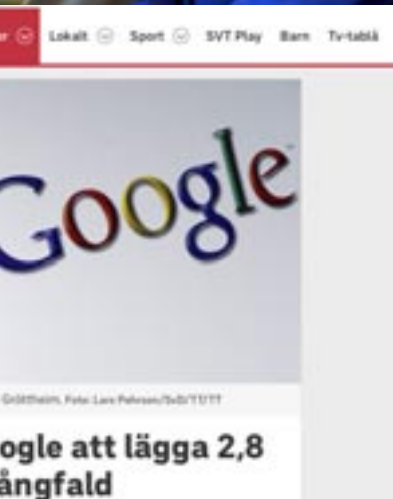
**pp 2-3**



## How do we build **better retirement systems** in the world after the **global epidemic?**

Olivia S. Mitchell, professor at the Wharton School of the University of Pennsylvania.

**pp 6-7**



## Dialogue

## Blacklisting

## Engagement tools

As a universal and active owner, AP7's ambition is to influence the entire market in a sustainable direction over the long term.

**p 14**

## Our themes

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

**p 15**

**Text:** Seventh AP Fund (AP7)  
with the support of Helene Hellberg  
**Project management:** Mikael Lindh Hök, AP7  
**Photos/Illustrations:** Jonas Böttiger,  
Cover, 2-5, 11-15, Cory Hancock, 6  
Peter Knutson, 8-10  
**Concept and graphic design:** bottiger.se  
**Translation:** Leslie Walke, CommunicAID





# Risk management in an unusually turbulent year

**Equity markets were greatly affected by Covid-19 during a volatile 2020, and our risk framework served an important function. Now we are looking ahead, and hope we can spread the risks even more, across new asset classes.**

In last year's annual report, I wrote that we would continue to see low interest rates and increased globalisation in 2020. I also pointed out that the market could experience major fluctuations, and that diversification and a long-term approach would be important tools. However, few could have predicted a global pandemic, with a drop for Sâfa savers of 25 percent over a couple of weeks in the spring, followed by an upswing of over 40 percent from the lowest point. Overall, the year ended with an increase of over four percent.

The extreme year, 2020, shows how difficult it is to anticipate short-term movements in the stock market. The illustration on the cover of this year's annual report shows the trend for our Equity Fund and Fixed Income Fund in the past ten years. It can be clearly seen that major market downswings occur regularly. It also shows how important it is to retain a long-term perspective when managing pension assets, and that risk must be regarded as an opportunity. This particularly applies when one of the main aims of the premium pension system is to enable higher return and risk spreading compared with the low level of risk in the income pension.

I am extremely pleased that AP7 has been able to use its risk framework to successfully dampen the effect of the extreme volatility in 2020. The framework has enabled us to gradually reduce the level of risk in the fund in the past three years. During the turbulent first months after the Covid-19 outbreak, the value of the risk framework became clear, as the downswing for the portfolio was much less than if the fund had applied the normal long-term risk level in the premium pension.

Sweden can be proud of the stability in its pension system, seen in a global perspective, not least in view of the challenges facing the world's pension systems after Covid-19, which Professor Olivia S. Mitchell describes in her international review on page 6. Over the years, the persistently low interest rate has necessitated greater risk-taking to achieve the same return.

In 2020, we drew up a new strategic plan, with the ambition to offer an even better product for the

savers. We hope to be able to do this, for example, with more asset classes, thereby allowing us to use the long-term perspective of pension saving to further reduce volatility while retaining return. The pandemic has shown the value of this approach in asset management.

Our strategic plan still has a high level of ambition regarding sustainability. Global success in the climate transition is vital if we are to attain the target in the Paris Agreement to keep global warming well below two degrees. AP7's diversified portfolio, with over 3000 companies spread across all the world's sectors and regions, means that our risks are largely the same as those in the global economy. The strategy to contribute to the Paris Agreement's climate target is therefore to use our position as responsible owner to exert pressure on companies to reduce their carbon footprint and actively contribute to the climate transition. We do not accept companies that work against the climate goals. Consequently, during the year, we extended our blacklist to include ten large coal companies that continue to expand their operations, in direct conflict with the necessary climate transition.

