

The image features a blue-toned silhouette illustration of a tropical forest. In the foreground, there are various trees and plants. In the background, a large tree trunk is cut off, and a small animal is visible on the ground. The overall scene is set against a gradient blue background.

AP7

AP7 Theme Report

Deforestation and Biodiversity

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Front cover:

Investors need to be able to understand and compare companies' impact on and dependencies on nature.

The purpose of the theme has been to increase our understanding of the financial market's nature-related risks and opportunities, to contribute to biodiversity, as well as to develop AP7's active ownership in deforestation and biodiversity.



Preface: **Businesses are heavily dependent on biodiversity**

Alongside climate change, the global loss of biodiversity is one of the greatest environmental threats to humanity. AP7's theme work Deforestation and Biodiversity has been focused on norms development and on strengthening our active ownership to protect forests and biodiversity.

The loss of nature and biodiversity is very much an economic issue that affects business and investors. Degraded ecosystems lead to increased costs, revenue loss, raw material shortages and social unrest. Decreasing biodiversity also exacerbates the effects of climate change. Despite that, the issue of biodiversity has long been overshadowed by the climate issue.

The theme "Deforestation and Biodiversity" concerns two parallel and interconnected global crises: climate change and biodiversity loss. The UN Intergovernmental Panel on Climate Change (IPCC) and the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) determined in 2021 that the two areas should be managed together¹⁾.

Developed active ownership

AP7's work during the theme period 2021–2023 has been aimed at, among other things, developing our active ownership to contribute to the conservation of forests such as the Amazon rainforest in Brazil. We have participated in several dialogue collaborations in the area with other investors, including under the auspices of the investor network Ceres and Sustainalytics. Through the alliance Investors Policy Dialogue on Deforestation (IPDD), we have also conducted dialogue with politicians and authorities in countries with a high risk of deforestation.

Reporting framework

Another purpose has been to contribute to the development of guidelines and standards. Since 2021, AP7, as one of two asset owners, has been part of TNFD's taskforce, where we worked on

developing a framework for companies' reporting of nature-related risks and opportunities. The overall goal is to provide information to investors, among others, to steer financial flows away from businesses that have a negative impact to businesses with a positive impact. The first version of the TNFD framework was launched in September 2023 and several companies have already started applying the framework in their reporting.

Our work for nature continues

In 2024, we will continue to develop our active ownership by participating in international investor alliances regarding deforestation and biodiversity. We will also continue to be active in the TNFD taskforce. The work will take place within the framework of our new theme Nature. Here, our ambition is to take a comprehensive approach to our focus areas, climate and biodiversity, and continue to integrate both issues into our asset management.

Start measuring the risks

Measuring the loss of biodiversity is a complex task and it will take time to develop measurement methods. But there's no point in waiting. There is great value in understanding the risks of your company's operations or as an investor. The TNFD framework is thus a good starting point for mapping risks in a systematic and uniform manner.

Stockholm, August 2024

FINANCIAL TIMES

Special Report FTm: Responsible Investing

ESG investing

Biodiversity quickly rises up the ESG investing agenda

Species loss is now seen as a problem as big as climate change



Mining is believed to be driving biodiversity loss © Getty Images

“ Degraded ecosystems lead to increased costs, revenue loss, raw material shortages and social unrest.

¹⁾ [ipbes.net/events/ipbes-ipcc-co-sponsored-workshop-biodiversity-and-climate-change](https://www.ipbes.net/events/ipbes-ipcc-co-sponsored-workshop-biodiversity-and-climate-change)

AP7's thematic work

At AP7, we complement our active ownership by exploring specific themes in three-year blocks. This is a way to engage ourselves in particularly important areas. In 2023, our theme work on Deforestation and Biodiversity was concluded.

CURRENT THEME WORKS

Deforestation and Biodiversity 2021–2023

Universal Active Ownership 2022–2024

Board Responsibility 2023–2025

Nature 2024–2026

Here you will find our Insights from previous theme works:

Read more at ap7.se



By focusing on a few themes in parallel, we can examine at depth complex areas that are relevant to our sustainability priorities and where we can have an impact by increasing our knowledge.

When we select a new theme, a number of clear criteria are considered. To start with, the area must be relevant to AP7's holdings and asset classes. We must also be able to make a reasonable difference in a resource-efficient way, and there should be suitable partners to collaborate with on generating and spreading knowledge and driving the work forward.

The theme affects our prioritisations for its duration and has consequences both for our dialogue with portfolio companies and our work at general meetings. We also collaborate with other actors on advancing standards and norms related to the area.

In 2023, we concluded the theme on Deforestation and Biodiversity and decided that the theme for the period 2024–2026 is Nature. The choice is based on the fact that the global loss of biodiversity, alongside climate change, is one of the biggest threats to humanity, and there is a great need for further work within the area. Our other ongoing themes are Universal Active Ownership (2022–2024) and Board Responsibility (2023–2025).

THEME REPORTS 2019–2022

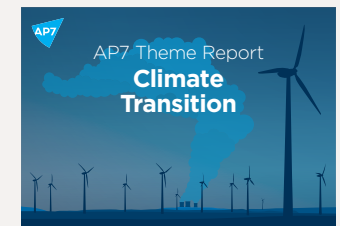
Sustainable Impact Measurement 2019–2021



Purpose: Develop the methods for measuring societal benefits of investments and active ownership.

Climate Transition 2020–2022

Purpose: Develop the methods for how investors can use their influence to drive climate transition and contribute to real emission reductions.



Norms development: Framework for reporting on nature-related risks and opportunities

Nature and biodiversity have risen quickly to the top of the ESG agenda. Investors need to be able to assess and compare companies' impact and dependencies on nature. The launch of the TNFD, where AP7 has been part of the taskforce, provides for the first time a global framework for these assessments.

Global business is responsible for a large part of the loss of biodiversity and financial institutions bear part of the responsibility by owning and financing businesses. All economic activity is, directly or indirectly, dependent on nature's services and resources.

The loss of natural resources also entails risks and costs for both companies and investors, and has become a strategic risk management issue alongside climate change. Currently, these conditions are not reflected either in the companies' reporting or in their valuation, and investors have begun to place increasingly high demands on the companies' reporting.

