

AP7

Sustainability Report 2018

DEBATT

Investeringsbehoven i vattenklopps-näten är mycket stora i Sverige. Men många kommuner upplever att de inte har råd och det är politiskt känsligt att höja takten. Vi bidrar gärna till investeringen, skriver vdarna för SPP och 7e AP-fonden.



Släpp in kapital i VA-näten

Vattenklopps-näten i Sverige är i stort sett i behov av 100 miljarder kronor för att kunna ersätta de gamla ledningarna. Det är en enorm summa, och det är inte alla kommuner som har råd att satsa på att ersätta dem. Det är också en politiskt känslig fråga, eftersom det innebär att höja vattenkostnaderna för hushållen. Men det är en nödvändig investering för att kunna säkerställa en god vattenkvalitet och för att kunna hantera de ökade kraven på vattenklopps-näten.



Investeringsbehoven i vattenklopps-näten är mycket stora i Sverige. Men många kommuner upplever att de inte har råd och det är politiskt känsligt att höja takten. Vi bidrar gärna till investeringen, skriver vdarna för SPP och 7e AP-fonden.

Di Hållbart näringsliv

Vill du som hållbarhetsproffs ha daglig och fördjupad läsning finns omvärldsbekantning. Klicka här

AP7 vill stoppa lobbying mot Parisavtalets intentioner

Ett 70-tal pensionsförvaltare som kontrollerar investeringar

55 av Europas största för att nå Parisavtalets

AMWATCH

Independent news about Nordic asset

Frontpage Fund Management Pension Responsible Investing People (DK) IT

AP7 leads investor group challenging major European gas emitters

BY SØREN RATHJØY/TCO Published: 29.05.18 at 13:44

A EUR 1.76 billion group of investors led by Swedish national pension fund AP7 is taking 55 major European greenhouse gas emitters to task over their approach to climate lobbying. Nordic companies are among the targets.



Further reading

Why Peter Klausen left his job - and hasn't found a new one yet

What's so funny about USD 1 billion? The Norwegian who manage it

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Swedish pension fund takes on Mark Zuckerberg and wins

Retreat on share reclassification is a victory for shareholders, says Richard Gröthel



MARKET INTELLIGENCE

Di Håll

Vill du som hållbarhetsproffs ha daglig och fördjupad läsning finns vår omvärldsbekantning. Klicka här

"Vatten kräver samma summor som el och telekom"

A 77 beslut vilken att investera 1,5 miljarder kronor - i

sådant som valtaren KBI är ta

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Rio Tinto faces \$84bn shareholder revolt over membership of Minerals Council

Global shareholders file motion calling for rethink on membership of coal lobby groups



Sustainability focus of AP7, Alecta, SPP, AP4 participation at G20



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AP7 picks KBI and Impax for SEK3bn green impact mandates

29 MAY 2018 BY RACHEL FOXSEN

Swedish national pension fund AP7 has awarded two "green impact investment" mandates totalling SEK3bn (€294m).

The SEK427bn pension fund, which manages the default option within Sweden's premium pension system, said it had picked Ireland's KBI Global Investors and UK-based fund manager Impax Asset Management to invest in companies that contribute to solutions for climate and environmental problems.

KBI Global Investors is to run a clean-water mandate linked to one of the UN's Sustainable Development Goals, while Impax Asset Management has been given a wider climate and environmental mandate that relates to several global sustainability targets.

FINANCIAL TIMES

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Investors challenge 55 companies over commitment to climate change

\$2tn group calls out carmakers and oil corporations on 'behind scenes' lobbying

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*AP7s since together with its managers to develop measures and methods for ensuring the

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“In 2018 we continued to develop our corporate governance activities”
page 2–3

Richard Gröttheim, CEO, AP7
continues to see opportunities despite the major climate challenges we are facing.



“Because the sustainability challenges are global, we see a great advantage in being able to exert broad influence in global system issues.”
page 6–7



How institutional voting works
page 13

Oscar Bergman, CEO of Nordic Investor Services, describes the trends in international corporate governance.

AP7

AP7 in brief. AP7 is a public agency tasked with managing premium pension funds for the Swedish population. Over four million Swedes currently invest their premium pension in AP7 Såfa. The total value of assets in AP7 Såfa is approximately SEK 500 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 those in the future.

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.

AP7 (31-12-2018). Managed assets: **SEK 460 billion**
Number of savers: **over 4 million**
Investment portfolio: **approx. 3000 companies around the world**
Number of employees: **37**

Theme: Corporate Climate Lobbying
page 20–21

In its themes, AP7 examines important issues in depth. In the Corporate Climate Lobbying theme, AP7 has **collaborated with the Church of England**, and achieved good results.



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

AP7's mission page 4–5

“As a **universal owner**, AP7 will use, in a transparent way, all available tools to drive the stock market in a sustainable direction.”



Johan Florén and **Charlotta Dawidowski Sydstrand** describe AP7's work on corporate governance.



AP7's role in sustainable development page 8–12

As a global owner of equities, we can make our biggest contribution as **active owners, facilitators** and **knowledge builders**.

“Index funds must be activists to serve investors”
page 14–16



State Street manages the incomprehensible sum of USD 3 000 billion. **Read the interview with the CEO of State Street, Cyrus Taraporevala**, where he presents his views on active ownership with passive capital.

On savers' terms page 24–25

Savers are at a great disadvantage in terms of information regarding the pension system. AP7 therefore **works actively with spreading information** about pensions and sustainability issues.

Ta det **kallt** när det **krisar**

Ett råd från AP7 om din premiepension

“Stay calm in the storm. Advice from AP7 on your premium pension”



No time to lose

Many of us were given even more food for thought when the UN Climate Panel, IPCC, presented its latest report in the autumn. The report showed that, already at a 1.5 °C increase in global temperatures, the consequences will be very serious. Even if we manage to limit global warming to the 2 °C target, 99 percent of the world's coral reefs will probably have died. However, we can still limit global warming to 1.5 degrees if, in the next decade, we succeed in reducing emissions and increasing the assimilation of greenhouse gases in ecosystems.

As owners we can make a difference. In 2018 we continued to develop our corporate governance activities, primarily through climate-related shareholder proposals on new markets. We also started a project together with the Church of England and BNP Paribas in which we are targeting Europe's 55 companies with the largest emissions, to draw attention to how the companies are lobbying against climate legislation. This project will continue in 2019. Without effective national climate legislation, the Paris Agreement will lose a lot of its value.

AP7's most important contribution to sustainable development is by being an active owner. We have also been financing solutions to the climate problem through our investments in unlisted equities and in the fixed income portfolio. In 2018 we launched a green mandate in the listed equity portfolio with a focus on fresh water and climate, in line with the UN's 6th and 13th Sustainable Development Goals.

Development of an international norms framework is also a key issue for AP7 in view of our universal perspective on the stock market. The norms are derived from international political agreements with broad democratic support, and comprise common values around which active owners around the world can unite. During the year, I took part in, for example, the UN Climate Week and the World Bank's Investment Forum in connection with the G20 meeting in Buenos Aires.

Naturally, it is corporations that must reduce their emissions if we are to bring global warming under control, and politicians who must make international agreements and pass national legislation. However, we as owners can be the link between the principles and implementation of the measures. And, looking on the bright side, investors' global engagement has never been greater.



Richard Gröttheim
CEO, AP7

About AP7

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

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 alternative, AP7 Såfa ('Statens årskullsförvaltningsalternativ'). The assets are to be managed in such a way that the savers feel secure and get a good return on their investments without needing to be active in the fund market.

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

As universal owner, AP7 will, in a transparent way, use all available tools to drive the stock market in a sustainable direction, and continually develop new knowledge and methods. AP7 will also take responsibility for how the pension capital is invested, and participate in the debate on sustainability and responsible investments.

Our values

AP7 is a Swedish public agency with democracy as a basic value in the way of looking at the world. Our role is to implement the decisions made by the Swedish population's elected representatives in the Swedish Parliament and Government.

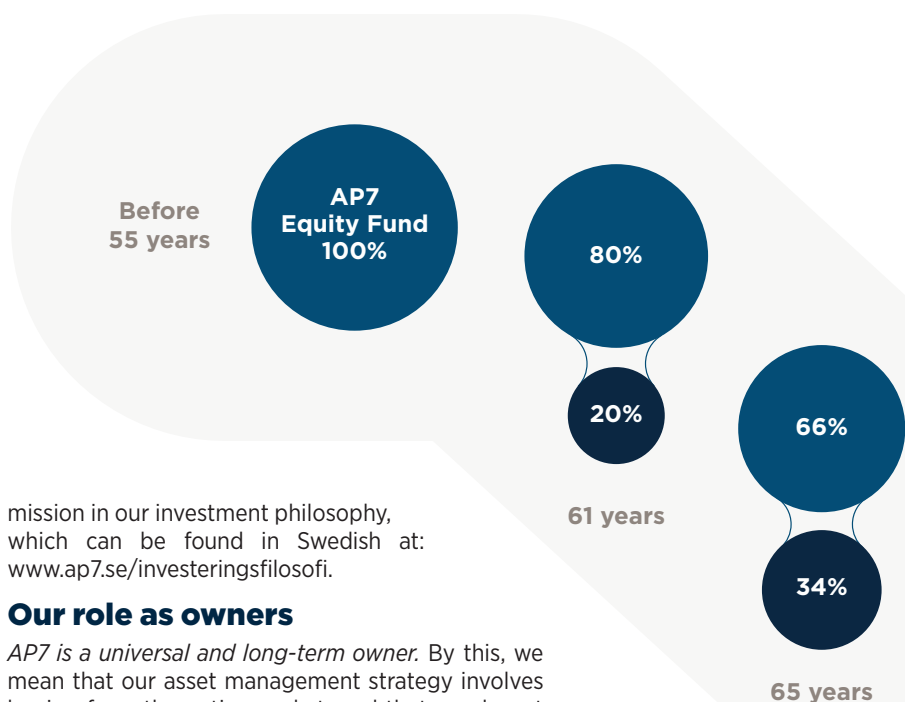
Our activities are to be carried out in a legally correct and impartial way, based on legislation and directives. Decisions are to be taken on a factual basis and implemented in a resource-efficient way, with equal treatment as a common theme.

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

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

In the implementation of the values, guidelines from international organisations such as the OECD, ILO and other UN bodies play a key role, both for defining boundaries and verifying assessments of corporate actions.

As a complement to our values, we have summarised the pillars of how we are to carry out our



mission in our investment philosophy, which can be found in Swedish at: www.ap7.se/investeringsfilosofi.

Our role as owners

AP7 is a universal and long-term owner. By this, we mean that our asset management strategy involves buying from the entire market, and that we do not buy to sell. For savers, the combination of high diversity and low fees generates financial value that makes a big difference over a period of 40-50 years. The asset management strategy affects how we work with corporate governance. With SEK 460 billion invested 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.

As a universal owner, we benefit from the growth in value in the entire market, but we also share some of the entire market's problems, which in itself can offer an opportunity. Consequently, we try to carry out a comprehensive analysis, and primarily exert influence from a system perspective. Together with other owners, we formulate game rules that strengthen the entire market, and then work to ensure that companies follow the rules.

Our investments

AP7 invests in equity all around the world. Internally, we work mainly with asset management on the Swedish market. For other markets, we always aim to commission the most skilled asset managers in the world.

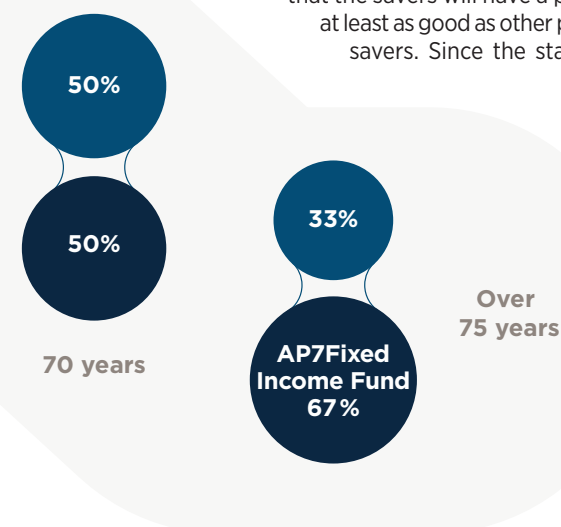
Internal asset management means that the investment decisions are made and implemented by our own employed asset managers. External asset management means that the investments are made by specially commissioned external asset managers in accordance with the AP7 guidelines and criteria. When choosing between internal and external asset management, we consider expected quality and costs of the different management forms.

