

KÅPAN PENSIONER

GOVERNMENT EMPLOYEES PENSION FUND

SUSTAINABILITY REPORT



2018



Kåpan Pensioner försäkringsförening (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. In addition, investments must be based on ethical standards and principles which are strongly rooted in Swedish society based on decisions made by the Swedish parliament and government.

Kåpan Pensioner is a benevolent society which is an economic association that conducts insurance business. This form of association means that the members own the business together. The society acts based on its statutes and in the best interests of all its members.

Sustainability for Kåpan Pensioner

Kåpan Pensioner's sustainability work is split into three areas: insurance, investment and organisation. This means that we must deliver secure and traditional insurance, make responsible and sustainable investments, 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 the 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 800,000 members. The society was formed



in 1992 with the task of managing the supplementary 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 new agreement means that the society's operations are secured in the long term and work on offering members sustainable 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, decisions of the Council of Administration, its statutes and the Board's decisions and policy documents.

Insurance

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

Investment

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

Organisation

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

Basis of sustainability work

Kåpan Pensioner works continuously to improve and develop its own sustainability work. The foundation is the investment policy which defines the ethical frameworks for asset management. These, in turn, are based on ethical standards and principles which 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 PRI)
- 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 2018 – in brief

- We divested eight passive funds which were invested in over 2,000 shares in order instead to ourselves own and manage a base portfolio of some 300 shares. This transition applies only to our shareholdings in OECD countries.
- The equity fund SSGA Multi-Factor has switched to a sustainable direction. ESG has been added as a sixth factor in our investment strategy which means active exposure to companies with a high ESG rating.
- We committed to investing a total of about SEK 100m in Cykelkungen, an environmentally leading-edge project in Uppsala where Sveafastigheter in collaboration with the society is building 100 rental apartments.
- Within fixed income management we invested in green property bonds to a value of SEK 300m.
- We invested in a guaranteed green bond issued by Landshypotek. The bond is based on sustainable forest management, renewable energy and energy-efficient buildings and is aligned with the Green Bond Principles.
- Through our partner ISS-Ethix we have carried out 100 lobbying dialogues with 98 companies.

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 2018

Kåpan Pensioner's target within responsible investment		Result 2018	Result 2017	Comments
The aggregate ESG rating for holdings in listed equities shall exceed the rating for MSCI ACWI ESG Universal Index ^{*)} .	Kåpan Pensioner	6.6	6.3	The aggregate ESG rating rose in 2018 and exceeded the result for our benchmark index.
	MSCI ACWI ESG Universal	6.5	6.3	
	MSCI ACWI	5.7	5.5	
The carbon footprint for listed holdings shall fall over time measured in tonnes CO ₂ e/SEKm revenues ^{**)} .	Kåpan Pensioner	16.3	20.8	The carbon footprint fell during the year by over 21% measured in SEK. Excluding currency effects the reduction was approximately 14%. Compared with MSCI ACWI our listed holdings have an over 35% lower carbon footprint.
	MSCI ACWI	25.3	29.2	

^{*)} See page 12 for an explanation of ESG rating and index.

^{**)} See page 15 for an explanation of the measurement method.



Sustainability – Insurance

Sustainable traditional insurance

For Kåpan Pensioner, taking responsibility on behalf of 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 cooperation 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 society cooperates with SPV, the National Government Employee Pensions Board. Through shared use of existing capacity, facilities and other common functions, both the authority and the society contribute to sustainable resource utilisation. However, the society is faced with the fact that above all else upcoming regulations require updates and changes in operations. In order to better meet in the long term the demands of the current regulatory

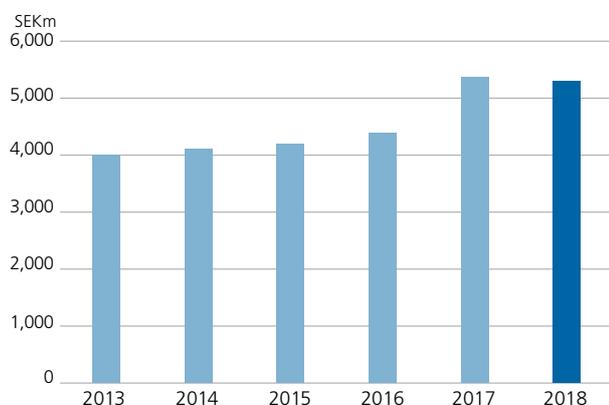
structure and ahead of upcoming changes, the Board decided during the year to begin in 2019 to insource the insurance administration operations outsourced to SPV. Operations will be run in-house with a continued focus on easy availability for members as well as cost-effective and sustainable use of resources.

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 5,290m. 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 design of the insurances is to give members

During the year
paid-in premiums totalled
SEK 5,290m.

Paid-in premiums



a return which reflects the risk assessed as reasonable in relation to the long-term stability which 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 commitments 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 exceed the guaranteed level in order to be sustainable in the long term.

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 which 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 commitments at year-end 2018 amounted to SEK 54.2 billion which can be compared with the society's total assets of SEK 90 billion. The buffer amounts to SEK 35.7 billion and is designated as solvency capital. The society's solvency ratio at year-end was 166% which exceeds the statutory limit of 104% by a wide margin.

The society has a
well-balanced solvency ratio of
166%

It should be noted, however, that several times in recent years the Financial Supervisory Authority has changed the way the discount rate is calculated which affects the value of the outstanding commitments. There are also restrictions in the Swedish bond market which make it difficult when it is necessary to secure outstanding commitments 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. Administrative expenses have fallen over time and amounted to 0.06% of the insurance capital in 2018.

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 2018 was 0.06%

Charges for traditional insurance for government employees

Insurance provider	Annual fixed charge, SEK	Variable charge as % of pension capital
Kåpan Pensioner	6	0.11
Alecta	75	0.19
AMF	75	0.18

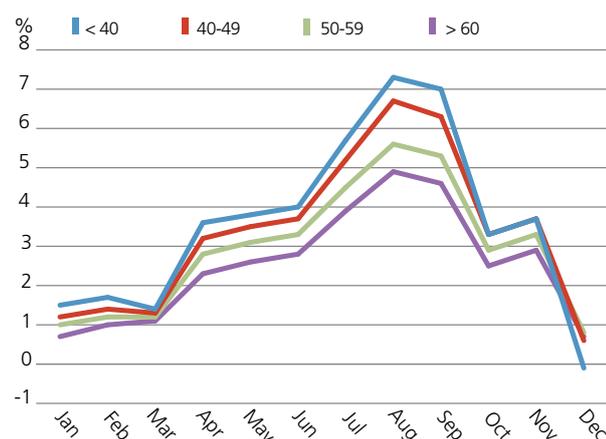
of the pension capital. The cost of investment management was 0.05% of the pension capital. Altogether the costs that the society charges to members' insurances are at a significantly lower level than other players registered with the Choice Centre for the government agreement sector.

Fair distribution of capital and costs

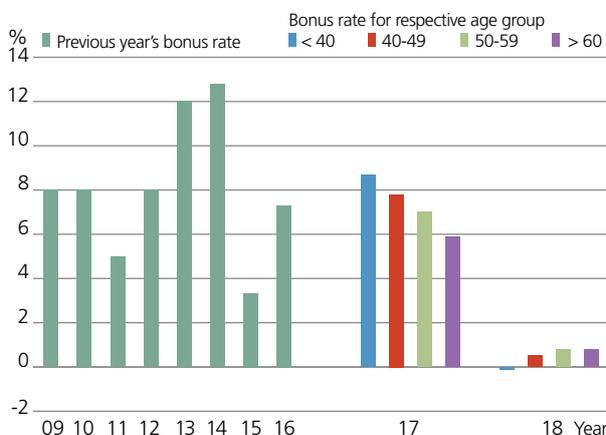
Kåpan Pensioner operates on the basis of two overall principles for the insurance business. The first is the precautionary principle. This means finding a reasonable balance between an assessment of the expected outcome for different assumptions and the risk level of these assumptions. The second is 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 an annual technical provisions report for the Board and the Swedish Financial Supervisory Authority.

To ensure fairness between members, Kåpan Pensioner uses monthly bonus interest to distribute the society's surplus or deficit across all insurances. This means that the surplus is continually allocated across the insurances and that no surplus or deficit is retained undistributed at a collective level. The bonus interest rate can therefore be both positive and negative.