During the year, we also reduced the fee to 0.075 percent in our effort to keep the cost to savers as low as possible. We have thereby halved the fee for the Equity Fund since 2010, and by more on average for the Sâfa saver.

We are living in strange times, in a world where vaccination against Covid-19 is top of the agenda so that we can open our societies and reduce the human suffering. When that happens, I am optimistic about what we can learn from what we have gone through and emerge stronger on the other side. In 2021, we hope to be able to devote maximum energy to the new asset classes, and create a better default option in the premium pension system.



Richard Gröttheim

# 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 with management of securities funds.

## Our mission

Since the premium pension system was introduced in 2000, AP7's mission has been to manage the premium pension capital in the government default option. 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.

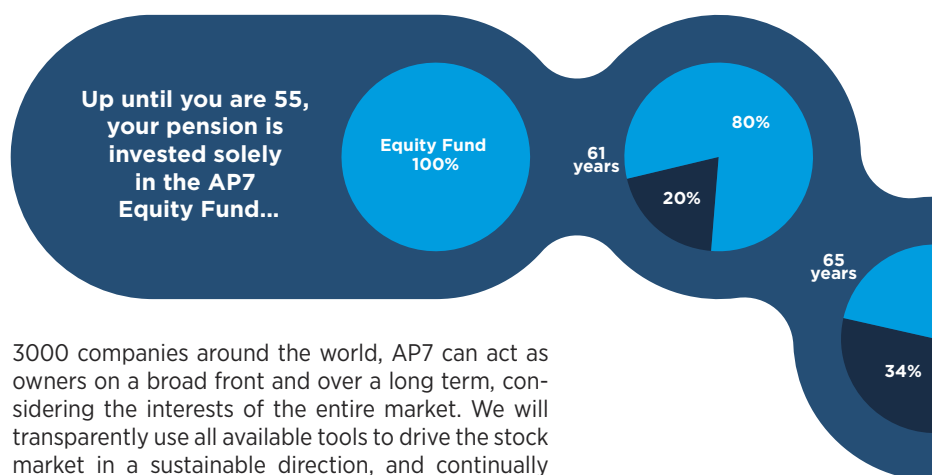
## Our role as owners

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.*

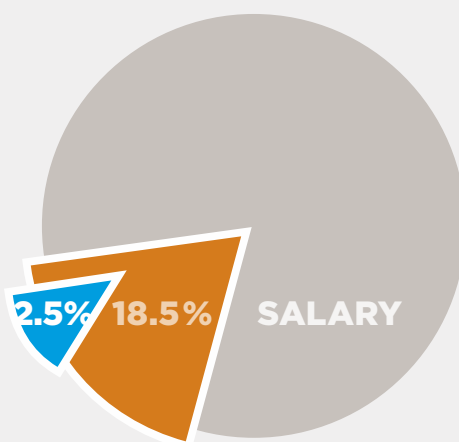


3000 companies around the world, AP7 can act as owners on a broad front and over a long term, considering the interests of the entire market. We will transparently use all available tools to drive the stock market in a sustainable direction, and continually develop new knowledge and methods.

## 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

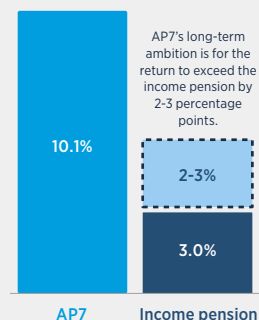
## AP7 in figures



**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.

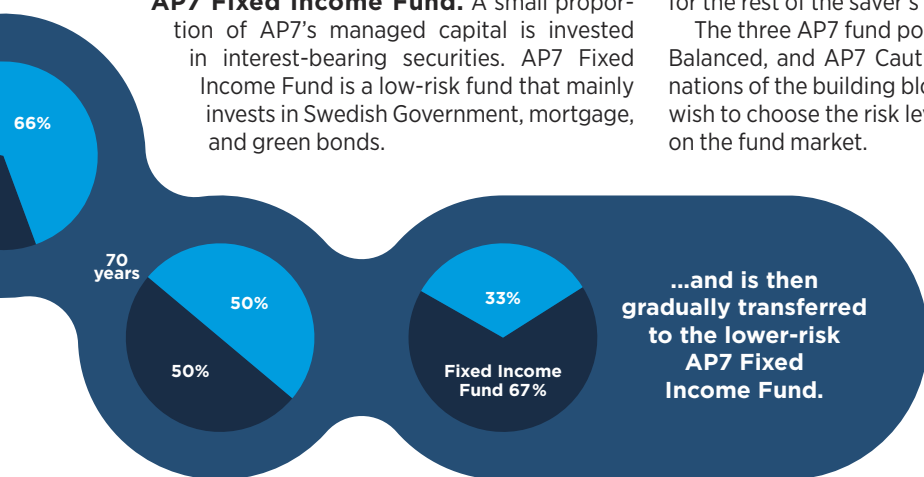
**AP7 Fixed Income Fund.** A small proportion of AP7’s managed capital is invested in interest-bearing securities. AP7 Fixed Income Fund is a low-risk fund that mainly invests in Swedish Government, mortgage, and green bonds.

