

## Green, social and sustainable bond framework

### 1. Introduction

Första AP-fonden encourages the development of the green, social and sustainable bond market and is an active participant and advocate. In 2014 the Fund undersigned an investor statement regarding green bonds and climate bonds<sup>1</sup> to promote development of the market. The statement aimed to encourage governments to act, experts to develop a clear and independent standard and increased transparency by issuers. Since then the market has evolved significantly, nevertheless the need for further development remains. An increase in transparency on responsible investing by investors contributes to further enhancement of sustainable markets. With the communication of our preferences and expectations on green, social and sustainable bonds, the Fund strives to promote governance and transparency of the market.

This document describes Första AP-fonden's framework along which we classify bonds as green, social or sustainable. The framework is an integrated part of the investment analysis and decision-making process. Using an internal framework safeguards the quality of our holdings and ensures alignment with the Fund's sustainability objectives. As legislation and recommendations are continuously developing in this area, the Fund will amend procedures where necessary to be in line with best market practices. We welcome the efforts under the EU sustainable action plan and closely follow the adaptation of the EU Green Bond Standard (EU GBS)<sup>2</sup>.

### 2. Perspective on green, social and sustainable bonds

Första AP-fonden's sustainability strategy aims to:

- **Ensure compliance with core values:** Investments need to be aligned with the Fund's core values.
- **Maximise the Fund's return:** Integration of sustainability aspects in the investment process enhances our analysis and improves the risk return profile. The impact of ESG factors will play an increasing role in the future performance of our investments.
- **Promote sustainable development:** The Fund aims to promote sustainable development through dedicated investments and active ownership. Investments qualify as dedicated when contributing to major sustainability effects in relation to the capital invested while meeting the overarching return target.

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<sup>1</sup> Investor Statement re: Green Bonds & Climate Bonds, 15 December 2014  
[https://www.climatebonds.net/files/files/investor\\_statement\\_December%202014.pdf](https://www.climatebonds.net/files/files/investor_statement_December%202014.pdf) ; updated in 2015 with 'The Paris Green Bonds statement' <https://www.climatebonds.net/files/files/COP21-Paris%20Green%20Bonds%20Statement-PGPS-9th%20Dec%202015.pdf>

<sup>2</sup> On 18 June 2019, the Technical Expert Group published its report on the EU Green Bond Standard which proposes that the Commission creates a voluntary EU Green Bond Standard to enhance the effectiveness, transparency, comparability and credibility of the green bond market and to encourage the market participants to issue and invest in EU green bonds. The Commission will take a decision in Q4 2020 on how to take the Green Bond Standard forward.

Investing in the green, social and sustainable bond market is an attractive way to achieve our sustainable objectives while improving the risk return profile. In the past years the issuance of green, social and sustainable bonds has accelerated and is a strong force in steering green and climate mitigation finance as well as social financing. An enhanced presence in this market aligns with our aim to increase our dedicated investments to promote the UN's Sustainable Development Goals, including providing finance to climate solutions in line with the Paris agreement.

Currently there are no requirements for labelling a bond as green or social and issuers are able to assign a label. The Fund believes using an internal framework for qualification of a bond as green or social is essential to safeguard the quality of our holdings. At the same time more transparency on criteria by investors will stimulate improving ESG standards by issuers.

The Fund's mandate is to obtain the best possible return on our assets while promoting sustainable development were possible. While the Fund encourages an increase in issuance of green, social and sustainable bonds due to their support to climate (and social) policy, it believes these bonds should be valued against regular bonds with similar risk metrics. Green bonds are structured in the same way as non-green bonds and their credit risk is identical. Green bonds also offer similar returns to regular bonds. The bonds should therefore be priced in line with the conventional bond yield curve.

### 3. Framework

The framework is constructed in line with the objectives in our sustainability strategy. It is an integrated part of our investment analysis and provides guidance in the pursuit to contribute to sustainability. In the evaluation of green, social and sustainable bonds, the ICMA Green and Social Bond Principles are used as guidelines in our framework.

Our framework consists of the following review components:

- **Proceeds utilization:** The utilization of the proceeds of the bond for green and/or social projects is essential. The proceeds should be used to make a clear positive environmental and/or social impact.
- **Issuer ESG policy:** The ESG policy of the issuer should embody long-term environmental and/or social objectives to which the use of proceeds will contribute. The green or social bond is reviewed in the context of the overall ESG policy of the issuer and not on an isolated base.
- **Process for project evaluation and selection:** The process and criteria by which the issuer determines the eligibility of projects as well as the environmental and social objectives should be clear and openly communicated.
- **Second Party Opinion (SPO):** An issuer's process for project evaluation and selection must be supplemented with a second party opinion. The second party should be independent with environmental and/or social expertise.
- **Management of proceeds:** The proceeds should be credited to a sub-account, moved to a sub-portfolio or otherwise tracked by the issuer in an appropriate manner. The balance of the proceeds should be adjusted regularly to align with allocations to projects.
- **Auditing the management of proceeds:** An external third-party review verifying the internal tracking method and the allocation of funds is highly preferred.
- **Reporting on allocation and impact:** Transparency is essential to ensure the integrity of the market and follow the progress on environmental and/or social impact. Issuers should report on the progress of the goals set out at issuance. The following two reports are an important part of our post-trade analysis:
  - **Allocation report:** An annual report should be made available by the issuer with up to date information on the use of proceeds, until full allocation.
  - **Impact report:** A report on the environmental and social impact published by the issuer at least once during the life of the bond is highly preferred.

#### **4. Engagement**

Engagement is an integral part of our responsible investment procedures. It is done by portfolio managers, ESG specialists and/or a dedicated engagement team. Dialogue is one of the most effective tools in influencing companies and other issuers to address environmental and social issues. Engagement can provide better insight in issuers, better understanding of investor expectations by issuers and promote increased ESG disclosure.

Green, social and sustainable bonds have enhanced the opportunity for fixed income investors to engage with issuers. Första AP-fonden engages on this topic through actively communicating green and social bond preferences and expectations to issuers as well as syndicate teams and maintaining a constant dialogue with both. The engagement focusses not only on a specific issuance, but also on the broader ESG policy.

#### **5. Reporting**

The Fund promotes the development of relevant and comparable sustainability reporting, both among companies and ourselves. Openness by investors also plays an important role in the development of the market. The Fund will be reporting (at least) on an annual base on all holdings in green, social and sustainable bonds in line with the recommendations of the draft EU GBS. The green bond holdings will be specified into EU green bonds and other green bond holdings.