

# KÅPAN PENSIONER

GOVERNMENT EMPLOYEES PENSION FUND

# SUSTAINABILITY REPORT

# 2020



Kåpan Pensioner manages collectively agreed occupational pensions for people who are or have been government employees. The purpose of the business is to manage members' pension assets in an efficient, long-term and responsible manner.

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# Sustainability Report

The society offers traditional pension insurance with guaranteed interest and stable returns over time at the lowest possible cost. We conduct sustainable investment management. We make investments based on ethical standards and principles that are strongly rooted in Swedish society based on decisions made by the Swedish parliament and government.

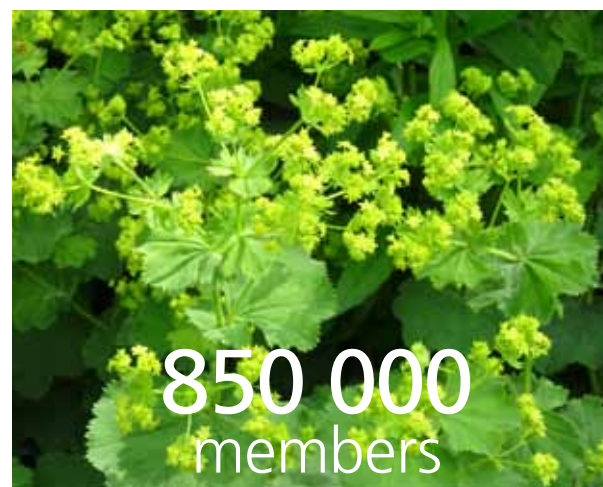
Kåpan Pensioner is an insurance society which means that the society's members own the business together. The society acts based on its statutes, current legislation, regulations and general advice from the Swedish Financial Supervisory Authority, and in the best interests of all its members. On 21 December 2020, the society received permission from the Swedish Financial Supervisory Authority to conduct occupational pension business in accordance with the Occupational Pension Companies Act (2019:742). The decision is effective from 1 January 2021. The decision means among other things that the society changes its name to Kåpan tjänstepensionsförening (Government Employees Pension Fund) and we have made a number of formal changes to the statutes. The society's abbreviated name will continue to be Kåpan Pensioner.

## Sustainability for Kåpan Pensioner

Kåpan Pensioner's sustainability work is split into three areas: investment, insurance and organisation. This means that we must make responsible and sustainable investments, deliver secure and traditional insurance, and safeguard internal sustainability work. These three areas also provide the structure for this sustainability report.

## Our Assignment

The society has been tasked by the parties to collective agreements in the government agreement sector (the Swedish Agency for Government Employers, the Public Employees' Negotiation Council, the Swedish Confederation of Professional Associations, and the Swedish Union for Service and Communications Employees) with managing the compulsory components of occupational pensions and functioning as



the default supplier for the part of the pension where there is a choice. The assignment from the parties is to deliver stable, good pensions to the society's more than 850,000 members. The society was formed in 1992 with the task of managing the complementary occupational pension based on the pension agreement PA-91. Since then new pension agreements have been negotiated and on 1 January 2016 the most recent agreement, PA 16, came into effect. The agreement means that the society's continued operations are secured in the long term and work on offering members responsible and well-balanced pension insurance can continue. Kåpan Pensioner works with sustainability as an integrated part of day-to-day operations. Sustainability work is based on the society's assignment from its members, via decisions of the Council of Administration, the society's statutes and the Board's decisions and policy documents.

## Investment

Investments are made based on achieving a good return with reasonable risk and low costs. Sustainability is an integrated part of investment management.

## Insurance

Kåpan Pensioner offers resource efficient and simple insurance solutions with a good balance between promises made and the risks in obligations issued.

## Organisation

Sustainable resource management – thrifty use of resources and consideration for the environment must permeate the entire business.

## Basis of sustainability work

Kåpan Pensioner's work with sustainability is based on the society's sustainability policy adopted by the Board. The foundation is the investment policy which defines the ethical frameworks for asset management. These, in turn, are based on ethical standards and principles that are strongly rooted in Swedish society based on decisions made by the Swedish parliament and government. Investments are guided by the principles in the international conventions:

- UN Global Compact
- OECD's guidelines for multinational companies
- Oslo and Ottawa Conventions
- UN principles for responsible investment
- UN Sustainable Development Goals – 2030 Agenda for sustainable development

An in-depth description of international principles and conventions can be found on page 19.

## Kåpan Pensioner's sustainability work in 2020 – in brief

- During the autumn we worked on developing a strategy to reduce our investments in fossil-based companies and have now decided that the society's investments in coal and oil production will be reduced and only be marginal by 2023. As a first step we have divested all affected companies in our directly owned global equity portfolio and in the Swedish equity portfolio we have divested one-third of our holding in Lundin Energy.

- Within fixed-income management in 2020 we have more than doubled our investments in green bonds and the proportion now amounts to approximately 10% of the fixed-income portfolio. Part of the increase comes from some of our large investments in property where green bonds were issued during the year. At the end of the year we increased our mandate for green and social bonds which will lead to an increased rate of investment going forward. From a sustainability perspective we have decided to stop investing in government bonds issued by states in developing markets and during December divested all such funds.
- We have broadened our owner responsibility by voting at annual meetings of 70% of our directly owned equity portfolio. Together with other investors, we have carried out lobbying dialogues with 142 companies.
- We have signed the UN principles for responsible investment (PRI). We already follow PRI's principles but signing the principles gives us membership of the PRI Association which commits us to report our sustainability development annually to PRI. This provides a receipt for what we do and also a good platform on which to improve our sustainability work as well as increasing our collaboration with other players.

Kåpan Pensioner works continuously to improve and develop its own sustainability work.

### What ESG stands for:

ESG (Environmental, Social, Governance) is a common term for sustainability criteria in investments and stands for criteria relating to the environment, social conditions and corporate governance.

## Sustainability targets met in 2020

Kåpan Pensioner's target within responsible investment		Result 2020	Result 2019	Comments	
The aggregate ESG rating for holdings in listed equities shall exceed the ranking for our benchmark index MSCI ACWI ESG Universal Index <sup>*)</sup> .	Kåpan Pensioner	6.9	6.7	The aggregate ESG rating rose by over 3% and exceeded the result for our benchmark index by 4.5%.	
	MSCI ACWI ESG Universal	6.6	6.6		
	MSCI ACWI	5.9	5.8		
The carbon footprint for listed holdings shall fall over time measured in tonnes CO2e/SEKm in revenues <sup>**)</sup> .	Kåpan Pensioner	Metric 1	14.1	The society's carbon footprint measured in SEK fell during the year by just over 13% using metric 1 and approximately 18% using metric 2.  Compared with MSCI ACWI, our listed holdings have a lower carbon footprint of 44.8% using metric 1 and 46.6% using metric 2.	
		Metric 2	10.1		12.2
	MSCI ACWI	Metric 1	25.6		24.4
		Metric 2	18.9		19.9

<sup>\*)</sup> see page 7 for an explanation of ESG rating and index.

<sup>\*\*)</sup> see page 12 for an explanation of the measurement method and metrics.



## Sustainability – Investment

### Responsible asset management

Kåpan Pensioner's members must always feel confident that we manage and invest their pension capital responsibly. Sustainability is an integrated part of investment operations. We work continually to improve our sustainability work and in 2020 we adopted several measures for further improvement.

Kåpan Pensioner's managed assets at year-end amounted to SEK 113 billion. Investments are made based on the investment guidelines decided by the Board. The overall goal for investment operations is to achieve a long-term sustainable balance between return and risk in a cost-effective manner. Further, the society's investments must be made based on a number of overall ethical standards and principles.

Management is focused on investments in equities, fixed-income securities and property. Investments in equities are primarily listed holdings but also to some extent unlisted minority holdings in various types of venture capital funds. Fixed-income securities are mainly Swedish bonds with a

high level of security but also include some foreign fixed-income instruments through various fixed-income funds. Our property-related investments are unlisted holdings in commercial properties, forest and land as well as infrastructure investments through various funds.

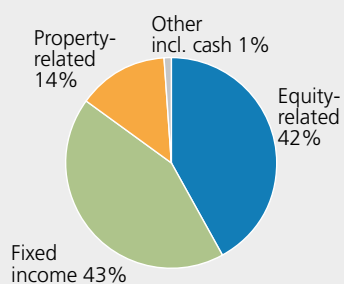
The current investment guidelines mean that the market value of the assets must lie within the following bands:

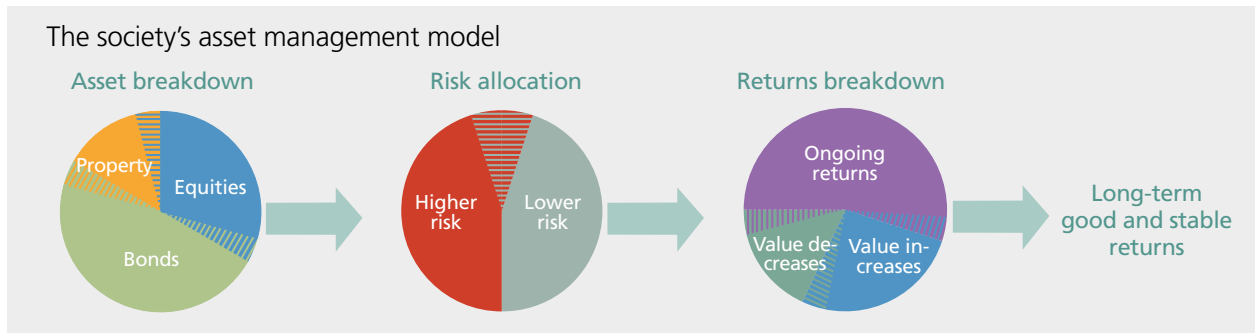
- Equities or equity-related asset class minimum 25% maximum 45%.
- Bonds and other interest-bearing paper minimum 40% maximum 70%.
- Property-related investments minimum 5% maximum 20%.

Taken overall, this approach to investment means that almost half the capital is placed at low risk in fixed-income securities and the remaining half in equities that have a higher risk. The remainder of the society's capital is invested in property and other types of assets to complement the risks inherent in fixed-income and equities.

A list of all the society's holdings can be found on our website, [kapan.se](http://kapan.se).

At year-end the society's assets were distributed as follows





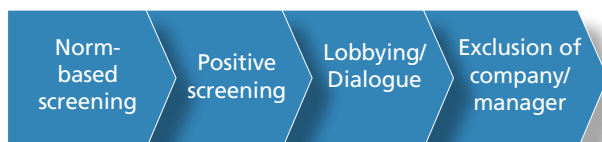
## Process for sustainability work in investment operations

The companies in which we invest must satisfy basic principles and the foundation for our sustainability work is a number of leading standards and principles widely rooted in Swedish society based on decisions made by the Swedish parliament and government.