Increased transparency was also part of the global biodiversity agreement (Kunming-Montreal framework) which was adopted at the UN conference COP15 in 2022. In addition to the goal that a third of the world's nature should be protected by the end of the decade, global companies and financial institutions are encouraged to increase transparency of their risks and opportunities, as well as impacts and dependencies on biodiversity.

Framework enables uniform reporting

The Taskforce on Nature-related Financial Disclosures (TNFD) was established by, among others, WWF. Since 2021, AP7 has been a member of the taskforce together with some forty members worldwide, including financial actors and companies from various sectors. After two years of development, in September 2023, TNFD launched the first version of the global framework that aims to enable clearer management, reporting and action on nature-related risks and opportunities. The new framework from the TNFD is a response to how reporting should be done as requested by the Kunming-Montreal framework.

A comprehensive approach

The TNFD framework is structured in a similar way to the framework for reporting on climate-related risks and opportunities, TCFD, which was launched in 2017 and which many companies have started to apply. An important difference, however, is the dual perspective within TNFD of focusing both on how companies impact nature and on their dependency on nature and biodiversity in the short and long term.

The Kunming-Montreal Global Biodiversity Framework

The Kunming-Montreal Global Biodiversity Framework is an international agreement with global goals aimed at halting and reversing the ongoing loss of biodiversity. The framework was adopted in 2022 during the fifteenth meeting of the Conference of the Parties (COP 15) with four longterm goals to be achieved by 2050. There are also 23 targets describing actions that need to be initiated immediately and completed by 2030, such as protecting 30 percent of the world's land, water and sea areas, and restoring 30 percent of all degraded ecosystems.

For asset owners, targets 14 and 15 are in particular focus. According to target 14, biodiversity must be integrated into decision-making at all levels as well as into financial flows. Target 15 calls on companies to assess, disclose and reduce their risks, dependencies and negative effects linked to biodiversity. Above all, target 15 was the starting point for TNFD.

→ Read more: cbd.int/gbf



THE BIODIVERSITY PLAN
For Life on Earth

Also, in climate reporting, greenhouse gas emissions is the only parameter evaluated, and they have a global impact regardless of where they occur. Biodiversity and ecosystem services, on the other hand, are location-specific and the dependencies as well as impacts vary between companies and industry sectors. TNFD therefore takes multiple factors into account, to cover the whole of nature – ocean, freshwater, land and atmosphere – as well as drivers of nature change beyond climate change. This allows for a comprehensive approach to corporate reporting in line with both the Paris Agreement and the Kunming-Montreal Framework.

TNFD – framework for nature-related risks and opportunities

After two years of development, in September 2023, the Taskforce on Nature-related Financial Disclosures (TNFD) launched the final recommendations for nature-related risk management and reporting. The framework is structured in a similar way to TCFD, the framework for reporting climate-related risks and opportunities. The intention is to broadly integrate the analysis of nature-related risks and opportunities in companies' strategy work and in financial decisions. The TNFD framework also offers a thorough methodology (LEAP) that helps companies and financial institutions to map and evaluate how operations impact and are impacted by nature, and develop strategy, action plans and reporting on their progress.

→ Read more at [TNFD](https://www.tnfd.org)



Creates conditions for action

With the support of the TNFD framework, businesses can increase their understanding of their nature-related dependencies and create uniform reporting on the issues. Through this work, better conditions are also created for the individual companies to handle the issues effectively and thus reduce the risks and impact of the operations. At the same time, investors get access to better information, which makes it possible for them to reduce risks and steer capital away from activities that damage nature to those that benefit it.

During 2024, AP7 will continue to be active in TNFD's taskforce and in the development of updates to the framework. We will also gradually work on developing our own reporting according to the framework, see page 8.

“ Start mapping the portfolio's nature-related risks now. There is nothing to be gained by waiting, you will only lose time. Everyone needs to understand their own portfolio and its underlying risks.



Lessons learned and insights from AP7's time in TNFD's taskforce:

Why has it been important to AP7 to participate in the development of the TNFD?

The loss of biodiversity is a risk to the entire global economic system and society. According to the World Economic Forum's annual Global Risks Report, nature-related changes account for four of the ten biggest global risks in the next ten years. The issue has long been overshadowed by the climate issue, but is now receiving increasing justified attention.

A global framework for the assessment and reporting of nature-related risks has been lacking. TNFD fills this need and creates the conditions for comparable data in terms of both risks and opportunities. The framework provides companies with tools for evaluation and reporting, but has also brought investors over the threshold. The development work has been planned and executed well on the part of the TNFD Secretariat.

In what way has AP7's perspective as a universal owner contributed?

Systemic risks cannot be avoided through diversification. If the system suffers, everyone will inevitably be affected. Above all, it becomes clear to universal owners, like AP7, who own thousands of companies all over the world. The risks cannot be avoided by selecting stocks or by hedging

the portfolio. Therefore, it is important with TNFD's double materiality analysis, i.e. to map both dependencies and impact on nature. The market needs all relevant information for pricing to work properly.

As a pension fund, our mission is to manage the pension capital for many generations to come. Short-term financial effects are of limited importance. During the development work, we have started from a scientific approach and focused on real economic effects. Collaboration with other investors to pursue common issues is central to achieving results and we have focused on active ownership in particular in the discussions within the taskforce.

What have you learned from applying the framework to AP7's equity portfolio?

By being a TNFD Early Adopter, among other things in terms of transparency, we saw an opportunity to pave the way for others to start reporting. The first TNFD analysis of AP7 Equity Fund showed a high dependency and impact on nature in nearly all sectors. We take this insight with us in the active ownership that we carry out on our own and in collaboration with other investors.

As more sector-specific and ecosystem-specific guidelines are

developed, we will make more specific demands that companies manage their impact on nature, as well as their risks, and that they work for a nature-positive economy. So far, there is a great need to map risks and develop methods to measure how companies' activities impact and are impacted by nature.

What insights have you gained that may be useful to other asset owners?

Start mapping the portfolio's nature-related risks now. There is nothing to be gained by waiting, you will only lose time. Everyone needs to understand their own portfolio and its underlying risks.

Measuring the loss of biodiversity is a complex task and it will take time to develop high-quality measurement methods. No one has complete information yet, but the TNFD framework is a good start for mapping in a systematic and uniform way.

Also, there is no obstacle for asset owners to become active and support their holdings in the development work in order to manage dependencies and impacts on the environment in an efficient manner.