Monthly bonus rate 2018



Annual bonus rate



Generation savings for fair distribution

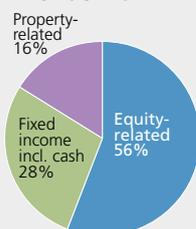
Fairness between members is further improved by the society's use of so-called generation savings. This means that we split the membership into four generation groups where the youngest group has a greater proportion of high-risk assets in their portfolio. The proportion of equities is successively reduced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

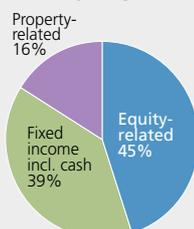
In the pension agreement PA 16 which has applied since 1 January 2016 and primarily for people born in 1988 or later, the dominant part of premiums is in the basic configuration paid out for life. In previous pension agreements a large part of premiums went into an insurance with temporary payment in its basic configuration (Kåpan Tjänste). Before payment of the pension starts, members can choose the desired payment period. This applies to all the society's insurances. 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 which are guaranteed at the time of payment will not worsen.

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

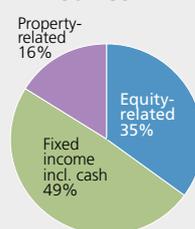
Under 40



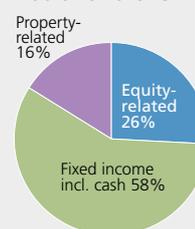
40 – 49



50 – 59



60 år and over



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.

Within the framework of the government collective agreements there is relatively good protection for survivors other than through repayment cover.

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 (4% – 12%) in exchange for the existing pension capital being paid out to designated survivors. The parties in the government sector have chosen in the new pension agreement PA 16 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 ¹⁾
25	- 6%	- 12%
55	- 4%	- 10%

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

Members' integrity

Kåpan Pensioner is responsible for large amounts of sensitive personal data and other member information. It is therefore vital that as much as possible is done to protect this personal data. The information is primarily stored by the National Government Employee Pensions Board (SPV), which administers the insurances. They work among other things with training employees to ensure competence in the General Data Protection Regulation (GDPR) covering protection of integrity, data security, data storage and confidentiality. Kåpan Pensioner and SPV 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 General Data Protection Regulation (GDPR) includes rules for how personal data may be processed. The regulation replaced the Personal Data Act (PUL) on 25 May 2018. GDPR applies throughout the EU and aims to create a uniform and consistent level of protection of personal data.

During the year the Board decided to commence insourcing of the pension administration operations outsourced to SPV in order to better meet in the long term the demands of the current and future regulatory structures with which the society must comply.

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.

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 commitments 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 – 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 2018 we adopted several measures for further improvement.

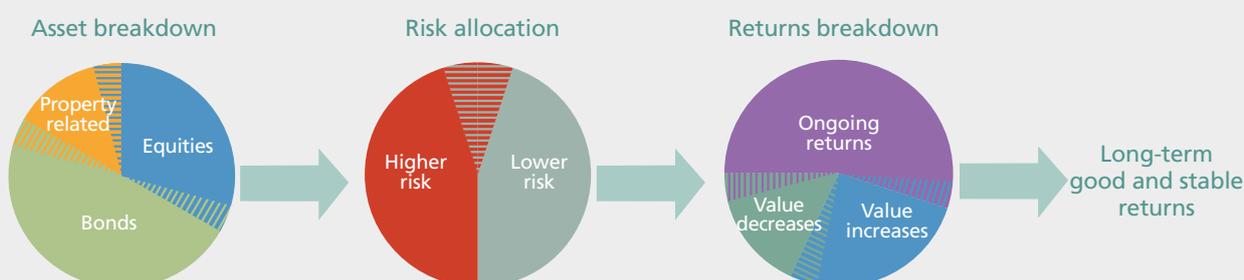
Kåpan Pensioner's managed assets at year-end amounted to SEK 90 billion. Investments are made based on the investment policy decided by the Board. The overall goal for investment operations is to achieve a long-term sustainable balance between return and risk in a cost-effective manner. Further, the 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 properties. 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 interest-

bearing instruments through various fixed-income funds. Our property-related investments are unlisted holdings in commercial properties, forest and land and also various infrastructure investments through different funds.

The current investment strategy means that almost half the capital is placed in fixed-income securities, just over one-third of the capital is placed in equities and 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. Overall the investment strategy means that about half the assets are invested with low risk and the other half with higher risk.

The society's asset management model



Kåpan's process for sustainability work in investment operations



Process for sustainability work in investment operations

The foundation for Kåpan Pensioner's 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 principles for responsible investment
- UN Sustainable Development Goals – 2030 Agenda for Sustainable Development

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

To achieve sustainable management in accordance with these guidelines we work with both norm-based screening and positive screening (rating model) of our underlying holdings. Further, we work with dialogue and lobbying with the aim of improving companies' ESG work. Our management includes ESG as an integrated part of analysis. Our Ethics Committee regularly reviews the results of screening and lobbying and decides if we need to take any action from a sustainability perspective.

Assessment signal	Score	Description
	10.	Verified failure to respect established norms
	9.	Imminent failure to respect established norms
	8.	Alleged failure to respect established norms
	7.	Verified failure to respect established norms, undergoing remediation
	6.	Fragmentary information
	5.	Under observation
	4.	Undergoing remediation
	3.	Involvement beyond scope
	2.	Past involvement
	1.	No allegation

The basic premise is that as investors we can be more useful investing in companies and thus being involved and having influence than abstaining or excluding and not having any influence or improvement contribution.

Norm-based screening

The society continuously reviews its equity and fixed-income holdings through norm-based screening which assesses a company's compliance with global standards relating to the environment, human rights, working conditions and anti-corruption. Screening is also carried out for controversial components for anti-personnel mines, cluster bombs, nuclear weapons outside the non-proliferation treaty and chemical/biological weapons.

We use ISS-Ethix as an external supplier for our norm-based screening as well as screening for controversial weapons. Using their analysis tool we can follow-up our holdings from a normative perspective. ISS-Ethix has a database with over 20,000 companies and uses a simple traffic-light model as well as a rating from 1-10 in its analysis and screening process.

Kåpan Pensioner has traditionally invested most of our global equities exposure in passive index funds. This means that as owners of these funds we are indirectly invested in a large number of equities. We have continuously improved our sustainability efforts by investing in funds that are ESG compliant. During 2018 we took a further step when we decided to divest our index funds within OECD, which indirectly invested in 2,000 equities, and instead create a base portfolio of 300 companies managed in-house. Limiting the number of companies we invest in improves our possibilities to influence the holdings when we can select and deselect 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.

We require our managers to be ESG compliant and have a well-established ESG process in their management. We regularly review the holdings that our managers have. If we have issues concerning a company or if we have a different opinion about a company from a sustainability perspective, we contact the relevant manager. We engage in active dialogue with our managers.

IN DEPTH

Process for our own base portfolio of global shares



Our universe is MSCI World which consists of some 1,600 companies. Our investable universe is the index excluding holdings that we do not consider it appropriate to own from a sustainability perspective. Our internal screening process means that our internal universe is reduced by about 200 companies. Then a quantitative selection of 300 companies is made through optimisation of the MSCI World index so that as little deviation as possible in risk and returns is achieved.

When the quantitative selection is fixed a final qualitative screening is made of the 300 companies to ensure that they comply with our sustainability requirements.

The aim of reorganising the equities portfolio is to continue to invest with the aim of achieving a return in line with the chosen index while being able at the same time to influence what we hold and thus be more flexible in order to steer the holdings towards our overall goal of raising the ESG rating and reducing the carbon footprint of our holdings.

In total only about 1% of Kåpan Pensioner's entire listed equity and fixed-interest portfolio at 31 December 2018 was redlisted, level 10, according to norm-based screening and screening for controversial weapons. This corresponds to 17 companies compared with 40 companies that were redlisted in the portfolio before we divested the index funds and switched to our own base portfolio. We follow developments for those companies that are still redlisted and carry out active lobbying.

Therefore, in the selection process for the base portfolio we have not only excluded companies that do not respect established norms but have added further criteria in order to achieve our overall sustainability targets.

The 200 companies we have chosen not to invest in have been excluded partly by norm-based screening and partly by positive screening of the holdings. In addition, we have chosen not to invest in companies according to the following criteria:

Thermal coal

- Extraction of thermal coal
- Electricity production from thermal coal exceeds 20% of the company's revenues

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

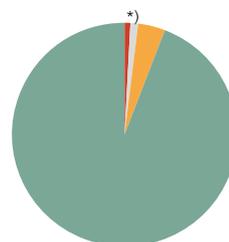
- Production of tobacco
- Distribution of tobacco exceeds 5% of the company's revenues

Paris Agreement

- Companies which breach the Paris Agreement where we have used the ISS-Ethix analysis which means companies with an orange flag and an ESG rating of 8 or above.