- UN Global Compact
- OECD's guidelines for multinational companies
- Oslo and Ottawa Conventions
- UN Sustainable Development Goals – 2030 Agenda for sustainable development
- UN principles for responsible investment (UN PRI)

We try to ensure that our external funds and managers have signed or agreed to follow UN PRI.

## Kåpan's process for sustainability work in investment operations



Our management includes sustainability as an integrated part of the investment process and to achieve sustainable management in accordance with these guidelines we work with both norm-based screening and positive screening of our existing listed holdings and new investments. Further, we work with dialogue and lobbying with the aim of influencing companies and external managers in the right direction and improving their sustainability work. Our Sustainability Committee regularly reviews the results of screening and lobbying and decides if we need to take any action from a sustainability perspective. The basic premise is that as investors we can be more useful investing in companies and thus being involved and exerting influence than abstaining or excluding and not having any influence or improvement contribution.

## Norm-based screening

### Process for directly owned listed equities and bonds

Twice a year we carry out an in-depth screening of our investments in listed equities and bonds to ensure that the investments comply with global standards relating to the environment, human rights, working conditions and anti-corruption as well as not being involved in the manufacture or distribution of controversial weapons. This in-depth screening is carried out with the help of ISS ESG and covers 79% of the society's total managed assets.

In addition to in-depth screening, we use norm-based screening to continually evaluate our holdings from a sustainability perspective. The result of screening or the ongoing follow-up can raise issues which lead initially to discussing the companies in our Sustainability Committee. If a company is judged to have deviated from one or more global standards, the next step is a lobbying dialogue with the company (see page 9). In most cases the dialogue is carried out in collaboration with ISS ESG but sometimes we carry out the dialogue ourselves. If dialogues do not give results we can, as a last resort, choose to divest the company (see page 11).

For new investments, norm-based screening is an important part of our investment process and analysis. In those cases where screening raises issues of standard divergence, we do not invest in the company. In our Sustainability Committee we have ongoing discussions about potential new investments from a sustainability perspective which do not necessarily reveal standard divergence but might be discussions about the company's business, management, etc., which can be dubious based on our sustainability criteria.

Since 2018 we actively manage the main part of our global equity mandate in a self-managed index-linked base portfolio of 300 companies. Limiting the number of companies

We use ISS ESG as an external supplier for our norm-based screening and for screening for controversial weapons. Using their analysis tool we can follow up our holdings from a norm-based perspective. ISS ESG uses a traffic-light model as well as a rating scale from 1-10 in its analysis and screening process.

we invest in improves the possibility to influence holdings since we can choose to invest or divest companies from a sustainability perspective. Norm-based screening is then used not only for evaluation but also proactively in the process of choosing the 300 companies.

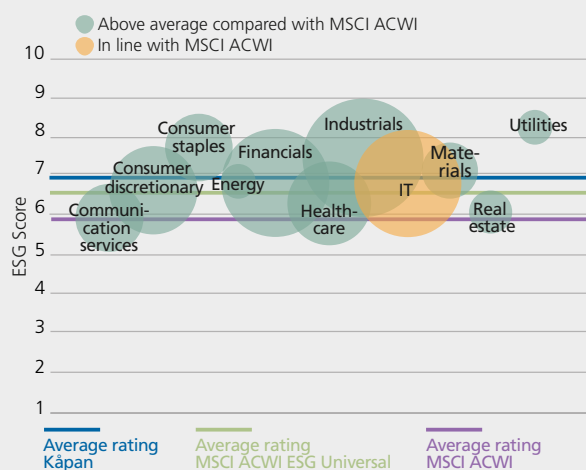
## It is not always obvious what is norm breaching and assessments differ widely

Our directly owned base portfolio amounts to just over 80% of our equity investments in OECD countries. We invest the remainder in active funds and index-like instruments which we consider complement the base portfolio. Our equity exposure to emerging markets continues to be managed in its entirety by external fund managers.

### Process for equity funds (listed)

Those funds that we still have in OECD and emerging markets are part of our process for norm-based screening described above with two deeper screenings annually and ongoing monitoring of the funds' holdings from a sustainability perspective. Despite all our equity funds currently being ESG compliant, there are holdings that raise issues in our norm-based screening. It is not always obvious what is norm breaching and assessments differ widely between analysis companies. We collaborate closely with the fund managers and engage in dialogue with them when there are issues with companies.

### Assessment of the society's holdings based on ESG criteria within each sector and their relative weights



The size of the circles reflects the relative weight in the portfolio.

Source: MSCI ESG Research, ESG Portfolio Analytics

### Positive screening – rating model

In addition to norm-based screening, we also work with a process for positive screening. The aim of positive screening is to give all companies in the same sector a ranking based on a number of sustainability criteria. On the environment side, there are underlying considerations within, for example, climate change, carbon dioxide emissions, water stress, toxic emissions and waste. In the social category, assessments are made in areas such as labour management, health and safety, product safety and quality. Under governance, analyses and assessments are made of the composition of the board, remuneration, ownership structure, accounting and business ethics. We strive to invest in companies with a high ESG rating in each sector which is achieved by rejecting companies with the lowest ESG rating but also by choosing companies with high ESG ratings in each sector.

MSCI is one of the world's leading index providers and works with the analysis and evaluation of environmental and sustainability assessments at corporate level. Their sustainability rating is on a scale from 0 – 10 where 10 is the best rating. Every company in a given sector is evaluated from a number of factors which gives a final rating linked to an alphabetical rating from CCC to AAA.

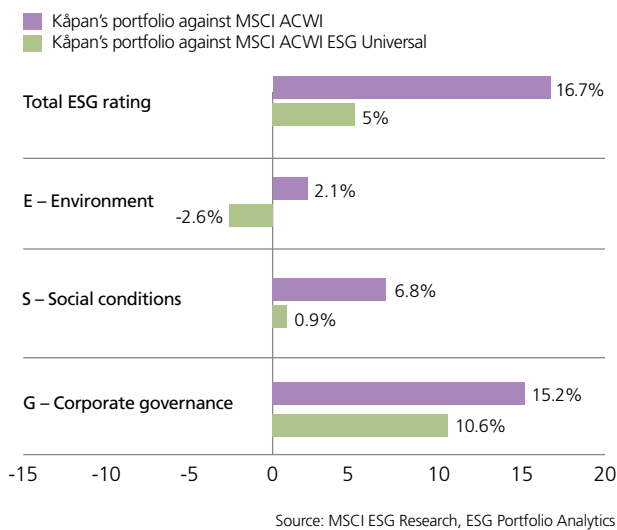
Alphabetical rating	ESG rating
AAA	8.6 – 10
AA	7.1 – 8.6
A	5.7 – 7.1
BBB	4.3 – 5.7
BB	2.9 – 4.3
B	1.4 – 2.9
CCC	0.0 – 1.4

### Process for listed equities

Once a year we carry out an in-depth screening of our listed holdings, both directly owned and in funds. This screening gives us both a sustainability ranking and a sustainability rating for all listed equity holdings and a weighted sustainability ranking for the entire portfolio. We get help with the screening from MSCI. In addition to the deeper screening we continually monitor our holdings. For our base portfolio we receive updates every time a sustainability ranking or rating changes and for funds, we follow up positive screening. For new investments, we check the company's sustainability rating and ranking as part of our investment process.

Our aim is that the sustainability rating of companies to which the society is directly or indirectly exposed should improve over time from current levels. The long-term aim is that the society's investments should have a weighted average sustainability rating which is above the weighted average for those companies that are included in MSCI All Countries World Index ESG Universal (MSCI ACWI ESG Universal).

**Kåpan's ESG rating 2020, percentage deviation compared with index**

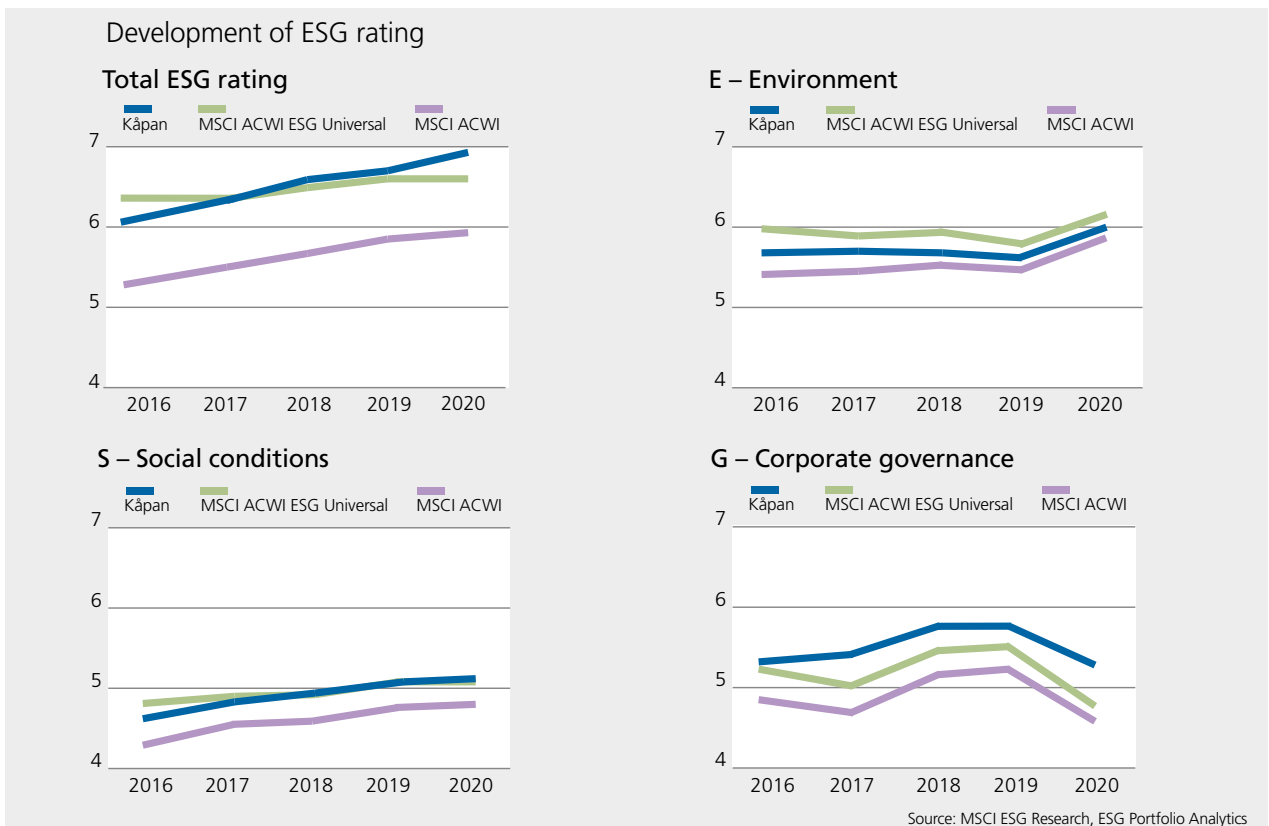


When screening the society's entire listed equity holdings in 2020, the ESG rating improved to 6.9 compared with the previous year when it was 6.7. At the same time our portfolio had a higher ranking than both MSCI ACWI ESG Universal which was 6.6 and MSCI ACWI which was 5.9.