AP7 Equity Fund. The AP7 Equity Fund comprises most of AP7's managed equity. The strategy in the AP7 Equity Fund is based on three main pillars: a global equity portfolio, diversification, and a risk framework. The global equity portfolio is the main structure of the Equity Fund, with a broad geographical and sector distribution in over 3000 companies. The diversification allows AP7 Equity Fund to spread and streamline risks by investing in assets that complement the global equity portfolio. We also apply a systematic risk framework to manage the risk level and protect the assets.

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

AP7 Såfa. AP7 Såfa is the state default alternative, and is a mixed portfolio comprising the AP7 Equity Fund and the AP7 Fixed Income Fund. The allocation between the equity and fixed income funds in the portfolio is determined according to the saver's age.

AP7 Såfa is suitable for savers who do not wish to spend time monitoring the securities market. If an active choice is not made, the premium pension assets are automatically invested in AP7 Såfa. The aim is that the savers will have a pension at least as good as other pension savers. Since the start AP7



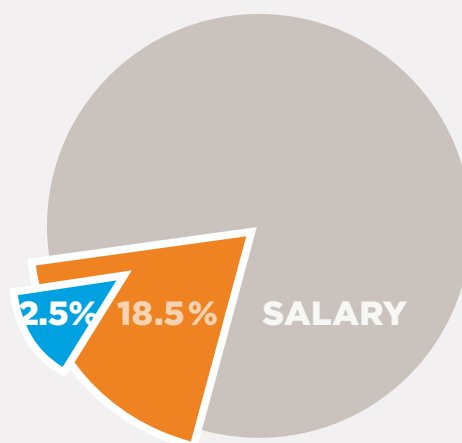
has, on average, given savers a higher return and lower fees than private actors managing premium pension funds.

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

AP7 also has three other fund portfolios, AP7 Offensive, AP7 Balanced and AP7 Cautious, that complement AP7 Såfa. The fund portfolios have different static combinations of the component funds to suit savers who wish to choose the risk level, but not the actual funds.

AP7 Såfa is the default alternative in the premium pension system, which means that savers who do not choose a fund are allocated automatically to AP7 Såfa. The default alternative 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.

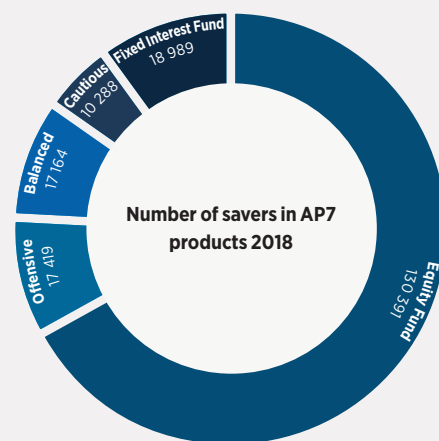
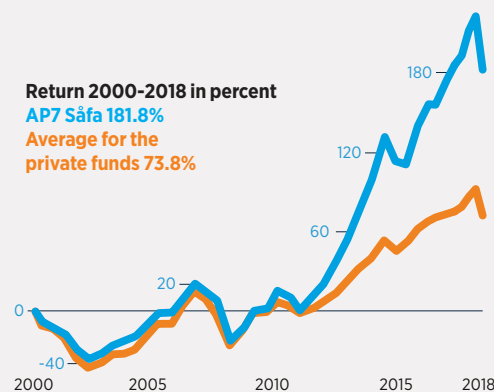
AP7 in figures



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

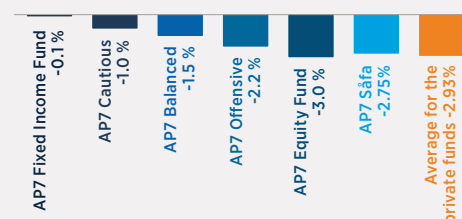
Return 2000-2018 in percent

AP7 Såfa 181.8%
Average for the private funds 73.8%



Number of savers in AP7 Såfa: 4 202 722

Return 2018



AP7's work as sustainable owner



Johan Florén,
head of communication and
corporate governance, AP7

AP7 is a universal owner with holdings in over 3000 companies around the world. With its large ownership, AP7 can operate on a broad front and over a long time. Johan Florén, head of communication and corporate governance, and Charlotta Dawidowski Sydstrand, sustainability strategist, explain how AP7 works as a sustainable owner.

AP7 manages the premium pensions of four million Swedish savers. How does this affect your sustainability work, and what's your objective in terms of sustainability?

Charlotta: Our main promise to savers is to generate a good return, and to use our power as owners to contribute to sustainable development. We base our work on the international conventions that Sweden has signed with regard to environment, human rights, labour rights and corruption.

Johan: In this way, our activities chime with the perception of justice in the broad population group to which the savers belong, and do not consider specific social, religious and economic interests.

Because the sustainability challenges are global, we see it as a great advantage to be able to exert broad influence in global system issues

AP7 is a universal owner. What does that entail for your corporate governance?

Johan: With 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. We can also collaborate with other universal owners to exert pressure on companies to take responsibility for the consequences of their activities and effects on the surrounding world.

The majority of AP7's ownership is international, so most of the corporate governance and sustainability work is also international. Is that an advantage or a disadvantage, what's your reasoning here?

Johan: We see it as a privilege. If you choose to concentrate ownership to a few companies in Sweden, you can have a great effect in these companies. But sustainability challenges are global, so we see it as a great advantage to be able to exert broad influence in global system issues. This is why, for example, we've chosen to be an active owner and vote at general meetings in all 3000 companies that we own.

Charlotta Dawidowski Sydstrand,
sustainability strategist, AP7



How can you be an active owner in 3000 companies all over the world?

Johan: We've built a model that is scaleable and cost-effective, by working from norms and key issues that are important for entire sectors in terms of sustainability. We focus on system issues, and only go into depth where we find reasons for doing so on the basis of, for example, an incident or as part of our themed work.

Charlotta: By collaborating with other asset owners with the same values we can have greater impact. So, by basing our actions on norms, incidents and themes, our corporate governance has both breadth and depth.

AP7 owns companies in certain sectors such as fossil-fuel companies, while others exclude these sectors. Why is that?

Johan: A basic issue is what you want to do with your pension money – should the investments avoid certain sectors and companies or work for sustainable development? We're convinced that, as a financial actor, we have greatest opportunity to engage with these companies by owning shares in them.

Charlotta: In the world, there's a lot of capital available for investment, so there's a great risk that, if companies don't have owners who value sustainability, they will take less responsibility. However, one big challenge for us as active owners is to clearly show the results of our corporate governance.

So AP7 argues that, by owning companies, you can exert influence on them. What are your proudest achievements as active owners through the years?

Charlotta: The challenge of proving the results of corporate governance is that a lot has to fall into place over a long time before change can occur. The effect usually comes from us collaborating, and also from the willingness of the companies to improve. One example that we were involved in was Stora Enso. We raised a system question about how they manage child labour internationally. Together with other investors we engaged in dialogue with the company, but the change in the right direction was mainly due to Stora Enso itself actively wanting to improve.

Johan: Another example is the Australian mining company, Rio Tinto, where we filed a resolution at their general meeting in 2018 in which we demanded greater transparency regarding their lobbying against climate legislation. Even if the proposal did not go through, a consequence was that other mining companies increased their transparency and proxy advisors have now started to demand it. That's

a good example of what we see as a success, when we work with matters of principle that will benefit our entire portfolio. The evaluation takes place looking at sectors over a long time, rather than individual companies over a short period.

AP7 also uses blacklisting with excluded companies. What's the reasoning behind this?

Johan: As universal owner, the principle is to own assets throughout the market, but if a company violates international guidelines and conventions that Sweden has signed, then we sell our shares and make the decision public. Through continued dialogue, we then try to convince the companies to rectify the reason for the blacklisting and comply with international norms so that we can start to invest in the companies again.

Charlotta: Yes, blacklisting is one of our engagement tools, alongside company dialogues and voting at general meetings. We currently have 65 companies blacklisted.

Looking ahead, what do you think will be the major ESG questions for Swedish and international asset management in the coming years?

Johan: Impact investment is a concept that will grow in importance. So far, the debate has usually concerned capital avoiding sectors and companies, but the discussion will increasingly concern how invested capital can instead be used to exert influence on companies if we are to attain the Agenda 2030 goals.

Charlotta: In line with that, there will be greater focus on how to measure and evaluate the impact of sustainable investments. The smallest carbon footprint is not always evidence of the greatest benefit for the global challenges we're facing.

AP7's role in sustainable development

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

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

AP7 as:

active owner...

With our highly diversified portfolio, and through active corporate governance, we are working with similar investors to formulate sustainable ground rules for companies; we then exert pressure on them to follow the rules. In this way, AP7 secures the financial interests of both current and future savers.

We work mainly with four engagement methods as sustainable and responsible owners: actions at general meetings, engagement dialogue, public blacklisting, and legal processes. Read more about how we engage with companies and our engagement tools on page 10.



Facebook and minority owner protection In 2017, AP7 succeeded in stopping Mark Zuckerberg's proposal on dilution of voting rights in Facebook. Zuckerberg would have been able to control the majority of votes with less than three percent of the capital. Our success in stopping the proposal was important, and gives new hope for the rights of minority owners. Richard Gröthheim explained the importance of the success in a debate article in the Financial Times.



AP7 wants to stop lobbying against the Paris Agreement In autumn 2018, AP7 together with the Church of England contacted 55 European companies whose activities have a major impact on climate. Our demand was that the companies adapt their climate lobbying to comply with the goals of the Paris Agreement. The work will continue in 2019.



AP7 called for transparency from Rio Tinto In spring 2018, AP7 filed a shareholder resolution at the general meeting of the mining company, Rio Tinto, regarding its direct and indirect climate lobbying through sector organisations. The proposals for better governance and transparency aroused international attention, and led to Rio Tinto taking certain steps to improve its reporting, but above all it made the rest of the mining industry increase transparency and led to proxy advisors demanding it.



INVESTMENT INTELLIGENCE FOR THE FUND PROFESSIONAL

INVESTMENT EUROPE

Fixed Income Alternative Investments Multi-Asset Passive

Sustainability focus of AP7, Alecta, SPP, AP4 participation at G20



Four key asset managers from Sweden – buffer funds AP7 and AP4, pension provider Alecta and fund provider SPP Funds – will be putting forward a message

Richard Gröttheim participated in the G20 summit in Buenos Aires Together with Alecta, AP4 and SPP, we were invited to participate in and share our experiences and knowledge at the G20 meeting in Buenos Aires at the end of 2018. We put forward our common view that global collaboration is the key to the equity market taking its responsibility if we are to attain the Agenda 2030 goals.

Charlotta Dawidowski Sydstrand from AP7 in dialogue on how we can facilitate investments in water infrastructure in World Water Week arranged by the Stockholm International Water Institute (SIWI).



knowledge builder...

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

DEBATT

Investeringsbehoven i vattenklopps-nätten är mycket stora i Sverige. Men många kommuner upplever att de inte har råd och det är politiskt känsligt att hjälpa taxorna. Vi bjudar gärna till investeringen, skriver viktarna för SPP och de AP-fonderna.



Släpp in kapital i VA-näten

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Det är en utmaning för kommunerna att finansiera de stora investeringarna i vattenklopps-nätten. Men det är också en utmaning för oss som investerare att hitta sätt att finansiera dessa investeringar. Vi vill bidra till att lösa detta problem.

Vi vill också bidra till att öka kunskapen om vattenklopps-nätten och de utmaningar som finns. Vi vill också bidra till att öka dialogen mellan kommunerna och oss som investerare.

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Water and sanitation investments, Sida and Africa

Under the Sida initiative, Swedish Investors for Sustainable Development, we are one of a number of investors who have been working with the UN's sixth Sustainable Development Goal (SDG 6, Clean Water and Sanitation). Swedish municipalities greatly need investment in the water and sanitation infrastructure. Capital is available for investment, but the investments are not being made. The Sida project showed that the challenges are similar in Africa.

...and facilitator.

Another important contribution that we as investors can make to promote sustainable societal development is to finance solutions that help the world tackle the challenges that we are facing. We believe that our invested assets can have the greatest benefit for the climate by, for example, financing enterprises that offer climate innovations and solutions for a low-carbon society. Our goal is to have green mandates in all asset classes in which we can invest, mandates that contribute solutions to sustainability challenges. During the year, we set up two green mandates and made more investments in green bonds.

Di Hållbart näringsliv

NYHETSREVE Vill du som hållbarhetsproffa ha daglig och fördjupad läsning finns vår omvärldsbekant. [Klicka här](#)

"Vatten kräver samma summor som el och telekom"

AP7 beslut nyligen att investera 1,5 miljarder kr i vatten. Ambitionen är att öka satsningarna på vatten. Tillsammans med fondföretagen vill vi också att utveckla en metod för att mäta hållbarhetsnyttan.