Debate article: Nature-related risks must be reflected in the valuation of companies

Together with Storebrand and WWF, AP7 wrote a debate article in *Dagens industri* on September 18, 2023, the day of the launch of the TNFD. The message was that all economic activity is dependent on nature's services and resources, but that this is not currently reflected in companies' and financial organisations' reporting. Therefore, the Taskforce on Nature-related Financial Disclosures (TNFD) global framework needs to be implemented widely and without delay.

Nature and climate stability is the foundation of both society and economy – from the air we breathe, the earth and oceans that provide us food, materials for our medicines and clothes, and energy for transport and production. However, today, neither the value of nature's "services" is reflected in companies' income statements and balance sheets, nor in the valuation of investors' portfolios. Therefore it is important that authorities and the market gain access to information to be able to evaluate the consequences of the loss of natural resources and ecosystem services.

Investors have already started to place increased demands on companies' data. Through the TNFD, actors such as investors can be provided with a better basis for more well-informed decisions – something that in turn will contribute to redirecting capital flows away from what harms nature to what benefits it.

In the debate article, we encouraged authorities, companies and financial institutions to start using the TNFD to clarify the risks and create the conditions for managing them effectively.

→ [Read more di.se/debatt/debatt-naturrelaterade-risker-maste-in-i-bolagens-varderingar/](https://di.se/debatt/debatt-naturrelaterade-risker-maste-in-i-bolagens-varderingar/)

“ TNFD reporting provides actors with a basis for more well-informed decisions – something that in turn contributes to redirecting capital flows away from what harms nature to what benefits it.

Gustaf Lind,
Secretary General,
WWF-Sweden

Johan Florén,
Chief Communication Officer,
AP7

Kamil Zabielski,
Head of Sustainable Investment,
Storebrand Asset Management

Dagens industri

START BÖRS MARKNADSNYTT BEVAKNINGAR

Debatt: Naturrelaterade risker måste in i bolagens värderingar

All ekonomisk verksamhet är direkt eller indirekt beroende av naturens tjänster och resurser, men detta syns i dag inte i företags och finansiella organisationers rapportering. Därför behöver Taskforce on Nature-related Financial Disclosures (TNFD) globala ramverk som lanseras i dag den 18 september, införas brett och skyndsamt, skriver AP7, Storebrand och WWF.



TNFD analysis of AP7's portfolio

The majority of the assets in AP7 Equity Fund have a great dependency and impact on nature and its services. This is shown by AP7's own analysis of nature-related risks and dependencies in the equity fund. The analysis is based on data from listed companies that make up 93 percent of the fund's managed capital.

The analysis, carried out with support from S&P Global Sustainable, is based on site-specific data, but has been expanded with the ENCORE tool. 86 percent, measured in market capitalisation, are highly dependent on nature's ecosystem services and this applies to almost all sectors. However, companies in different sectors depend on different ecosystem services and therefore need to manage different risks. Mass stabilisation and erosion control, bio-remediation, and flood and storm protection are the ecosystem services most sectors depend on. The highest nature-related dependencies were noted in utilities and materials sectors.

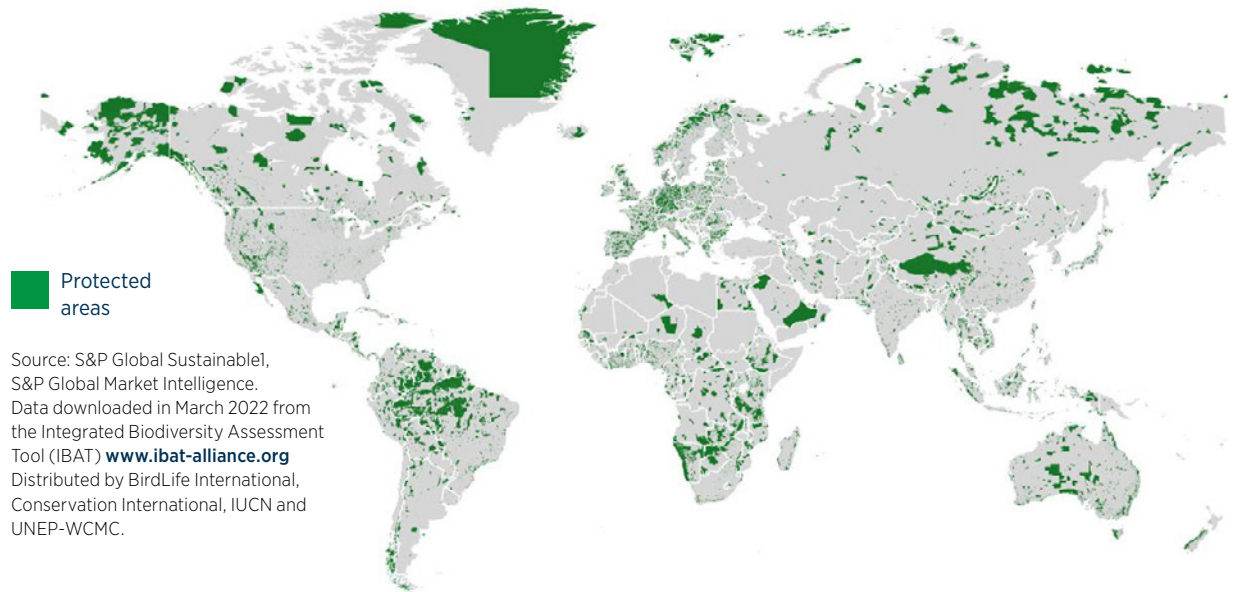
A total of 37 percent of the analysed capital is invested in TNFD priority sectors, which are considered to have material nature-related dependencies and impacts. Companies corresponding to 80 percent of the analysed capital in the portfolio have at least one asset in protected areas (PA) or key biodiversity areas (KBA). In terms of total land area, the portfolio companies in the utilities, real estate, and materials sectors have the largest footprint in protected areas or key biodiversity areas. The IT companies also stand out as they make up a large share of the managed capital. The analysis only takes companies' direct operations into account, not their value chains.