During the year we have taken several actions with the aim of improving our sustainability work and achieving a better weighted sustainability rating for our listed equities and funds. One of the aims of restructuring the global equities portfolio was to be able to influence our sustainability rating ourselves. Those equity funds that we retain are ESG conformant.

**Sustainability process for unlisted holdings and external funds**

In addition to investments in listed equities and bonds, we have investments in unlisted equity holdings in various types of venture capital funds and global fixed-income funds. In property we invest in unlisted companies in commercial properties, forest and land, and infrastructure through various funds. Our internal managers have close regular contact with the managers of these holdings and funds and a focus on sustainability is now part of the investment process for these investments. To ensure as far as possible conformance with basic sustainability criteria even in these unlisted holdings, sustainability issues are handled using a questionnaire





which aims to identify the funds' sustainability processes (degree of sustainability, sustainability work and focus). We would like sustainability to be a central part of the company's strategy and that there is a long-term attitude to these issues. We continuously monitor the funds' agenda for improving and developing efforts with and responsibility for sustainability issues.

## Lobbying and shareholder engagement

The aim of Kåpan Pensioner's work as an investor is to deliver a good long-term stable return for members within the framework of insurance obligations. Investment management invests in a number of different businesses in order to be diversified and thus reduce the risk in investments. The large spread of investments means that the society as a rule is a small investor in each individual business. Our lobbying and shareholder engagement vary depending on the investment and its size and work includes lobbying dialogues, voting at annual meetings, membership of nomination committees, board assignments, and active participation in advisory boards.

### Lobbying

Our lobbying work is mainly done through lobbying dialogues with companies and managers. Lobbying dialogues are an important part of our owner involvement and the greater part of our dialogues are reactive, often initiated by allegations of or verified failure to respect international norms and conventions. We collaborate with ISS ESG to hold these dialogues with listed companies and the aim is to ensure that the companies remedy failures and take action so that similar incidents do not recur. In 2020 we held lobbying dialogues with 142 companies in collaboration with ISS ESG. In some companies there are dialogues on several subjects and this year 214 subjects have been addressed in these companies. The response rate for this year's dialogues rose to 66% (56) and the quality of companies' participation has been higher across the board. This year's dialogues had an increased focus on consumer rights and health as a consequence of Covid-19. There was also considerable focus on trade-union rights and there were many dialogues focusing on depletion of biodiversity.

We hold dialogues with fund managers ourselves for both listed and unlisted holdings. The aim of the dialogues ranges widely from just gathering information to influencing the content or factors of the funds. We also hold dialogues around policy documents related to sustainability and strategies, and during the year we have raised the subject of certification of our property holdings.

For several years we have collaborated with State Street Global Advisers (SSGA) which manages some of our funds.

## Assignments within the society 2020

Active influence					
Dialogues		Owner governance			
Targeted dialogues	Dialogues with other investors	Nomination committees	Board assignments	Voting at annual meetings	Advisory boards
0	142	0	3 <sup>1)</sup>	260 <sup>2)</sup>	11

<sup>1)</sup> No listed companies.  
<sup>2)</sup> Proxy voting.

SSGA is a major player within among other things index management and has a significant owner involvement in its management. In index management it is not possible to sell an individual holding as with active management so SSGA carries out comprehensive lobbying through dialogues with companies covering issues that are significant for the companies' ability to generate long-term value, where topics concerning corporate governance, environment and social responsibility carry great weight.

### Shareholder engagement

Being an active owner and voting at annual meetings and membership of nomination committees is also an important method for us as investors to influence companies in a sustainable direction. Up to now the society's limited ownership and need for efficient management has meant that we have not actively participated in annual meetings, primarily of listed public companies. Our active ownership in listed companies increased significantly in 2018 when we restructured our management of global equities. Even though we continue to have a limited share in each company, it is of increased importance that we exercise our shareholder responsibility. We have therefore updated our ownership policy to include active shareholder engagement.

The annual meeting season in 2020 was strongly affected by the corona pandemic. To limit the spread of the coronavirus, decision makers were advised to prevent large gatherings of people. This had an effect on the meeting season since most companies could not hold their meetings as usual and many companies initially postponed their meetings. To simplify both holding and postponing annual meetings in these extraordinary circumstances, a number of laws were enacted in many markets. In the middle of April, Swedish companies got a legal temporary exemption to simplify holding an annual meeting which meant that a

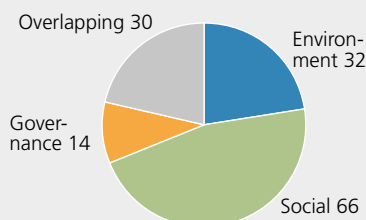
company could allow advance voting. Companies world-wide chose to change their proposals to their annual meeting due to the uncertainty in the global economy caused by the pandemic. The most common change was a reduction or total recall of dividend proposals. Repurchasing of shares was also stopped or changed together with changes to financial strategy. A number of companies also announced that management salaries would be adjusted with reductions in fixed remuneration or no bonus payments for 2020. Meanwhile there were few adjustments in general for long-term incentive programmes. In addition, many companies changed their proposals for board fees so that these remained unchanged compared with 2019. Some governments announced that economic support was conditional on companies taking certain actions, for example in some countries companies were required to not pay a dividend.

Under the prevailing conditions we chose to vote at relevant annual meetings using ISS ESG's service for proxy voting. ISS ESG provides an electronic voting platform where we can see their analyses and voting recommendations. We make our own assessments and decide if we will vote in line with ISS's proposals and recommendations. We chose in all cases to vote in accordance with the recommendations. We voted at annual meetings of just over 70% of our directly held shares. A summary of all annual meetings and how we voted can be found on our website, [kapan.se](http://kapan.se).

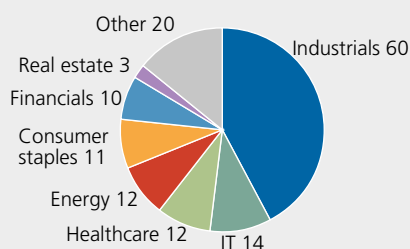
In some of our unlisted holdings within venture capital and property we take an important owner responsibility through membership of the funds' advisory boards. We work in these boards with knowledge support and as an advisory discussion partner for issues related to the funds' operations. In the event of conflicts of interest, the advisory board is required to make a decision through a voting procedure.

## Lobbying and owner engagement

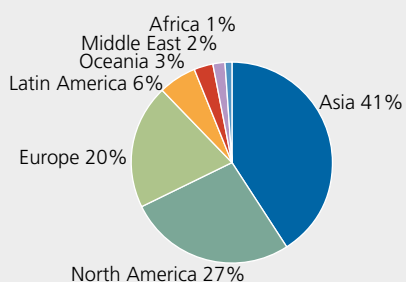
### Dialogues with 142 companies



### Sector



### Geographic distribution



## The society's proxy voting 2020

Voting statistic	2020
Number of annual meetings	260
Share of companies in total number of direct-owned holdings	70%
Number of agenda items	4,106
Share of votes for boards' proposals	93%
Share of votes against boards' proposals	7%
Number of shareholder proposals	224

## Geographic distribution of annual meetings

Country	Share
USA	50%
Japan	9%
UK	8%
France	4%
Germany	4%
Canada	3%
The Netherlands	3%
Switzerland	3%
Sweden	3%
Spain	2%
Other	11%

The ownership policy decided by the Board states that Kâpan Pensioner intends to exercise its owner influence in listed companies as follows:

- that an employee always participates in annual meetings where ownership exceeds 1% of the votes in the company and there exercise the voting rights attached to the society's shares,
- that an employee or proxy always participates in annual meetings where ownership exceeds 0.1% of the votes in the company and there exercise the voting rights attached to the society's shares,
- to carefully prepare and establish the society's position at the annual meeting,
- to participate in the work of the nomination committee in those companies where the society is among the larger owners.

## Exclusion of companies

The overall strategy is not to invest in companies that violate international norms for the environment, human rights, labour law and anti-corruption, nor do we invest in companies involved in the manufacture or distribution of controversial weapons. We regularly screen our holdings of listed equities and fixed-income assets and twice a year with the help of ISS ESG we carry out an in-depth assessment of the holdings based on the criteria listed above. If a company is, or is suspected to be, non-compliant with our sustainability criteria, we hold in collaboration with ISS ESG, a dialogue with the company or the manager if the company is included in a fund. If the company cannot present an action plan to rectify the problems or if the dialogue does not give a result, we choose to sell the holding.

Different analysis companies make different assessments of companies' compliance with international norms and we have in some cases held dialogues with fund managers concerning companies that have screening issues or are non-compliant according to our sustainability criteria but have been approved by another analysis company. We regularly follow up these investments with the fund managers and we discuss these holdings in our Sustainability Committee. During 2020 fewer companies were discussed than in the previous year. One fund manager divested a number of companies that we discussed and we chose to divest two global equity funds where dialogues had not given any result and where we judged that this was unlikely to happen.

We will not invest in companies that have more than 5% of revenues from extraction, electricity production, processing and refining of coal and oil.

## Expanded exclusion criteria

In 2018, when we changed to directly owning and managing a large part of our global equities, we chose to exclude companies that extract and produce electricity and heat from thermal coal. In order to meet our own and the global climate goals as well as to reduce the climate risk in the portfolio, during 2020 we developed a strategy to reduce our investments in fossil-based holdings and decided that the society's investments in coal and oil production should be reduced and only be marginal by 2023. We will not invest in companies that have more than 5% of revenues from extraction, electricity production, processing and refining of coal and oil\*). Our first step was to sell all affected companies in our directly owned global equities portfolio and in the Swedish equity portfolio we have sold one-third of the holding in Lundin Energy with the remainder to be divested before the middle of 2021. The next step is to review our funds and other assets during the year. We have also decided not to invest in government bonds issued by countries in emerging markets.

\* With reservations for a few companies that we currently consider to be transition companies and with reservations for the list of transition companies being updated based on the companies' climate work and commitments.

For our directly owned global base portfolio, which consists of about 300 companies and accounts for 35% of our total equity placement, we exclude, in addition to the criteria stated above, companies according to the following criteria:



### Nuclear weapons

- Production of nuclear weapons within the non-proliferation treaty, i.e. the UN Treaty on the Prohibition of Nuclear Weapons (July 2017).



### Tobacco

- Production of tobacco
- Distribution of tobacco exceeds 5% of the company's revenues.