JENNY STERNSTEDT
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AP7 picks KBI and Impax for SEK3bn green impact mandates

29 MAY 2018 BY RACHEL FISSEN

Swedish national pension fund AP7 has awarded two "green impact investment" mandates totalling SEK3bn (€294m).

The SEK427bn pension fund, which manages the default option within Sweden's premium pension system, said it had picked Ireland's KBI Global Investors and UK-based fund manager Impax Asset Management to invest in companies that contribute to solutions for climate and environmental problems.

KBI Global Investors is to run a clean-water mandate linked to one of the UN's Sustainable Development Goals, while Impax Asset Management has been given a wider climate and

AP7 invests in blue and green mandates

In spring 2018, AP7 invested SEK 3 billion in a green and a blue mandate with the Irish asset manager KBI Global Investors and the British asset manager Impax Asset Management. KBI Global Investors' mandate is an explicit water mandate linked to the UN's sixth Sustainable Development Goal (SDG 6, Clean Water and Sanitation), while Impax Asset Management has a broader climate and environment mandate that relates to several Sustainable Development Goals.

How AP7 works as an active owner for sustainable development

3037

In 2018, AP7 voted at 3037 of 3062 possible general meetings, which is approximately 99 percent.

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

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

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

Actions at general meetings

The general meeting, every company's highest decision-making body, enables shareholders to actively exert influence on the governance of the company. Voting at general meetings is AP7's most important tool for reaching out to 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. By voting at general meetings, we can drive the fund's position on principles regarding various matters addressed by AP7's voting policy on environmental, social and corporate governance issues.

According to the AP Funds Act, AP7 may not vote at Swedish general meetings, but since 99 percent of AP7's shareholding is outside Sweden, we can vote at virtually every general meeting. With shareholding all over the world, this involves approximately 3000 general meetings every year.

General meeting season 2018 In 2018, AP7 voted at 3037 of 3062 possible general meetings, which is over 99 percent. At 46 percent of these general meetings, AP7 voted against the board's recommendation on at least one point. Here, AP7 has either voted against a board resolution or voted for a shareholder resolution that the board has not supported.

AP7 voted at general meetings in 56 different

countries. Of these, the US and Japan dominated, where over 35 percent of all general meetings were held. The total number of general meetings does not correspond to the number of companies that AP7 has invested in, because in certain countries, such as China, a company commonly has several general meetings every year.

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

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

In 2018 we repeated our resolution at Chevron's general meeting. We could not take any action at ExxonMobil's general meeting, as we had sold our shares after blacklisting the company for acting in conflict with the Paris Agreement. We also withdrew our resolution from the ConocoPhillips general meeting because the company accepted our demands before the meeting, an example that corporate governance can bring results, but requires a long-term approach. In 2018, we filed a shareholder resolution at Rio Tinto's general meeting in Australia concerning the management and reporting of the company's climate lobbying. In 2018, a project was started together with the Church of England aimed at the companies in Europe with the biggest climate impact. The aim was to promote greater transparency on lobbying, through dialogue and shareholder resolutions at the general meetings in 2019.

In 2018, AP7 voted on a total of 185 resolutions on various sustainability issues at general meetings around the world. AP7 supported a majority of these

16

AP7 makes use of the option to drive legal processes against companies that have treated shareholders in an incorrect manner or taken action that had a negative effect on the share price. At the end of 2018, AP7 was involved in 16 ongoing legal processes.

304

In 2018, AP7 conducted in-depth engagement dialogues with 194 companies on a total of 304 cases of verified or potential violations of norms.

**Actions
at general
meetings**

Dialogue

**Legal
processes**

Blacklisting

65

AP7 does not invest in companies that violate international norms regarding the environment, human rights, labour rights and corruption. In December 2018, a total of 65 companies were blacklisted.

in a large number of dialogues concerning reported incidents of norm violations. In 2018, AP7 conducted norm-related dialogues with 194 companies on a total of 304 cases of verified or potential violations of norms, with the aim of encouraging the companies to act responsibly in difficult situations. Of these companies, 65 were blacklisted at the end of the year. In addition, AP7 in collaboration with other investors has conducted dialogue or contacted a further 110 companies in the course of its thematic activities. Read more about this on page 17.

Blacklisting – a way to direct attention

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

Our ambition is that we can start reinvesting as soon as the company has come to terms with its problems. This creates an incentive to change. To identify and verify violations involving companies, AP7 collects information from a large number of sources, including the UN system and other inter-state organisations, public agencies, courts, mass media and non-governmental organisations. The accuracy of the information is checked, and the company's responsibility for the situation is investigated and an assessment made of whether the company is conducting activities that conflict with the norms framework. In this process, AP7 is supported by many external experts. In December 2018, a total of 65 companies had been excluded from AP7's investment universe. The list of blacklisted companies is presented at the end of this report and on ap7.se.

Blacklisted companies 2018 During the year, four companies were added to AP7's blacklist. The US company Peabody Energy, which conducts activities that conflict with the Paris Agreement by counteracting climate legislation in the US. Two Indian companies, Bharat Heavy Electricals Ltd and NTPC Ltd, were blacklisted for violations of environmental norms in conjunction with the construction of coal-fired power stations adjacent to a national park with World Heritage status. The Canadian company Nutrien was blacklisted for violations of human rights through the import of phosphate from the occupied Western Sahara.

Companies removed from blacklisting 2018

Six companies were taken off the list during the year, so AP7 can once again start investing in them: Transocean, BP, Heidelberg Cement, Olam, Posco and Posco Daewoo. All these companies have been blacklisted for five years and, in accordance with our five-year rule, the blacklisting has ended because the violations have been rectified.

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resolutions, 68 percent, abstained in 21 percent of the cases, and voted against 12 percent of the resolutions. The leading sustainability issue that AP7 has promoted is greater transparency regarding companies' lobbying activities. During the year, 35 resolutions were filed on greater transparency on lobbying, and AP7 voted in favour in all cases.

In addition to resolutions on greater transparency regarding lobbying, AP7 has voted on a further 34 climate-related shareholder resolutions. One example was a proposal on investigation of stranded assets linked to climate change. An interesting observation is that the majority of the climate-related resolutions filed at general meetings were in the US. In all these cases, AP7 voted in favour of the resolutions, despite all boards recommending voting against the resolutions. Other resolutions that AP7 supported included reporting on work to attain the UN Sustainable Development Goal on fresh water and working conditions, and for transparency in sustainability reporting.

Effecting change through dialogue

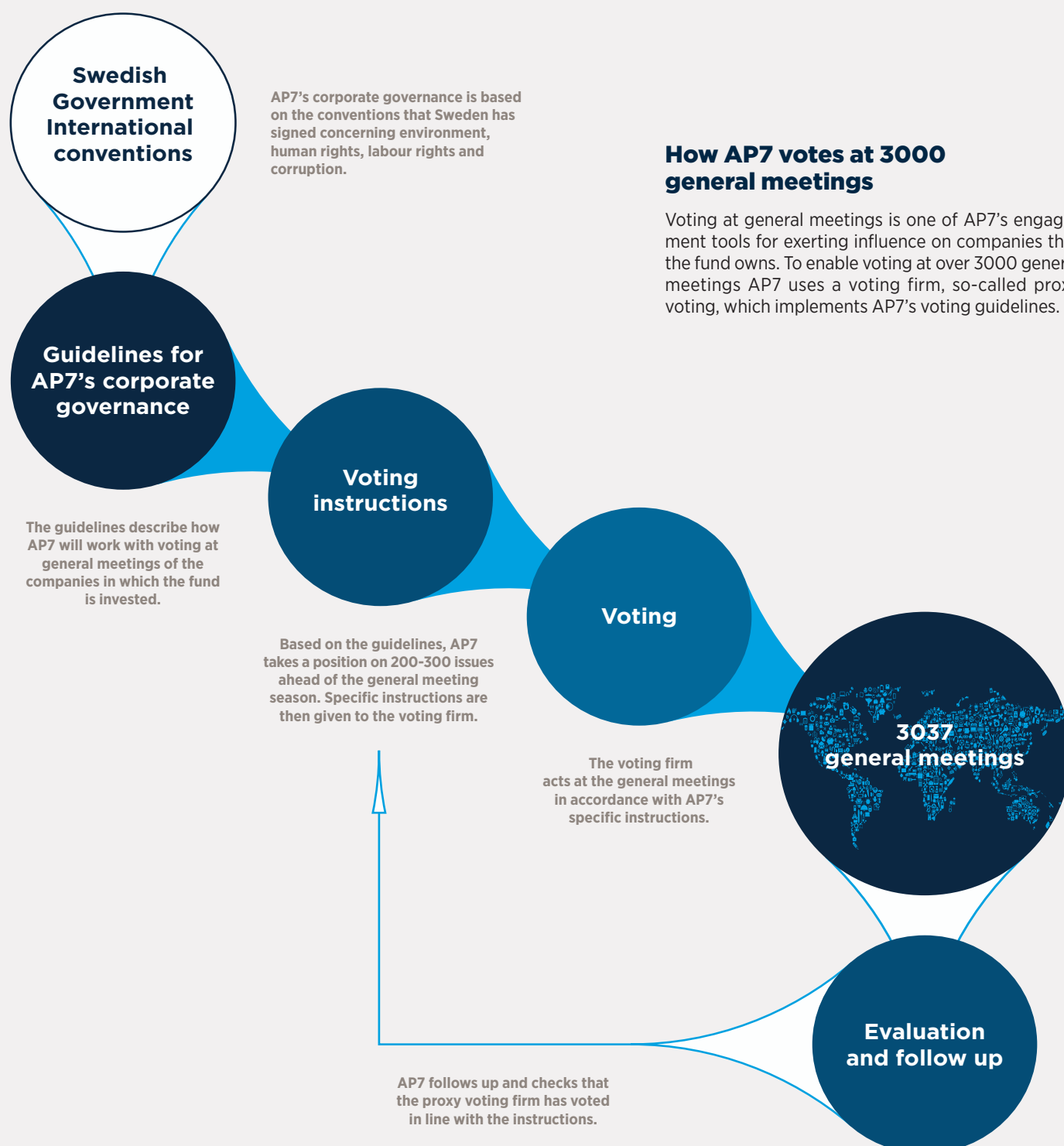
Engagement dialogue is the most effective way of bringing about change when the company itself shows it wants to improve. AP7 is currently engaging

Legal processes bring results

Through securities class actions, AP7 uses the option of driving legal processes against companies that have treated shareholders in an incorrect manner and had a negative effect on the share price. Examples are companies that have withheld correct information with the aim of avoiding impact on the share price. The aim of the legal processes is both to protest and discourage companies from fraudulent conduct and to win back money. In most of these legal cases, the process ends with a settlement. So far, the legal processes in which AP7 has participated has led to the return of over SEK 69 million to savers.

In 2018, we initiated legal proceedings against Alphabet, to investigate whether the management

had been negligent in failing to prevent and tackle sexual harassment within the subsidiary, Google Inc, which can have harmed the shareholder value. We also initiated a legal case against General Electric because of incorrect information about the company's finances, which can also have harmed the shareholder value. In 2018, settlement negotiations were initiated with Cobalt and Green Mountain Coffee Roaster. Together with other institutional investors, AP7 at the end of 2018 was engaged in 16 ongoing legal processes involving: Vivendi, Ocwen, Green Mountain Coffee Roaster, Petrobras, Toshiba, Volkswagen, Allergan Inc, Cobalt International Energy, Deutsche Bank, Mitsubishi, Alphabet/Google, General Electric, BHP, Steinhoff and Qualcomm.



How AP7 votes at 3000 general meetings

Voting at general meetings is one of AP7's engagement tools for exerting influence on companies that the fund owns. To enable voting at over 3000 general meetings AP7 uses a voting firm, so-called proxy voting, which implements AP7's voting guidelines.

Expert view on voting at general meetings

For more than 15 years, Nordic Investor Services has been the leading advisory company in the Nordic region in the corporate governance area. They provide, for example, institutional investors with proxy voting advice ahead of general meetings.

We asked Oscar Bergman, CEO of Nordic Investor Services, to give his view of trends in how institutions are engaging in international corporate governance.

What trends can you see in 2019 with regard to corporate governance and institutional owners?

Oscar Bergman: Broader trends in the corporate governance area often go on for a long time, so we expect that many of the trends we've been observing for some time will continue. These include:

Promotion of long-term ownership. We see everything from longer terms in payment programmes to new regulation packages at European level that explicitly talk about the need for long-term ownership. This really is a long-term trend that has existed in some form since the first lessons were learned from the financial crisis nearly ten years ago, and it shows no sign of abating.

