



Council on Ethics
Swedish National Pension Funds

Annual report 2018

SUSTAINABLE OWNERSHIP THROUGH DIALOGUE AND ENGAGEMENT



Encouraging
positive change
and transparency

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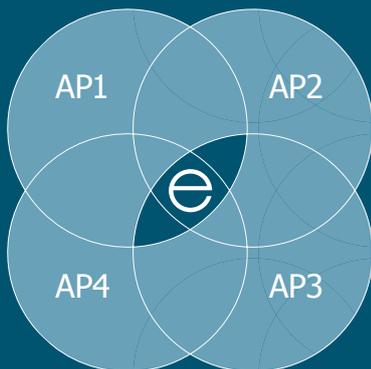
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Encouraging positive change and transparency

It is the First, Second, Third and Fourth AP Funds' (AP Funds) view that, over time, well-managed companies that integrate sustainability considerations provide higher returns at lower risk. The Council on Ethics is an ownership collaboration between the AP Funds aimed at increasing the leverage to influence companies to pursue sustainable value creation and transparency.

Through dialogues and engagement with companies the Council is able to make a positive difference and thereby contributing to the AP Funds' long-term returns. The Council is a collaboration with regard to the companies in the AP Funds' portfolios of listed equities, primarily the non-Swedish holdings.

Collaboration - a key for success

The collaboration with other international investors with a similar sustainability agenda, further increases the scope to exert an influence in dialogues with companies for positive change and transparency.

Long-term approach and responsibility are part of the mandate

The AP Funds' mandate from the Swedish parliament (Riksdagen) is to create high returns at low risk for current and future pensioners, which at the same time will contribute to the income pension system's stability.

On 1 January 2019, the rules in the National Pension Insurance Funds (AP Funds) Act changed. For example, a new goal has been introduced that the AP Funds must contribute to sustainable development by managing their assets in an exemplary way. This requires responsible investment and responsible ownership. This goal has to be achieved without the AP Funds compromising the objective of attaining a high return in the long run.



We aspire to make a difference. We seek to exert influence on companies all over the world in regard to sustainability issues, human rights, ethics, the environment, issues of great importance to people and society. Issues which can destroy or create value for companies.

We use dialogue to get companies to adopt proactive measures and to deal with incidents. This is how we can mitigate and prevent problems and accidents in a range of companies and industries.

And this is how we perceive we can contribute to sustainable development and importantly, sustainable pensions for current and future pensioners.

An eventful year

2018 was an eventful year for the Council on Ethics - preparations ahead of a revised AP Fund legislation, the yearly strategy work resulted in four focus areas for the Council's proactive dialogues, further development of the Council's integration of the UN Guiding Principles on Business and Human Rights (UNGP) in its processes, investor trip to Indonesia and Malaysia, recommendation to the AP Funds of the exclusion of three listed cannabis companies, new dialogues commenced, and others closed.

Pia Axelsson, Chair of the Council on Ethics of the AP Funds in 2018 and, who also works with Strategy & Sustainability at the Fourth Swedish National Pension Fund (AP4) and *John Howchin*, Secretary General of the AP Funds Council on Ethics, highlights some important events that affect the Council's future work.

Affecting the future, what was different in 2018?

Pia Axelsson: Working and preparing for a revised AP fund legislation including both revised investment guidelines and an ambitious sustainability goal. The revised AP Fund Act began to apply in January 2019 and it expresses a higher level of ambition in terms of sustainability compared to the previous law, which was written in 2000. For a large part of 2018, the Council and the AP Funds worked together to review, among other things, the role of the Council and processes in the light of revised legislation.

What did you come up with in the discussions?

John Howchin: We came to the conclusion that the Council's working model with a focus on engagement and dialogue with companies to influence them for improvements regarding sustainability has worked well. This model is based on conventions that Sweden has signed, the model has been used by the AP Funds since 2007 and it will continue to be the Council's model in order to recommend exclusions.

What challenges do you foresee with the revised legislation?

Pia: The revised goal for the AP Funds is expressed with a relative word – 'exemplary'. This will be a challenge, and at the same time spur positive developments. Also, as 'exemplary' is a relative word, it implies that depending on who you ask, you will get a different answer about the interpretation of the goal. It is a discussion that the AP Funds and the Council will hear more about.

Is it good with revised legislation for the AP funds?

Pia: From a management perspective, it is very good. It is 20 years since the old investment guidelines were written and since then, much have happened. First of all, the AP Funds need a modernized regulatory framework, if they are to be expected to continue delivering good returns over the long-term. Secondly, the AP Funds' have worked for many years with integrating sustainability into their investment strategies. Now, the importance of this way of working and thinking is confirmed explicitly in the new AP Fund Act.

John: Though, the wording in the old legislation that the AP funds "should take environmental and ethical considerations into account" in their investments, must be said to have been

very foresighted and clever. It gave the AP Funds both guidance and freedom to integrate and continuously develop their work regarding sustainability, both in their investment strategies as well as in the establishment of the Council. And this in a period of very rapid development and change regarding how society and the financial markets view sustainability. And now, twenty years later, virtually all leading asset owners and managers work with some form of sustainability strategy. With the revised legislation, the AP Funds and the Council will have an even stronger mandate for sustainability, and we shall take that into account.