## Analysis of the climate impact of holdings

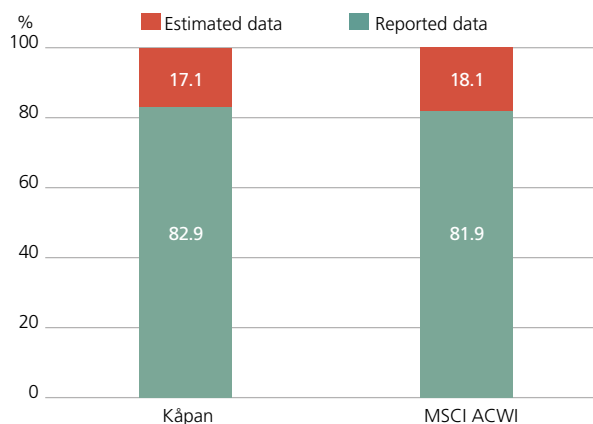
Kåpan Pensioner's strategy is that the aggregate holdings over time shall be climate neutral. As part of this work over the past ten years the society has made ongoing investments in forestry and land and has today a significant holding with an estimated positive climate impact which compensates for the holdings that can be assessed as less positive from a climate perspective.

The society measures the carbon footprint for our listed equities which corresponds to 92% of the total equity portfolio. The carbon footprint is a way of expressing the amount of greenhouse gas emissions contributed by the companies in which we have invested. The analysis of the climate impact of our equity holdings is carried out by MSCI.

For several years we have followed the recommendation of the Swedish Insurance Federation (Metric 1) for reporting carbon footprint and since last year we have chosen to complement this measure with the recommendation of the Swedish Investment Fund Association (Metric 2). Both metrics measure carbon footprint in relation to the portfolio companies' revenues and cover emission scopes 1 and 2 according to the GHG Protocol.

There are, however, limitations in the usability of the information, among other things the carbon footprint shows a historic moment for how the emissions from the holding were at a given time and the values will vary in step with the companies' changes in emissions and also with changes in the composition of the portfolio. Changes in exchange rates also affect the measurement.

## Contribution to carbon footprint by source



Source: MSCI ESG Research, Carbon Portfolio Analytics

It is also important to note that the carbon footprint does not show the total environmental impact of the holdings for reasons including:

- Only some emissions are included. Indirect emissions from suppliers are not always included in the calculations nor the normally significant emissions that can be caused by use of a company's products.
- Emission data from companies is probably not complete.
- Only some asset classes are measured.
- Savings in emissions through products and services are not counted.
- Information on fossil reserves is not included.
- The metric does not reflect how well a portfolio is positioned towards, or its contribution to, a transition to a low-carbon society.

This means that many aspects of reporting must be complemented with various assumptions or estimates since they are not consistent.

### Measurement method for Metrics 1 and 2

- Calculations should be made using data on emissions of greenhouse gases which satisfy a global accepted model such as the GHG Protocol.
- The data must include scope 1 (a company's direct emissions) and scope 2 (a company's indirect emissions from use of electricity, heating or steam).
- Emissions should be expressed in carbon dioxide equivalent (CO<sub>2</sub>e).

**GHG Protocol** (Greenhouse Gas Protocol Corporate Accounting and Reporting Standard) is the most common reporting standard for calculating emissions of greenhouse gases. The GHG Protocol covers seven greenhouse gases – carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF<sub>6</sub>) and nitrogen trifluoride (NF<sub>3</sub>).

**Carbon dioxide equivalent (CO<sub>2</sub>e)** is a unit that enables the measurement of different greenhouse gases in the same way. Expressing the emission of a given greenhouse gas in CO<sub>2</sub>e states the quantity of carbon dioxide that would be needed to have the same climate impact.

### Metric 1

The reported key indicator measures the equity portfolio's carbon dioxide intensity in relation to the portfolio companies' revenues (net sales). It can be seen as a measure of how carbon dioxide efficient the companies in our equity portfolio are, when the result is subsequently weighted with our ownership share of the company.

On 31 December 2020, **Metric 1** showed a 44.8% lower carbon dioxide intensity than our benchmark index MSCI ACWI on the same date. Compared with the previous year, both the index and our portfolio had a lower carbon dioxide intensity measured in dollars. Our portfolio had approximately 24% lower carbon dioxide intensity at the annual measurement.

Measured in kronor, the portfolio's carbon dioxide intensity was 14.1 tonnes CO<sub>2</sub> equivalent per million kronor in revenues (net sales), which is an improvement of just over 13% compared with the previous year. The krona strengthened against the dollar during 2020 which contributed to a lower improvement measured in kronor.

Expressed in simple terms, this means that with Metric 1 we calculate how much we own of the company and take this in relation to emissions while Metric 2 calculates the weight of the company in the portfolio. This means if we own a large part of a company that has high emissions, we get a high intensity in Metric 1 but with exactly the same ownership share in the company but where the holding has a low weight in the total portfolio, Metric 2 gives a lower intensity.

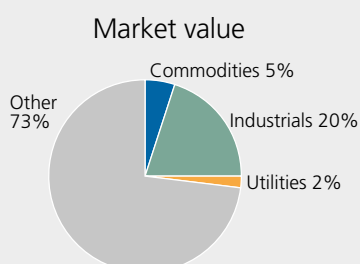
### Metric 2

There are different methods for reporting carbon footprint and during 2019 the Swedish Investment Fund Association published a standard for calculating carbon footprint adapted to the changes that have taken place in recent years. These include the fact that the EU Non-Financial Reporting Directive is used in the Swedish Annual Accounts Act, that several new investor-led climate initiatives have been launched, and that the EU has presented its plans for a sustainable financial market. In addition, the Task Force for Climate-related Financial Disclosure (TCFD) presented recommendations for climate-related financial information and the initiative's framework has in a short time started to be used by most climate initiatives, reporting frameworks and the EU Commission. In this metric the recommendation is that an intensity measurement is used that shows the portfolio's exposure (not ownership as in metric 1) to carbon dioxide intensive companies. The carbon dioxide intensity is measured as a portfolio company's carbon dioxide equivalent in relation to the portfolio company's revenues and then the carbon dioxide intensity is calculated as the weighted average of carbon dioxide intensities for individual companies in the portfolio.

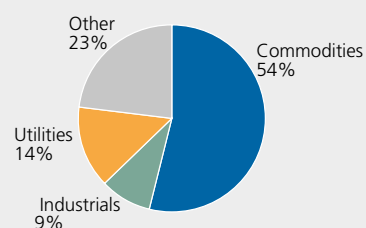
On 31 December 2020, **Metric 2** showed a 46.6% lower weighted average carbon dioxide intensity than our benchmark index MSCI ACWI at the same time. Compared with the previous year, our portfolio has a 27% lower weighted average carbon dioxide intensity measured in dollars.

Measured in kronor, the portfolio's weighted average carbon dioxide intensity was just over 10 tonnes CO<sub>2</sub> equivalent per million kronor in revenues (net sales), which is an improvement of just over 17% compared with the previous year. The krona strengthened against the dollar during 2020 which contributed to a lower improvement measured in kronor.

The sector which contributed most to the society's carbon footprint was commodities which accounted for 54% of emissions. Utilities accounted for 14% and industrials for 9%. These three sectors together comprise 27% of the equity portfolio but account for 77% of carbon dioxide emissions.



Contribution to carbon dioxide emissions



Source: MSCI ESG Research, Carbon Portfolio Analytics

## Climate risks

Working with sustainability issues in the investment operations is not just about analysing an investment's environmental impact. In recent years it has become clearer that climate-related risks will lead to increased financial consequences for the business environment and in our investments. These climate risks affect our decisions and are something we must take into account in our investments in order to achieve our aim of delivering a secure and sustainable return to our members.

Within the framework of Kåpan Pensioner's own risk and solvency analysis (ORSA) we have started work on being able to assess the climate risks in our investments. The

financial impact from climate risks is normally divided into two categories:

- **Adjustment risk** – the risk of a lower market value in the investments caused by environmental legislation, new technology which replaces products, or that consumers make more environmentally-aware choices.
- **Physical risk** – the risk of a lower market value caused by damage to property or businesses as a result of climate-related events such as floods, fires or water shortages.

### Assessment of the equity portfolio's climate risks

Our investments are affected by both these categories and we have chosen to restrict the calculations to our equity investments. We have had help with the calculations from SEB.

The calculations utilise three scenarios based on the IPCC's (UN climate panel) climate scenarios and data which are then converted to a financial analysis at company level to evaluate the assessed climate risks' financial effect where all climate-related cash flows up to 2030 are calculated at present value using WACC as the discount factor. The calculation of the effect of adjustment risk is based on a number of assumptions about the parameters carbon tax, increased market share for renewable energy sources and production of fossil fuels (oil, gas and coal).

The calculations stretch to 2030. The largest negative effect on the society's equity portfolio and therefore the highest risk gives the scenario an ambitious transition (the calculations are made with a high carbon tax, high proportion of

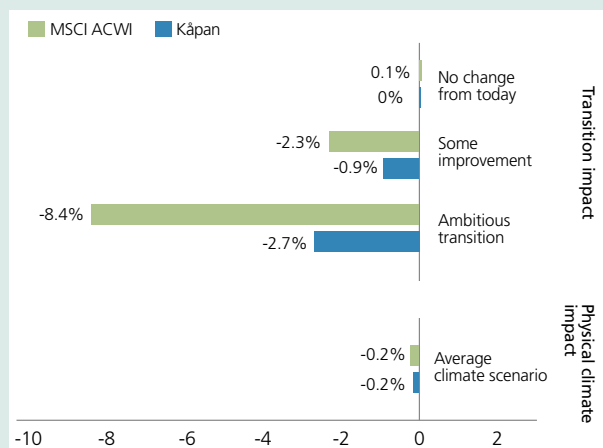
renewable sources of energy and thus reduced production of oil and gas). In this scenario it is estimated that transitioning costs will arise corresponding to 2.7% of the managed capital. We will be less affected than our benchmark index due in part to differences in sector and geographic allocation. In the energy sector, for example, we have sold off a large part of our holdings in oil and coal which reduced the risk in our portfolio.

Estimating physical risks is considered to only have a limited effect on the portfolio for the next ten years and therefore these have not been developed in different scenarios.

Transition risk scenarios are based on the IPCC's Representative Concentration Pathways (RCP).

- **RCP 8.5** – No change from today, which probably means that the Paris Agreement is a long way from being met.
- **RCP 6.0** – Some improvement, which probably means a slow change to lower warming but insufficient to meet the Paris Agreement.
- **RCP 2.6** – Ambitious transition, means sufficient improvement to meet the Paris Agreement.