Development of AP7's active ownership

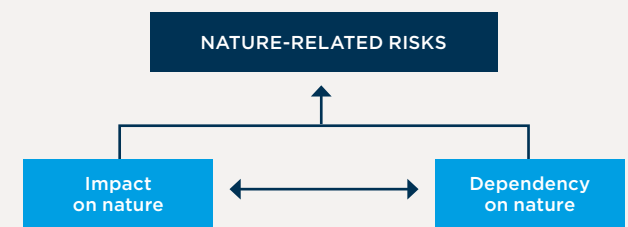
Overall, the TNFD framework helps AP7 prioritise which companies to focus on in our active ownership. Central questions are which ecosystems have high natural value and which companies affect them the most and are most dependent on them. Since AP7 is a universal owner with a long-term perspective, the

TNFD analysis based on biodiversity sensitive areas

AP7's TNFD analysis is based on biodiversity sensitive areas that are protected or key biodiversity areas according to the TNFD framework. Companies corresponding to 80 percent of the analysed capital in AP7's portfolio have at least one asset in such areas.



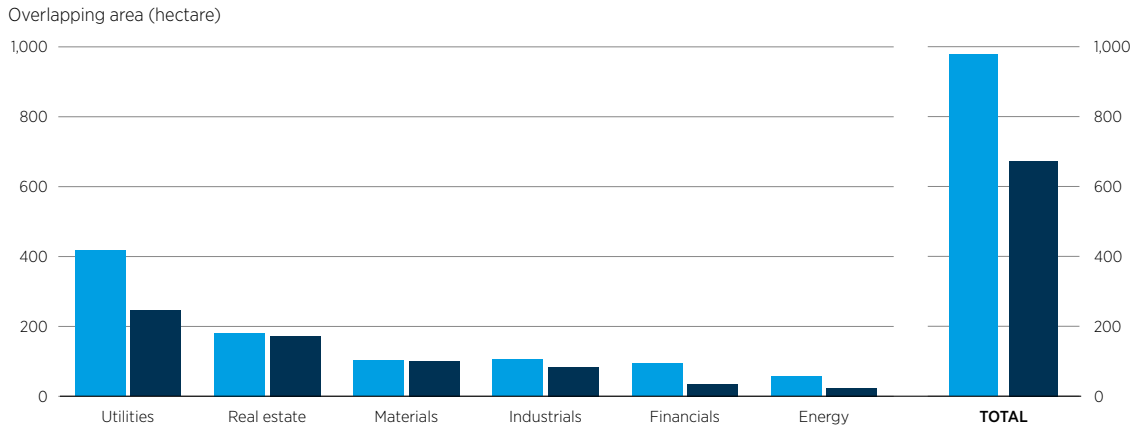
mapping of physical risks is important, as changing ecosystems affect large areas with effects on communities as well as on companies. Financial systemic risks cannot be avoided through tactical choices of sectors or regions. Instead, the risks need to be managed through investor collaboration and active ownership. So far, AP7's asset management has treated nature risks the same way as other risks that investors face, but we will now seek a deeper understanding of both the risks and opportunities linked to nature and biodiversity. Based on this, we intend to develop goals and action plans.



Double materiality is the starting point for nature-related risks, considering both impact on nature and dependency on nature.

TOTAL AREA, IN BIODIVERSITY SENSITIVE AREAS, OF COMPANIES IN AP7 EQUITY FUND

The compilation of areas with sensitive biodiversity is based on the companies' operations in protected areas and in key biodiversity areas. In AP7's equity portfolio, as well as for the global index, the biggest impact in these areas come from the utilities, real estate and materials sectors. Overall, the TNFD framework helps AP7 prioritise the most important sectors to focus on in our active ownership work.



- Protected Areas, PA** The International Union for Conservation of Nature and Natural Resources (IUCN) defines a protected area as: A clearly defined geographical space, recognised, dedicated and managed, through legal or other effective means, to achieve the long-term conservation of nature with associated ecosystem services and cultural values. See www.iucn.org
- Key Biodiversity Areas, KBA**, are the most important places in the world for species and their habitats. To qualify as a global KBA an area must meet at least one of 11 criteria, clustered into five higher level categories: threatened biodiversity, geographically restricted biodiversity, ecological integrity, biological processes, and irreplaceability. For more information, see www.keybiodiversityareas.org

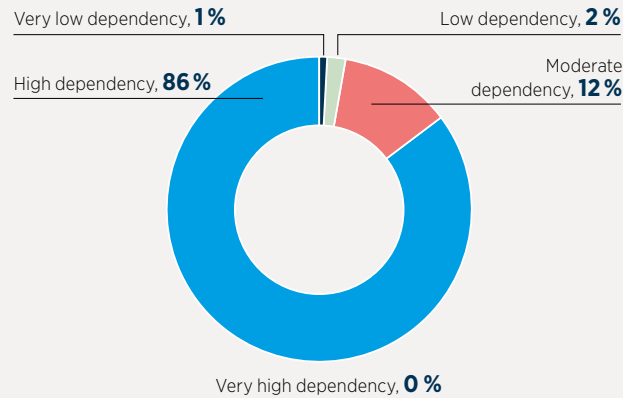
Ecosystem service dependency

86 percent of the assets in AP7's Equity Fund, measured in market value, are highly dependent on nature's ecosystem services.

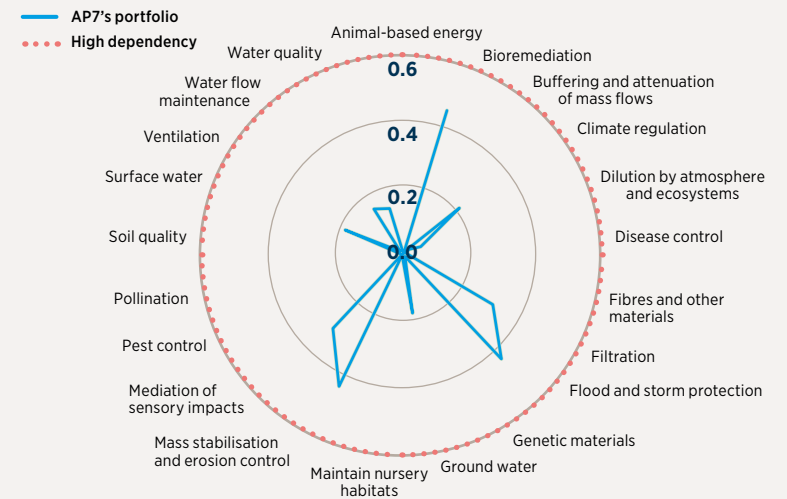
The corresponding figure for the global index MSCI ACWI is 87 percent. The overall dependency at company level, on each individual ecosystem service, is assessed using the two parameters 'dependency on' and 'resilience of' the ecosystem in which the company operates. The analysis, carried out with support from S&P Global Sustainable, is based on site-specific data, but has been expanded with the ENCORE tool. A value below 0.6 indicates very low to moderate dependency and above 0.6 indicates high to very high dependency. Out of the 21 defined ecosystem services, companies are most dependent on mass stabilisation and erosion control, flood and storm protection, and bioremediation, such as biological degradation of waste or emissions. Even if the dependency on the individual ecosystem services does not exceed moderate level, the aggregated dependency at portfolio level is high. We expect that the result will change as the method and the quality of the data develop.