The restructuring of our equities portfolio to direct share ownership applies only to our equities holdings in OECD countries. We continue to own a small part of active funds and index-style instruments which we consider complement our base portfolio. The restructuring corresponds to about 70% of our equities investments in OECD. Our equities exposure to emerging markets continues to be managed in its entirety by external fund suppliers.

Norm-based screening of Kåpan Pensioner's entire listed equity and fixed-interest portfolio at 31 December 2018



*) The grey segment means that ISS-Ethix does not cover these companies

ESG rating improved to 6.6

Positive screening – rating model

In addition to norm-based screening, Kåpan Pensioner also works with a process for positive screening. The aim of positive screening, as opposed to norm-based screening, is to give all companies a rating for how they handle ESG issues. This means that we as investors can work on prioritising companies with a high ESG rating. It is our opinion that this type of rating model continuously stimulates companies to improve within ESG, which is better than simply achieving the lowest level of acceptability.

For the past couple of years the society has cooperated with MSCI which is one of the world's leading index providers and has worked for a long time with analysis and evaluation of environmental and sustainability assessments at corporate level.

The agreement with MSCI gives the society access to the entire sustainability assessment carried out by MSCI. MSCI's analyses today cover over 7,200 companies on the equity side where a sector-based assessment is made and a rating given of different sustainability and ESG criteria (Environmental, Social, Governance).

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, owner structure, accounting and business ethics.

Our aim is that over time the rating for those companies to which the society has direct or indirect exposure improves from today's level. The long-term aim is that the society's investments shall have a weighted average rating above the weighted average for the companies which are part of the MSCI All Country World Index ESG Universal (MSCI ACWI ESG Universal). We have achieved this this year. Previously our aim was to achieve a rating over MSCI ACWI, an index which is not ESG compliant. This has been achieved since measurements started in 2015.

An analysis of the society's entire listed equity investments in 2018 showed an improvement of the ESG rating to 6.6 compared with the previous year when the rating was 6.3. At the same time, our portfolio has a higher rating than both MSCI ACWI ESG Universal, which was 6.5, and MSCI ACWI, which was 5.7.

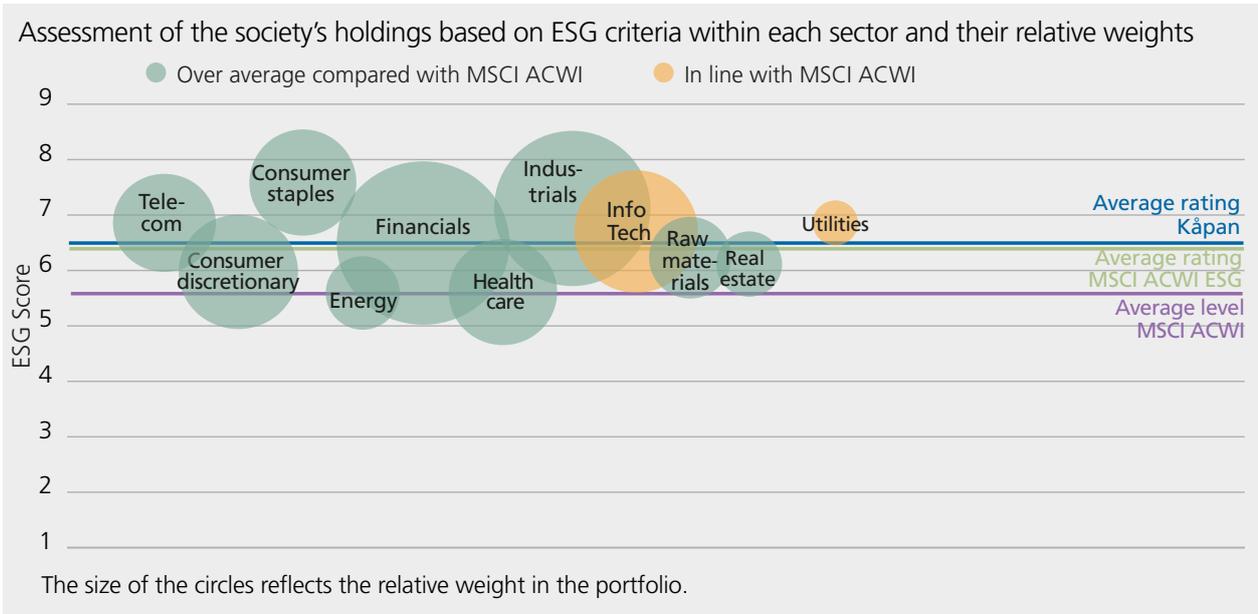
During the year we took several actions aimed at improving our ESG work and our ESG rating. It is above all the restructuring of the global equities portfolio which has enabled us to improve our ESG rating. In the restructuring the first stage of positive screening was to choose not to invest in companies with the lowest ESG rating on MSCI's scale. The passive funds we have chosen to retain are mainly ESG compliant. In those cases where the funds are invested in companies that are not aligned with our ESG criteria, we engage with the external fund managers in a dialogue.

We have also during the year increased investments in green alternatives both in fixed-income management and in alternative investments.

MSCI's rating model for environment, social responsibility, governance – ESG criteria

Environment		Social responsibility		Governance
Climate change	Environmental opportunities	Human capital	Product safety	Business ethics
Carbon emissions	Clean tech	Controversial sourcing	Chemical safety	Anticompetitive practices
Energy efficiency	Green Building	Health & Safety	Financial product safety	Business fraud and ethics
Insuring climate change risk	Renewable Energy	Human capital development	Insuring health and demographic risk	Corruption and instability
Product carbon footprint		Labour management	Privacy & data security	
		Supply chain labour standards	Product safety & quality	Corporate governance
Natural resource use	Waste management	Social opportunities	Responsible investment	Corporate governance
Biodiversity & land use	Electronic waste	Communications		
Environmental stress	Packaging material & waste	Finance		Government and public policy
Raw material sourcing	Toxic emissions & waste	Health care		Financial system instability
Water stress		Nutrition & health		

MSCI has a rating scale from 0-10 where 10 is the highest rating.



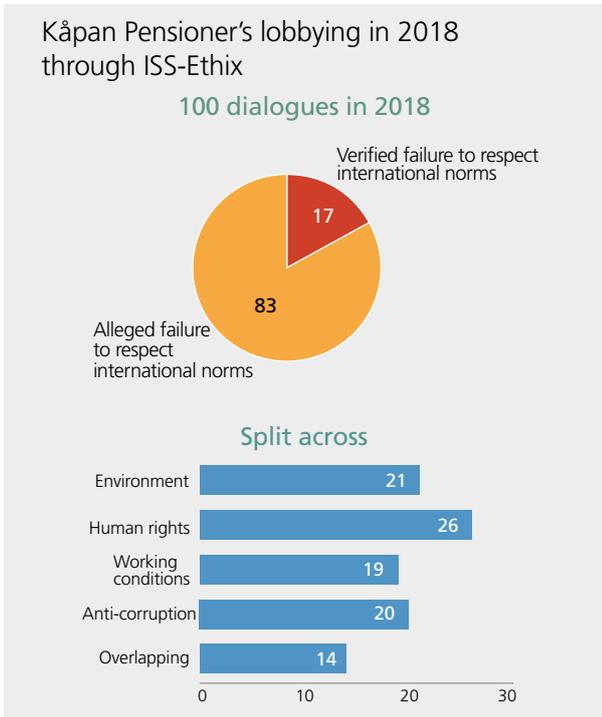
Lobbying

Our lobbying activities during the past year have mainly been carried out externally with the help of ISS-Ethix in respect of lobbying of listed holdings. On our own and other clients' behalf, ISS-Ethix holds a dialogue with those companies that are involved in situations where international standards are violated. Through dialogue with the companies ISS-Ethix can identify how the companies accept social and environmental responsibility for a specific problem situation and also how the companies are taking preventive measures to conform to relevant regulations, standards and principles for social responsibility and the environment. During 2018 ISS-Ethix has carried out 100 dialogues with 98 companies. Of these dialogues, 44 received a response. To ensure as high a response frequency as possible, ISS-Ethix has a well-developed process for follow-up of those companies that do not respond to the dialogues.

State Street Global Advisors (SSGA), which manages our index funds, also carries out extensive lobbying using its own sustainability process. It is worth noting that this lobbying also has a positive sustainability effect on our holdings.

Our internal managers have regular contact with the managers of external active funds both for listed and unlisted holdings of all asset classes. If it appears that something negative from a sustainability perspective has occurred in any company or if the fund has invested in a company that is not aligned with our sustainability policy, we engage in a dialogue with the managers about these holdings.