**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.

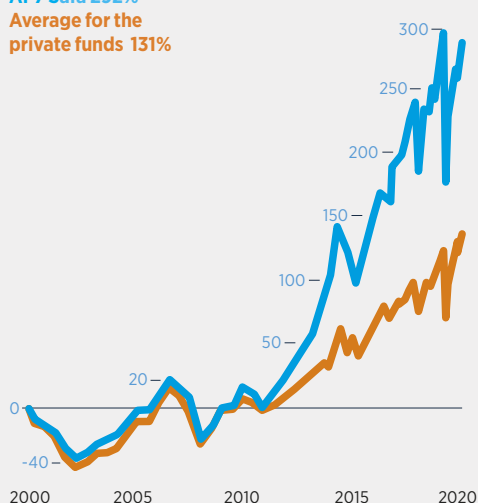


AP7 Såfa is the default option in the premium pension system. Savers who do not themselves choose a fund automatically save in AP7 Såfa. The fund gradually adapts the level of risk according to the saver’s age from the age of 56. After that age, the proportion of Fixed Income Fund increases, and the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

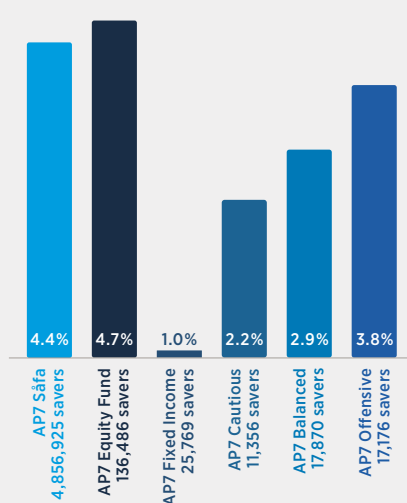
#### Return 2000-2020 in percent

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 will 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.



# Retirement

## in the wake of Covid-19

How do we build better retirement systems in the world after the global pandemic? That is one question Olivia S. Mitchell, professor of insurance/risk management and business economics/policy at the Wharton School of the University of Pennsylvania, has investigated in her research on “Building better retirement systems in the wake of the global pandemic”.





Olivia S. Mitchell is a professor of insurance/risk management and business economics/policy at the Wharton School of the University of Pennsylvania.

Despite the Covid-19 jump in global mortality rates, rising longevity and falling fertility continue to spur the growth of aging populations in most nations. Accordingly, we must move now to reform retirement systems, if they are to provide secure old-age income for Baby Boomers and their offspring.

## Even before Covid-19, many pensions were not sound

My recent review of global pension systems showed that, even before the pandemic, some of the most troubled retirement plans were traditional defined benefit pensions offered by state/local governments and a shrinking of large corporations around the world. These are in dire straits because plan sponsors have long failed to contribute what they should have, and also because these plans invested in risky assets, leaving them at the mercy of market shocks. Long-term low investment returns have also taken a toll.

Defined contribution plans, the engine of growth for pensions in the US and most other developed countries, have fared better in the past decade. Nonetheless, pre-Covid-19, low rates of coverage and contributions were problematic, particularly in developing countries where much of the workforce is informal. And the rise of “gig” work – part-time, self-employment, contract jobs – has also meant rising numbers of workers lack access to firm-based retirement plans.

Yet the biggest problem threatening retirement security around the world is the fact that many national social security systems face near-term insolvency. Pre-crisis, the US Social Security Trustees predicted that system revenues would cover only 75% of scheduled benefits within a dozen years, due to underfunding estimated at USD 53 trillion in present value.