Sustainability is becoming increasingly an area in which owners engage and where the companies are also responding in a completely different way than previously. Important issues are naturally the climate, which has driven a lot of engagement, but also integrity issues are receiving greater attention, partly as an effect of the well-known data leakages in recent years.

In Sweden, **diversity issues** are clearly defined primarily as an issue of gender equality between women and men. But in other markets, not least the US, it has a much wider definition. There, the concept of diversity includes ethnicity, gender, age, and professional experiences. The different perspectives between, above all, the US and Europe, can therefore create some issues of interpretation and friction.

Are there big differences between the actions of Nordic and foreign owners in the Nordic region?

Oscar Bergman: Generally speaking, Nordic owners aim to be active in their nearby markets, but there are also difficulties with electronic proxy voting in many Nordic markets, including Sweden, which makes this particular part of active ownership more costly.

For example, the Norwegian Oil Fund was criticised a few years ago for being too passive in its ownerships in Sweden, despite it owning significant numbers of shares in many large Swedish companies.

In 2015, the Oil Fund adopted an initiative at Swedish general meetings to consistently vote for electing board members at individual level instead of electing the board as a unit, which has otherwise been the norm in Sweden.

Non-Nordic owners are often less present, and there is a challenge for both (Nordic) companies and (non-Nordic) investors to find new ways of communicating. The Nordic societies with their high levels of trust and the respective 'duck pond' size have created, in a global perspective, a very distinctive corporate governance culture in the Nordic region that is not always so easy for an investor to navigate, such as US investors. This is something that can lead to misunderstandings and unnecessary problems.

What are the trends with regard to proxy voting?

Oscar Bergman: For professional investors, even those who invest in foreign companies and in companies where the share of ownership is not high, voting at general meetings is increasingly shifting from being an exotic new trend to something that is an expected and fundamental aspect of active ownership. It's a bit like an active citizen voting in general elections, even if as an individual you don't have much direct influence.

New European regulations to be introduced in 2019-2020 are based on an expectation that institutional investors will be active owners that generally vote at the general meetings of companies in which they own significant numbers of shares. They will also report annually on how they have acted in this respect. Even if there are loopholes, the guidelines are clear, and activities in this area are expected to increase more in the coming years, including the rather smaller institutions that have not yet come as far as the larger ones.

Can investors exert influence on companies via proxy voting?

Oscar Bergman: Absolutely! Naturally there are the formal and legal ways to exert influence, and it's not uncommon for a proposal to be rejected at the annual general meeting – or withdrawn in advance when the board sees which way the wind is blowing. But I believe that something often missed in this discussion is that even a significant minority expressing dissatisfaction can have a real effect. Board members naturally want to feel supported by the entire shareholder group they represent, and voting at general meetings is a very tangible way to signal dissatisfaction on an issue. The difference between unanimous support and 85-percent support for a proposal at the general meeting is noted by the board, and this can later lead to dialogue and, in the longer term, a positive change on the issue.



Oscar Bergman, CEO of Nordic Investor Services, sees that a more long-term approach, diversity issues and sustainability are becoming more important in international corporate governance.

State Street – passive investor active owner



State Street Global Advisors is the world's third largest asset manager with over USD 2.5 trillion in managed capital, equivalent to about SEK 23,000 billion. AP7 has been collaborating with State Street for the past 18 years. The CEO of State Street Global Advisors, Cyrus Taraporevala, describes their position on ESG issues and active ownership from their perspective as a giant in index management.

CEO of State Street Global Advisors, **Cyrus Taraporevala**.

State Street is big in index funds, which is often associated with passive ownership. What's your perspective on being an active owner within index management?

Cyrus Taraporevala: We manage both active and index-based strategies. In our index-based strategies we can't make the S&P 500 the S&P 499. We can't sell shares in a company if it's in the index, so we're especially interested in how a company articulates its long-term strategy and whether its board demonstrates the kind of effective, independent leadership necessary to hold management accountable for executing on that strategy.

We focus on issues that are material to a company's ability to generate long-term value, including a range of environmental, social and governance areas. We stress active and constructive engagement rather than passive inaction or adversarial confrontation. We also issue regular thought leadership that details our views on important ESG topics. We believe this kind of active ownership, characterised by transparent and consistent engagement, helps improve the long-term quality of companies, the overall quality of the indexes and the broader economy by promoting good governance and sustainability practices.

What are the most common preconceptions of index management and accountability in terms of ESG?

Cyrus Taraporevala: The biggest misconception we frequently encounter is the mistaken notion that index management is a passive exercise. First from an operational standpoint, it is not a trivial undertaking to track an index closely and accurately over time. We also find that many investors are unaware of our active stewardship programme and the systematic way we engage with our portfolio companies on ESG issues. For example, climate is a risk we think all companies need to address, and it has been an engagement topic for our stewardship team for a while.

In 2016 we were the largest investment manager to vote in favour of shareholder proposals asking companies to report on climate-change risks. The following year some of our peers followed suit with their voting, and those climate-related shareholder proposals passed.

Even some regulators underappreciate our level of engagement and mistakenly believe we outsource our voting to proxy advisors. We often need to educate them on how we use data and analytics from proxy advisors, but hasten to remind them that the voting

State Street Advisors wrote a debate article, published in the Financial Times in July 2018, presenting their views on corporate governance and sustainability.

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FINANCIAL TIMES

TUESDAY 24 JULY 2018

OPINION

Investor activism

Index funds must be activists to serve investors

Since we cannot sell, we have to press management for improvements

CYRUS TARAPOREVALA

Efforts by large index fund managers to engage with public companies have recently come under attack from some business leaders. They complain that we are misusing our rights as shareholders to enforce arbitrary political or social “values” because we raise environmental, social and governance concerns with the boards of the companies in which we invest.

This completely misrepresents the mission of State Street Global Advisors and other large index fund managers. We seek long-term value for millions of ordinary investors in a world that has become increasingly obsessed with short-term results. That goal, not some political agenda, is why we have developed a rigorous, research-based shareholder engagement programme. We raise all kinds of issues with boards that might materially impact their company’s ability to generate sustainable returns over the long haul.

While our active funds can sell a company if we disagree with its executives, our index funds cannot choose the shares in which they invest. We are essentially permanent capital and cannot turn the S&P 500 into the S&P 499. That means we need to take a long-term perspective on behalf of our clients. At a time when some activist shareholders are keen on extracting short-term profits from companies, we provide a healthy and necessary counterweight.

Our primary fiduciary obligation to our investors is to maximise the probability of attractive long-term returns. Flows into index-based strategies have increased so dramatically over the past few years that we must take this responsibility more seriously than ever. Millions of individual investors count on the low-cost access to markets



The Fearless Girl statue commissioned by State Street was part of a commitment to encouraging greater diversity and thus better performance

around the world provided by exchange traded funds and other trackers. This has democratised access to markets that were once available and affordable only to larger institutional investors.

We carefully select the issues we focus on with companies, based on rigorous research into their impact on investment performance. For example, numerous studies show that diversity at the board level leads to better decision making, fewer reputational crises and ultimately better returns.

This is the reason why we placed the Fearless Girl statue on Wall Street and issued specific guidance to boards to take

steps to improve diversity. Performance was our motivation, not politics. This is just one example of how we seek to maximise transparency around our views, the research underpinning them, and our voting intentions. Others can be found in our new 2017 asset stewardship report that provides details on our proxy voting and engagement on thousands of management and shareholder proposals in 82 different countries across the globe.

In addition, while we will use the data and analytics provided by proxy advisers, we never outsource our voting decisions and we urge other institutional investors not to do so. These issues are too important to outsource and they are growing more complex.

Increasingly, our clients are pushing for more clarity on non-traditional investment issues. They want to know how companies are incorporating climate risk into their long-term strategy; whether they are adopting best practices around corporate governance, board quality and pay policies; how they are adapting to technology disruptions that could threaten their industries.

We need only look to recent corporate scandals around poor internal controls to remind us of the importance of active shareholder engagement.

Far from injecting politics into boardrooms, we believe our focus on active stewardship in a rapidly changing and complex world is more important than ever for ensuring healthy public markets, resilient economic growth and shared prosperity. We are creating long-term value; not imposing values.

The writer is president and chief executive officer of State Street Global Advisors.

decision itself remains ours. We also need to remind the market of the unique advantage we have as large, global investors invested in nearly every public company in the world. This gives us a perspective on the good, the bad and the ugly when it comes to ESG practices.

Have you experienced increased expectations from your investors, such as other pension managers, about ESG responsibility?

Cyrus Taraporevala: Yes, we've definitely seen an increase in interest in ESG from our clients over the past few years. Naturally, there are regional variations in the degree of uptake. Large public pension plans in northern Europe, Australia, Canada, and Japan and in the US have expressed the greatest interest.

We're definitely seeing a mainstreaming of ESG. We've been managing ESG strategies since 1985. Initially these were niche products for mission-based investors who wanted to screen out certain types of industries or companies. We're now seeing a greater demand for a holistic integration of ESG across our entire investment platform, as ESG intangibles are recognised as driving a greater share of a company's value. These are issues we cannot ignore as long-term investors.

Have you encountered any resistance to your increased ESG focus?

Cyrus Taraporevala: Yes, we've been criticised by some business groups for 'politicizing' the boardroom by focusing on ESG issues. They complain that we're misusing our rights as shareholders to enforce arbitrary political or social values on companies. But as I wrote in a commentary for the Financial Times in July 2018, this completely misrepresents our mission.

We seek long-term value for millions of ordinary investors in a world that has become increasingly obsessed with short-term results. That goal, not some political agenda, is why we've developed our rigorous, research-based engagement programme. Far from injecting politics into boardrooms, we believe our focus on active stewardship in a rapidly changing and complex world is more important than ever for ensuring healthy public markets, resilient economic growth and shared prosperity.

What's your view of divestment as an ESG tool?

Cyrus Taraporevala: As I mentioned, the reality is that in our index strategies, we don't have the choice of divesting or selling in the way that our active managers do. However, given the success of our active stewardship programme, we also believe in the power of engagement and having a seat at the table.

For example, in addition to our own discussions with oil and coal companies, we believe industry initiatives like the Taskforce on Climate-Related Financial Disclosure (TCFD) can be an effective way for fossil-fuel companies to be more transparent about their climate-related risks and can help them to start thinking about the sustainability of their business models.

Regarding your ownership in broad indexes, do you work with all ESG issues at the same time and in all companies, or do you focus on specific topics?

Cyrus Taraporevala: Each year, our stewardship team takes a risk-based approach and prioritises ESG issues, such as board quality, gender diversity, climate risk, and water management, as well as particular sectors that require careful scrutiny. We do this to scale our impact across multiple companies while also limiting the ESG risk in our portfolio. Finally, we believe that transparency is fundamental to an effective stewardship programme. Each year we publish a detailed stewardship report that describes our engagements and our proxy voting decisions.

What ESG issues do you think will be important in the coming years, and which will you be focusing on?

Cyrus Taraporevala: Good governance will be a mainstay of our focus, as so many other risks are related to the quality of governance overview and the extent to which boards are working with management to monitor those risks. Climate risk will also continue to be an important focus, as companies are just starting to do the hard work of understanding the longer-term impacts on their business models.

As investors improve their understanding of how the entire range of ESG factors impact long-term value, they're likely to widen their view to include more topics, especially with regard to social issues like diversity, culture, human capital and the social and environmental impact of a company's supply chains. At State Street Global Advisors, we've been engaging with companies on these topics for many years and we'll be seeking to leverage that knowledge to advance the dialogue on how they impact long-term value.

State Street Global Advisors installed the *Fearless Girl* statue Wall Street in New York 2017 to stimulate the discussion about women in executive positions.



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

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

Focusing on a few 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 in many ways during its course, and has consequences for the work with engagement dialogues and general meetings. It also brings greater collaboration with other actors to influence standards and norms within the area. Previously completed themes are Private Equity and Climate.

In 2018, it was decided that the next theme, for 2019–2021, would be Sustainable Impact Measurement. Knowledge about the effects of asset management on sustainable societal development is currently inadequate. Demand for reporting on real-world

impact from stakeholders and investors is great, but there are no accepted measurement methods. The long-term objective is to be able to show the societal benefit. The work will therefore revolve around methods to evaluate the real-world impact of active ownership and investments.

Fresh Water The aim of the theme on fresh water was to examine how AP7 can contribute to the UN's Sustainable Development Goal on clean water and sanitation (SDG 6). We analysed sectors and companies with high levels of risk regarding water. We set up a water mandate and carried out a study on investments in water and sanitation infrastructure. Read more about the theme on pages 18–19.