In some individual cases we have engaged in lobbying dialogues with companies in which we have invested when information is received or events have occurred which conflict with our views on sustainable investment. This applies above all to directly held Swedish equity and fixed-income placements.



Exclusion of companies

The overall strategy is not to invest in companies which on repeated occasions violate principles for human rights, labour law or the environment as specified in internationally accepted documents. We therefore work with both norm-based screening and positive screening of our holdings and use these as a basis for decisions. Initially we work with lobbying dialogues with affected companies. If we judge that these actions are not sufficient, we can choose to completely exclude certain companies.

Until the end of 2018 we invested a large part of our foreign share capital in various types of funds, primarily passive index funds. This has the effect of creating an exposure to companies that do not meet Kåpan Pensioner's sustainability criteria. Depending on the result of norm-based screening, the company's ESG rating and the size of the holding we chose in some cases to exclude certain companies by talking a negative position (short selling). During 2018 we had about ten negative positions which were terminated as part of the restructuring of the global equity portfolio.



Now that we have severely reduced the number of companies in which we invest in and switched to active management of the base portfolio, we no longer see the need to exclude companies through short selling. In the management of our base portfolio, norm-based and positive screening are done proactively and we choose not to invest in companies that violate international norms and conventions, companies with a low ESG rating and some further criteria. We can also continuously make changes to our direct holdings when necessary. This applies to both our new global base portfolio and our Swedish equities and fixed-income management. When we invest in new active equity funds we also carry out a proactive screening. As far as possible we choose funds with a clear ESG profile. If the fund invests in companies that we not approve according to our sustainability criteria we engage in a dialogue with the managers and based on their ESG analysis or actions we decide whether or not to invest in the fund.

Sustainability process for external funds

In addition to directly-owned fixed-income securities and equities as well as passive index management, Kåpan Pensioner has assets placed in active external funds. In general and from a sustainability perspective these are handled through our internal managers having close and regular contact with the fund managers. In addition, sustainability issues are handled through a questionnaire which aims to identify the funds' sustainability process (ESG rating, work and focus). Above all we want to ensure that the fund has a sustainability process in its management strategy as well as a sustainability policy. We also follow up then fund's agenda for improving and developing work with and responsibility for ESG issues.

The society is guided by the six UN Principles for Responsible Investment (PRI), so we try to ensure that our external funds have signed up to or undertaken compliance with PRI. The principles aim to support investors in respecting and including ESG aspects in investments and are today a global sector standard for responsible investment.

Compared with the global index (MSCI ACWI), our portfolio has 35% lower carbon dioxide emissions.

Analysis of the climate impact of investments

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

The society measures the carbon footprint for our listed equities. This is part of global efforts to limit climate change caused by human impact. The carbon footprint is a way of expressing the amount of greenhouse gas emissions contributed by the companies in which we have invested. There are currently a number of companies that report an assessment of their carbon footprint in their company information. The reports must often be complemented with various assumptions and estimates since they are not consistent, the information is not always complete, all emissions are not included, or the effect of emissions reduction in the form of improved products is not taken into account.

The society has chosen to follow the recommendation of the Swedish Insurance Federation for reporting carbon footprint. The measurement used is the carbon footprint in relation to the portfolio company's revenues.

The result is then weighted with the society's ownership share in the company. The carbon dioxide intensity for Kåpan Pensioner's listed share portfolio improved in 2018 by 13.9% in US dollar terms compared with the previous year. Compared with the global index (MSCI ACWI), our portfolio has 35% lower carbon dioxide emissions.

Expressed in Swedish kronor, the portfolio's carbon dioxide intensity at 31 December 2018 was 16.3 tonnes CO₂ equivalent per million kronor in revenues (net sales) which is an improvement of 21.4% compared with the previous year. The krona weakened against the US dollar during 2018 by about 9% which explains the improvement in kronor terms.

The restructuring of our equity portfolio has contributed to the improvement since when selecting companies we chose not to invest in companies that extract thermal coal and companies where electricity production from thermal coal exceeds 20% of sales.

The key indicator only provides a snapshot of the equity portfolio's greenhouse gas emissions. Nor does the figure show the total climate impact of the investments. The value will also vary in step with changes in the portfolio companies' emissions and revenues and also when the manager buys or sells shares in the portfolio. Changes in exchange rates also affect this measurement.

The portfolio's carbon footprint has improved by 14%.

Measurement and methodology for the equity portfolio's carbon footprint

The reported key indicator measures the equity portfolio's carbon footprint in relation to the portfolio companies' revenues (net sales). This can be taken as a measure of the carbon efficiency of companies in the equity portfolio.

The key indicator shows how many tonnes of carbon dioxide equivalent (CO₂e) the companies in the current portfolio emit per million kronor in revenues. The indicator is reported as tonnes CO₂e/SEKm.

Reporting is based on data for the equity portfolio's holdings and market value at 31 December. Emission measurements follow the global accounting standard according to the GHG Protocol and are based on the most recently available carbon dioxide data for direct (Scope 1) and indirect emissions associated with energy consumption (Scope 2). Comprehensive reliable data on other indirect emissions, e.g. suppliers' emissions or emissions from the use of manufactured products (Scope 3) are not yet available.

Emissions of greenhouse gases are measured in terms of carbon dioxide equivalent (CO₂e). This is a unit which enables the measurement of different greenhouse gases in the same way. By expressing emissions of a specific greenhouse gas in CO₂e, a value is obtained for how much carbon dioxide would be needed to give the same climate impact.

The GHG Protocol (Greenhouse Gas Protocol Corporate Standard) is the most common accounting standard for calculating emissions of greenhouse gases. The methodology in the GHG Protocol is used by among others Carbon Disclosure Project (CDP), Global Reporting Initiative (GRI), WWF's Climate Savers, EU Emissions Trading System (EU ETS), Climate Registry (US) and US EPA.

Governance issues

The purpose of Kåpan Pensioner's investment work is to create long-term, stable and good returns for members within the framework of insurance commitments made. Asset management invests in many different companies in order to be diversified and thus reduce the risk in investments. The broad spread of investments means that the society is as a rule a small investor in each individual operation.

The society's limited ownership shares and the need for efficient management mean that active participation in corporate governance issues is not as a rule exercised, especially regarding listed public companies.

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

- to participate in general meetings where ownership exceeds 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 general meeting,
- to participate if necessary in the work of the nomination committee in those companies where the society is among the larger owners.

But our corporate governance looks different for unlisted holdings in venture capital and property, for example. In some of these investments we take active and significant owner responsibility, for example by participating in the funds' advisory committees. In these committees we have as an owner the possibility to contribute with supporting knowledge as a discussion partner as well as with advice.

During 2018 the society participated in two nomination committees, four boards and 11 advisory committees. One of the nomination committees was for a listed company. The board of that company has an equal gender distribution. The society participates in the general meeting of a company where we are a major owner and our holding exceeds 1% of the votes.

Assignments within the society in 2018

	Number of assignments
Boards ¹⁾	4
Nomination committees ²⁾	2
Advisory committees	11
Vote exercised	1

¹⁾ No listed companies.

²⁾ Of which one listed company.

Examples of our sustainability initiatives in 2018

We work continually to improve our sustainability efforts. We want our members and other stakeholders to be able to easily follow and update themselves about the work we are doing within sustainability. Therefore we regularly publish on our website, 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 couple of activities we have carried out during the year.



Sveafastigheter Bostad – a sustainable property developer

During the year we increased our involvement in Sveafastigheter and among other things have committed to investing a total of about SEK 100m in Cykelkungen, an environmentally leading-edge project in Uppsala. In collaboration with the society Sveafastigheter will build 100 rental apartments in Östra Sala Backe with occupancy planned for the end of 2020. Cykelkungen is a pilot project based on mobility. The idea is that there will be a range of solutions for managing without a car, for example delivery boxes at the apartments, a cycle pool where residents can rent a cargo bike or an electric bike. The project does not include any parking spaces but residents will be offered group membership in a car pool. The building will have solar panels on the roof combined with sedum.



Sveafastigheter Cykelkungen.



Ventient Energy's wind farm in Ffynnon Wales.

Renewable energy for a brighter future

One of our larger investments within infrastructure is JP Morgan Infrastructure Investments Fund. The fund has a well-established process and policy for its sustainability work and sustainability is an integrated part of the investment process. These are some examples of investments that the fund has made:

- Sonnedix Power Holdings develops, finances, builds and operates solar plants worldwide. The company takes great social responsibility in its business operations and is involved in the communities in which it operates. It has, for example, participated in the fundraising campaign "Give it Up for Puerto Rico" which made it possible to help finance six water filtering systems following hurricane Maria in Puerto Rico in the autumn of 2017.
- Värmevärden is a Swedish energy company that delivers district heating to dwellings and private customers. Operations are environmentally friendly

since the company's production of district heating is based almost exclusively on renewable energy sources where 96% of the fuel mix consists of biofuel, waste heat, waste, and flue gas condensation.