Climate impact as percentage of equity portfolio's total managed assets or total market cap for index



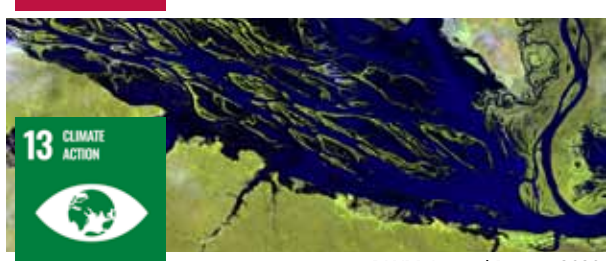
Source: SEB Climate Risk Model February 2021.

#### Disclaimer:

This information is based on data from sources that have been accessed by SEB but SEB takes no responsibility for the veracity or accuracy of this information. Some information is based on assumptions and estimates for companies that do not report (for example sustainability data) in their annual reports. No warranty, express or implied, is made by SEB or any identified third-party supplier regarding completeness, level of detail, infringement of third-party rights, saleability or suitability for a given purpose and the information is not to be considered as any form of creditworthiness or sustainability rating for the units reviewed. The recipient of the information must derive their own opinion of the companies covered by the information.

## Examples of our sustainability initiatives

We work continually to improve our sustainability initiatives. We want our members and other stakeholders to be able to easily follow and update themselves about the work we are doing within sustainability. We regularly publish on our website, [kapan.se](http://kapan.se), the activities that we, our partners or our managers are carrying out in order to improve our sustainability work. In this section we discuss a some activities that took place during the year.



DWM Annual Report 2020.

### A fixed-income investment aimed at global sustainability goals

During the year we participated as an anchor investor in a newly started fund directed at lending to microfinance institutions in developing countries. The fund is managed by Developing World Markets (DWM) and has as its aim to provide good returns and promote the UN global sustainability goals such as fighting poverty, reduced hunger, education, equality, good health, clean water and renewable energy. The fund lends to microfinance institutions which then finance microbusinesses in areas such as women in business, developing agriculture and renewable energy. Lending is primarily in Asia, Africa, Latin America and Eastern Europe. DWM has exceptionally long experience of investing in microfinance in developing countries.



Eurofima

### Green bonds growing

During the year we have significantly increased our pace of investment in green bonds. We have more than doubled our holdings during the year and the proportion of green bonds at year-end was approximately 10% of the bond portfolio. To ensure a continued increase in the pace of investment we have broadened the mandate for green bonds.

During the year many of the property companies we invest in issued green bonds. Svenska Handelsfastigheter issued green bonds which are a significant component in the company's continued work to conduct long-term sustainable operations. As owners, we believe that it is important to support this development. White Peak, a Swedish owned property developer which builds homes in Asia, also issued a green bond during the year in which we have invested. All projects have Nordic standards and sustainability as examples which led to considerable attention and interest for the projects. White Peak has among other things been ranked byGRESB – the world's leading ranking institute in this area – as sector leader within sustainable homes development in Asia in 2019.

We have increased our holdings in green bonds from issuers where we had already invested and in addition we have invested in a number of bonds with varying, and for us key, aims and objectives. For example, we have invested in a newly issued green bond focusing on modernising Europe's railways. The bond was issued by Eurofima and supports development of passenger traffic, infrastructure and rail operators' equipment. Eurofima is a collaboration organisation which was started in 1956 and today work is carried out by 25 countries and 26 stakeholders. From the outset Eurofima contributed to a more sustainable society and has over the years among other things financed 313 billion kilometres of track on which 30 billion passengers have been transported by an environmentally friendly alternative.

“  
152 million tonnes of  
carbon dioxide emissions  
have been avoided

152 million tonnes of carbon dioxide emissions (scope 1) have been avoided compared with transport by road. We have also added a green bond issued by Svensk Exportkredit which finances green loans to promote the transition to a climate-smart economy.

In addition to increased investment in green bonds we have made an investment during the year focused on social factors. We have invested in a benchmark bond issued by The International Development Association (IDA) which is part of the World Bank. This is the first time IDA has issued a bond in Swedish kronor and the proceeds of the bond are intended to support the activities of IDA's member states in achieving sustainable development. Especially important at this time is that IDA is able to continue to support its member states in handling and addressing the human and economic effects of Covid-19.





## 113,000 hectares of forest in carbon dioxide reduction projects

Over the past ten years, Kåpan Pensioner has invested in forests both directly through Gysinge Skog (formerly Bergvik Skog) and via a number of overseas funds. One of our largest fund holdings is in the American manager Molpus Woodlands Group (Molpus). Molpus has a long tradition of sustainable forest management and they currently manage some 770,000 hectares of certified productive forest land.

Kåpan Pensioner has invested in two of Molpus' funds which manage approximately 370,000 hectares of productive forest land comprising a mixture of softwood and hardwood species. The forests are certified by the Sustainable Forestry Initiative (SFI) which is the American certification programme within PEFC, and 25% are also certified by the Forest Stewardship Council (FSC).

Molpus has a well-established system, management and policies for promoting sustainable forest management and key indicators are used to measure and quantify the effects and results of sustainability activities. For example, Kåpan's holding in Molpus includes over 8,000 kilometres of waterways protected by edge zones which provide a buffer to maintain normal water and shade conditions that are essential to filtering runoff, stabilising soil to minimise erosion and supporting flora and fauna in the protected areas. Key from a social perspective is that just over 52% of the land has been made available to the public. Land for public use is set up in collaboration with federal agencies to provide the general public with access to recreation.

Finally, over 113,000 hectares of Kåpan's fund investments are part of carbon dioxide reduction projects. These projects are run by both voluntary carbon dioxide compensation and the California Climate Action Reserve (CAR) a national programme in the USA for handling carbon credits. Altogether these initiatives have a positive outcome for the overall environment and the communities where the forests are located.



Molpus

## Emerging market fund with low climate impact and high ethical aims

For many years we have worked on concentrating our fund holdings in emerging markets to funds with a clear sustainability focus. Development is towards a larger offering with more variable factors and during the year we joined two other institutional investors in a newly started emerging markets fund with a strong sustainability profile and low climate impact. The fund, Nordea Emerging Markets Sustainable Enhanced Equity Fund is managed by Nordea Asset Management and is part of their Beta+ offering. In addition to standards-violating companies, the fund

deselects companies involved with weapons, gambling, adult entertainment, tobacco and companies that exploit fossil fuels. A further 86 fossil-intensive companies were excluded based on their carbon dioxide emissions and the size of their fossil reserves. The carbon footprint of the fund is 60% lower than the index (MSCI Emerging Markets Index). The fund selects companies from "best in class", i.e. companies with a high ESG ranking according to MSCI's rating. The fund's relative risk against the index will be kept low.



Global Real Estate Sustainability Benchmark (GRESB) is an international ranking organisation which every year assesses and measures sustainability work in the property and infrastructure sectors. The ranking assesses sustainability work from three perspectives: environmental issues, social issues and governance (ESG). In 2020, over



1,200 property portfolios and 540 infrastructure portfolios reported to GRESB. The data is used by institutional and financial investors to monitor investments and as a decision basis for navigating the strategic choices needed for the industry to transition to a more sustainable future.

### Tailwind for our alternative investments

Through one of our infrastructure investments JP Morgan Infrastructure Investment Fund, we are invested in Ventient Energy, one of the UK's leading companies in wind-power production.

In GRESB's 2020 ranking and evaluation of infrastructure companies, Ventient has been named best company within wind-power production as well as best company overall in the segment renewable energy production.

Further good news regarding Ventient Energy is the result of a report that was published at the end of November 2020. Construction of Ventient's Causeymire wind farm (near Spittal in Scotland) consisting of 21 turbines started in 2003 and right from the start until completion in 2019 a comprehensive programme was carried out to catalogue and monitor the effect on flora and fauna as well as a number of actions being taken to promote development of biodiversity on the site. The result of the final report shows a number of positive environmental effects in addition to the fact that the farm produces renewable fossil-free energy. The proportion of sphagnum moss on the site has increased from 11% to 48%. The significant growth of sphagnum has led to increased amounts of peat which in turn binds

carbon dioxide. Sphagnum and increased access to water through the ponds which have been built have contributed to a marked increase in the numbers of nesting birds on the site as well as the number of species.

In addition, with more sphagnum and resulting peat production it can also be noted that Causeymire not only generates electricity without carbon dioxide emissions but at the place where the electricity is produced the capacity to sequester more atmospheric carbon dioxide increases. Environmentally it does not get much better than that.

Quote from Site Manager Jon Priddy

### Summary of sustainability work in investment operations

The method chosen by the society, combining both positive and negative selection, achieves the aim of a good ethical level in investments based on decisions made by government authorities and the organisation's resources.

The method stimulates a process of continuous improvement which can be maintained within the framework of the overall aim of a good return at low cost for investment operations as a whole.

## IN DEPTH

## International principles and conventions

Kåpan Pensioner's investment management is based on the investment guidelines that regulate the ethical frameworks for management and are based on ethical norms and principles that are widely supported in Swedish society.

Investment management is guided by the principles in international conventions. These principles have in recent years acquired increasing significance due to a greater focus on sustainability throughout society as well as among players in the financial market.

The UN has played a leading role in many of the basic principles drawn up as a starting point for companies and society. The UN Global Compact for companies was formed in 1999. A corresponding stakeholder group was founded on the initiative of the UN in 2005 for financial market

players, the UN PRI, which stands for the UN's Principles for Responsible Investment. Today more than 3,000 financial players worldwide are affiliated to UN PRI.

An increased focus on sustainability has also been brought to the fore with the UN's 17 global sustainable development goals adopted by world leaders in 2015, the 2030 Agenda. The overall goals are to eradicate extreme poverty, reduce inequalities and injustice in the world and solve the climate crisis.

### UN Global Compact:

Contains principles for human rights, rights at work, environment and anti-corruption aimed at companies. The ten principles have been drawn up based on the UN Declaration of Human Rights, the International Labour Organisation's (ILO) Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the UN Convention Against Corruption.

### UN Principles for Responsible Investment (UN PRI):

The six principles promote responsible investment. The intention is to increase responsible activities within ethics and the environment among companies and players.

#### Global Compact's 10 principles

##### Human rights

1. Businesses should support and respect the protection of internationally proclaimed human rights; and
2. make sure they are not complicit in human rights abuses.

##### Labour

3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
4. the elimination of all forms of forced and compulsory labour;
5. the effective abolition of child labour; and
6. the elimination of discrimination in respect of employment and occupation.

##### Environment

7. Businesses should support a precautionary approach to environmental challenges;
8. undertake initiatives to promote greater environmental responsibility; and
9. encourage the development and diffusion of environmentally friendly technologies.

##### Anti-corruption

10. Businesses should work against corruption in all its forms, including extortion and bribery.

#### PRI's six principles for responsible investment

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest
4. We will promote acceptance and implementation of the principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the principles.
6. We will each report on our activities and progress towards implementing the principles.

