



Expectations on the
operations we invest in



Första AP-fonden (AP1) is a responsible investor and active owner. As a guide for our stakeholders, this document summarises what we mean by sustainability and clarifies the expectations we have on the operations we invest in.

AP1's view of value creation

AP1's overriding goal is to deliver the best possible return on pension savers' money. We are convinced that the best way of achieving this goal is by considering sustainability aspects in our investment decisions process.

We seek investments which are characterised by sustainable value creation. By that, we mean operations that are profitable in the long term. This means that environmental, climate, HR and social responsibility issues must be integral parts of the company's business strategy and ongoing operation. It also presupposes sound corporate governance that fosters the interests of all shareholders.

It is the board of directors' responsibility to ensure that the company's operation is conducted in a financially, environmentally and socially responsible way, and that it is transparent in its communication.

AP1's expectations on companies

Sustainability in general

It is a minimum requirement that companies, through their operations, respect

- the 10 principles for sustainable business embodied in the UN Global Compact
- local regulation and legislation
- relevant corporate governance codes
- applicable sanctions lists (e.g. of the UN, EU and USA)

This responsibility applies regardless of whether the countries in which these companies operate have signed the Global Compact's underlying conventions or have weaker legislation.

The company's responsibility in this respect encompasses the entire value chain. Appropriate measures must be taken to ensure that these minimum requirements are met in the entire supplier chain. It is also important to ensure, as far as possible, that the company's professional customers have an intention to use the products in a responsible way.



The 10 principles for sustainable business embodied in the UN Global Compact

AP1 expects companies to work preventively on all the following principles.

Human Rights and Labour

Businesses should

1. Support and respect the protection of internationally proclaimed human rights within their sphere of influence.
2. Make sure that companies owned by them are not complicit in human rights abuses.
3. Uphold the freedom of association and the effective recognition of the right to collective bargaining.
4. Eliminate all forms of forced and compulsory labour.
5. Abolish child labour.
6. Eliminate discrimination in respect of employment and occupation.

The implementation of human rights in business operations is outlined in the United Nations Guiding Principles on Business and Human Rights (UNGPR).

Based on the above, we expect companies to have

- a policy for human rights
- a process for conducting human rights due diligence in order to identify, prevent, mitigate and report how the company deals with any impact on human rights
- processes making it possible to remedy any negative impact on human rights which the company causes or contributes to
- open reporting to its stakeholders regarding the above, and the results of its efforts

It is particularly important that these policies and processes are in place in operations and purchases from conflict zones.

Environment

Businesses should

7. Support a precautionary approach to environmental challenges.
8. Undertake initiatives to promote greater environmental responsibility.
9. Encourage the development and diffusion of environmentally friendly technologies.

Climate change is a major challenge for our investments, both in terms of direct physical risk and potential regulations to reduce carbon emissions globally.

Based on the above, we expect

- companies to show how climate challenges are integrated into business strategies, investment decisions and risk management, and to report in line with TCFD recommendations.

Anti-corruption

Businesses should

10. Work against corruption in all its forms, including extortion and bribery.

Based on the above, we expect companies

- to have an anti-corruption policy
- to educate their employees in these issues
- to have a process for identifying and preventing all forms of corruption
- to have a whistle-blower system in place, enabling the company's various stakeholders to report violations anonymously
- to have open reporting to their stakeholders regarding the above, and the results of its efforts



Shareholder rights

Voting rights and right of proposal at general meetings

The right of shareholders to vote at general meetings must be unrestricted. Shareholders should also be able to submit decision proposals for the meeting agenda, and have these matters discussed.

Equal treatment

Shares granting equal financial rights in a company should always be treated equally in a financial respect. It is important that the interests of minority shareholders are protected.

Electing a board of directors

The right to nominate and vote for board members at a general meeting is of fundamental importance for the shareholders. Nomination of a chairman and board members should take place through a clear and open nomination procedure. Shareholders should have an influence on the election of board members.

Capital structure

Companies should have a capital structure that is appropriate with regard to the company's future opportunities to generate returns for its shareholders. Shareholders should have opportunities to vote at general meetings regarding new share issues, dividends and buy-backs of the company's own shares. Pre-emptive rights issues are advocated. There should be no obstacles to the company being bought up, no obstacles should be instituted and existing obstacles eliminated.



Governance

The company's board of directors

Board members should have relevant expertise and a high level of integrity. The board's composition should be characterised by diversity in terms of gender and ethnic background. AP1's position is that a company's board chairman and managing director should not be one and the same person. A board of directors should include sufficient members who have an independent status in relation to the company's management and major shareholders.

Remuneration to senior executives and incentive schemes

Management remuneration should be structured in such a way that it benefits the company and thereby its shareholders. The remuneration should be reasonable and market-based. Any variable portion of compensation should be performance-related, evaluable and linked to the company's profitability. Pensions for senior executives should, as a rule, be defined contribution.

Audit and internal control

External auditing and internal control should be of high quality. External auditors should be independent from the company and its management.

Information disclosure

Companies should seek an open and continuous dialogue with the shareholders. The companies' information should be accurate, clear, objective and trustworthy. The information provided by the companies should enable qualified assessment of the company's future development and of the factors that create value for the shareholders.

Tax

Companies should have a tax policy in place, decided by the board. The board is also responsible for ensuring compliance with the tax policy. Tax should be paid where financial value is created, and in accordance with the purpose and intention of tax legislation.

The tax policy, or a summary of it, should be presented openly to all stakeholders. An outline of how the tax policy is applied should be included in the annual external reporting. Any ongoing disputes the company may have with tax authorities should be reported in its annual report.

The document is based on AP1's sustainability beliefs, ownership and tax policies. For more information see www.ap1.se. Other references: Global Compact (www.unglobalcompact.org), UNGP (www.ohchr.org) and TCFD (www.fsb-tcdf.org).





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