- Ventient Energy is the UK's leading company in the production of wind energy. The company's production has a positive effect on the environment by contributing to reduced carbon dioxide emissions corresponding to an average of 0.75 million tonnes CO₂ equivalent annually. The company's annual production of wind energy is sufficient to meet the average annual requirements of 420,000 British households. The company strives to be a local employer where they have their wind farms and use as far as possible local contractors for maintenance of the facilities. In 2018 Ventient was one of the leaders in the energy production sector in the Global Real Estate Sustainability Benchmark (GRESB).



Sonnedix's Novi Ligure Solar solar plant.



A green fixed-income investment in the Swedish forests

In the spring we invested in a guaranteed green bond issued by Landshypotek. The bond is based on the contribution of sustainable forest management to biodiversity and to reducing the levels of carbon dioxide in the atmosphere. The bond is based on sustainable management of the forest, renewable energy and energy-efficient buildings and is designed in accordance with the Green Bond Principles. The bond is based on environmentally-certified privately-owned forest land and covers 320,000 hectares, an area the size of Gotland. The area absorbs over two million tonnes of carbon dioxide annually. As an investor we are able to contribute to a greener future through this investment with the security in the Swedish forests and the forest management that private forest owners represent.

A sustainable Swedish fixed-income investment

Within fixed-income management we have a large holding in Vasakronan which was ranked in this year's edition of GRESB (Global Real Estate Sustainability Benchmark) number one in Europe among the property companies which mainly work with commercial premises and ninth in the world among all property companies. One of the reasons for Vasakronan's award and high score in the GRESB survey is that 85% of the property portfolio today is environmentally certified.



GRESB (Global Real Estate Sustainability Benchmark) carries out every year a global analysis of sustainability work in large property companies and funds. This year's study included 903 property companies worldwide.

ESG-compliant equity fund

Kåpan Pensioner has a long-standing close collaboration with State Street Global Advisors (SSGA) and in 2018 we were involved in influencing the direction of their Multifactor Global Equity Fund. The fund was previously built around five investment factors where the addition of ESG as a factor does not just mean that companies are screened out but above all that this is active exposure to companies with a high ESG rating.

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 authorities and the organisation's resources. The method stimulates a process of continuous improvement which can be maintained within the constraint of the overall goal of a good return at low cost for the investment operations as a whole.

IN DEPTH

International principles and conventions

Kåpan Pensioner's investment management is based on the investment policy which regulates the ethical frameworks for investment management and is 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. Today more than 12,000 companies are members of the UN Global Compact. 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 1,750 financial players from more than 50 countries are affiliated to UN PRI.

An increased focus on sustainability has also been brought to the fore with the UN's 17 new global sustainable development goals which were 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 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

The global goals and the 2030 Agenda are intended to eradicate poverty and hunger, promote human rights for everyone, achieve equality and ensure lasting protection for the planet and its natural resources. The global goals are integrated and balance the three dimensions of sustainable development: economic, social and environmental.

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 interest, 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 landmines, mine clearance and assistance to victims of landmines

UN global goals



Additional conventions that Sweden supports include controversial weapons.

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.



Sustainability – Organisation

Sustainability initiatives in ongoing operations

Kåpan Pensioner has over 800,000 members and therefore a major responsibility to communicate and provide information on the pension and pension savings that members have in the society.

To enhance among other things communication with members, Kåpan Pensioner and SPV have cooperated since the formation of the society. This cooperation means that members turn to the joint customer service which SPV operates, where they can obtain information and take care of their insurance issues within all areas of their government occupational pension. During the year the Board decided to begin the insourcing of operations outsourced to SPV with the aim of running these in-house in order in the long term to better meet the requirements of the upcoming regulatory structure that the society must follow and the goal is to continue to run insurance administration in a developing and cost-effective manner.

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 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 2018 a first step was taken in this direction with many members choosing to receive their mail in a digital mailbox. One quarter of Kåpan Pensioner's annual statements were sent digitally to members in 2018. In December we started to send the letter with information about payments three months before retirement digitally. A total of 369 people received the letter digitally in December which corresponds to just over 30%.

During the year many members have also switched to using the digital channels offered for services and information about their pension. In the autumn Mina sidor (My pages) was launched on kapan.se where over 13,000 unique visitors have logged in since the start. Increased use of minpension.se has also been noted.

Follow-up of information to members

As part of the collaboration with SPV, regular surveys are carried out designed to improve service and information. Based on members' contacts with customer service, different issues are evaluated and the need for improved information identified. The surveys are carried out from the coordinated customer service function and provide a basis for both SPV's and the society's ongoing improvement work. Among other things a customer satisfaction index (CSI) is used to monitor and measure how satisfied members are with the service and information offered.

For employees and pensioners the overall level of satisfaction is unchanged from the previous year. Employees are less satisfied than pensioners.

Contact with SPV is significant in the CSI survey. Employees and pensioners who have been in contact with customer service during the past year are on the whole more satisfied than those who have not been in contact.

Of those pensioners who have been in contact with SPV, eight out of ten are very satisfied with the service. The proportion of employees who are very satisfied is lower. Among these something over four out of ten are very satisfied.

Satisfaction with SPV's telephone service continues to be very high according to the CSI surveys carried out directly after the conversation. The same applies to satisfaction with the e-services that can be used such as making a choice for the choice component and for transferring money.

Some conclusions from SPV's customer satisfaction surveys

- Many employees have a low awareness of the benefits linked to an occupational pension from their employment in the government sector. Barely three out of ten have a very high awareness of how they can obtain information on their occupational pension.
- This year employees are somewhat less satisfied with SPV's information. This is mainly information about what affects an occupational pension. During the year SPV has succeeded better than in 2017 in guiding employees so that they get an overall picture of their pension.
- Pensioners are more satisfied with SPV's information compared with the previous year. Among other things pensioners experience to a greater extent that they get an explanation of why payments can change. On the other hand they experience to a lesser extent that they get information well in advance of the change.

Customer Satisfaction Index 2018

Pensioners	69
Employees	50

In addition to surveys, the number of calls to customer service is measured. This provides at an overall level an indication of the need for complementary information and identified inadequacies in the information provided. The number of calls to customer service fell to 75,887 compared with 99,727 in 2017

The focus is on continuously improving information and understanding not just of the pension agreement in the government sector but also of the pension system as a whole. The society is trying to get an ever increasing amount of information on the minpension.se website.

A quarter of Kåpan Pensioner's annual statements were sent to members digitally in 2018

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 staff. 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 flights outside Europe. The policy for the society's company cars is that by 2020 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

Kåpan Pensioner has 15 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.

Kåpan Pensioner 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 society's Council of Administration is appointed by the parties to the government agreement sector.

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 the 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.

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 advocacy centred on sustainability issues. We have taken part in several seminars where sustainability has been discussed.

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.

Kåpan Pensioner rents office premises in Stockholm. The landlord's responsibility is to take long-term responsibility environmentally and socially as well as for economic development. Sustainability work is also about providing flexible and good working environments, continual monitoring of existing climate systems, changing over to low-energy lighting, choosing green electricity, providing space for waste sorting, installing chargers for electric cars in the garage and offering tenants a bicycle garage. The society participates in the landlord's sustainability initiatives by monitoring and taking part in activities offered by the landlord and active influence through its own suggestions 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 part of the membership does not actively seek information on their pension. The aim is that those members who have not chosen a digital alternative for information shall get good and concise written information about their pension savings at least 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. During 2018 a significant step was taken towards fewer mail items since many members chose a digital alternative.

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 covers all operations.

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 divided into three areas: insurance, investments and organisation. Sustainability work is governed by adopted strategies and goals as well as the rules 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.

Kåpan Pensioner’s most important contribution to a sustainable society is the provision of a secure pension at the lowest possible cost.

Kåpan Pensioner complies with applicable laws and regulations regarding money laundering and also has internal rules that clarify efforts to prevent the operations from being used for money laundering and financing of terrorism.