Source: ENCORE, S&P Global: Nature & Biodiversity Risk Portfolio Assessment encorenature.org/en/data-and-methodology/services

AP7's Equity Fund



AP7's Equity Fund dependency by ecosystem service



Active ownership: **Collaboration for increased impact**

AP7 is one of many institutional owners in the companies we are invested in. Collaborating with other like-minded investors and asset owners is therefore central to AP7’s active ownership. In this way, we can achieve a greater impact than if we act on our own.

During the theme work, AP7 has been involved in various initiatives aimed at, among other things, reducing the risks of deforestation and contributing to reduced emissions. By collaborating and coordinating the work with other actors, the dialogues become more influential as it is evident that there are several investors who stand behind the demands that the companies manage their risks. At the same time, it makes it easier for the companies to only have to engage in one dialogue instead of several.



Ceres Food Emissions 50

Ceres is a nonprofit advocacy organisation that works in collaboration with investors, companies, policymakers and other actors to solve the biggest global sustainability challenges. AP7 became a member in 2022 and joined the Food Emissions 50 Benchmark, where the aim has been to accelerate the transition towards net zero emissions among the 50 North American food companies with the highest emissions. About 30 of these are included in AP7’s portfolio.

The supply chain accounts for the largest emissions

The food industry accounts for approximately one third of global greenhouse gas emissions. Here, around 80–90 percent can be derived from indirect emissions that occur along the companies’ value chains, for example from agriculture, land use/deforestation, and transport. Despite that, many companies’ disclosures of these so-called scope 3 emissions are very undeveloped partly due to challenges in terms of reliable data outside their own operations as the value chains are often very dispersed to many small actors. However, understanding where the emissions occur is a prerequisite for being able to manage the impact and to direct measures to the areas where they have the greatest effect, as well as for engaging your suppliers in the work.

In the “Food Emissions 50” initiative, the focus has therefore been on encouraging companies through dialogues to start reporting their emissions in scope 3, as well as to adopt targets for reduced emissions and develop climate transition plans.

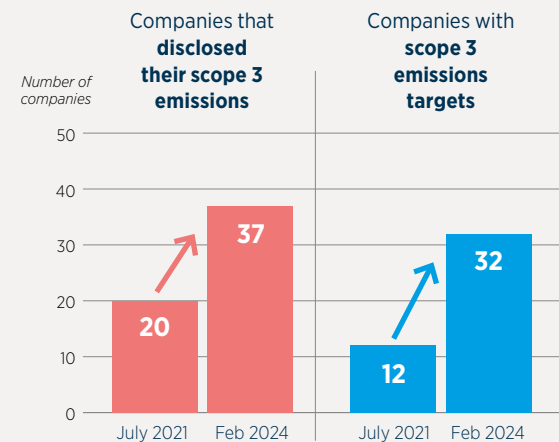
Improved scope 3 reporting

When the project began in 2021, Ceres found that only 20 of

the 50 companies surveyed disclosed the emissions of greenhouse gases in their supply chains. After two years of engagement and dialogues, this number has almost doubled to 37 companies, of which 32 have adopted targets to reduce supply chain emissions. Of these, however, only 16 had adopted science-based targets in line with the 1.5 C goal of the Paris Agreement.

In order to be able to achieve the targets, however, it is central that the companies report how they intend to transform their operations, what measures they plan to take and how they will involve their suppliers in the work. That these transition plans

The dialogues with the companies in “Food Emissions 50” have shown clear results



“ Biodiversity continues to be an important and relevant issue and we will continue our work within the framework of our theme Nature which was launched in 2024.

cover areas such as innovation and product development is a prerequisite to ensure that the companies' growth is aligned with the emission targets they have set.

Therefore, since 2023, Ceres has been following up how the companies work to map the emissions in the supply chain and to what extent they cooperate with their suppliers to reduce them. Currently, 21 companies have clearly identified the driving forces behind emissions from purchased goods and services, something that is crucial for effective measures. Two companies have made commitments to a completely deforestation-free supply chain by the year 2025 and 12 have committed to start working on the issue.

AP7 leads company dialogue

Within the framework of the Ceres Food 50 Benchmark, AP7 has co-led the dialogue with Hormel Foods, a company that purchases goods from South America and Indonesia where deforestation is a major problem. Deforestation has therefore been a focus issue in the dialogue. Hormel is one of the companies that, since the project started, has for the first time adopted emission targets inclusive of scope 3, and they have committed to a deforestation-free value chain by year 2025. Hormel also reports how they are working to reduce emissions downstream in the value chain, for example by facilitating the recycling of packaging for consumers.

The initiative continues in 2024

Although significant progress has already been made since Ceres Food Emissions 50 was launched, it is clear that much remains to be done and that the prospects for further improve-

ment are good. Not least, it is important that companies report how they intend to grow in a sustainable way. AP7 will continue to be active in the dialogue with Hormel Foods in 2024.

Dialogues on biodiversity

The loss of biodiversity is as acute a risk for companies as climate change. Despite this, most companies have not yet identified and mapped how their operations affect the nature, nor their dependency on functioning ecosystems along the value chain. An increased awareness of such factors is crucial for companies to be able to prioritise measures that promote biodiversity and at the same time manage the risks.

Within Sustainalytics' program Biodiversity and Natural Capital Stewardship, in 2023 AP7 participated in company dialogues on the loss of biodiversity and how the companies deal with the issue. The initiative is aimed at 50 companies worldwide along the agricultural value chain, from banks (financiers) and producers to chemical companies and food retailers.