## UN's Sustainable Development Goals – 2030 Agenda

With the 2030 Agenda, the member states of the UN have committed to 17 global goals to:

1. eradicate extreme poverty
2. reduce inequalities
3. solve the climate crisis
4. promote peace and justice

The 17 global goals with their 169 sub-goals are the most ambitious agenda for sustainable development that has been adopted and give a clear expectation that nations, the public sector and business will contribute to solutions to the common challenges.

### UN global goals



#### Controversial weapons:

- **Cluster munitions** – the Convention on Cluster Munitions (CCM) forbids the use, production, stockpiling and transfer of cluster munitions.
- **Chemical weapons** – the Chemical Weapons Convention (CWC) outlaws the development, production, stockpiling and use of chemical weapons.
- **Biological weapons** – the Biological and Toxin Weapons Convention (BTWC) is intended to prevent the development, production and stockpiling of biological weapons.

## OECD Guidelines for Multinational Enterprises

Joint recommendations for enterprises from 40 governments. These recommendations partly overlap the UN Global Compact, but also include aspects on how companies should handle the provision of information, consumer interests, science and technology, competition and taxation.

### Oslo and Ottawa Conventions:

Totally prohibit the use, stockpiling, production and transfer of anti-personnel mines (AP mines). They also contain rules on the destruction of AP mines, mine clearance and assistance to victims of landmines.

Additional conventions that Sweden supports include controversial weapons.



## Sustainability – Insurance

### Sustainable traditional insurance

For Kåpan Pensioner, accepting responsibility with respect to our members is part of sustainability work. This applies to the various insurances we offer, guarantees and interest as well as surplus and generation savings. We are a default alternative and are therefore extra careful to guarantee confidence and security for our members who did not make an active choice themselves.

Kåpan Pensioner works solely in the government agreement sector and does not offer insurances in other agreement sectors. Nor does the society offer any unit-linked insurance. The strategic focus means that marketing efforts and dedicated resources to build value in a brand can be restricted. From a sustainability perspective this means that mailshots and other types of promotion can be avoided which leads, among other things, to reduced environmental impact and the society's low level of costs. The society also minimises resource requirements by refraining from collaboration with various types of insurance agents in distribution of its insurances. The society does not, therefore, pay any commission or other form of sales-stimulating remuneration to external players.

The National Government Employee Pensions Board (SPV) in Sundsvall is engaged to administer parts of the insurance administration operations. This assignment includes maintenance of the society's insurance administration system, checking premium payments, issuing annual and pension statements, providing a smooth-running customer service unit and handling pension payments. To satisfy the requirements that the society must follow as an occupational

pension society we have created our own management and procurement organisation and signed a new renegotiated agreement with SPV covering various parts of the insurance administration operations.

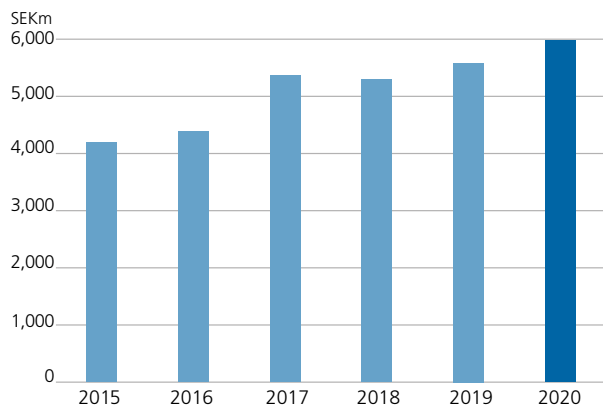
#### Secure insurance

Kåpan Pensioner's principal business is the compulsory and default components of occupational pensions in the government collective agreement sector. Members who do not make an active choice of pension manager within the agreement sector will have their premiums paid into Kåpan Pensioner. During the year paid-in premiums totalled SEK 5,978m.

Kåpan Pensioner's traditional insurance is designed to suit those who do not want to make an active choice or put time or effort into their pension savings. The aim of the

During the year  
paid-in premiums totalled  
SEK 5,978m.

### Paid-in premiums



design of the insurances is to give members a return that reflects the risk assessed as reasonable in relation to the long-term stability that is expected from traditional pension insurance. Kåpan Pensioner has a high proportion of members who have not made an active choice of occupational pension manager and who probably also have limited interest in pension management. For the component of pension premiums where there is a choice, the society receives the bulk of premiums and the proportion has risen in recent years. Kåpan Pensioner therefore has a responsibility for the design of the guarantees and obligations found in the insurance terms.

Saving in traditional insurance is a trade-off between the security provided by the commitments made by the society in every insurance and the possibility of taking a risk in investments which can give a higher anticipated return. The commitments in the insurances are:

- protection of paid-in capital through a guaranteed interest on paid-in premiums,
- protection against high charges through a specified maximum charge until the pension is paid out,
- protection in the long term through a commitment to pay the pension for life.

A high level for the various components of the commitment means fewer opportunities to take risks. It is up to the society to strike a balance and continually adjust operations to changes in the business environment in order to meet commitments in a long-term sustainable manner.

### Guaranteed interest and protection of paid-in capital

Each insurance premium has a premium guarantee in the form of interest on the paid-in capital until it is paid out as a pension. The interest applies unchanged for each individual premium paid in. In other words, the paid-in capital is secured against reduction in size.

The interest guaranteed by the society has changed over time and been adjusted to developments in the capital market. In step with the fall in market interest rates, the guaranteed interest has also decreased. Since 1992 the society has received premiums on which it has paid guaranteed interest. The return on the society's investments must over time exceed the guaranteed level in order to be sustainable over time.

In recent years, asset management has delivered a significant surplus which provides a buffer for the future. This buffer can be calculated in different ways but the method that is currently used in Sweden and by the society is based on guidelines decided by the Swedish Financial Supervisory Authority.

The value of the society's outstanding obligations at year-end 2020 amounted to approximately SEK 61 billion which can be compared with the society's total assets of just over SEK 113 billion. The society's solvency ratio at year-end was 183% which exceeds the statutory limit of 104% by a wide margin.

The society has a very good solvency ratio

**183%**

It should be noted, however, that several times in recent years the Financial Supervisory Authority has changed the calculation method which affects the value of the outstanding obligations. There are also restrictions in the Swedish bond market which make it difficult when it is necessary to secure outstanding obligations with matching investments in a sustainable manner.

### Low charges

In the same way that the society guarantees the capital from paid-in premiums, protection against high charges is included. The statutes state that the cost of administering the insurance shall not exceed 0.2% of the capital per year.

#### Charges for traditional insurance for government employees

Insurance provider	Annual fixed charge, SEK	Variable charge as % of pension capital
Kåpan Pensioner	6	0.10
Alecta	75	0.20
AMF	75	0.18

Source: Valcentralen.se

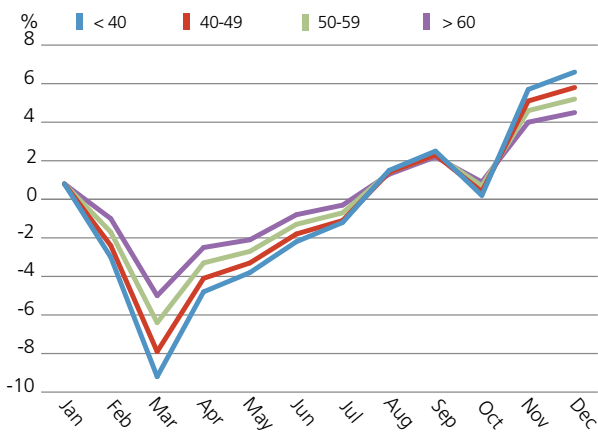
Administrative expenses have fallen over time and amounted to 0.06% of the insurance capital in 2020.

The society continues to try to reduce costs and thus provide a higher paid-out pension. The fixed charge per insurance is SEK 6. The variable administration charge in 2020 was 0.06% of the pension capital. The cost of investment management was 0.04% of the pension capital. Altogether the costs that the society charges to members' insurances are at a significantly lower level than other players registered with Valcentralen (Choice Centre) for the government agreement sector.

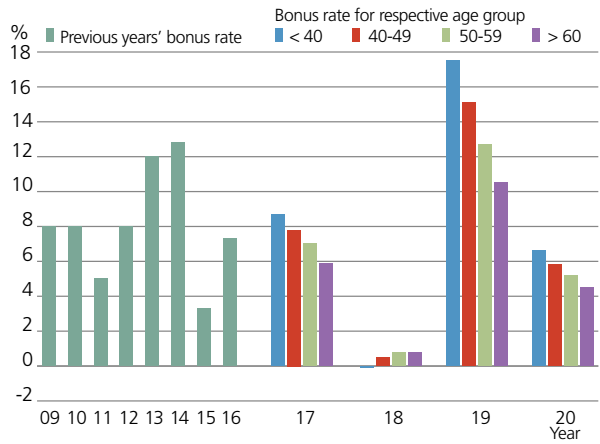
### Fair distribution of capital and costs

Kåpan Pensioner operates on the basis of two overall principles for the insurance business. The first is the precautionary principle. This means finding a reasonable balance between an assessment of the expected outcome for different assumptions and the risk level of these assumptions. The second is the contribution principle which means that each insurance should bear the returns, risks and costs which the insurance is assessed to contribute to or cost the business. To ensure that the principles are followed, the responsible actuary prepares a technical provisions report for the Board and the Swedish Financial Supervisory Authority.

### Accumulated monthly bonus rate 2020



### Annual bonus rate



In order to ensure fairness between members, Kåpan Pensioner uses monthly bonus interest with ongoing distribution of the society's surplus and deficit to all insurances. This means that the surplus is continuously allocated to the insurances and that no surplus or deficit is retained undistributed at a collective level. The bonus interest can therefore be positive or negative.

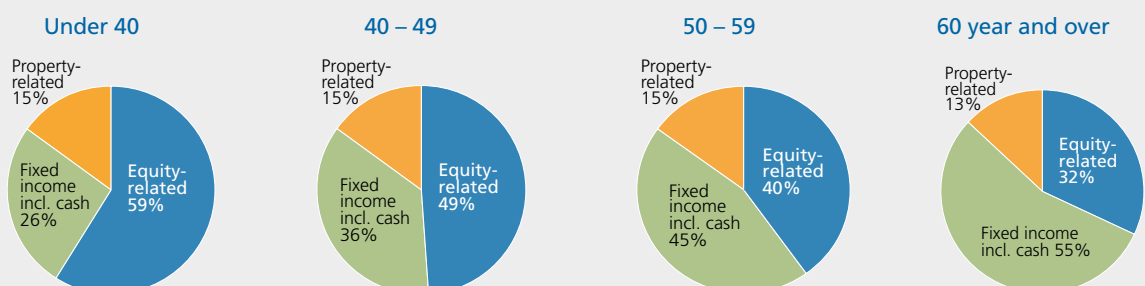
### Generation savings for fair distribution

Fairness between members is further improved by the society's use of so-called generation savings. This means that we split the membership into four generation groups where the youngest group has a greater proportion of high-risk assets in their portfolio. The proportion of equities is successively reduced with age. The four different groups thus have different amounts of high-risk assets and therefore different bonus interest rates.