## The pandemic made it worse

While it is premature to provide a forecast about the long-term global economic impact of the Covid-19 pandemic, there is evidence that capital markets may not recover for 40 years. As a result, pension systems cannot expect to earn enough from their (diminished) investments to return to full funding any time soon. Additionally, due to very high unemployment and jobless rates, payrolls shrank, and tax collection dropped precipitously. As a result, the US Social Security program’s insolvency may now occur in just nine years, rather than more than a decade from now as the Trustees projected last year; at that point, benefits to all must be cut by about 25%. In Europe things are not much better: Dutch pensions, which had been overfunded at 105%, now have only 70% of the assets needed to cover benefits, likely to result in benefit cuts.

Defined contribution plans have also been challenged in the pandemic. In the US, many employers have suspended their matching contributions to workers’ accounts in the interest of maintaining free cash flows. While most firms are likely to reinstate the matches post-pandemic, the lost contributions cannot be recovered. Moreover, several governments have permitted participants to pull out retirement assets early, due to the Covid-19 shock, including the US and Spain. Lawmakers in Chile and Peru have also proposed giving savers early access to their pension assets to help tide them over, and in Australia, politicians asked pension savers to “bail out” struggling local companies. These developments, although politically expedient, bode ill for retirement prospects in our aging economics.

## What can be done?

My research and analysis suggest several key areas where retirement systems could use some help. The following suggestions for plan sponsors, governments, employees, and retirees will help us redesign and strengthen resilient retirement systems around the globe:

- We can de-link benefits from individual employers. In many countries including the US, people lose their insurance and pension contributions when they lose their jobs. Yet pensions and other benefits could be offered by associations, multiple-employer programs, and workplace platforms, allowing for more worker mobility and continued health insurance when people move between jobs.
- We can offer greater benefits flexibility, so that the gig economy can provide all workers the chance to save and insure on flexible, part-time, and other on-demand jobs.
- We can encourage delayed retirement where possible. Longer work lives reduce the need to self-fund long retirement periods, and delayed retirement can also be healthier.
- We should generate better quality and more detailed data about mortality and morbidity patterns. These could help insurers seeking to price longevity risk more precisely.
- We can develop a consistent and economically coherent set of guidelines for measuring and forecasting social security as well as pension assets and liabilities, along with long-term care needs of the aging population.

Olivia S. Mitchell, The Wharton School, Univ. of PA. Building Better Retirement Systems in the Wake of the Global Pandemic, [repository.upenn.edu/prc\\_papers/677/](https://repository.upenn.edu/prc_papers/677/)

OECD. Pensions at a Glance 2019, [www.oecd.org/publications/oecd-pensions-at-a-glance-19991363.htm](https://www.oecd.org/publications/oecd-pensions-at-a-glance-19991363.htm)

U.S. Social Security Trustees. [www.ssa.gov/OACT/TR/2020/tr2020.pdf](https://www.ssa.gov/OACT/TR/2020/tr2020.pdf)

Federal Reserve Bank of San Francisco. Longer-Run Economic Consequences of Pandemics, [www.frbsf.org/economic-research/publications/working-papers/2020/09/](https://www.frbsf.org/economic-research/publications/working-papers/2020/09/)

MarketWatch, Thanks to COVID-19 Social Security’s day of reckoning may be even closer than we thought, [www.marketwatch.com/story/thanks-to-covid-19-social-securitys-day-of-reckoning-may-be-even-closer-than-we-thought-2020-04-15](https://www.marketwatch.com/story/thanks-to-covid-19-social-securitys-day-of-reckoning-may-be-even-closer-than-we-thought-2020-04-15)

IPE, WTW: Dutch schemes’ funding ratios could dip under 70%, [www.ipe.com/news/wtw-dutch-schemes-funding-ratios-could-dip-under-70/10044793.article](https://www.ipe.com/news/wtw-dutch-schemes-funding-ratios-could-dip-under-70/10044793.article)

MarketWatch, Opinion: Should you use the CARES Act to access your retirement funds?, [www.marketwatch.com/story/should-you-use-the-cares-act-to-access-your-retirement-funds-2020-04-08](https://www.marketwatch.com/story/should-you-use-the-cares-act-to-access-your-retirement-funds-2020-04-08)