Lobbying The influence of business over political processes and decisions in the climate issue can, in certain cases, be greater than the companies' own direct climate impact. AP7's theme on lobbying focuses on the role companies play in implementing the Paris Agreement in regulations and climate legislation. Read more on pages 20–21.

Working Conditions in Food Supply Chains The theme starting in 2018 aims to investigate how AP7 can best contribute to improved working conditions in food supply chains. Read more about the theme on pages 22–23.

Theme

Fresh Water

In 2018, the Fresh Water theme was concluded. Its aims included investigating how our corporate governance and our investments can contribute to the attainment of the UN's sixth Sustainable Development Goal, Clean Water and Sanitation (SDG 6).

A global fresh water crisis is currently one of the most serious threats to the world's economy. In the theme, we analysed companies with water risks, identified the opportunities for blue investments for asset owners, and highlighted challenges in the Swedish water and sanitation infrastructure. This was done from our three perspectives: active owner, facilitator and knowledge builder.

Engagement dialogue on water risks

In our role as active owner, AP7 in 2016 started engagement work regarding water risks in our portfolio companies. We reviewed 299 companies in three high-risk sectors with regard to water (food and beverage, mining and the garment industry), to obtain an overall picture of how the sectors in general manage their water risks. A summary report, with the conclusions from the review, was published in March 2017.

On the basis of the review, we selected 20 companies with high water risks, where we saw potential for improvement in how well they manage and report on their impact on the water resource. In February 2017, AP7 initiated dialogue with the companies, with the help of Global Engagement Services (GES) in collaboration with five other investors: ACTIAM, The Church Pension Fund in Finland, KLP, OP Asset Management, and Strathclyde Pension Fund. One important aspect of the dialogues was to encourage greater transparency and standardised reporting of water-related issues, and drive improvements in the companies' evaluation, management and reporting of water risks.

The evaluation showed that the companies were improving their management and reporting of water-related risks. However, despite most companies stating that water is an important issue, not many of them prioritised water in their sustainability work. We also saw that the companies, with the exception of those in the textile industry, are generally better at reporting their water consumption and water efficiency than at reporting their effect on water quality and discharges.

It was clear that common indicators and standards for measuring and reporting a company's effect on the water resource need to be developed further.

We also saw great potential for improvement in companies working with other actors on a shared water resource. The companies are much better at managing water risks internally than, for example, collaborating upstream and downstream in a river basin.

At the end of the project in 2019, we repeated the review carried out in the preliminary study to see if there had been any developments.

We also conducted interviews in companies regarded as sector leaders in water risk management. By using their good examples, we can disseminate proven measures and successful methods to the companies where we want to see improvement. In this way we can contribute to sharing of experiences between companies that have come a long way and those that are lagging behind, and spread good examples within and between sectors.

In 2018, we also voted at a number of general meeting on items relating to water. An example was voting to encourage US companies to report on how they are complying with UN's sixth Sustainable Development Goal.

Facilitator – AP7 invests in blue and green mandates

In our role as facilitator, during the year we set up water mandates that invest specifically in listed companies in water infrastructure. In spring 2018, AP7 invested in an 'impact' mandate worth SEK 3 billion with the Irish asset manager KBI Global Investors and the British asset manager Impax Asset Management. KBI Global Investors' mandate is a clear water mandate linked to the UN's sixth Sustainable Development Goal, while Impax Asset Management has a broader climate and environment mandate that relates to several Sustainable Development Goals.

Collaboration with Sida on the UN global goal on water

In our role as knowledge builder, during the theme period we collaborated within the Sida initiative, Swedish Investors for Sustainable Development, SIDS. This is an initiative involving SPP, the Church of Sweden, AP3, East Capital, Skandia and Sida, aimed



at creating a platform for learning and sharing of experiences on the UN's sixth Sustainable Development Goal. Through the initiative, we developed insights and methods on how to use our ownership influence and invest in solutions that contribute to attainment of the goal. The collaboration also identified and made us aware of problems that prevent us from investing in sustainable solutions.

In 2017, we carried out an investigation that showed there was clearly a will to use capital for green and blue investments but that there were few investment opportunities. This is despite the great need for investment both in Sweden and globally, and despite there being a lot of capital available. We interviewed municipalities and experts to identify the barriers to blue investments, because we as investors could help in the maintenance of sustainable water and sewage investments in Sweden. The results were published in the report, *Vatten som investeringsobjekt*, www.ap7.se/forstudievatten.

The investigation, which we presented at a Parliamentary Seminar in November 2017, gave a complex picture of a number of obstacles that are preventing investments. These include a low level of awareness of the risks among decision-makers, a resistance to raising water tariffs and, not least, a resistance in municipalities to borrowing money for water investments.

Seen from a global perspective, the Swedish problems comprise an interesting illustration of the challenge we are facing ahead of transitioning to a more sustainable society. Many other OECD countries are

facing similar problems. Swedish municipalities might need national coordination and support to tackle the challenge posed by the great need for investments to upgrade the water infrastructure. This would involve initiatives that extend over many mandate periods and that require specialist expertise. During the year, an international comparison with Africa, carried out through Sida, showed that many of the problems were similar.

Together with SPP we highlighted in a debate article in Dagens Industri the great need for investments in the water and sanitation grid in Sweden, and that investment capital was available.

4 Debatt

Investeringsbehoven i vatten&avlopps-näten är mycket stora i Sverige. Men många kommuner upplever att de inte har råd och det är politiskt känsligt att höja taxorna. Vi bidrar gärna till investeringen, skriver vd:arna för SPP och Ze AP-fonden.



Släpp in kapital i VA-näten

Vattenstatistiken i Sverige decemner. Myndigheter varnar liknade om förenat dricksvatten, övervakningar och vattenbrist. För oss i Sverige är situationen extra kritisk, i andra delar av världen är detta normalt.

Det kommande decenniet kommer miljardbelopp behöva investeras i utbyggnad på klimat- och vattentekniker runt om i världen. Ändå finns det för globalt sett stora investeringsbehov i det svenska VA-nätet. På den punkten skiljer sig inte Sverige från resten av världen.

Agenda 2030 är de globala måttsättningarna för en hållbar utveckling. SPP och Ze AP-fonden är två av de aktörer som arbetar med agenda 2030 i Sverige. Vi har ett stort ansvar för att bidra till en hållbar utveckling i Sverige och i resten av världen. Vi upptäckte då att Sverige står inför omfattande utmaningar på området – och har vi löser den kan också vara en internationell trend.

Vattensystem, som är beroende för ett samhälle, kan indelas i tre olika typer. Dessa är viktigt att skilja mellan eftersom de har sina egna utmaningar och varje system kräver sin egen kompetens.

Dricksvatten. Utmaning: höga krav på rening och vattenkvalitet samt begränsning av ledningsnätet. I en typisk infrastruktur skapas planet underhåll på framtiden så länge ledningarna inte brister. I vissa kommuner kommer det ta lång tid över handla för att förnya ledningsnätet med nuvarande förfaranden.

Avloppsvatten. Utmaning: krav på rening för att hantera utsläpp som anses medför miljöproblem. För att begränsa negativ påverkan på sjöar och hav krävs skilda tekniker för rening och rensning.

Dagvatten (från nederbörd). Utmaning: garanterat tryck vid tillbaka till kretsloppet där miljövänliga partiklar och ämnen avskiljs på vägen. Dagens i många fall underdimensionerade ledningssystem kommer inte att klara att ta hand om de problem som klimatförändringarna förväntas medföra.

Underhållsbehovet för de olika systemen skiljer sig åt i olika delar av landet. Gemensamt är att de alla kräver investeringar och att kostnaderna för att hantera riskerna fördröjning till katastrofen infaller. När vi lägger att det finns mer investeringsvilligt kapital i svenska vatteninfrastruktur än det finns projekt att investera i, kostnader i oss för ett förlopp som i värf.

I en förstudie, som presenterades den 15 november på ett riksdagsseminarium, har vi undersökt förutsättningarna för att kunna bidra till underhållet av hållbara vatten- och avlopps (VA-) investeringar.

Förstudien baseras på intervjuer med experter på området och ger en bild av de barriärer som finns. För det första ser vi låga medvetenhet om riskerna hos beslutstakare. Kunskapsbristen på området beror bl.a. på ett generationskifte. 40-talsterna, som satt på bred kunskap om VA-nätet, har nu gått i pension. Detta leder till en tillbakadragning av kunskapen om VA-nätet. För det andra finns ett motstånd bland beslutstakarna att höja VA-taxorna. VA-verksamhet skall enligt Vattensjälstegen vara kommunal, självfinansierande och intäkterna får inte överstiga kostnaderna. Privat ägande är inte möjligt. Det innebär att verksamheten i sin helhet betalas av VA-taxorna, men att det i princip aldrig finns medel över för betydande investeringar i underhåll. Svenska kommuner har ett stort ansvar för att finansiera VA-nätet och kräver att vattenkvaliteten är hög.

För det tredje finns tecken på att beslutstakarna drar sig för att höja VA-taxorna i kommunerna – trots låga räntor. Så låga vattenkvalitetsnivåer är inte hållbara och till följd av en ökad medvetenhet om VA-nätet.

Sammanfattningsvis finns en rad hinder som gör att lösningar som behövs inte kommer till stånd. Det första steget är att identifiera problemen och ta till en ökad medvetenhet. Utan problembeskrivning saknas acceptans för såväl individuella investeringar som höjda taxor. Det finns i dag en marknad för så kallade gröna obligationer, lås som riktar sig särskilt mot hållbarhetsprojekt. Utbudet av vattenprojekt att investera i lyser dock med sin frånvaro.

Sett ur ett globalt perspektiv är de svenska problemen i stort sett som illustration av utmaningen vi står inför att ställa om till ett mer hållbart samhälle. Samtidigt behöver de svenska kommunerna nationell samordning och stöd för att klara utmaningen som den ständigt fallande vattensjälstegen innebär. Det handlar om långsiktiga satsningar som kräver specialkompetens och attraherar sig över många mandatperioder. Men när besloten är tagna behövs gärna med finansieringen.

STAFFAN HANSEN, vd SPP
RICHARD GRÖTHTEIN, vd AP7

Mejla din replik till debatt@di.se



Charlotta Dawidowski Sydstrand from AP7 in dialogue on how we can facilitate investments in water infrastructure during World Water Week, arranged by the Stockholm International Water Institute (SIWI).



In the report *Vatten som investeringsobjekt* we presented the need for investments in the Swedish water and sanitation infrastructure and the barriers to investing the capital available for blue investments.

Theme

Corporate Climate Lobbying

Greater transparency achieved

The work on the Climate theme, 2015–2017, showed clearly that corporate influence over political processes and decisions in climate issues can, in certain cases, be greater than the companies' own direct climate impact. We decided therefore to devote a special theme to Corporate Climate Lobbying.

The Corporate Climate Lobbying theme was launched in 2017 with a review of the political landscape in terms of climate lobbying on different markets. In the political processes that led to the Paris Agreement, it became clear that individual companies' influence over climate policy can have far greater consequences for the climate than the direct climate impact of their own business operation. How companies use their influence over legislation is therefore an important component in corporate social responsibility.

The starting point was the position that we, together with other investors within the PRI, formulated and published in 2015: *Investor Expectations on Corporate Climate Lobbying*. In that report, we made clear that we expect companies to support a policy that promotes a transition towards climate goals, or at least does not counteract it. Companies should climate-adapt their activities to meet new regulations and requirements, instead of investing resources in lobbying against the necessary measures that must be introduced if we are to have a chance of attaining the two-degree target.