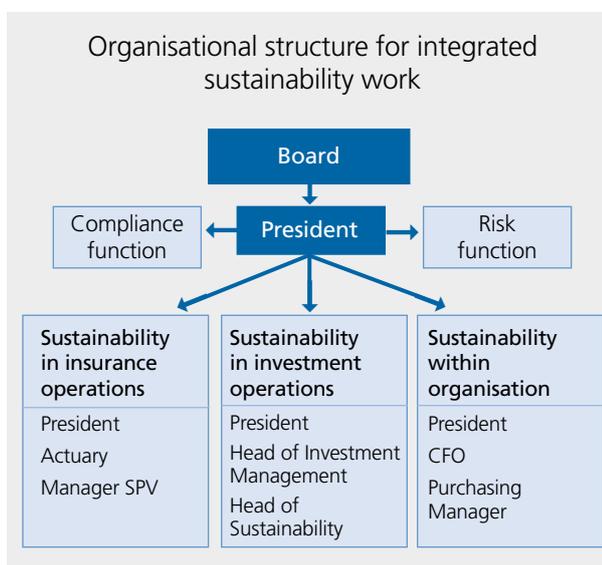
Council of Administration

Kåpan Pensioner’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 of the Council of Administration must be members of the society.

Board

The Council of Administration appoints Kåpan Pensioner’s Board which manages operations. The Board consists of six members and the same number of personal deputies. Here, too, half of the members are appointed by the employee side and half by the Swedish Agency for Government Employers. The same person cannot be a member of both the Council of Administration and the Board. For both boards, the mandate period is one year with the possibility of re-election.



Laws and regulations

Kåpan Pensioner is an independent legal entity in the form of a mutual insurance society which is a specific form of an economic association. The business is regulated by a number of laws enacted by Parliament, including the Friendly Societies Act*) and the Economic Associations Act as well as a large number of regulations and general advice published by the Swedish Financial Supervisory Authority. The regulations are based on the EU's Institutions for Occupational Retirement Provision (IORP) directive. During 2019 new regulations for occupational pension companies are expected to take effect.

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 the society's website and information on applicable pension agreements will be found on 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 uses 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 Friendly Societies Act (1972:262) was repealed when the Insurance Business Act (2010:2043) came into force on 1 April 2011. According to the Law (2010:44) on the Introduction of the Insurance Business Act, societies were permitted to continue to conduct their operations until year-end 2014. Subsequently the transition period was extended until 30 June 2019.

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 external auditors who review investment management and ensure compliance with applicable accounting regulations. The auditors present the result of their review to the Council of Administration each year. The Financial Supervisory Authority exercises oversight of the business.

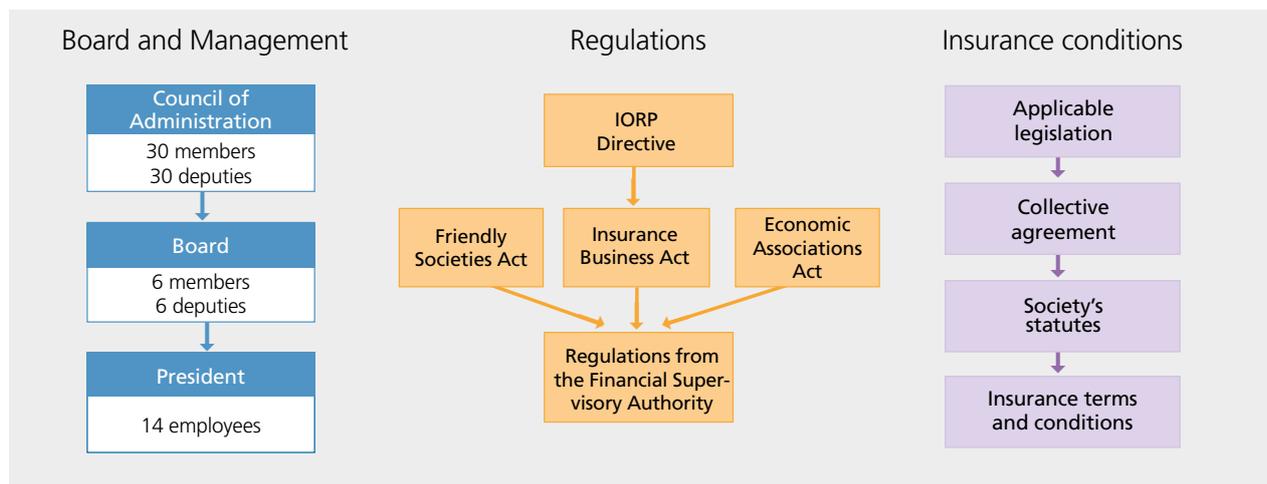
Kåpan Pensioner has a responsibility to follow current regulations towards its members, authorities and employees as well as other stakeholders. Deviation from or breaches of current regulations must generate an incident report and an assessment of risk and compliance with the regulations is regularly reported to the Board.

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 constitution 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 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 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.

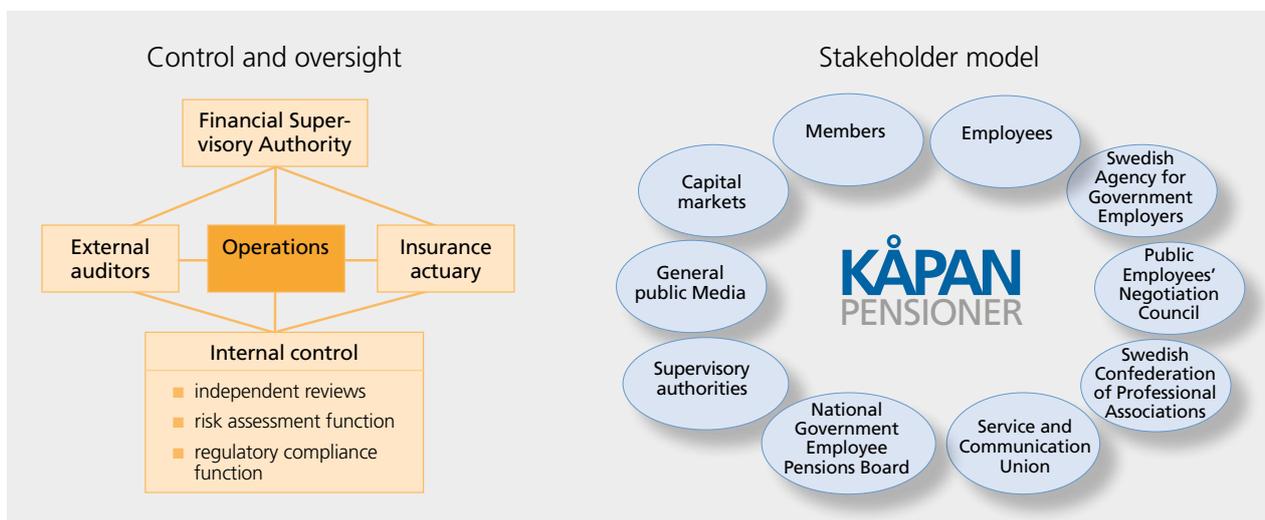
The business has no other purpose than to create value for its members. Costs that do not make a positive contribution to that goal should be avoided even if they can contribute to job-creation and welfare in other parts of society, but it lies outside the remit which is to carry out the assignment as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

About the sustainability report

Kåpan Pensioner försäkringsförening is a benevolent society with a pension insurance business. Members of the society are and can only be persons who are covered or have been covered by a pension agreement in the government agreement sector. This report covers all operations within the society. This year's report has not been subject to an external audit.

This sustainability report does not fully follow the rules of the Global Reporting Initiative G4 (GRI G4) but 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. The society works continually with analysis of the conditions for a small efficient operation such as the society's to fully adjust to GRI G4. In addition, the society is following work on the introduction of Swedish legislation for sustainability reports and any resulting new guidelines.

