

# Sustainability Policy

Adopted by the Board of Directors 11 December 2025  
**Fjärde AP-fonden**

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## Purpose

The Fourth Swedish National Pension Fund's (AP4's) Sustainability Policy lays out overarching guidelines and strategies for the asset management organisation's work on integrating sustainability aspects in the investment operations.

AP4 works according to the definition of sustainable development as societal development that meets the needs of people today without jeopardising future generations' opportunities to meet their needs, and that this is a precondition for maintaining favourable and balanced economic development over time.

It is thus a so-called investment belief for AP4 that taking sustainability issues into account in the asset management is a precondition for being able to conduct long-term successful asset management, as it contributes to a better risk-adjusted return over time. In such way AP4 helps safeguard current and future pensions at the same time that sustainable development and growth are promoted.

## Background

AP4's operations are grounded in the National Pension Funds Act (*Lagen (2000:192) om allmänna pensionsfonder*), which stipulates that the overarching mission of the Second, Third and Fourth AP Funds (the AP Funds) is to manage the fund assets to generate long-term and high return in such way that they will be of the greatest possible benefit for the Swedish income pension system.

In addition, the AP Funds Act stipulates that the AP Funds shall manage the fund capital in an exemplary way through responsible investments and responsible ownership. In the asset management activities, particular emphasis shall be put on how sustainable development can be promoted without departing from the goal for achieving the long-term high return.

The AP Funds Act also stipulates that the AP Funds shall collaborate on achieving the goal of exemplary asset management, at a minimum by establishing a shared set of core values for management of the fund capital, uniform guidelines for reporting on how this goal has been achieved, and guidelines for which assets the fund capital should not be invested in. Each of the AP Funds shall also adopt guidelines for exercising their voting rights.

Since the AP Funds manage the public pension system's assets, the AP Funds' core values and actions on sustainability issues are based on the Swedish State's core values, which are concretised in, among other things:

- Sweden's form of government, which is based on democracy, fundamental freedoms and rights, the equal value of all people and the individual's freedom and dignity,
- the UN's international conventions that Sweden has signed, concerning among other things the environment, human rights, labour rights, corruption and inhumane weapons,
- the ILO's core conventions,
- international frameworks that Sweden supports, such as the UN Global Compact, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights (UNGP), and
- Sweden's positions on matters pertaining to international public law.

It is important in sustainability work to have a starting point in international and generally accepted frameworks, as this strengthens the opportunities to conduct a successful dialogue with companies regardless of their national domicile. This also applies to the opportunities to cooperate with other investors and actors, which is deemed significant for achieving positive change.

Based on the aforementioned laws and international frameworks, the AP Funds have together drawn up an overarching description of the AP Funds' approach with respect to exemplary management of the fund assets in the income pension system and a shared set of core values. In addition, the AP Funds have drawn up uniform guidelines for reporting on how this goal has been achieved, which describe among other things the sustainability standards that the AP Funds report in accordance with as well as guidelines for which assets the fund capital should not be invested in. AP4 has concretised guidelines for exercising its voting rights in a separate Ownership Policy.

## Responsibility

The Board of Directors adopts this Sustainability Policy. The Policy is reviewed every year and is revised if needed. The Board of Directors adopts and follows up AP4's long-term strategy and yearly plan, in which concrete sustainability activities are included as a significant part.

The CEO administers sustainability matters in the operations on a continuous basis or delegates this duty to another employee of AP4. The CEO reports to the Board of Directors on a regular basis on the progress and development of sustainability work.

The Sustainability Policy is applied for the entire investment operations, both for investments in Sweden and internationally, and both for its own internal asset management and for external asset management mandates.

## Strategies for AP4's sustainability work

AP4 addresses a breadth of sustainability areas within the investment operations:

- climate and environment, such as climate change, resource efficiency, biodiversity, hazardous emissions,
- social aspects, such as human rights and workers' rights, and
- corporate governance aspects, such as shareholders' rights, board compositions, remuneration issues, transparency, and business ethics aspects such as corruption.