International Federation of Pension Fund Administrators, Progress of the Pension Systems February - March 2020, [www.fiapinternacional.org/wp-content/uploads/2020/04/Progress-of-the-Pension-Systems-No.2\\_February-March-2020.pdf](https://www.fiapinternacional.org/wp-content/uploads/2020/04/Progress-of-the-Pension-Systems-No.2_February-March-2020.pdf)

Bloomberg, Australia’s Morrison Wants Pensions to Fund Company Bailouts, [www.bloomberg.com/news/articles/2020-04-16/australias-morrison-wants-pensions-to-fund-company-bailouts](https://www.bloomberg.com/news/articles/2020-04-16/australias-morrison-wants-pensions-to-fund-company-bailouts)

*The following article was previously published by Olivia S. Mitchell for the Wharton University Pension Research Council, entitled “Retirement in the Wake of COVID-19.”*

AP7, corona  
and **long-  
term risks**





*Covid-19 has increased the focus on the long-term risks.*

“We know that events are cyclical and that various trends occur. The pandemic has increased understanding of the long-term trends, and that we must evaluate the long-term risks,” says **Ingrid Albinsson, Head of Asset Management, AP7.**

**Equity markets were greatly affected by the Covid-19 pandemic in 2020. A global downturn in the stock markets was followed by a strong recoil upwards. How has AP7 managed the challenges during the year, and how does AP7 view these times?**  
**Ingrid Albinsson, Head of Asset Management, AP7, sees that, above all, the pandemic has shown the need to lift the perspective regarding long-term risks.**

Risk spreading through diversification is the basis of AP7's management strategy. The approach involves spreading investments, both geographically and across sections, in over 3000 companies all over the world, but also diversification from a time perspective. New pension capital is allocated every year, which spreads the investments over a saver's entire working life.

The risk level in AP7 Sâfa is also adjusted on the basis of the saver's age, from higher risk at younger ages to greater security as the saver gets closer to retirement. The basis of the strategy is that, when the saver is younger, the savings capital can fall in value for a period, because the saver still has time left before retirement to work and see the capital grow again. When the saver has reached the age of 65, they no longer have the same opportunity to earn new capital, because the number of paychecks to look forward to is low. This is why the security in AP7 Sâfa gradually increases from the age of 56, but this is at the expense of the risk-taking that increases the probability of return.

During a year like 2020, when the Covid-19 pandemic caused volatility in the markets, at the same time as the fluctuations for the fixed-income funds were marginal, the difference between the AP7 Equity Fund and the AP7 Fixed Income Fund was striking.

### **The long-term risks**

“The Covid-19 pandemic has increased the focus on the long-term risks. The basic idea for us as pension fund managers is to see risk as an opportunity. It's important to have a wise approach to risk, that we evaluate it on the basis of what we know, based on historical situations and from theory. We know that events are cyclical and that different trends occur. The pandemic has increased understanding of the long-term trends, and we must evaluate the long-term risks,” says Ingrid Albinsson, Head of Asset Management, AP7.

### **Three ways to manage the risk**

Applying the fund's investment philosophy, which is based on risk, time and responsibility, the asset management uses various investment strategies in order to give the savers good pensions.

“We manage the risk primarily in three ways. A lower level of risk generally through our risk framework, risk premiums that give a different



For several years, AP7's asset management team has applied a more cautious approach, using the risk framework to reduce the risk in the Equity Fund and spread the risks over more asset classes.



“

*The value of the risk framework was shown clearly when the markets fell in spring 2020.*

composition to the large indexes, and thirdly through investments in small companies and unlisted companies (private equity). Because the dollar is the dominating currency in the big indexes, small companies in other currencies, such as European companies, are overweighted in our portfolio.”

### **Valuable risk framework**

The level of risk in the fund is managed through, for example, AP7's risk framework. For several years, AP7's asset management team has applied a more cautious approach, reducing the risk in the Equity Fund and spreading the risks over more asset classes.

“ The value of the risk framework was shown clearly when the markets fell in spring 2020. Our portfolio went down less than if it had still been at the long-term risk level that the fund should have in its role within the premium pension system. Our mission is not to act over the same short-term horizon as was shown by the fluctuation in the markets during the spring. The pandemic has shown the value of

incorporating a long-term approach in our asset management. We can be certain that new shocks will occur in the system in the future, but I can feel confident with our risk framework.”