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

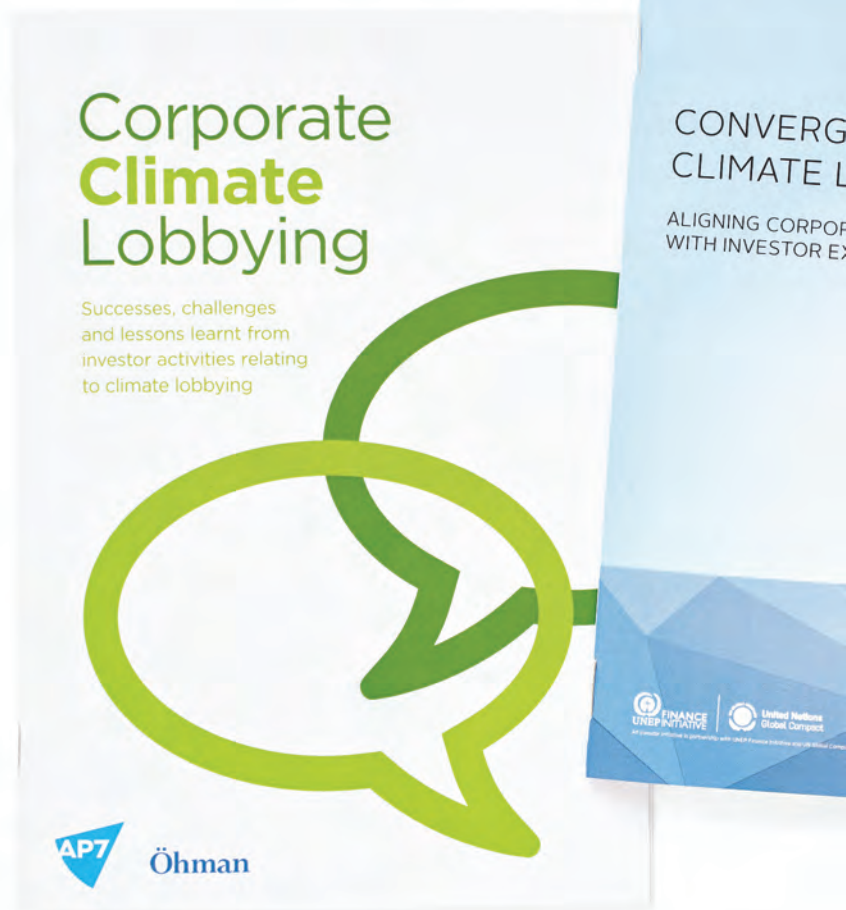
Together with PRI, we published during the year experiences from our work, in the form of a guide to other investors who want to engage in the issue of climate lobbying. In the US, an increasing number of resolutions have been filed at general meetings calling for companies to improve their reporting on lobbying. At the general meetings of 35 different companies, AP7 voted in favour of greater transparency on lobbying.

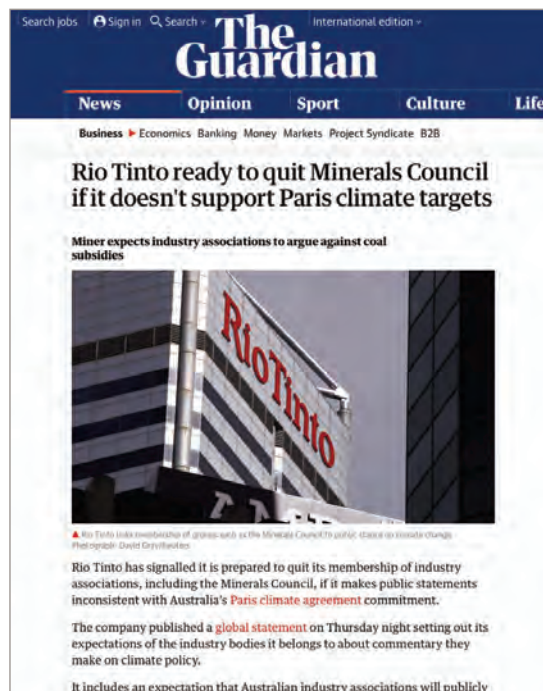
Collaboration with the Church of England continued in 2018. During the autumn we requested that the 55 companies with the greatest emissions of greenhouse

gases in Europe should increase transparency on climate lobbying. We also asked them to show that their lobbying and the interest organisations of which they are members do not drive positions that conflict with the Paris Agreement.

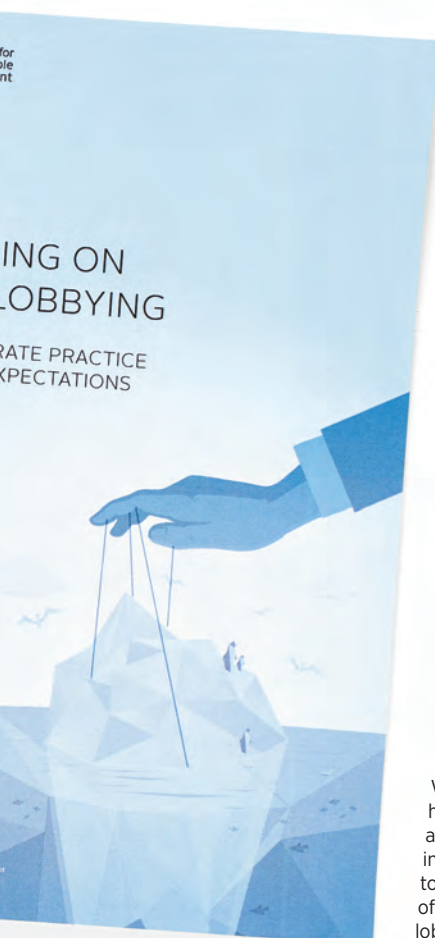
Several of these companies have good guidelines and targets in line with the Paris Agreement, but can also pay large sums of money to interest organisations that counteract progressive work to mitigate climate change. In spring 2019, we filed resolutions at the general meetings of a handful of these 55 companies to demand greater transparency on lobbying, and the work is continuing. Most importantly, we proposed that the boards ensure the introduction of regular reviews of their lobbying activities and draw up a tangible action plan for cases where a sector organisation conducts activities that are not in line with the Paris Agreement.

Together with Öhman Fonder, AP7 produced a report on what has been learned about companies' climate lobbying.





Rio Tinto has taken steps in the right direction in 2019 in line with the demands of AP7 and other investors in 2018.



Within PRI, AP7 helped produce a guide to other investors who want to engage in the issue of corporate climate lobbying.

Corporate climate lobbying – a challenge and an opportunity

Together with the Church of England, AP7 led a coalition of investors with AUM totalling USD 2 trillion. The coalition called for greater transparency from the 55 companies in Europe identified as having the largest CO2 emissions, and demanded that they review the positions adopted by trade associations and organisations of which they are members.

Adam Matthews, Director of Ethics and Engagement, Church of England Pensions Board, elaborates on the collaboration with AP7 on climate lobbying.

Why is Corporate Climate Lobbying an important issue?

Adam Matthews: If you speak to any government minister, government negotiator or senior UN official working on climate change, they acknowledge the role that lobbying plays in shaping the outcomes of national, regional and international processes. Two quotes make this very clear for me:

"There is a serious group of companies that have a voice that is much louder, that is better funded, that operates much more in unison, and that is still stuck in the technologies and the fuels of yesterday."

– Christina Figueres, Executive Secretary of the UNFCCC, 2011.

"I'm getting resistance from some fossil fuel interests who want to protect the outdated status quo. When you start seeing massive lobbying efforts backed by fossil fuel interests or conservative thinktanks or the Koch brothers, pushing for new laws to roll back renewable energy standards or prevent new clean energy businesses from succeeding, that's a problem."

– Barack Obama, 44th President of the United States of America, 2015

AP7 has been far ahead of many other investors in identifying the impact of lobbying on climate change policy and international processes. Our joint initiative is intended to connect the statements of support from companies for the goals of the Paris Climate Agreement with their lobbying and that of their industry associations.

What effects have you seen?

Adam Matthews: Since launching the initiative we've focused on 55 companies in Europe. We've seen significant responses, most recently from Royal Dutch Shell, publishing a review of 19 of its major industry associations. This resulted in Shell leaving one major US association and placing nine others under review. Those under review are being engaged with by Shell and they have outlined that they would consider leaving them were they not to change their approach.

Importantly, Shell along with a number of other oil and gas companies broke ranks with the position of one major industry body The American Petroleum Institute (API) and called for greater regulation of methane emissions in the US. This was the first time companies had publicly broken ranks with the API. In other sectors we have had commitments from Anglo American who are due to publish their own review as well as further

development by Rio Tinto of the criteria they have developed for assessing industry association alignment on climate change.

It was also great to see the first cement company acknowledge they needed to review their industry association memberships when Heidelberg Cement committed last month in its Annual Review to do so. Lastly, in the auto sector you have seen the first challenge of one of the main industry associations by Volkswagen.

What's the next step in 2019?

Adam Matthews: We are continuing to engage with companies in the sector and encourage them to undertake the reviews of their industry associations as well as learn from the emerging best practice from other companies. There is growing interest and support from institutional investors for our joint initiative. A key part of our work will be filing shareholder resolutions at a number of companies. We are still in negotiation with the target companies to see if they will commit to the actions we have outlined.

What we want to see is good governance within the company of these issues as well as transparency in their reporting to shareholders so that we can assess the effectiveness of the company approaches. We are also in discussion with the London School of Economics to develop a more rigorous academic framework to assess good practice.

Ultimately, if the power and influence that many trade associations exert on public policy could be directed to supporting the goals of the Paris climate agreement and not towards delaying action then I believe we will be injecting a positive force for change that will raise ambition.



Adam Matthews, Director of Ethics and Engagement, Church of England Pensions Board, sees positive effects of the collaboration with AP7 on Corporate Climate Lobbying.

Shell decided to withdraw from an American interest organisation because of climate lobbying.



Theme Working Conditions in Food Supply Chains

How can asset owners best contribute to improved working conditions in food supply chains? To investigate how we in our different roles can contribute to the eighth UN Sustainable Development Goal, Decent Work and Economic Growth, in 2018 we launched the new theme, Working Conditions in Food Supply Chains.

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

During the year, together with Sustainalytics, we produced a preliminary study, *Mapping Labour Rights Issues in the Food Supply Chain*, which gave an overview of focus areas, to ensure that our work in the theme has the best possible impact. The goal of the study was to review the main risks for violation of labour rights, and show how investors can exert pressure on companies to improve their ability to manage such risks and correct harmful effects. The aim of the preliminary study was to identify:

1. the main risks to labour rights in global food production;
2. the most suitable commodities and companies to focus on;
3. how AP7 can supplement existing and previous investor initiatives in the area of working conditions in food supply chains.

Some of the conclusions from the preliminary study were as follows.

Tea pickers near Mount Kenya. Tea is one of five commodities with the greatest risks for inadequate working conditions.



■ **Child labour and forced labour** are two of the most serious human rights issues in the food production sector, according to the experts consulted and reports examined in the study. In 2017, the number of child workers was estimated to be 152 million, of which over 70 percent were in farming. Twenty-five million people were estimated to be subjected to forced labour, of which 11 percent were in farming and fishing.

■ Because every fourth victim of forced labour is exploited outside their home country, **migrant workers** are a vulnerable group. Migrants are particularly subject to forced labour. They are at especially high risk of exploitation because of language barriers, integration challenges, and limited local awareness and support.

■ **Insufficient money on which to live** is one of the main causes of child and forced labour. It is a complex issue, but an important one to discuss.

■ The preliminary study identified **five commodities with elevated risks** of forced and child labour: coffee, rice, sugar, tea and tomatoes. A positive trend could be discerned in the cases of sugar, tea and coffee. But for rice and tomatoes, the development has been less positive, and a greater awareness is needed of the importance of good working conditions. Knowledge acquired through work in for example the cacao industry could be transferred to these crops.

We have initiated dialogues with food companies globally, with a focus on the preventative measures that food companies can take to prevent child labour and forced labour arising in their supplier chains. Similar problems are found in many supply chains, for many different agricultural products. One aim of our dialogue project is to disseminate good examples and effective methods between regions and sectors. As a universal owner in a large number of companies and sectors, AP7 can help to spread experiences between these companies.

1 NO POVERTY



2 ZERO HUNGER



4 QUALITY EDUCATION



8 DECENT WORK AND ECONOMIC GROWTH



10 REDUCED INEQUALITIES



On savers' terms

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

AP7's information activities include informing savers about premium pensions and the pension system, broadening the perspectives, and participating in the debate on sustainability and responsible investments. AP7 has no information about our savers; all communication and contacts with the savers are handled by the Swedish Pensions Agency, which also has the task of administering and paying the state pension. However, this distribution of tasks does not mean that AP7 completely abstains from communication.

Savers and premium pensions. One reason for AP7 engaging in communication initiatives that provide information is that the premium pension system puts the savers in a situation where they must make a choice, with a wide range of funds available, and gives them responsibility for their premium pension. Many private actors market their funds aggressively to greater or lesser extents. If savers are to make an active choice, they need nuanced information about the premium pension.

AP7 is therefore faced with a number of challenges. The pension system is complex and hard to describe in a simple way, and the recipient must have a certain level of engagement before the information can be absorbed. At the same time, many savers feel that pensions is a difficult and complicated area.

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 alternative when they start working, which makes communication even more important. This target group needs at least as much information as the more engaged group that is more interested in asset management.

AP7's target group and channels. The overall target group for the external communication is over four million savers. For resource reasons, it is

impossible to reach such a broad and large target group through, for example, advertising in channels such as tv and the national press. Consequently, we have segmented the target group, and aim at Såfa savers in the 20-40 age group. To reach them cost-effectively, we use digital channels.