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





LIST OF HOLDINGS

at 31 December 2018

Bonds and other fixed-income securities

	Assessed value, SEKm		Assessed value, SEKm
SEB Bolån 2022-12-21	3,219	Vasakronan 2021-11-15	170
Nordea Hypotek 2022-04-08	2,807	Balder 2024-01-15	168
SEB Bolån 2021-12-15	1,958	Ellevio Ff 250212, Kup 2,875 %	165
Swedbank Hypotek 2022-06-15	1,873	Sveaskog 2021-07-12	163
Stadshypotek 2023-06-01	1,778	Kinnevik 2020-05-29	161
Nordea Hypotek 2023-09-20	1,771	Spintab 2020-12-01	160
Stadshypotek 2021-12-15	1,758	Hexagon 2020-09-17	160
Stadshypotek 2022-09-21	1,533	Tele2 2023-02-24	156
Swedbank Hypotek 2023-03-15	1,512	Husqvarna 2021-05-03	156
Länsförsäkringar Bank 2021-09-15	764	Stena Metall 2020-11-27	155
Landshypotek 2022-10-14	503	Rikshem 2020-11-18	153
DNB Bank 2025-05-28	439	Nordea 2023-06-27	150
SCBC 2023-06-21	433	Ellevio 2024-02-28	150
Landshypotek 2022-05-09	430	Rikshem 2022-01-12	149
Vasakronan 2021-12-15	422	Willhem 2023-09-03	148
Hufvudstaden 2021-12-08	404	Nordea 2028-09-26	148
Danske Bank 2023-01-25	316	Danske Bank 2019-06-05	148
Skandiabanken 2023-03-15	307	Sparbanken Rekarne 2022-04-04	146
Saab 2022-09-28	276	Victoria Park 2020-06-17	142
SEB Bolån 2023-12-20	253	Akelius 2023-10-03	141
Vasakronan 2021-10-11	251	Wallenstam 2020-11-23	140
Vasakronan 2024-03-01	246	Volvo 2023-12-13	139
Vattenfall 2022-11-01	232	Sparbanken Skåne 2021-06-10	137
Fortum Värme 2025-02-24	227	Jyske Bank 2023-09-07	135
Teliasonera 2023-11-08	226	Jyske Bank 2021-05-19	134
Danske Bank 2023-12-08	219	Swedbank Hypotek 2021-09-15	133
SBAB 2021-01-27	217	Swedish Match 2023-02-27	131
SBAB 2022-06-08	216	Sandvik 2021-01-14	129
Klövern 2021-02-26	215	Sveaskog 2021-03-01	129
Hemsö 2022-10-26	208	SBAB 2025-06-11	125
SBAB 2021-04-19	205	Saab 2023-03-27	123
Länsförsäkringar Bank 2021-05-18	205	Klövern 2019-03-02	121
Länsförsäkringar Bank 2023-05-17	204	Willhem 2021-11-01	121
Nordea 2020-09-17	204	Nibe 2023-09-04	120
Scania 2021-09-06	202	Heimstaden Bostad 2022-09-07	120
Billerud 2023-03-20	202	Länsförsäkringar Bank 2026-04-26	118
Svensk Hypotekspension 2020-01-27	201	Castellum 2022-04-14	110
Santander Consumer Bank 2021-06-14	200	Länsförsäkringar 2024-07-10	109
Rikshem Ff 2023-12-13 Frn Stibor +100	199	Sandvik 2021-10-11	109
Santander Consumer Bank 2023-08-14	198	Billerudkorsnäs 2022-02-21	108
Scania 2023-03-03	196	Volvo Hybrid 2020-06-10	106
Länsförsäkringar Bank 2021-01-27	196	Landshypotek 2025-12-09	105
TVO 2024-02-15	193	Hufvudstaden 2022-08-24	104
Swedish Match 2021-09-06	190	Arla Foods 2021-05-31	103
Leaseplan 2022-01-26	189	BMW 2020-10-06	102
Leaseplan 2023-05-05	188	Volvofinans 2020-11-27	102
Fabege 2023-08-30	186	Nacka Kommun 2023-03-13	102
Volvo 2022-05-19	183	Hufvudstaden 2023-01-23	101
Fortum Värme 2022-05-19	176	Castellum 2022-09-01	101
Epiroc 2023-12-06	175	Länsförsäkringar Hypotek 2025-09-17	101

Fixed-income-related funds

	Assessed value, SEKm
Volvofinans 2021-06-22	101
Jernhusen 2023-09-19	101
Volvofinans 2022-09-27	100
Swedish Match 2022-05-30	100
Kungsleden 2021-01-18	100
Arla Foods 2023-07-03	100
Sparbanken Rekarne 2021-05-03	100
Hemsö 2023-02-08	100
Volvofinans 2022-11-09	100
Rikshem 2022-10-19	100
Volvofinans 2023-04-27	99
Castellum 2024-09-20	97
TVO 2023-01-13	97
Jyske Bank 2021-05-19	95
Indutrade 2023-02-23	91
Billerudkorsnäs 2022-02-21	87
Tele2 2022-03-16	87
Akelius 2021-10-04	85
Balder 2020-11-20	85
Elekta 2020-03-26	77
Volvofinans 2021-10-25	76
Sampo 2022-05-23	75
Husqvarna 2022-03-01	74
Municipality Finance 2022-04-01	73
Landshypotek 2023-05-25	70
Heimstaden Bostad 2021-12-07	66
Hufvudstaden 2022-02-21	65
Sveaskog 2023-10-30	63
Sveaskog 2024-03-06	59
SBAB 2023-05-15	56
SBAB 2020-11-10	54
Länsförsäkringar Bank 2022-09-21	54
Stadshypotek 2024-03-01	52
Castellum 2020-09-17	51
Swedavia 2021-05-17	50
Nibe 2021-06-21	50
Balder 2021-07-02	49
Hexagon 2023-04-04	49
Fabege 2023-02-28	49
Fastpartner 2019-09-22	45
Sagax 2021-06-15	43
Nordea Bank 2020-03-12	40
Castellum 2024-05-21	34
Klövern 2020-06-01	33
Husqvarna 2021-05-03	31
Jyske Bank 2021-09-16	21

	Assessed value, SEKm
Aktia EMD Frontier Fund	301
Napier Park European Credit Opportunities Fund	241
M&G Loan Fund European	222
GAM MB Local EMD	218
Global Evolution Frontier Markets	197
Tetragon CLO Equity Fund II	177
ICG Total Credit Fund	175
Edelweiss Credit Fund II	168
Danske/Symphony US Loans	147
Wellington EMD Fund	135
Nordea International High Yield Bond Fund	132
Cheyne Total Return Credit Fund	125
Mercer Global High Yield Bond Fund, M-4	124
Guggenheim US Loan Fund	90

Holdings below an assessed value of SEK 10m and holdings marked for sale or liquidation are excluded.

Listed equities

Swedish equity portfolio

	Assessed value, SEKm
Investor	861
Atlas Copco	757
Ericsson	707
Swedbank	661
Telia	566
Volvo	564
SEB	553
Svenska Handelsbanken	547
Nordea	528
H&M	525
Assa Abloy	511
Sandvik	449
Essity	438
Hexagon	402
Nyfosa	374
ABB	295
Epiroc	277
Astrazeneca	258
Tele2	244
Alfa Laval	234
Lundin Petroleum	199
Ica Gruppen	190
Swedish Match	182
Skanska	169
Castellum	168
Electrolux	166
Millicom International Cellular	159
Securitas	158

	Assessed value, SEKm
Swedish Orphan Biovitrum	155
Boliden	154
SKF	152
Kinnevik	152
Autoliv	134
SCA	130
Saab	117
Elekta	113
Balder	113
Fabege	103
Axfood	91
Trelleborg	81
Intrum Justitia	73
Husqvarna	73
SSAB	73
Kindred	69
Hexpol	65
Billerud Korsnäs	62
Holmen	61
Modern Times Group	60
Getinge	60
Veoneer	56
Evolution Gaming	51
Industrivärden	48
NCC	34
Betsson	23
Stora Enso	23
Arjob	16

Holdings below an assessed value of SEK 10m and holdings marked for sale or liquidation are excluded.

Global equities – base portfolio

	Assessed value, SEKm
Apple	211
Microsoft	199
Alphabet	177
Amazon	167
Johnson & Johnson	94
Jpmorgan Chase & Co	94
Facebook	92
Nestle	80
Bank Of America	74
Visa	71
Procter & Gamble	70
Pfizer	68
Berkshire Hathaway	66
Verizon Communications	65
Intel	65
Home Depot	63
Unitedhealth Group	62
Merck & Co	62
Chevron	60
At&T	60
Coca-Cola	60
Cisco Systems	60
HSBC Holdings	57
Novartis	55
Mastercard	55
Walt Disney	53
Toyota Motor	51
Roche Holding Ag-Genusschein	51
Pepsico	49
Aia Group	49
Mcdonald'S	48
Comcast	48
Oracle	47
BP	46
Citigroup	46
Abbott Laboratories	45
Total	45
Dowdupont	45
Amgen	44
Diageo	43
Adobe	43
3M	42
Abbvie	41
Nike	41
Sumitomo Mitsui Financial Group	41
Hong Kong Exchanges & Clear	41
Medtronic	41
Netflix	40
Union Pacific	40
Costco Wholesale	40
Eli Lilly & Co	39