Measures progress in five areas

During the first year of the program, the dialogues have focused on establishing relationships and mutual trust, as well as communicating investors' expectations. As the dialogues advance during 2024, the focus will shift to identifying and addressing specific gaps in companies' disclosure on biodiversity and natural capital. Progress is measured using a scorecard based on five pillars defining leading practice in governance, risk management, strategy, targets, and transparency and disclosure. In addition, with the formal launch of the TNFD (see page 5 for further details), companies will also be encouraged to



progress on their disclosure according to the new standard.

The understanding of nature-related issues varies greatly between sectors and companies. The ambition is therefore also to support the companies through dialogues and discuss challenges in the area, as well as to share leading practices from companies that are at the forefront of their work and reporting.

Nature Action 100 – a new initiative for investors

In the fall of 2023, a new investor collaboration was launched that aims to increase companies' understanding of nature-related risks and improve risk management to limit the loss of biodiversity. Within the Nature Action 100 initiative, dialogues

“ Cooperation with other like-minded investors and asset owners is central to AP7’s active ownership.

will be held with 100 global companies in sectors deemed to be strategically important for reversing the loss of biodiversity by the year 2030, in line with the targets of the Kunming-Montreal Framework. The initiative has brought together around 200 investors and is jointly coordinated by the organisations Ceres and the Institutional Investors Group on Climate Change (IIGCC). Nature Action 100 has formulated expectations linked to how

companies work to protect nature. In an investor letter that was sent to the companies in the fall of 2023, the companies were asked, among other things, to evaluate their impact on nature and their exposure to nature-related risks, as well as to set targets and report on their progress. AP7 has a leading role in several of the dialogues that started in early 2024.

Continued engagement for nature

AP7’s commitment to nature does not end with the conclusion of the Deforestation and Biodiversity theme in 2023. For AP7 as an investor, the issue remains important and we will continue our work and our company dialogues within the framework of our new theme Nature which was launched in 2024.

In addition to the company dialogues within Ceres Food Emissions 50 and Nature Action 100, AP7 will, among other things, participate in an initiative coordinated by the PRI (Principles for Responsible Investment). The aim is to initiate a dialogue with around 80 companies regarding responsible political lobbying for the preservation of forests and biodiversity. The dialogue will begin in 2024.

AP7 as a green investor

In addition to the role of asset owners, there is also the opportunity to invest to contribute to biodiversity. Through AP7’s green bond portfolio, AP7 invests in projects such as:

- The World Bank Sustainable Development Bonds that promote sustainable projects in developing countries. Through these bonds, AP7 enables investments in sustainable agriculture, renewable energy, and infrastructure that is more resilient to extreme weather.
- A green bond issued by International Finance Corporations (IFC), which focuses on addressing climate change within the private sector in developing countries. Through the investment, AP7 contributes to the development of a more sustainable society outside of Europe as well. The capital is invested in projects such as water purification and water supply, adaptation of communities to climate change, and in projects aimed at restoring biodiversity.



Pilot project: Development of a voting policy on deforestation

AP7 has a voting policy for energy companies that aims for the companies to reduce their emissions of greenhouse gases. During the theme period, we started to develop a similar voting policy regarding deforestation.

AP7 selected five companies* with a high risk of deforestation and inadequate risk management. For these companies, we identified requirements that owners should make and how we should vote on various issues. We also held a dialogue with the companies before voting.

The biggest risks for deforestation are found in the food sector, where the supply chains are often complex and include many tiers. Among other things, AP7 demands that meat producers map their risks of deforestation in the production phase,

and that they in turn make demands on their own suppliers, for example to purchase meat from regions with lower deforestation risks. We also demand that the companies adopt a policy that manages the risks, including a commitment to zero deforestation.

The pilot project continues in 2024, with the aim of eventually introducing a more systematic voting policy linked to deforestation for the entire equity portfolio.

“ Among other things, AP7 demands that meat producers map their risks of deforestation in the production phase.



* The companies were selected based on FAIRR's Protein Producer Index, an index of companies in the food sector where the risk of deforestation is included as one of around twenty parameters. AP7 conducted dialogue and voted in four of the five companies, as one company was removed from the portfolio during the period.

Research for a nature-positive economy

Mistra FinBio researches how the financial sector can take biodiversity into account and contribute to a nature-positive economy. Within the theme, AP7 has supported Mistra FinBio with ongoing dialogue and insights into how the challenges are handled practically today and the opportunities to develop the tools and processes of the future.



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What is Mistra FinBio?

Mistra Finance to Revive Biodiversity (FinBio) is a transdisciplinary research programme hosted by Stockholm Resilience Centre at Stockholm University. The programme is a partnership between academic and financial actors and brings together experts from many different fields.

Mistra FinBio provides academic research to connect the financial system and biodiversity, while simultaneously building on such insights to develop science-based tools, processes and other outputs that can promote real-world impact. The mission of the programme is to support the financial sector's capacity to contribute to a nature-positive economy, enhancing the resilience of our planet by reversing the loss of nature and biodiversity.

Why is biodiversity an important issue for the financial sector?

Biodiversity loss is unravelling the web of life that supports all people, societies, and economies, including the financial system. This loss is driven by human economic activity, supported and directed by financial flows and investments.

To halt and reverse this trend, the financial sector will need to play an important role in greatly reducing the negative impact on, but also supporting the rebuilding of, biodiversity. This can be done by financing economic activities that are nature-positive and working to reduce the harmful impact of others. There is an increasing interest in understanding and monitoring corporate dependencies on biodiversity, as well as risks from these dependencies to companies and their investors, but also the wider risks to businesses and society from cumulative impacts on nature.

For the financial sector to support nature-positive change, new tools, processes and practices are needed to measure and assess corporate and financial impacts, but also for identifying business models that can be truly regenerative, and thus integrate biodiversity enhancement into their practices. Mistra FinBio seeks to contribute to this transformation of current investment practices by developing new impact assessment tools and analyses, but also other means of translating science into decision-relevant information. To ensure that the research outcomes are useful in practice, the researchers in the programme work together with impact partners from different parts of the financial system to share their knowledge, advice, and test the outcomes from the programme.

How does Mistra FinBio contribute to increased knowledge about biological diversity?

Since the start of Mistra FinBio there has been a focus on learning, both across disciplines and across Mistra FinBio team members and impact partners. The web-based seminar series examining different aspects of biodiversity monitoring and assessment – from tools developed for the corporate and financial sector, to the scientific models and methodologies behind some of these tools – has been a great opportunity for researchers and practitioners to learn from each other.