Over the past few years, AP7 has been gradually increasing the initiatives to reach the savers via our own channels, such as through the *Förvalt* blog, the website and social media. For the external communication, journalists and the financial sector are also important target groups, as they indirectly reach the savers via mass media and as opinion shapers. Other key actors important to engage continually in dialogue are the Ministry of Finance, Finansinspektionen, the Pensions Group and the Swedish Pension Agency.

By disseminating information and informing people about their private economy, the pension system and AP7 Såfa in an easily accessible way, AP7 works to ensure that the savers have a good body of information on which to base decisions. Nobody should feel forced to choose, but everyone should have as much information as possible to enable them to make an informed decision.

AP7 **Förvalt**
Om pension, sparande

Arkiv

2019

januari (9)
februari (11)
mars (10)
april (5)

2018

januari (9)
februari (10)
mars (7)
april (10)
maj (9)
juni (5)
juli (6)
augusti (6)
september (10)
oktober (8)
november (13)
december (7)

Har du inte **#premiepe**
Allt du behöver veta om din premiepension i fem minuter.

Du är själv ansvarig för din premiepension. Helt lätt är det inte. Särskilt inte om du inte vet vad premiepensionen är. Eller vilka fonder du har valt. Om du ens har valt. Men det ska inte vara svårt. Ta fram ditt orange kuvert eller logga in på Mina Sidor på [Pensionsmyndighetens webbplats](#). Vi. Känns det redan för krångligt? [Här förklarar vi](#) snabbt vad premiepensionen är.

NU ÖPPNAR JAG KVERTET

Ta det kallt när det krisar

AP7

Ta det **kallt** när det **krisar**

Ett råd från AP7 om din premiepension

Kapitalförvaltning Hållbarhet Säfa gulden Premiepension Frågor och svar

Hur påverkas pensionen av deltidsarbete?

Jobbar du deltid? Då är det extra viktigt att tänka på pensionen. Att jobba mindre ger lägre pension. Så här funkar det. Sommarjobbet på högskolan, extraarbetet under studietiden och...

2019-04-04 / AP7 / Ekonomi för soffliggare / Premiepension

Kreativa utbyten om hållbarhet på IMF:s vårmöte

Det har varit några intensiva dagar och jag har deltagit som talare vid ett par evenemang under IMF:s vårmöte i Washington. Vi är en grupp inom SISD (Swedish Investors for...)

Pensionskoll?

on. På max

u är osäker på vad
ta vi hjälpa dig med nu.
hemsida. Sen börjar

Twitter YouTube AP7

On ap7.se and in digital channels, AP7 has been educating people about the premium pension system over the years.

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

Importance of openness

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

GRI Supplement

About the report

The GRI Report applies for the period 1 January – 31 December 2018, and covers the entire activities of the agency. AP7 issues sustainability reports annually, and the most recent report was published on the website, www.ap7.se on 27 April 2018 (in Swedish). Since then, no significant changes have taken place 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 the sector-specific supplement, Financial Services (FS). The report has not been subject to external auditing.

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 ESG, +46 (0)8 412 26 64.

Contents of the report

The contents of the report are based on a Materiality Analysis that was carried out in 2014 and updated in 2017. Using earlier analyses and interviews, supplemented with current situational analyses in terms of trends, driving forces and challenges, an internal working group carried out a provisional calibration of relevant sustainability subjects.

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

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

A prioritisation process then followed, where the key stakeholders' assumed perception of selected sustainability areas was compared with the economic, social or environmental impact of the respective area. The prioritization resulted in the following selection of relevant sustainability areas.

- 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 selection of sustainability areas and AP7's sustainability work. The stakeholders were able to consider the issues in advance through a questionnaire. Views from the anonymous Savers stakeholder group were obtained from an analysis of questions and views submitted to AP7 in 2017. The stakeholders confirmed the selection of sustainability areas, and their comments extended and broadened the Materiality

Analysis. In a concluding working meeting, involving both the working group and the company's CEO and Head of Communications and ESG, the prioritised sustainability areas as described above were adopted. The key stakeholders were supplemented with the interest group, Collaboration Partners.

What do the stakeholders say?

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

AP7 collaborates and has regular contact with other stakeholder groups that 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.
- Voluntary organisations, which express interest in specific issues and in how AP7 works generally with responsible investments.
- Sector colleagues, which together with AP7 drive developments within responsible investments.

Corporate governance

As part of the operational plan, the Board of Directors of AP7 establishes an ownership policy every year. This policy states how AP7 will exercise the ownership function associated with its shareholding in the AP7 Equity Fund. The ownership responsibility is based on three main areas: governance regarding environmental and social considerations, and corporate governance (ESG). AP7 continually develops processes in the area of corporate governance, with guidelines and policy documents for the corporate governance process. The guidelines describe how AP7 as shareholder, in line with its mission, exerts influence on companies to take responsibility for sustainability, ethics and good corporate governance.

The guidelines for corporate governance are implemented in a number of CEO instructions regarding voting, public blacklisting, group actions 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 ESG 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 discussion and decisions in the management group. The ESG Committee is also a collaboration body for ESG issues, and aims to promote coordination and integration of ESG in AP7's different 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 special importance.

All employees are obliged to follow AP7's ethical guidelines, which place major emphasis on the actions of employees and regulate matters such as hospitality and gifts, procurements, secondary employment,

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	37 employees, who together carry out AP7's mission.	Appraisal interviews and surveys	AP7's mission and confidence
Swedish Pensions Agency	The agency that collaborates with AP7 by channelling equity into the funds and managing pension payments.	Continual dialogue	AP7's mission and confidence Information to the public Financial performance
Collaboration partners, e.g. Sida	Actors that contribute to skills development in AP7 and in AP7's more in-depth work	Within the framework of ongoing collaborations	AP7's mission and confidence Active ownership Impact investments
Savers	4.2 million Swedes whose pension capital is managed by AP7.	Continual contact with individual savers who ask questions, but also annual surveys to find out what the Swedish population thinks about various pension-related issues.	Financial performance Active ownership Information to the public

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 employees' private interests. All employees confirm annually that they are familiar with the fund's ethical guidelines.

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

Membership and voluntary agreements

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

- UN Principles for Responsible Investments (UNPRI)
- Carbon Disclosure Project (CDP)
- International Corporate Governance Network (ICGN)
- Sveriges forum för hållbara investeringar (Swesif)
- Extractive Industries Transparency Initiative (EITI)
- Institutional Investors Group on Climate Change (IIGCC)
- Swedish Investors for Sustainable Development

AP7 as employer

AP7 is a government agency. At the end of 2018, AP7 had 37 permanent employees, of which 17 were women and 20 men. All are permanent employees and are covered by the collective bargaining agreement, BAO-JUSEK (SACO). The agency is based in Vasagatan in Stockholm and has no offices in other parts of the country. The agency conducts most of its business in Sweden although investments are made all over the

world. The CEO is Richard Gröttheim. The management team comprises seven people, three women and four men. In 2018, one person left the agency and nine people were recruited. It is important to AP7 that employees enjoy working here and that the agency has the right skills and expertise. All employees have had appraisal interviews during the year with their immediate supervisors.

AP7's climate risks

By law, AP7 may only invest in equities and fixed-income securities. Most of the savers' money is invested in the global stock market. Climate change entails risks for the financial sector that can be divided into two main categories: physical climate risks and transition risks. The first is the actual climate risk resulting in increased global average temperature, rising sea levels, and more frequent occurrences of extreme weather. The other involves the transition to a low-carbon society, where consumption patterns will be changed, new products replace old, and climate policy becomes more stringent. The transition risk is therefore a consequence of the work on managing the physical climate risk.

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

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

Climate risks

The biggest risk to AP7's long-term mission to generate good returns and give our savers good pensions is

GRISupportement

that we do not attain the two-degree target, which would mean that the physical effects of climate change would harm the global growth and economy. The economic values at risk of being lost if the climate risks are not managed successfully are astronomical. Estimates are of the order of SEK hundred thousands of billions. Since AP7 invests in the value generated by the entire global economy, the growth of our portfolios is dependent on the global market growing sustainably in the long term.

It is difficult to prove any effects on the underlying companies' climate impact when investors invest or divest from companies in their equity portfolios. Transactions take place on a second-hand market, so the transaction does not normally affect the underlying company's flow of capital. The transaction does not normally even give a signal to the company, unless the investor actively informs the company of the transaction. Shares can be sold and bought many times without any owner exerting owner influence to try to reduce the climate impact of the underlying businesses.

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

As a universal, long-term owner and a government pensions fund, AP7 is in a stronger position than many other investors. By taking a holistic view of the economy, AP7 can work with norms and method development for the entire market. Through its corporate governance and method development, AP7 helps to drive implementation of the Paris Agreement, which puts the UN Climate Convention into practice. Success requires that we collaborate with other investors and societal actors and use all the corporate governance tools at our disposal.

AP7 actively drives implementation of the Paris Agreement in all our corporate governance processes. For several years, one of our focus areas has been the effects of corporate climate lobbying, where we drive the issue of a company's responsibility to report its political engagement activities. We expect the companies in which we invest to not counteract the implementation of the Paris Agreement.

In 2017, for the first time we blacklisted companies working in conflict with the Paris Agreement. By incorporating the Paris Agreement in our norms screening, we are involved in interpreting where the boundary goes for acceptable conduct regarding climate. We engage in direct dialogue with a number of companies in our portfolio that we identified as being especially important for the transition. We have a number of ongoing engagement projects that focus on various aspects of the companies' climate footprint. Climate is also one of our focus issues at annual general meetings, where we usually vote in favour of climate resolutions and also file our own shareowner resolutions on particularly important matters.

In parallel with exerting influence through ownership, AP7 can help finance climate solutions. The system change that lies ahead requires innovations and investments in all sectors. We believe that our invested capital can benefit the climate by financing climate innovations and solutions for a new carbon-efficient economy.

In this way AP7 can help to drive a transformation of the economy, both in our role as active owner and through our directed investments.

Transition risks

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

AP7's blacklisting process excludes a number of 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 less than our comparison index.

Because AP7 utilises the opportunity afforded by its active asset management to finance businesses that offer solutions to the climate issue, AP7 has increased its exposure to businesses that are assumed to be favoured by a transition. In 2017, AP7 set up green mandates in the management of two of three asset classes (fixed income, unlisted assets). In 2018, green mandates were also set up in listed assets. AP7 has an investment in green bonds amounting to SEK 1.8 billion. Approximately 12 percent of our unlisted assets comprises clean technology, corresponding to SEK 1.1 billion.

Climate theme and corporate climate lobbying

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

The objective by the end of the theme period was to apply resource-efficient and effective methods in both our corporate governance and asset management. In 2017, climate risks were incorporated in all AP7's corporate governance processes and, in 2018, in all asset classes. Read more about the Climate theme in the Climate Theme Report.

The work to drive implementation of the Paris Agreement continues in our corporate governance processes through AP7's Corporate Climate Lobbying theme, in which we drive the issue of corporate responsibility for their political engagement in the climate issue. We continue to screen companies conducting business in ways that conflict with the Paris Agreement through the twice-yearly blacklisting process. We have also recently initiated dialogue projects aimed at fossil-fuel companies. Climate also remains one of our focus issues at general meetings, where we both support proposals on reduced climate impact and also file our own shareowner resolutions.

AP7 measures its carbon dioxide footprint

In 2018, AP7 measured for the fifth consecutive year the collective carbon dioxide footprint of its Equity Fund. Two percent of unlisted holdings in the Equity Fund were not included in the measurement. The carbon dioxide footprint indicates the size of direct emissions from the underlying companies in AP7's Equity Fund, but the practical value of the information is limited (see information on next page).

AP7 supports method development in the market, and carries out development work with asset managers to measure and follow up the climate impact of

investments. On 31 December 2018, the Equity Fund managed assets worth SEK 460 billion, and comprised 91 percent of AP7's total assets under management. Two percent of the Equity Fund comprises unlisted private equity. AP7's carbon footprint has been calculated on the basis of investments in listed equity, which comprises 89 percent of AP7's total assets under management.

The carbon footprint analysis was carried out by Your SRI/Southpole, and comprises emissions corresponding to Scope 1 and 2 according to the GHG Protocol. The calculations are based on 74 percent reported and 26 percent estimated emissions data from companies in the portfolio.

The sector that contributed most to AP7's carbon footprint was the utilities sector, which accounted for 41.7 percent of the footprint. The mining, forest and metal industries comprised 26.7 percent, while oil and gas accounted for 12.8 percent.