### Commitment to pay pension for life

Changes have been made to the occupational pension agreement PA 16 which mean that the pension will be paid for life unless the insured applies for an alternative. With this change we have revised all insurances so that in their basic configuration payment is for life. In previous pension

### Distribution of investments for each age group across the three asset classes



agreements a large part of premiums went into an insurance with temporary payment in its basic configuration. Before payment of the pension starts, members can choose the desired payment period. In the members' insurance there is also a lifelong guarantee associated with each premium payment in the same way as the guaranteed interest. The lifelong guarantee means that even if future assumptions about life expectancy change, the assumptions that are guaranteed at the time of payment will not worsen.

The life expectancy assumptions used by the society determine the size of the monthly pension payment. A lifetime pension is paid out for life and the members' different life spans are balanced within the framework of the insurance operations as a whole. The society uses gender-neutral life expectancy assumptions. This means that when the pension is calculated based on available pension capital, the amount of the pension payment will be the same regardless of gender. The society's actuary continually follows up the sustainability of the assumptions used to calculate outstanding insurance commitments and life expectancy.

### Repayment cover means a lower pension

Members can choose whether or not to have repayment cover for all their premiums and in the event of changed family circumstances change this for their entire pension capital. Repayment cover means lower expected pension payments (3%–10%) in exchange for the existing pension capital being paid out to designated survivors. The parties in the government sector have chosen in the PA 16 pension agreement to assume insurance without repayment cover for all premium payments.

Within the framework of the government collective agreements there is relatively good cover for survivors other than through repayment cover. A defined contribution-based pension insurance has its maximum capital when pension payments start. The insurance cover provided by repayment cover is relatively limited for younger members which means that a separate life insurance is normally a better choice if the cover in the collective agreement needs to be reinforced.

Repayment cover means you receive a lower pension

Age	Payment	
	For 5 years	For life <sup>1)</sup>
25	- 6%	- 10%
55	- 3%	- 7%

<sup>1)</sup> The figures are based on a new employee continuing to work until age 65.

### Members' integrity

Kåpan Pensioner is responsible for sensitive personal data and other member information. It is therefore essential that this personal data is protected by the greatest possible security. The information is primarily stored by SPV, which administers the insurances. They work among other things with training employees to ensure competence in the General Data Protection Regulation (GDPR<sup>\*)</sup> covering protection of integrity, data security, data storage and confidentiality. Kåpan Pensioner and the National Government Employee Pensions Board have a personal data representative who is the contact with the authorities and responsible among other things for helping the business interpret and apply current regulations for personal data processing.

### The Occupational Pension Fund Association

Kåpan Pensioner is a member of the Occupational Pension Fund Association and also participates as an expert when new regulations for the pension system are being developed for example by participating in studies or responding to consultations. This means that members' interests are also taken into account at higher levels.

<sup>\*)</sup> The General Data Protection Regulation (GDPR) includes rules for how personal data may be processed. GDPR applies throughout the EU and aims to create a uniform and consistent level of protection of personal data.

### Summary of sustainability work in insurance operations

Kåpan Pensioner conducts its business in order to provide members with a long-term sustainable pension insurance. The society acts on the basis of what is best for all members as a whole within the framework of balanced risk and efficient operations. The commitments that the society makes by providing insurances to members are handled on the basis of fundamental insurance principles. Outstanding obligations are assessed to be able to be met in the long term through fair distribution and cautious buffers in the commitments made. The aim is to continue to conduct the business in a balanced and sustainable way at the lowest possible cost.





## Sustainability – Organisation

### Sustainability initiatives in ongoing operations

Kåpan Pensioner has over 850,000 members and therefore a major responsibility to communicate and provide information on the pension and pension savings that members have in the society.

To simplify the overview for members of their entire pension savings, Kåpan Pensioner cooperates with the organisation Min Pension (my pension) where an individual's total pension savings are reported regardless of whether they are state pension, occupational pension or private pension savings.

#### Information to and contact with members

Pension savings in Kåpan Pensioner is a compulsory component of the pension agreement in the government agreement sector. Experience shows that many members have a low interest in their pension savings until it is time to retire which makes special demands on information and objectivity. This means that the society cannot rely solely on members actively seeking information. The focus is therefore to provide complete information via the website, customer service, and targeted mailshots once a year to members who have not actively chosen a digital alternative for information.

The long-term goal is to reduce the number of mail items and increase the use of digital channels for information and services. In 2020 the number of mailshots was approximately 870,000 of which 44% were sent digitally. The proportion of digital mailshots increased from the previous year when it was 31%. We expect the figure to improve further next year since we digitalised many of our mailshots in 2020 and will have all of them digitalised by the first quarter of 2021.

#### Kåpan's member contact

Year	Voice	Mail
2020	16,475	11,997
2019	16,436	8,943
2018	13,129	7,275

During the year we had 226,000 visits to our website. Of these 138,000 logged in to Mina sidor (my pages). We can see that many of our members chose to use our e-services. Of those who chose to change repayment cover, 95% used the e-service. For those who applied for a pension, 91% used the service which is an increase from 2019 when 86% used the e-service. In December 2019 Mina utbetalningar (my payments) was launched on kapan.se. This service allows members to see what is to be paid out and how much tax has been deducted. They also have the option to increase the tax deduction through the service. In 2020 Mina utbetalningar had almost 24,000 visits and just over 1,000 people raised their tax deduction via the service.

We have short response times. In 2020 we received just over 16,000 calls. 77% of these calls were answered in less than three minutes. We received nearly 12,000 e-mails and have a target of responding by the next working day at the latest, which to a great extent was met.

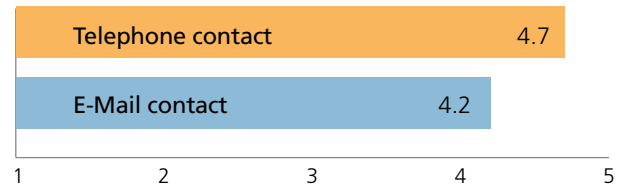
### Follow-up of information to members and customer satisfaction

Customer service handles a large number of questions. It is therefore important to know how well our service and information is perceived. We are in contact with members through several different channels. Personal contact can be via telephone or e-mail. Other contacts can be through a visit to the website or a mailshot of pension information.

In order to monitor the experience, during the year we carried out surveys among those who contact us by telephone or e-mail. We ask among other things how satisfied they are with each channel as a whole using a scale of 1–5, where five is very satisfied. By continuously measuring satisfaction we obtain significantly more answers as a basis for our assessment. Those who contact us or use our services are on the whole satisfied. The satisfaction value for those who contacted us by telephone is 4.7 and 4.2 for those who contacted us by e-mail.

To find out more about what affects overall satisfaction, we also ask more specifically how they experience our service and information and the majority of the free-text responses we receive are positive. What we can see from the free-text responses is that those who call us experience a friendly and competent response. They also appreciate the short response times.

### Customer satisfaction 2020



### Examples of free-text responses

“Quick to answer, friendly contact and good information.”

“Friendly, quick and knowledgeable contact!”

“Easy to get through. Clear friendly contact good service.”

### Emissions from business travel

As a small service company with few employees, Kåpan Pensioner has no direct emissions of any significance. The society's largest climate-related emissions occur with business travel. Kåpan Pensioner's travel policy governs travel for the employees. A business trip, choice of route and means of transport must be based on a trade-off between cost efficiency and the environmental impact of the journey. Rail journeys are preferred to flights since they are a more climate-efficient means of travel, especially for trips under four hours. Flights should be made in economy class, unless there are special circumstances, since this gives better use of resources. This also applies to travel outside Europe. The policy for the society's company cars is that these should be zero emission or meet the requirements for super ultra-low emissions vehicles. A condition, however, is that the necessary infrastructure is in place and available to individual employees.

## Skills development and equal opportunities

The society has few employees. This means that committed and skilled staff are decisive for Kåpan Pensioner to be able to run its business. Equal opportunity is an obvious and basic requirement. At the same time it is important that all assessments are made on objective grounds and in the first instance within a framework of skills and suitability. Recruitment and skills development are carried out based on prioritising equal opportunity and treatment as fundamental values.

The society has an even gender distribution in the Board and in the organisation. Within the different areas of competence in the organisation, gender distribution is also even.

The strategy is that Kåpan Pensioner should be a society entirely without discrimination and which strives to give all employees equal rights and development opportunities. We work actively with our internal culture to take advantage of differences and their positive effects. The organisation's limited size means that comprehensive reporting according to the Global Reporting Initiative (GRI) is judged to create integrity problems which means that only limited reporting is made of equal opportunity in the organisation.

## Suppliers

The society's main supplier, SPV, is an authority which operates under rules decided by the Swedish parliament and government. Kåpan Pensioner strives to have the authority make optimal use of its resources within the limits of current regulations.

Suppliers of IT services to the business are responsible for ensuring that operations and maintenance are resource-efficient and that redundant hardware is recycled in accordance with current regulations and contracts.

Sustainability work is also about providing a good, flexible working environment

### SWESIF

Kåpan Pensioner is a member of SWESIF, Sweden's forum for sustainable investment. This is a way to learn more and monitor development with sustainability initiatives in the industry as well as to become involved in lobbying centred on sustainability issues. We have taken part in several seminars where sustainability has been discussed.

## Kåpan Pensioner's energy consumption office premises

Annual consumption kWh	Stockholm	Sundsvall
Operations electricity	16,700	3,870
Property electricity	20,587	2,660
District heating	12,161	7,335
District cooling	1,125	927
Total kWh/m <sup>2</sup>	140	172
<b>Premises climate impact</b>		
Carbon dioxide emissions, electricity	0	0
Carbon dioxide emissions, district heating	592 kg	0
Carbon dioxide emissions, district cooling	0	0
Water consumption m <sup>3</sup>	156	11

The society rents office premises in Stockholm and Sundsvall. The landlords' sustainability work is to take long-term responsibility environmentally and socially as well as for economic development by providing good, flexible working environments, continual monitoring of existing climate systems, changing over to low-energy lighting, choosing green electricity, providing space for waste sorting, and in Stockholm installing chargers for electric cars in the garage and offering tenants a bicycle garage. The society has chosen green leases and participates in the landlord's sustainability initiatives by monitoring and taking part in activities offered by the landlord as well as working with its own plans and targets for improvements.

## Summary of sustainability work in ongoing operations

The society's own organisation is small which means limited direct impact in a holistic sustainability perspective. The greatest impact is from the society's need of information on operations and individual savings. A large proportion of the membership do not actively seek information about their pension. The aim is that those members who have not chosen a digital alternative for information shall receive good and concise written information about their pension savings once a year. Overall the society is assessed as running its ongoing operations in a resource-efficient manner and the aim is to try to find a long-term balance between the need for good information and the environmental impact that distribution of paper always involves.