AP4 has five main strategies for conducting sustainability work in the investment portfolio:

### 1. Measure and report on sustainability

AP4 measures and reports externally on its sustainability work. Transparent reporting is something that AP4 also expects from the companies and businesses that AP4 has invested in. AP4 advocates for the development and production of qualitative sustainability data, and for transparent and suitable reporting on such from all pertinent parties.

### 2. Integrate sustainability factors in investment processes

AP4 integrates sustainability factors in investment decisions in a structured manner, adapted to the respective asset classes and investment process. Sustainability shall be an integrated part of all internal investment processes in order to, over time, ensure well-balanced and controlled risk and to be able to achieve a high return. When using external asset management services, sustainability is an important evaluation criterion.

### 3. Influence as an owner, investor and community actor

AP4 takes responsibility as an owner and investor by influencing companies, other investors and political decision-makers in a dialogue on sustainability issues. AP4 collaborates with other investors in order to achieve greater influence in dialogues and other advocacy work. For AP4, active corporate governance is an effective tool for, over time, creating and safeguarding asset values – also in relation to sustainability aspects.

### 4. Reduce sustainability risks in the portfolio

AP4 strives to reduce exposure to assets that are associated with elevated sustainability risks in an effort to reduce the level of risk in the portfolio. AP4 may also choose to not invest in companies whose operations are judged to be not aligned with an exemplary interpretation of the international conventions that Sweden

has signed or international guidelines that Sweden supports. AP4 does invest in securities issued by companies or countries that are the subject of sanctions by the EU or UN.

## **5. Invest in strong sustainability trends**

AP4 makes thematic investments that contribute to and benefit from the sustainability transition. Having an understanding of and analysing various sustainability aspects can contribute to returns through identification of investment opportunities for AP4, for example in specific sectors or companies that can be expected to contribute to and draw benefit from the transition to a more sustainable society.

# **Broad handling of sustainability aspects**

AP4's starting point is to maintain a broad perspective of sustainability aspects in the investment operations, where material sustainability aspects in climate and the environment, social responsibility and corporate governance are taken into consideration and handled.

## **AP4's expectations on companies with respect to sustainability**

AP4 expects that companies work in accordance with laws, conventions and international guidelines, regardless of whether these are directed at states, individual companies or organisations. This responsibility applies regardless of whether the countries in which the companies operate have signed the conventions or have weaker protection of rights under law. AP4 expects companies to:

- identify and manage risks, opportunities and consequences from economic, environmental, social responsibility and corporate governance perspectives. Further, AP4 expects companies to ensure the implementation of relevant policies, strategies and processes.
- follow up the effectiveness of their governance of sustainability aspects and risks coupled to the climate and environment, social responsibility and corporate governance and
- report on such to the public.

All of AP4's investments coupled to listed companies are subject to regular scrutiny with respect to violations of international conventions. If a company is identified in this process, a more in-depth analysis is initiated, followed by a dialogue, which is AP4's main tool for influencing companies. AP4 engages in dialogue with companies through its own asset management activities as well as through the Council on Ethics of the AP Funds (the Council on Ethics), which is a collaborative body between the AP Funds.

For AP4's unlisted investments, expectations regarding sustainability are regulated in investment agreements, including side letters. In the event of any violations, AP4's counterparties shall inform AP4, whereby a dialogue is initiated and suitable follow-up is decided on.

## Identification of material sustainability aspects

AP4 conducts a stakeholder dialogue and materiality analysis on a regular basis together with other AP Funds to inform stakeholders about the AP Funds' work and to assess stakeholders' views of the AP Funds' handling of their respective assignments and operations in relation to returns and sustainability aspects. This dialogue and analysis contributes to prioritisations of the focus of sustainability work as well as consideration of material sustainability risks and reporting. Based on the stakeholder dialogue and own analysis, AP4 has identified three areas as being most material with respect to sustainability risks:

### Climate risks

Climate change, which includes changes to the environment, biodiversity, ecosystems and ecosystem services, and the climate transition are systemic risks with global impacts on society, economies and expected returns. Climate risks include physical risks, such as extreme weather, flooding and rising sea levels, and transition risks, for example changes in regulations, industry requirements and demand. Climate risks can thereby have a significant impact on the companies and assets that AP4 invests in.