1. The absolute carbon footprint of the AP7 Equity Fund, corresponding to the owned proportion of the companies' collective emissions, was 7.7 million tonnes CO₂e. This is in line with our comparison index, MSCI ACWI, whose total carbon footprint at the same point in time was 7.5 million tonnes of CO₂e.
2. The carbon dioxide intensity, where the absolute carbon footprint is related to the ownership proportion of the companies' market value for the AP7 Equity Fund, was 17.5 tonnes of CO₂e per SEK million. At the same point in time, MSCI ACWI was 17.2 tonnes CO₂e per SEK million.
3. The carbon dioxide intensity, where the absolute carbon footprint is related to the ownership proportion of the companies' revenues was 29.9 tonnes of CO₂e per SEK million. MSCI ACWI was 29.8 tonnes CO₂e per SEK million.
4. The carbon dioxide intensity, weighted average, where the companies' carbon dioxide intensity in relation to revenues is multiplied by the company's percentage of the portfolio based on market value was 31.6 tonnes CO₂e per SEK million. MSCI ACWI at the same point in time was 32.6 tonnes CO₂e per SEK million.

Since 2015, AP7 has participated together with the buffer funds AP1-AP4 and AP6 in a collaboration group with representatives from each AP fund to coordinate the funds' reporting of carbon footprint. In autumn 2015, the group presented a coordinated way of reporting the carbon footprint. The group's proposal for standardisation has been embraced both in Sweden and internationally.

In 2017 various data suppliers' services for carbon dioxide indicators were evaluated for different asset classes, and continued improvements in this area could be observed. The AP funds have therefore chosen to wait for coordination on more asset classes. Because AP7's managed assets largely comprise listed assets, we nevertheless report the climate footprint of nearly 90 percent of our investments as of 31 December 2018.

In the framework produced by the Task Force on Climate-related Financial Disclosure (TCFD), investors are recommended to report carbon footprint using the indicator carbon dioxide 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 dioxide intensity in relation to revenues, and then adding the results.

In this measurement, the ownership proportion has no significance. To align with TCFD, the AP funds in 2017 decided to also include this indicator (number 4 above) in the reporting.

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

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

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

Limitations of the carbon footprint

Does not measure the total impact of the investments because:

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

Does not measure the total climate risks of a portfolio, such as physical risks associated with extreme weather, flooding and drought, or consequences of 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 preparation for a transition to a low-carbon society.

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



GRI Standard		Comments	Page
Organisation profile			
102-1	Name of the organisation	Seventh AP Fund (AP7)	4–5
102-2	Activities, brands, products, and services		
102-3	Location of headquarters	Stockholm	
102-4	Countries in which the organisation conducts operations	Sweden	A
102-5	Ownership and legal form		
102-6	Markets served		
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 come mainly from the UK and US. The risks in the supply chain are therefore deemed low.	
102-10	Significant changes to the organisation and its supply chain		26
102-11	Precautionary Principle or approach		AP7 conducts no manufacturing activities, but applies the Precautionary Principle by indirectly integrating it as part of its requirements.
102-12	External statutes, principles and initiatives		27
102-13	Membership of associations		27
Strategy and analysis			
102-14	Statement from senior decision-maker		3, 6–7
Ethics and integrity			
102-16	Values, principles, standards, code of conduct, and policy regarding ethics		4, 26–27
Governance			
102-18	Governance structure		26–27, Annual Report, 23–24
Stakeholder engagement			
102-40	Stakeholder groups		26
102-41	Number of employees covered by collective bargaining agreements		27
102-42	Identification and selection of stakeholders		26–27
102-43	Approach to stakeholder engagement		27
102-44	Key issues arising from dialogue with stakeholders		27
Reporting practice			
102-45	Entities included in the report		26
102-46	Process of defining the contents of the report and boundaries		26
102-47	Issues identified as material		26
102-48	Explanations of corrections from previous reports	No corrections from previous reports were made in 2018	
102-49	Significant changes compared with previous reports		26
102-50	Reporting period		26
102-51	Date of most recent report		26
102-52	Reporting cycle		26
102-53	Contact person regarding the report		26
102-54	Statement that the report corresponds with GRI Standards		26
102-55	GRI Index		30–31
102-56	External audit		26

Page references to reporting in accordance with TCFD recommendations				
	Governance	Strategy	Risk management	Targets and performance indicators
a)	26–28	27–28	27–28	28–29
b)	26	27–28	27–28	*
c)	-	27–28	27–28	*

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Frequently asked questions
about how AP7 works with
responsible investment

What is AP7's strategy for responsible investment?

AP7's strategy for responsible investment is based on the two main ways in which we can contribute to sustainable development. One way is to be an active owner and the other is to invest in companies that contribute to solutions to sustainability problems. AP7's most important contribution to sustainable development is by being an active owner in the companies we invest in. Since we invest in the entire market rather than in selected companies, we are a universal owner. Our core values are the internationally adopted norms on human rights, labour rights, the environment and anti-corruption. As universal owners we primarily want to influence norms and standards for corporate responsibility that contribute to a more sustainable market in general. On the basis of these norms, we can then become engaged in the individual companies we own. The engagement tools we use are voting at general meetings, conducting engagement dialogues with companies, public blacklisting of companies, and by driving legal processes against companies.

The other principal way in which AP7 can contribute to sustainable development is to invest in companies specialising in sustainable solutions. AP7 has investments in green bonds, unlisted clean-tech companies, and in 2017 we started to design a solution-oriented investment mandate for 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 real estate, property, infrastructure projects or other alternative investments, and may only invest in equities and fixed income securities. In accordance with the AP Funds Act, AP7's asset management must be solely aimed at the interests of the savers. No consideration is taken to business policy or other policy matters. Unlike other AP Funds, AP7 may not vote at general meetings of Swedish companies. The environmental and ethical considerations must be taken in AP7's asset management, without sacrificing the goal of high returns. Since we see no general conflict between investment returns and a sustainability approach, the law enables us to conduct responsible asset management.

How does AP7 work with external asset management?

Internal management means that investment decisions are made and implemented by our own asset managers. External fund management means that investments are made by specially commissioned external asset managers, often larger specialised fund managers. AP7 uses external asset management for around 90 percent of its managed capital. In deciding between external and internal asset management, we consider the expected quality and cost of the different management forms. In the agreements with our external asset managers, we stipulate that they must meet AP7's requirements regarding sustainability, such as banning investments in companies that AP7 has blacklisted. We conduct continuous dialogue with our external asset managers, and conduct annual screening of all of them, including any new asset managers. Unlike many other asset owners that use external management, AP7 does not outsource the governance of the companies we own to the external asset managers. This means that AP7 itself handles voting at general meetings, engagement dialogues with companies, screening and blacklisting of companies, and legal processes.

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. Equities comprise approximately 90 percent of the assets. Unlisted stocks make up only a fraction of the shareholding. Our entire listed portfolio is screened twice a year for violations of norms and for nuclear weapons, and we update our blacklist twice a year. The blacklisting applies to all our asset classes. AP7 requires that our managers of unlisted equities consider sustainability in their asset management, and we have a special evaluation process for them. AP7 has guidelines for our fixed income investments that prevent investment in bonds issued by authoritarian regimes, or in bonds issued by black-listed companies. Currently AP7 invests only in Swedish mortgage and government bonds, and in Swedish green bonds.

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

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

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65 companies we hope to invest in again...

AECOM Involvement in nuclear weapons. **AES CORP** Violations of human rights and environmental norms in conjunction with a dam construction project in Panama. **AIRBUS SE** Involvement in nuclear weapons. **AVICHINA INDUSTRY & TECHNOLOGY** Violation 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 conjunction with mining operations in Chile and Argentina. **BHARAT HEAVY ELECTRICALS LTD** Violation of environmental norms through construction of a coal-fired power station adjacent to a national park with World Heritage status. **BHP BILLITON LTD/PLC** Violation of environmental norms and human rights in conjunction with the collapse of a dam in Brazil. **BOEING CO** Involvement in nuclear weapons. **COMPANHIA ENERGETICA DE MINAS GERAIS (CEMIG)** Violation of human rights in conjunction with a dam construction project in Brazil. **CENTRAIS ELETRICAS BRASILEIRAS** Violations of human rights in conjunction with a dam construction project in Brazil. **CHINA RAILWAY GROUP LTD** Violations of labour rights in China. **CINTAS CORP** Violations of labour rights in the US. **DEUTSCHE TELEKOM AG** Violations of labour rights in the US. **DONGFENG MOTOR GROUP CO LTD** Sales of military equipment to Belarus in conflict with the EU embargo. **ELBIT SYSTEM LTD** Sales of military equipment used in violations of human rights in Israel. **ENBRIDGE INC** Violations of human rights in conjunction with construction of an oil pipeline in the US. **ENTERGY CORP** Conducts activities that conflict with the Paris Agreement by counteracting climate legislation in the US. **EXXON MOBIL CORP** Conducts activities that conflict with the Paris Agreement by counteracting climate legislation in the US. **FLUOR CORP** Involvement in nuclear weapons. **FORTIVE CORP** Involvement in nuclear weapons. **GAZPROM PJSC** Conducts activities that conflict with the Paris Agreement by extracting oil in Arctic Russia. **GENERAL DYNAMICS CORP** Involvement in nuclear weapons. **GOLDCORP INC** Violations of human rights in conjunction with mining operations in Guatemala. **HANWHA CORP** Involvement in cluster munitions and landmines. **HARRIS CORP** Involvement in nuclear weapons. **HONEYWELL INTERNATIONAL INC** Involvement in nuclear weapons. **HUNTINGTON INGALLS INDUSTRIES INC** Involvement in nuclear weapons. **HYUNDAI HEAVY INDUSTRIES CO LTD** Violations of labour rights in South Korea. **INCITEC PIVOT LTD** Violations of human rights through the import of phosphate from the occupied Western Sahara. **JACOBS ENGINEERING GROUP INC** Involvement in nuclear weapons. **JBS SA** Violations of labour rights in the US and Brazil. **L3 TECHNOLOGIES INC** Involvement in nuclear weapons and cluster munitions. **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 conjunction with oil extraction in Russia. **MARATHON PETROLEUM CORP** Violations of human rights in conjunction with construction of an oil pipeline in the US. **MERLIN ENTERTAINMENTS PLC** Violations of trade union rights in Germany. **NORTHROP GRUMMAN CORP** Involvement in nuclear weapons. **NUTRIEN** Violations of human rights through the import of phosphate from the occupied Western Sahara. **NTPC LTD** Violation of environmental norms through construction of a coal-fired power station adjacent to a national park with World Heritage status. **PEABODY ENERGY** Conducts activities that conflict with the Paris Agreement by counteracting climate legislation in the US. **PHILLIPS 66** Violations of human rights in conjunction with construction of an oil pipeline in the US. **RAYTHEON CO** Involvement in nuclear weapons. **RENAULT SA** Violations of labour rights in Turkey. **REPSOL SA** Violations of human rights in conjunction with a gas extraction project in Peru. **ROLLS-ROYCE HOLDINGS PLC** Involvement in nuclear weapons. **ROYAL DUTCH SHELL PLC** Violation of environmental norms and human rights in conjunction with oil extraction in Nigeria. **SAFRAN SA** Involvement in nuclear weapons. **SERCO GROUP PLC** Involvement in nuclear weapons and violations of human rights in conjunction with operation of refugee camps in Australia. **SGL CARBON SE** Involvement in nuclear weapons. **SK INNOVATION CO LTD** Violations of human rights in conjunction with a gas extraction project in Peru. **SOUTHERN CO** Conducts activities that conflict with the Paris Agreement by counteracting climate legislation in the US. **TATA POWER CO LTD** Involvement in nuclear weapons. **TEXTRON INC** Involvement in cluster munitions. **THALES SA** Involvement in nuclear weapons. **T-MOBILE US INC** Violations of labour rights in the US. **TOSHIBA** Involvement in nuclear weapons. **TRANSCANADA CORP** Conducts activities that conflict with the Paris Agreement through a large-scale oil pipeline project in the US and Canada. **UNITED TECHNOLOGIES CORP** Involvement in nuclear weapons. **VALE SA** Violation of human rights in conjunction with a dam construction project in Brazil, and violations of environmental norms and human rights after the collapse of a dam in Brazil. **WALMART STORES INC** Violation of labour rights in the US.

AP7 invests in the companies included in MSCI ACWI that satisfactorily comply with the requirements of the international conventions signed by Sweden, and that are expressed in the UN Global Compact's ten principles, which describe corporate responsibilities regarding human rights, labour rights, the environment and corruption. AP7 blacklists companies that are involved in the development and production of nuclear weapons. Since the audit in December 2016, the Paris Agreement to the UN Climate Convention is one of the norms on which our analysis is based. The 65 companies shown above are blacklisted and excluded as of December 2018.



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