### **Diversification gives a more secure pension**

Because of the pandemic, the global markets have seen a concentration to the big technology companies in the US, and also to the big pharmaceutical companies. In combination with the relatively high valuation of the market as a whole, this has increased the risk of large market fluctuations. This is why AP7 is working to further spread the risks. Ingrid Albinsson sees that opportunities outside the global markets contribute to lower volatility.

“ The Covid-19 pandemic has shown the downside of the listed markets' daily valuations, which promote short-term actions. It became clear in spring 2020 that the inertia in alternative assets such as private equity led to them coping better during the turbulence.”

History has shown that diversification over many assets gives a more secure pension.

“ If we look at global trends, fewer companies are moving onto the stock market. Instead, some companies are choosing to remain in the market for alternative assets. In Asia, for example, many companies are not listed. This means that listed markets do not offer the opportunity to invest in the entire global growth potential.”

### **View on sustainably risk**

AP7's strategy also includes promoting sustainable development. Ingrid Albinsson looks upon sustainability risks in the same way as the many other risks companies face.

“ All companies need to constantly develop if they are to remain competitive. This applies to





“We will continue the trend towards diversification and risk management in the form of new strategies, including investing in more alternative asset classes.”

energy companies just as much as technology companies. We manage that risk by spreading the risk over 3000 companies, and we continually adjust the weighting. If the value of energy companies that focus on fossil fuels falls, we gradually reduce our ownership, because it reduces the company's share of the index.”

### Energy companies can increase their investments in alternative energy types

When excluding entire sectors, one of the challenges from a financial perspective is that the remaining sectors in the portfolio become overweighted compared with index. For example, the technology companies that have become bigger on S&P 500 in the US gain a bigger weighting in the portfolio. Ingrid Albinsson sees that, as owners, AP7 can make its position clear in relation to the companies.

“In our role as institutional owners, we can tell the companies what we expect of them. As one example we can explain that we expect technology companies to respect human rights, both internally and externally. In the same way, we can explain that energy companies can use their cash flows to switch their energy mix towards more renewable energy.”

### Continued development of risk management

When Ingrid Albinsson looks ahead, she sees a trend towards greater diversification.

“For several years, we've increased risk spreading in savings. We will continue the trend towards diversification and risk management in the form of new strategies, including investing in more alternative asset classes. This enables us to utilise more risk sources to attain the desired greater return on the premium pension, and to design a savings scheme that is adapted to the low-return investment environment that prevails.”

In conclusion, Ingrid Albinsson emphasises that the pandemic in 2020 showed the importance of diversification and the value of AP7's risk framework. This will provide great support next time the world markets experience a major shock.

### Strategy in the AP7 Equity Fund

**AP7 Equity Fund is a diversified global equity fund with elements that raise the level of risk, and a clear sustainability profile.**



#### Global portfolio

Global equity with a broad geographical and sector distribution in over 3000 companies, combined with equity-related financial instruments that increase risk and expected return.

#### Risk framework

In order to adapt the total risk level in the fund over time, a systematic risk framework is also applied. The risk framework manages risks in the equity portfolio and protects the fund capital, primarily limiting the effect of extreme downturns in the equity market.

#### Diversification

To spread and increase the efficiency of risk taking, AP7 Equity Fund also invests in asset classes and investment strategies that supplement the range in the global portfolio. For example, investments are made in unlisted companies (private equity), smaller companies and emerging markets, and in 'factor risk premiums' in equities with special properties, and alternative investment strategies.

# 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 14.

svt NYHETER

Nyheter

Lokalt

Sport

SVT Play

Bar



Arkivbild. sjunde AP-fondens vd Rickard Gröthelms. 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

#### Settlement with Google of SEK 2.8 billion.

In 2020, AP7 reached a settlement with Google's parent company Alphabet. As equity owner, AP7 sued Alphabet in 2019 after reports of widespread sexual harassment. According to the settlement, in the next ten years Google will invest the equivalent of SEK 2.8 billion to improve diversity and inclusion in the Group, and actively work to combat all types of discrimination or harassment.