What has been the benefit of the collaboration between investors and Mistra FinBio?

Thanks to the regular participation of impact partners in the seminars we believe we have fostered a good dialogue and given researchers insight into the challenges faced by practitioners. This has resulted in the development of science-based decision support products, such as a set of science-based engagement guidelines for forestry, agri-food, mining and food retail sectors. We hope to test these products with AP7 and others in the year to come. Important insights regarding the use of currently available biodiversity assessment tools by the financial industry have also been key for developing new tools and metrics that can support a nature-positive financial system and real-world impact.

➔ **Read more about FinBio: finbio.org**

ChemSec: For a more sustainable use of chemicals

Toxic chemicals pose a major threat to biodiversity and human health. Here, Patrik Witkowsky, Senior Sustainable Finance Advisor at ChemSec, shares his view on how the independent organisation, together with investors, can contribute to securing a more sustainable use of chemicals.



Tell us about ChemSec and what you do.

ChemSec – the International Chemical Secretariat – is an independent non-profit organisation that advocates for substitution of toxic chemicals to safer alternatives. We do this because these substances represent one of the biggest and most serious threats to our

health and environment. And because we know that change is possible. Through independent research, cross-border collaboration and practical tools, we are driving the development of more progressive chemicals legislation and pushing businesses towards the transition to non-toxic alternatives.

What is ChemSec's core message to investors?

Toxic chemicals pose great risks. Chemical producers who do not transition to safer alternatives are likely to face material regulatory, liability and reputational risks. At the same time, hazardous chemicals present systemic risks to owners, such as pension and sovereign wealth funds, and large investment management firms. Chemicals, such as PFAS (highly fluorinated substances), drive various crises related to human health and the environment and force countries and municipalities to use their scarce resources for cleanup and handling higher healthcare costs.

→ [Read more at chemsec.org](https://chemsec.org)

How do investors benefit from ChemSec?

ChemSec coordinates the Investor Initiative on Hazardous Chemicals (IIHC), an investor-led collaboration with over 60 participating institutional investors representing over \$12 trillion in assets under management. Through various activities, ChemSec helps members understand the chemical industry beyond unclear sustainability labels and the companies' own marketing communications. The members bring the insights to their dialogues with the world's largest listed chemical companies. With in-depth knowledge of the negative effects of harmful chemicals, members can reduce their exposure to the financial risks associated with them.

Could you describe some of your progress?

450 million Europeans live healthier lives thanks to ChemSec's influence on EU chemicals legislation. Our work has contributed to limiting the most hazardous chemicals on the European market.

Last year, members of the IIHC sent a letter to the world's largest chemical companies. A month later, the chemical producer 3M announced that it plans to phase out PFAS from its production, referring to "changing stakeholder expectations" as one of the main reasons. In 2023, ChemSec received the CFA Sweden ESG Award for its work with PFAS chemicals in the financial sector.

ChemSec's PFAS Movement has received support from over 100 companies that all support a ban on harmful "forever chemicals". The strong pressure from businesses was a contributing factor to the current proposal to limit PFAS chemicals in the European Union.

Investor letter:

Call for a more sustainable use of chemicals

In 2023, the Investor Initiative on Hazardous Chemicals (IIHC) was launched by ChemSec, an environmental organisation that is specialised in the chemical industry.

In November 2023, AP7 was one of the signatories of a letter sent by IIHC to 50 of the world's largest chemical companies. The purpose of the letter is to persuade the companies to reduce the use of hazardous chemicals in favor of more sustainable alternatives, thereby reducing investors' exposure to the financial risks linked to the use of chemicals.

The letter clarifies, among other things, investors' expectations that the companies should increase transparency around the use of hazardous chemicals, as well as present a plan for how they intend to phase out the chemicals from production and replace them with more sustainable alternatives. Some of the recipients will be subject of the company dialogues conducted within the Nature Action 100 in 2024.

→ [Read more at chemsec.org/knowledge/iihc](https://chemsec.org/knowledge/iihc)

Conclusions and reflections



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The purpose of the theme Deforestation and Biodiversity has been to increase our understanding of the financial market’s nature-related risks and the opportunities to contribute to increased biodiversity, as well as to develop AP7’s active ownership in the area. After completion, AP7 summarises a number of lessons learned from the theme work.

1. Main conclusions of the theme work Deforestation and Biodiversity

AP7 has taken note of three perspectives from the theme work – the complexity, the challenges, and the glimpses of light.

More complex than the climate issue

Biodiversity is a significantly more complicated issue than the climate issue. Unlike climate, with greenhouse gases having a global impact regardless of where the emissions occur, biodiversity is more complex with a wide variety of challenges within local ecosystems. However, both issues pose systemic risks and are closely linked with each other.

The value chain poses a challenge

Measuring carbon dioxide emissions in companies’ value chains, scope 3, is a complicated task. It is even more difficult when it comes to biodiversity, where the value chains can be dispersed to a large number of smaller sub-suppliers with a wide variety of local conditions in terms of ecosystem services. Currently, the TNFD analysis does not take the value chain into account, although in the long term this is crucial for companies and investors to get an overview of the actual nature-related risks for businesses.

Glimpses of light

After long being overshadowed by the climate issue, the focus on biodiversity has increased through the Kunming-Montreal framework, followed by the launch of TNFD. The issue has received increased focus in legislation at national level and within the EU. The aim of EU’s Nature Restoration Law, which The Council of the European Union adopted in June 2024, is, among other things, that at least 20 percent of the EU’s land and sea areas are to be restored by year 2030.

2. Calls to other investors and companies

It is critical that both investors and companies begin to map and report their dependencies, impacts and risks linked to nature and ecosystem services. This will lay the foundation for managing the risks.

In the short term – Start reporting

Although both companies and investors experience a lack of data at present, reporting needs to start. The methods are still under development, but this must take place in parallel with increased reporting. With increased insights that comes with reporting, the opportunity to formulate targets and strategies to manage risks and dependencies on nature and ecosystem services will also increase.

Next step – Reduce negative impact

The next step is for companies to reduce their negative impact on ecosystems and biodiversity, for example by returning as much groundwater as is used. Here, companies and investors can learn from their ongoing climate work.