	Assessed value, SEKm
Salesforce	38
Cigna	38
LVMH Moet Hennessy Louis Vuitton	38
SAP	37
Thermo Fisher Scientific	36
Mitsui & Co	36
Linde	36
Broadcom	36
Astrazeneca	36
Starbucks	36
IBM	36
Wesfarmers	36
Sumitomo Realty & Development	35
Mizuho Financial Group	35
Paypal Holdings	35
Glaxosmithkline	35
Royal Bank Of Canada	35
Mitsubishi Ufj Financial Group	35
Banco Santander	34
Texas Instruments	34
Sanofi	34
Booking Holdings	33
Honda Motor Co	33
Conocophillips	33
BASF	33
National Retail Properties	33
Bristol-Myers Squibb	33
Lowe'S Companies	32
Toronto-Dominion Bank	32
Nextera Energy	32
Air Liquide	32
Fortis	31
Caterpillar	31
Novo Nordisk	31
Allianz	31
Siemens	31
CME Group	31
Tokio Marine Holdings	31
Twenty-First Century Fox	31
Prudential	31
Nordea Bank	31
CSL	31
Taylor Wimpey	31
Kinder Morgan	30
Qualcomm	30
Air Products & Chemicals	30
Tjx Companies	30
Air Water	30
Secom Co	30
Accenture	30
Westpac Banking	30

Global equities – base portfolio

	Assessed value, SEKm
Transdigm Group	30
Carlsberg	30
Unibail-Rodamco-Westfield	30
Experian	30
Axa	30
National Australia Bank	29
Rio Tinto	29
Bridgestone	29
Us Bancorp	29
Goldman Sachs Group	29
Inter Pipeline	29
ING Groep	29
Nippon Steel & Sumitomo Metal	29
Aviva	29
PNC Financial Services Group	29
Becton Dickinson And Company	29
Woolworths Group	29
Anthem	29
Enagas	29
Schindler Holding-Part Cert	29
Gilead Sciences	29
American Tower Corp	29
Simon Property Group	29
Bank Of Nova Scotia	28
Australia And New Zealand Banking Group	28
Lloyds Banking Group	28
Suncor Energy	28
Schneider Electric	28
L'Oreal	28
ABB	28
ASML Holding Nv	28
CSX	28
Keyence	28
Pernod Ricard	28
Schlumberger	28
Sumitomo Electric Industries	28
Bank Of New York Mellon	28
Canadian National Railway	28
Camden Property Trust	27
Mondelez International	27
Colgate-Palmolive	27
Glencore	27
Unilever	27
Vodafone Group	27
Intuit	27
Sony	27
Danaher	27
Kimberly-Clark	27
Morgan Stanley	27

	Assessed value, SEKm
Norfolk Southern	27
Nvidia	27
Zurich Insurance Group	27
United Parcel Service	27
Enel	27
Reckitt Benckiser Group	26
Relx	26
CK Asset Holdings	26
SSE	26
Charles Schwab	26
Regency Centers	26
Biogen	26
Te Connectivity	26
Emerson Electric	26
Koninklijke Philips	26
Kao	26
Walgreens Boots Alliance	26
DBS Group Holdings	26
Vonovia	26
National Grid	26
Dominion Energy	26
CAE	26
Legrand	26
Humana	26
BNP Paribas	26
Metlife	26
Chubb	26
Daiwa House Industry	26
CVS Health	26
Roper Technologies	25
Williams Companies	25
HCA Healthcare	25
Daimler	25
American Express	25
Manulife Financial	25
Canon	25
Vornado Realty Trust	25
S&P Global	25
O'Reilly Automotive	25
Hitachi	25
Illinois Tool Works	25
Sysco	25
Engie	24
Fiserv	24
Church & Dwight	24
Stryker	24
Progressive	24
Deere & Co	24
Occidental Petroleum	24

Global equities – base portfolio

	Assessed value, SEKm		Assessed value, SEKm
Amphenol	24	Mitsubishi Electric	21
Ross Stores	24	J.B. Hunt Transport Services	21
Boston Properties	24	Takeda Pharmaceutical	21
PPG Industries	24	Celgene	21
NTT Docomo	24	Corning	21
EOG Resources	24	Baxter International	21
CGI Group	23	United Overseas Bank	21
Marsh & McLennan Companies	23	Allergan	21
Shire	23	Deutsche Post	21
Cognizant Tech Solutions	23	Charter Communications	21
JFE Holdings	23	Equinix	21
Illumina	23	Anheuser-Busch Inbev	21
Kansas City Southern	23	Telefonica	20
Sandvik	23	Eni	20
Red Hat	23	Rockwell Automation	20
Intesa Sanpaolo	23	Valero Energy	20
Aon	23	Bayerische Motoren Werke	20
Adidas	23	Vertex Pharmaceuticals	20
Fedex	23	Nidec	20
Banco Bilbao Vizcaya Argentaria	23	Activision Blizzard	20
State Street	23	Dassault Aviation	20
Eaton	23	Halliburton	20
Sherwin-Williams	23	Pioneer Natural Resources	20
Woodside Petroleum	23	Shiseido	20
Ebay	23	Autodesk	20
First Republic Bank	23	Oil Search	19
DSV	23	Weyerhaeuser	19
Spark New Zealand	22	Galaxy Entertainment Group	19
Laboratory Corporation of America Holdings	22	Public Service Enterprise	19
Koninklijke Ahold Delhaize	22	UPM-Kymmene	19
Estee Lauder	22	Digital Realty Trust	19
Canadian Natural Resources	22	IDEXX Laboratories	19
Celanese	22	Volvo	19
Parker Hannifin	22	Nintendo	18
Verisk Analytics	22	Applied Materials	18
Shin-Etsu Chemical	22	Vermilion Energy	18
Zoetis	22	Devon Energy	18
Eversource Energy	22	Panasonic	18
Welltower	22	General Mills	18
Las Vegas Sands	22	Tesla	17
Henkel Ag & Co Kgaa	22	Micron Technology	17
Standard Chartered	22	Johnson Controls International	16
Softbank Group	22	Unicredit	16
Unilever	22	Equinor	16
Constellation Brands	22	HP	15
Heineken	22	National Oilwell Varco	15
Ingersoll-Rand	22	Industria De Diseno Textil	15
Analog Devices	21		
Orange	21		
Servicenow	21		

Equity funds

	Assessed value, SEKm
SSGA EM SRI Enhanced Eq Fund	2,515
SSGA Multifaktor Global ESG Eq Fund	1,253
MSCI USA SRI UCITS ETF	996
SHB Global Småbolag Index Criteria	485
Montanaro European Smaller Companies	355
Nordea Global Stable Eq Fund	286
SSGA EM Select Eq Fund	263
Banque de Luxembourg European Eq	251
RBC EM Eq Fund	185
JPMorgan European Small Cap Eq Fund	177

	Assessed value, SEKm
JPMorgan EM Opportunities Fund	159
Nordea Stable EM Eq Fund	148
Goldman Sachs China Fund	118
Montanaro European Mid Cap Fund	102
Fisher Investments EM ESG Fund	100
East Capital Sustainable EM fund	48
Goldman Sachs India Eq Fund	45

Unlisted holdings and property funds

	Assessed value, SEKm
Bergvik Skog AB	1,886
Svenska Handelsfastigheter	1,139
Fastighets Stenvalvet AB	1,108
JPMorgan Infrastructure Investments Fund	1,063
Hemfosa Fastigheter	609
Rockspring German Retail Box Fund	521
Midstar Hotels AB	456
Bridge Debt Strategies Fund II	432
Antin Infrastructure Partners Fund II	394
Perella Weinberg Real Estate Fund III	361
Molpus Woodlands Fund IV	323
Landmark Real Estate Partners VII Offshore	315
Perella Weinberg Real Estate Fund II	294
Antin Infrastructure Partners Fund III	285
Cheyne Real Estate Credit holdings Fund III	283
Global Energy & Power Infrastructure Fund II	275
Sveafastigheter Bostad	247
White Peak Real Estate IV	247
Southern Pastures	238
Molpus Woodland Fund III	237

	Assessed value, SEKm
Profi Fastigheter IV	233
Areim Fastigheter 2	233
Global Infrastructure Partners	203
White Peak Real Estate III	175
Gottex Real Asset Fund	157
Profi III Infracity	151
GMO Horizon Forestry Fund	150
ACM Permanent Crops Fund	150
Infrared Active Real Estate Fund IV	129
Bridge Debt Strategies Fund III	128
Cheyne Real Estate Credit Holdings Fund	113
Infrared Aactive Real Estate Fund III	99
Goldman Sachs Infrastructure	84
ACMIII Investor	83
Antin Infrastructure Partners Fund III	76
Macquarie European Infrastructure Fund	37
Forest Fund Brazil	26

Holdings below an assessed value of SEK 10m and holdings marked for sale or liquidation are excluded.



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