## 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 Amazonia.** 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 Cerrado Manifesto, an initiative in which companies undertake not to deforest the Brazilian savanna area, 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 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.

## 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; Shaanxi Coal

# 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

**AP7 Aktuell Hållbarhet**

Nyheter Miljö Socialt ansvar Strategi Rapporter Event Utbildning Jobb

## Svenska företag kan vända negativ klimatlobbying

Publicerad: 30 November 2020, 18:59



Johan Persson, Charlotta Davidsson, Syssetrand och Richard Grönlund 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 AMF AP7 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 Alecta, 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 trading 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 have 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 development 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.



# Our engagement tools

AP7 has been conducting active engagement work since the start in 2000. The work on responsible investments is based on the values and norms pertaining to human rights, labour, environment, and anti-corruption enshrined in the international conventions that Sweden has signed.

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

**Actions at general meetings.** AP7's equity portfolio reflects the entire real economy, and by making its voice heard at the annual general meetings, AP7 is able to influence the entire equity market. According to the AP Funds Act, AP7 may not vote at Swedish general meetings, but since most of the shareholding is outside Sweden, AP7 can still take action in the absolute majority of the over 3000 companies in which it invests. In 2020, AP7 voted at 4405 of 4466 possible general meetings, nearly 99 percent.

**Engagement dialogue** is the most effective way of bringing about change when the company itself shows it wants to improve. AP7 is currently engaged in a large number of dialogues concerning reported incidents. In 2020, AP7 conducted in-depth 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 incidents, and dialogue with 66 companies within the frame of the themework.

**Public blacklisting.** AP7 blacklists as a way of exerting influence on companies that violate human rights, labour law, or the environment, or engage in corruption. Since 2016, the Paris Agreement has been part of the UN Climate Convention. In 2020, the blacklisting process was extended to also include 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. After the first screening according to the new method, ten coal companies were blacklisted.

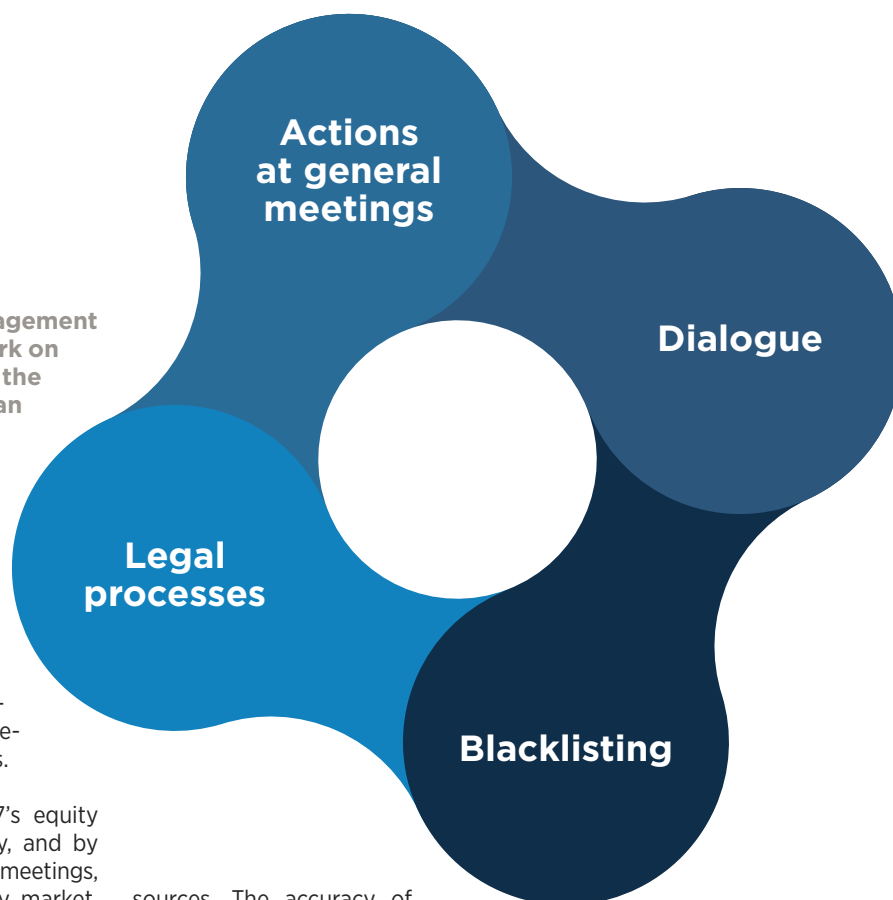
To identify and verify violations involving companies, AP7 collects information from a large number of

sources. 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 has conducted activities that conflict with the norm framework. In this process, AP7 is supported by many external experts.