In the long term – Positive impact and contribute to restore natural capital

Companies and investors need to contribute to a nature-positive society that protects existing nature and invests in the restoration of nature and biodiversity in order for the companies to be able to maintain long-term profitability.

“ With increased insights that comes with reporting, the opportunity to formulate targets and strategies to manage risks and dependencies on nature and ecosystems will also increase.

3. Development of active ownership

Through the TNFD, a global framework has been created – investors can start measuring and engage in dialogue with companies. But reporting is not an end in itself, it is a prerequisite for being able to take action.

The initial analysis of AP7 Equity Fund shows that the majority of the assets have a great dependency, as well as a great impact, on nature. This applies to all sectors. We have therefore chosen to conduct active ownership with strategically important companies, in the sectors prioritised by the TNFD, that have the greatest impact on nature in their own operations or at the supplier level.

Collaboration with other investors, with similar ambitions as AP7's, is a prerequisite for successfully influencing and supporting companies in adapting their operations to a nature-positive business model. The coordinated active ownerships, via Nature Action 100 and Ceres Food 50, are clear examples of this.

Through active engagement dialogue with selected large companies within the framework of international investor alliances, AP7 engages in order for them to develop their work. The ambition is to change the norm regarding biodiversity and for smaller companies to be able to benefit from the work and learnings of the larger companies.

Based on the theme work, we have also developed our voting policy and within our new theme Nature, a coherent active ownership approach will be developed.

4. The next step for AP7

We will continue to develop our active ownership by participating in international investor alliances regarding deforestation and biodiversity. For example, we will be active within Nature Action 100 and continue our collaboration with Ceres and Sustainalytics. Dialogue with the companies has begun, with demands that they begin to map their impact and look into their value chains, in order to be able to begin a transition and set targets.

The work on norms development also continues. All the development that has taken place around the climate must now take place around biodiversity, with the development of concrete tools, measurement methods, reporting systems and comparability. Within the TNFD, work is underway to develop recommendations for what a transition plan should look like, which is expected to be ready in the fall of 2024.

We will also continue to be active in the TNFD taskforce. The work will take place within AP7's new theme Nature, where the ambition is to take a comprehensive approach to our focus areas, climate and biodiversity, and continue to integrate the issues into our asset management.



Concepts and definitions

Ceres

A non-profit organisation and investor network that coordinates the work of investors' to solve the global sustainability challenges.

<https://www.ceres.org/>

Ecosystem services

Ecosystem services are the direct and indirect products and services that ecosystems provide to humans and that contribute to our well-being and quality of life. Biodiversity is not an ecosystem service according to The Swedish Environmental Protection Agency's definition, but it constitutes a prerequisite for the ecosystems' long-term capacity to deliver their services.

<https://www.naturvardsverket.se/amnesomraden/mark-och-vattenanvandning/ekosystemtjanster/>

ENCORE

(Exploring Natural Capital Opportunities, Risks and Exposure)

Free online tool to help organisations analyse their exposure to nature-related risks and understand their dependencies and impacts on nature. Financial institutions can use data from the tool to identify nature-related risks to which they are exposed through their lending and investments.

<https://www.encorenature.org/>

IBAT

(Integrated Biodiversity Assessment Tool)

IBAT provides biodiversity data in an integrated way from three main databases including the IUCN Red List of Threatened Species™, the World Database on Protected Areas (WDPA) and the World Database of Key Biodiversity Areas (WDKBA).

<https://www.ibat-alliance.org/>

IPBES

(Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services)

UN scientific panel, comparable to the panel on climate (IPCC) but with a focus on biodiversity and ecosystem services. IPBES' main mission is to compile knowledge about the state of the world's ecosystems and species as well as the benefits we receive from nature. IPBES describes global trends in nature, as well as measures that can be taken to address the environmental problems.

<https://www.ipbes.net/>

IPCC

(Intergovernmental Panel on Climate Change)

The Intergovernmental Panel on Climate Change (IPCC) is the United Nations body for assessing the science related to climate change.

<https://www.ipcc.ch/>

IPDD

(The Investors Policy Dialogue on Deforestation)

Investor-led engagement initiative for coordinated dialogue with authorities and industry organisations in selected countries on the issue of deforestation. The initiative is supported by PRI.

<https://www.unpri.org/collaborative-engagements/investors-policy-dialogue-on-deforestation-ipdd/11031.article>

Nature Action 100

Global investor-driven initiative aimed at mobilising institutional investors focused on supporting greater corporate ambition and action to reverse nature and biodiversity loss.

<https://www.natureaction100.org/>

PRI

(UN Principles for Responsible Investment)

A global initiative for institutional investors working to integrate sustainability aspects into their investments. AP7 has signed PRI's principles for responsible investment.

<https://www.unpri.org/>

TNFD

(Taskforce on Nature-related Financial Disclosures)

International initiative that develops a framework for companies' reporting and identification of nature-related dependencies, impacts, risks and opportunities.

<https://tnfd.global/>

AP7 IN BRIEF

Mission: Good pension from generation to generation.

Vision: A global role model for responsible pension solutions.


AP7 is a public agency, whose mission is to manage the premium pension capital on behalf of the Swedish people. Nearly six million Swedes place their premium pension in the state pre-selection option, AP7 Såfa. The managed capital amounts to about 1,300 billion SEK, which entails a great responsibility. AP7's asset management is exclusively focused on the interests of the pension savers. AP7 is a universal owner. With investments in nearly 3,000 companies around the world, we can act as owners on a broad front and with a long-term perspective, and in the best interest of the entire market. By being an active universal owner, AP7 is securing the financial interests of both current and future savers. AP7's active ownership aims primarily at a positive effect on the long-term return for the entire market, rather than for individual companies.

(as of 30 June 2024)

Managed assets: About 1,300 billion SEK

Number of savers: About 6 million

Investment portfolio: Nearly 3,000 companies around the world



Text: Seventh AP Fund, supported by Text Helene AB
Project management: Mikael Lindh Hök, AP7
Graphic design and final art: www.griller.se
Front cover illustration: Jonas Böttiger
Photo page 16: Peter Knutson
Other photos from Shutterstock and iStock
Print: POD Sthlm

AP7
Theme Report
**Deforestation and
Biodiversity**



**Start mapping nature-related risks now.
You gain nothing by waiting. All investors
need to understand their own portfolio
and its underlying risks.**