## Regulations and governance – basis of the business's sustainability work

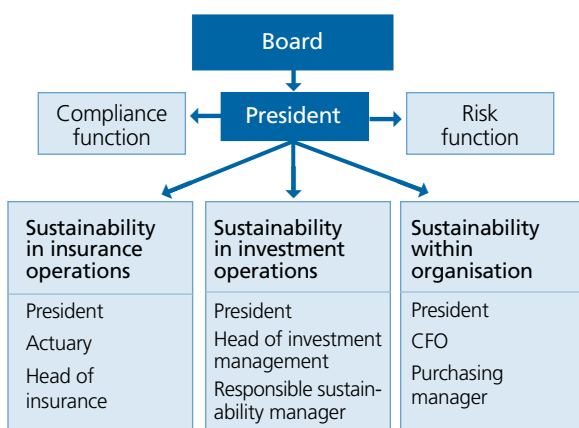
Kåpan Pensioner's sustainability work is based on the society's statutes and the strategic direction decided by the Board. The focus that applies to the society is stipulated in investment guidelines, actuarial guidelines and rules for risk management decided by the Board. The President has operational responsibility for sustainability work being carried out in practice and covering the entire operation.

### Sustainability work is an integrated part of the organisation

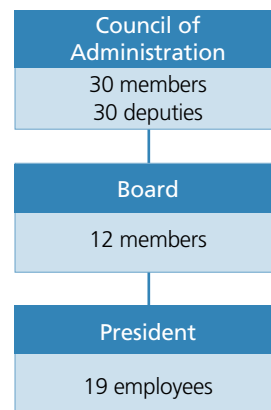
Kåpan Pensioner's most important contribution to a sustainable society is the provision of a secure pension at the lowest possible cost. The society belongs to its members and all surplus is returned to them in the form of a higher pension. Kåpan Pensioner's Board has ultimate responsibility for the society's activities where sustainability initiatives form an integrated part.

The President is responsible for operational implementation of the strategic plan and the targets set by the Board. Sustainability work is governed by the Board's adopted strategies and goals as well as the rules and laws that apply to the business. All employees are responsible for ensuring that sustainability is an integrated part of day-to-day operations and is present in all decisions made. It is of utmost importance that the business is run in such a manner that members' confidence in Kåpan Pensioner is maintained and the operations are regarded as healthy and responsible.

### Organisational structure for integrated sustainability work



### Board and management



### Council of Administration

According to the statutes, the society's highest decision-making body is the Council of Administration. The Council has thirty members and the same number of personal deputies. The members are appointed by the parties in the government sector with half being appointed by the Swedish Agency for Government Employers and half by the trade unions.

This means that the Council of Administration represents employers and trade union members equally. Members must be members of the society and they are appointed for a mandate period of one year by their respective organisations.

### Board

The Council of Administration appoints Kåpan Pensioner's Board which manages operations. The Board consists of twelve members where half are appointed by the employee side and half by the Swedish Agency for Government Employers. A member of the Board cannot be a member of the Council of Administration. The mandate period for members is one year with the possibility of re-election.

## Laws and regulations

Kåpan Pensioner is an independent legal entity in the form of an occupational pension society. The business is regulated by a number of laws enacted by parliament, primarily the Swedish Occupational Pension Companies Act (2019:742) as well as a large number of regulations issued by the Swedish Financial Supervisory Authority.

The regulations are based on the Occupational Pension Directive decided at EU level. Transition to an occupational pension society was completed on 1 January 2021.

There are also continual changes in external regulations which affect the society's operations and require updates to and changes in working processes and policies.

Kåpan Pensioner has a responsibility towards members, authorities and employees as well as other stakeholders of compliance with current regulations. Deviations or breaches of current regulations must be reported as incidents and an assessment of risks and regulatory compliance is reported regularly to the Board.

The society's business is governed by statutes decided by the society's Council of Administration. The statutes provide the basic conditions for operations and the limitations that apply.

Insurance conditions are determined by the current collective agreement and the society's statutes. The statutes are available on [kapan.se](http://kapan.se) and information on applicable pension agreements will be found on [arbetsgivarverket.se](http://arbetsgivarverket.se) or on one of the trade unions' websites.

To ensure that we get calculations right and the conditions of all insurances are followed correctly, the society has an actuary. The actuary is independently responsible to the Board and the Financial Supervisory Authority and is responsible among other things for calculating the value of the pension capital and the pension paid out. The actuary's work is based on the society's actuarial guidelines adopted by the Board.

The society's operations are continuously reviewed through internal controls which make risk assessments and specific analyses which are presented to the Board. Additionally, the Council of Administration appoints at least one ordinary authorised public accountant and at least one deputy authorised public accountant to review operations on behalf of the Council of Administration. The auditors present the result of their review to the Council of Administration each year. The Financial Supervisory Authority exercises oversight of the business.

## Changes in regulations

### EU regulation on sustainable finance

The EU has identified a major need for investment in sustainable alternatives to achieve the climate goal in the Paris Agreement. In 2018, the EU Commission published an action plan for strengthening and hastening work on sustainability in the financial markets. The aims are:

- steer the flow of capital to sustainable investments
- integrate sustainability into risk management
- promote transparency and long-term views on the capital markets

The action plan comprises ten points of which four are legislation including the Taxonomy Regulation, which is a classification system for sustainable investments, and the Sustainable Finance Disclosure Regulation. The latter must be complied with from 2021.

In addition to new regulations, existing legislation such as MiFID and regulations around insurance distribution are also affected.

### Insurance distribution

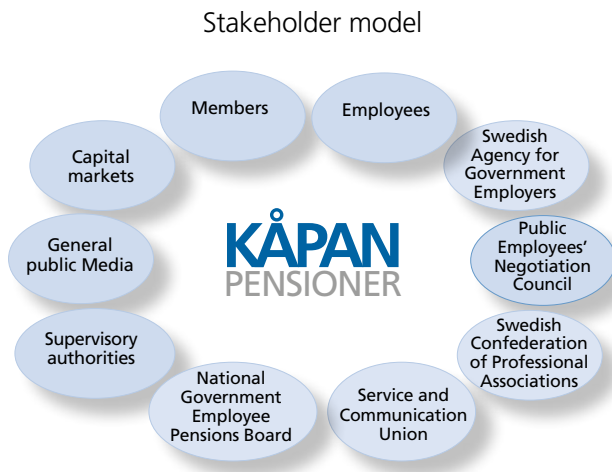
Sweden and other EU member states have common rules for insurance distribution. The background is the EU's Insurance Distribution Directive (IDD) which became effective on 1 July 2018.

EU countries have converged on the new legislation in order to harmonise insurance distribution. The law gives the customer increased protection among other things through rules on increased transparency and clearer information on insurance products. Starting in the first quarter of 2021, financial advisers must understand and take into account a customer's sustainability preferences in their advice.

## Stakeholders

Kåpan Pensioner's most important stakeholders are the society's members and the parties to the collective agreements in the government sector, primarily the founders of Kåpan Pensioner, the Swedish Agency for Government Employers (Arbetsgivarverket), the Public Employees' Negotiation Council (OFR/S, P, O), the Swedish Confederation of Professional Associations (Saco-S) and the Service and Communication Union (Seko).

Kåpan Pensioner's statutes govern operations and the composition of the Board. Individual members who wish to influence the society's operations and direction can make



their views known to a local trade union representative, the trade union main office or one of the members of the Council of Administration. Employers in the government agreement sector can also influence operations by contacting their representatives on the Council of Administration.

Employees are another stakeholder group which together with suppliers contribute to development of operations. Regular refinement and improvements are a pre-condition for a positive development of the business over time.

Kåpan Pensioner is under the oversight of the Financial Supervisory Authority and among other things pays tax on returns to the Swedish Tax Agency. This makes these authorities and agencies that decide on regulations significant stakeholders.

Taken as a whole, the stakeholder dialogue provides a good basis for the Board's work with making strategic decisions.

### The society's total long-term value creation

The value creation the society contributes is a long-term positive return on the society's investments combined with a falling level of costs due to high operational efficiency. The biggest actual costs that affect pension payments are the tax on returns and costs of investment and insurance management. Unlike many other players in the pensions sector, the society has marginal costs for marketing.

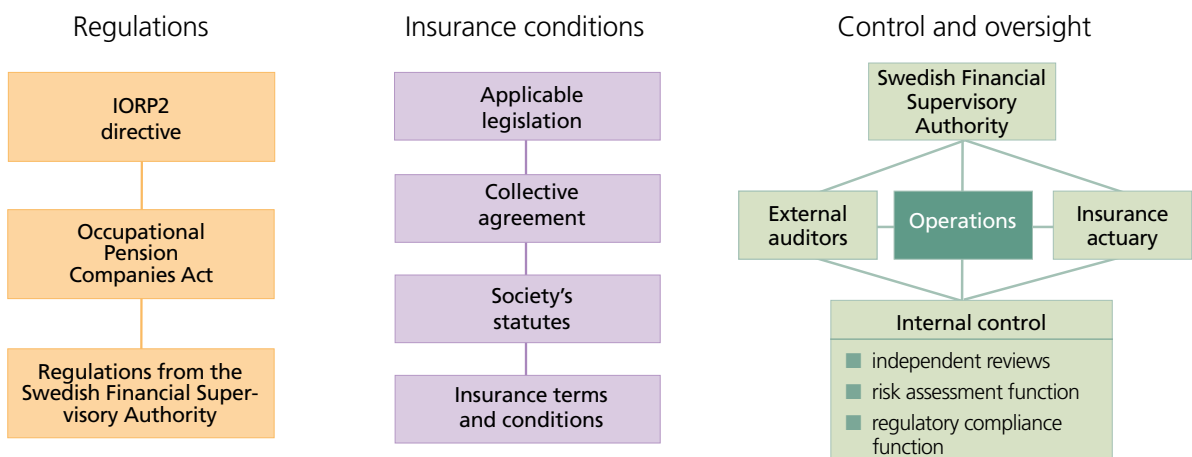
The business has no other purpose than to create value for its members. Costs that do not make a positive contribution to that goal should be avoided even if they can contribute to job-creation and welfare in other parts of society, but it lies outside the remit which is to carry out the assignment as well as possible in relation to the members.

### About the sustainability report

This sustainability report covers all operations within the society. This year's report has not been subject to an external audit.

This sustainability report summarises the society's sustainability work. The society's operations are limited and relate to a restricted group of members and only one insurance product. The development of rules, guidelines, instructions and other governance documents is often suited to regulation of operations in extensive global and commercial businesses and the proportionality principle is often difficult to apply to the society's stakeholders.

This sustainability report has been approved by the Board of Kåpan Pensioner.



A list of all the society's holdings can be found on our website, [kapan.se](http://kapan.se)

# KÅPAN PENSIONER



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