The list of companies that AP7 excludes, and the reason for the exclusion, is published twice a year with the aim of exerting influence on the companies. Companies are normally excluded for five years, after which AP7 once again invests in the company, on condition that the violation has stopped and no new incidents have occurred. In December 2020, a total of 84 companies were excluded from AP7's investment universe. The list of blacklisted companies is shown on the back cover of the annual report and on [www.ap7.se](http://www.ap7.se).

**Legal processes.** AP7 uses the option to drive legal processes through securities class actions against companies that have treated shareholders in an improper manner. Examples are companies that have withheld accurate information with the aim of avoiding impact on the share price. The aim of the legal processes is both to criticise and discourage companies from irregularities, and to ensure that shareholders get their money back. At the end of 2020, AP7 was involved in 16 ongoing legal processes.

In 2020, AP7 reached a settlement with Google's parent company 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 in the group.



AP7's engagement tools for sustainable and responsible asset management.



# Our themes

**Private Equity** 2014-2016

**Climate** 2015-2017

**Fresh Water** 2016-2018

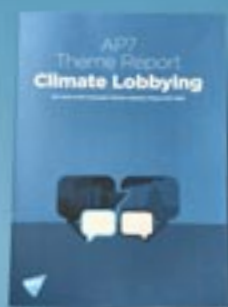
**Corporate Climate Lobbying** 2017-2019

**Working Conditions in Food Supply Chains** 2018-2020

**Sustainable Impact Measurement** 2019-2021

**Climate Transition** 2020-2022

**Deforestation** 2021-2023



In 2020, we presented our final report from the **Corporate Climate Lobbying** theme and followed up with a seminar at the start of 2021 on how Swedish companies can take greater responsibility in preventing negative corporate climate lobbying internationally.

Since 2014, AP7 has been supplementing its corporate governance work with themed projects. These projects deepen and interlink AP7's working methods in selected, particularly urgent areas.

Focusing on a few themes at a time enables both in-depth examination and reflection in a complex area relevant for 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 in many ways during its duration, and has consequences both for the work with engagement dialogues and at general meetings. It also entails increased collaboration with other actors on influencing standards and norms within the area. In 2020, AP7 decided that the next theme, for 2021-2023, would be **Deforestation**.

**Working Conditions in Food Supply Chains** was launched as a theme to explore how equity owners can best contribute to preventing the incidence of child labour and forced labour in the food companies' supplier chains. AP7 has held dialogues with food companies globally, with a focus on the preventative measures that food companies can take.

**Sustainable Impact Measurement.** In 2019, AP7 launched the theme Sustainable Impact Measurement. The aim was to examine methods that measure the effect of corporate governance and investments instead of merely presenting measurement data. Despite big demand from stakeholders and investors about reporting of effects, recognised measurement methods and knowledge about the effects of asset management on sustainable societal development are currently lacking.

**Climate Transition.** Business decisions made today in large climate-impacting companies can be of crucial importance for climate change. As owner, AP7 can exert influence on companies to make responsible decisions, and thereby help to accelerate the transition to a fossil-free society.

Read more detailed descriptions of the themes in our Sustainability Report and at [www.ap7.se/hallbarhet/temaarbete](http://www.ap7.se/hallbarhet/temaarbete), where we have also compiled our knowledge and materials from AP7's earlier themes: Private Equity, Climate, Fresh Water, and Corporate Climate Lobbying.

# 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 BRASILEIRAS** 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. **ENERGY CORP** Activities that conflict with the Paris Agreement by counteracting climate legislation in the US. **EVERGY, 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. **INCITEC PIVOT LTD** Violations of human rights through the import of phosphate from the occupied West Sahara. **INDOFOOD SUKSES MAKAMUR** 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. **SERCO 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. **SK INNOVATION 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. **THALES 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 PATTONSON** 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.



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