### Human rights

All companies have a responsibility to respect human rights, and this is part of sound and sustainable business activities and risk management. Respecting human rights entails that companies shall avoid having negative impacts on human rights and that companies shall act to prevent such negative impacts from arising. Companies can have an impact on human rights through their operations, supply chains, interaction with communities and stakeholders, and through use of their products and services. Human rights violations can lead to, in addition to substantial individual and collective suffering, damaged reputation, fines, etc., which in turn can have a significantly negative impact on AP4's investments in companies and assets.

### Corruption

Corruption and shortcomings in business ethics is harmful and costly for society, skews sound competition and undermines asset values as well as people's trust in society governed by law as well as political and economic systems. Various forms of corruption present commonly occurring sustainability risks for companies. With broad, global asset exposure, corruption poses a risk to the portfolio's long-term return.

## Focus areas in AP4's asset management and sustainability work

There are sustainability areas with systemic impacts on an investment portfolio and that are particularly suitable for an investor to address. These are areas that are financially significant and moreover that offer investment opportunities and thereby an opportunity to wield significant influence on a portfolio's long-term return and risk characteristics. AP4 has set two such focus areas: Climate & Environment and Corporate Governance.

### Climate & Environment as focus area

Climate & Environment as a prioritised sustainability area in its asset management operations. The area is considered to be financially material and represents a systemic risk that affects the ecological, social and financial stability of all the world's economies and countries. Sectors and companies with couplings to climate change are exposed to significant risks – physical, regulatory, technological and social – that could bear a substantial impact on asset values and opportunities to generate long-term returns. Mitigating climate change is therefore a prerequisite for stable economic development and thus for AP4's ability to successfully carry out the mission over time.

### Corporate Governance as focus area

Corporate Governance as a prioritised sustainability area in its asset management operations. Corporate governance is one of AP4's most important tools for integrating sustainability aspects in its asset management, and it is considered to be important from a financial perspective for AP4 to make demands and wield influence as a long-term and engaged owner in an effort to contribute to the portfolio companies' businesses and enable them to develop, improve and be conducted responsibly and transparently.

Shareholders' rights, influence on principal issues including sustainability and transparent and relevant information are central principles of good corporate governance. Equally central principles for AP4, as an owner, are also responsibility, active commitment and a long-term approach.

Through its corporate governance work, AP4 has tools such as dialogues with companies and other owners and investors, exercise of voting rights at general meetings and investor forums, active work in companies' nomination committees, boards of directors and investor bodies. Corporate governance is an explicit part of AP4's asset management strategy and is expected to contribute to a long-term good return. This is further regulated in AP4's Corporate Governance Policy.



## Sustainability goals

### Metrics and goals for Climate & Environment focus area

AP4 has set the following, specific goals for the Climate & Environment focus area. AP4 shall:

- contribute to the transition to a sustainable society. AP4's portfolio shall have net zero greenhouse gas emissions by 2040 at the latest, with an intermediate goal to cut greenhouse gas emissions in half by 2030 at the latest compared to 2020;
- make investments that reduce climate risk in the portfolio;
- make proactive investments based on strong sustainability trends that contribute to and benefit from the climate transition;
- based on identified indicators, evaluate possible asset management strategies, i.e., develop the way in which AP4 makes investments in the Climate & Environment focus area; and
- use its influence as a shareholder to contribute to a climate transition in line with the Paris Agreement.

### Metrics and goals for Corporate Governance focus area

AP4 has set specific goals for the Corporate Governance focus area. These are further regulated in AP4's corporate governance policy.

## Follow-up and reporting

AP4's sustainability reporting shall be characterised by openness and provide factual and transparent information so that its operations can be reviewed and evaluated externally.

AP4's sustainability work, like its other work, is followed up and evaluated on a regular basis to ensure high quality and continuous development. This applies for AP4 as well as for the companies and assets that AP4 has invested in.

AP4 reports on its activities and goal achievement continually and in annual reporting.