



## **The AP Funds' common guidelines on assets in which fund assets should not be invested**

### **1. Background**

The operations of the First, Second, Third, and Fourth AP Funds are regulated in the National Pension Insurance Funds Act (2000:192), the AP Funds Act. The AP Funds Act also stipulates which provisions in the Mutual Funds Act (2004:46) are to be applied for the assets managed by the Seventh AP Fund. The operations of the Sixth AP Fund are regulated in the Sixth AP Fund Act (2000:193).

All AP Funds are to manage fund assets in an exemplary way through responsible investments and responsible conduct. When managing assets, special emphasis will be placed on how sustainable development can be promoted without compromising on the overall objective regarding return and risk (National Pension Insurance Funds Act, Chapter 4, Sections 1, 1a and 1b, and the Sixth AP Fund Act, Chapter 3, Section 1). In formal terms, the Sixth AP Fund is only subject to the requirement for collaboration regarding common guidelines for reporting on how the objective has been attained.<sup>1</sup>

### **2. Based on conventions**

In the common core values drawn up by the AP Funds, it is noted that the principle of legality means that the AP Funds must observe the international conventions that Sweden has ratified and the international agreements that Sweden has supported. These therefore form the basis for assessing which assets the fund assets should not be invested in. In most cases, international conventions are designed to regulate how states should act and are not intended to directly regulate companies' operations. This means there is scope for interpretation regarding corporate violations of conventions. As a result, an AP Fund has to judge whether or not a company has been involved in violating a particular convention. An AP Fund's decision not to allow investments in particular assets on the basis of a convention is termed exclusion. Exclusion means that an AP Fund chooses not to allow an investment on grounds other than financial.

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<sup>1</sup> This document therefore applies for AP1, AP2, AP3, AP4, and AP7. AP6 has separate guidelines on assets in which fund assets should not be invested.

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Since the AP Funds' exclusions are linked to international conventions, and the AP Funds work with other stakeholders and owners with a common purpose, the AP Funds are part of an international collaboration that helps the international finance market to actively counteract violations of conventions. This gives greater importance to the conventions.

The AP Funds' position is that all international conventions that Sweden has ratified are to be regarded as equally important and must therefore be adhered to. This position is also supported in, for example, the UN Declaration of Human Rights, which stipulates that human rights are universal, indivisible, interdependent and interrelated, and are not to be ranked in any particular order of importance. This is therefore applied analogously to all international conventions.

The AP Funds' view is that the companies are responsible for not contributing to violation of international conventions, regardless of whether the conventions are directed toward national governments, individuals, or companies and organisations. This responsibility applies regardless of whether the countries in which these companies operate have ratified the conventions or whose legislation is less stringent.

### **3 Exclusion of companies involved in violation of conventions**

The AP Funds may exclude companies that contribute to violation of an international convention that Sweden has ratified. Each fund makes its own decisions on which companies are to be excluded from investment.

Instead of exclusion, the AP Funds may choose to exert influence on companies to adapt their conduct in a desired direction through active ownership. All AP Funds have drawn up their own processes for engaging with companies.

AP1, AP2, AP3, and AP4 collaborate through the AP Funds' Council on Ethics, which on behalf of the Funds engages in certain dialogues with companies and gives recommendations on exclusions. AP7 is not a member of, but collaborates with, the Council on Ethics.

The AP Funds conduct regular follow-ups, either through the Council on Ethics or individually, of all companies that have been excluded.