What other challenges did characterize 2018?

Pia: The number of sustainability areas and our stakeholders' expectations of what we can achieve are constantly increasing. An important challenge, therefore, is to continuously prioritize the work and at the same time try to develop how we work.

John: Human rights have been in a special focus during the year and the AP Funds and the Council have worked to further develop their processes by implementing the UN's guiding principles on business and human rights.

Mention a highlight of your work as Secretary General in 2018?

John: I participated in a trip in California around the water issue there. As the unfortunate effect of climate change, water scarcity is moving up quickly on many companies' agendas. Many of the systems, techniques and approaches that are now being developed in, for example, California can be expected to have a broad impact globally in the future. There are enormous opportunities for efficiency through modern technology. It feels positive.

Was there a low-water mark?

Pia: Can one answer 2019? Vale's accident with the Brumadinho tailings dam collapse in January 2019. The Council met with Vale in Brazil in the summer of 2017 to follow up the company's actions following an almost identical accident two year earlier. At the meeting we pressed hard on the question of the safety of other tailing dams and were promised that the company ensured that they were safe. So obviously was not the case.

What are the challenges ahead?

John: That the number of good investor initiatives on sustainability and for various important issues simply is exploding right now. The AP Funds and the Council would like to participate in these types of collaborative project, but we must also focus our work on getting quality in what we do. The challenge lies in choosing the right focus and project. However, this is a positive challenge and, overall, a good development.

“The new goal for the AP Funds is expressed with a relative word – exemplary.”

*Pia Axelsson,
Chair of the Council on Ethics
of the AP Funds in 2018*

“Human rights have been a special focus during the year.”

*John Howchin,
Secretary General of the
Council on Ethics of the AP Funds*





CANNABIS

Recommended exclusions of cannabis companies

At the end of 2018 the Council on Ethics recommended the AP Funds to exclude three cannabis companies - Aurora Cannabis, Canopy Growth and Aphria. All AP Funds followed the recommendation.

The Council bases its analysis on the conventions ratified by Sweden and whether the companies in the AP Funds' holdings can be linked to deliberate and systematic violations of the conventions. The companies Aurora Cannabis, Canopy Growth and

Aphria have all confirmed that they sell cannabis for private use and the Council deems that the companies can therefore be linked to violations of UN conventions on narcotic drugs.

Cannabis

The medicinal properties of the cannabis plant are used to alleviate several ailments in large parts of the world. For example, to reduce pain or to relieve symptoms from rheumatism and epilepsy. In recent years, the number of diseases that cannabis is said to alleviate, and cure has increased although the scientific support for cannabis medical effects is often considered weak.

Research on cannabis medical effects has been hampered by the fact that the drug is classified as a heavy drug without medical potential. Among other things, this has resulted in few large and well-made studies of cannabis medical effects on humans.

Different countries, different views and laws regarding cannabis

Countries have different laws and regulations regarding cannabis. In the US cannabis is not legalized at federal level. However, in a small number of states including the state of California it is legal to consume and produce cannabis and cannabis products.

Canada legalized cannabis in the autumn 2018. Cannabis was already permitted for medical use. When the new Canadian law came into force, the production, sale and consumption of cannabis for private use was permitted.

In Europe a few countries, Portugal, Spain and the Netherlands, allow the use and possession of small amounts of cannabis and the medical use of the drug is even more widespread.



The Council's position on narcotic drugs

UN conventions on narcotics make up a global framework which Sweden supports

Internationally, a number of UN conventions¹ have rules on narcotic drugs and together they create a common framework for the member countries' legislation. Nevertheless, legislation can vary substantially from country to country. Sweden has signed UN conventions on narcotics. The conventions limit the use of narcotics to exclusively medical or scientific purposes. This means that research with drugs classed as narcotics is permitted and that doctors may prescribe some drugs classed as narcotics. In countries that have signed UN conventions on narcotics, no one may freely buy or sell drugs classed as narcotics or use them freely for recreational and/or religious purposes.

Cannabis

UN conventions on narcotics currently class cannabis as one of the narcotic drugs that requires the strictest controls. This means that countries which comply with the UN conventions should treat cannabis as a hazardous substance. The World Health Organization (WHO) is responsible for classifying which narcotic drugs are covered by the conventions. WHO regularly convenes a scientific committee which is responsible for and proposes changes to the classification of narcotic drugs when supported by scientific evidence.

Medical use

UN conventions on narcotics aim to make the narcotic drugs required by healthcare available while at the same time preventing non-medical use. The conventions have rules on addictive drugs that risk misuse or dependency and damage to health.

In some cases, they can still be used as part of a treatment and prescribed by doctors. Examples of such drugs include morphine for pain relief and amphetamine to treat ADHD. The UN's International Narcotics Control Board (INCB) sees to it that medicines can be accessed worldwide when they are deemed to have an effect on care and treatment. INCB approves cannabis for medical use. The Swedish Medical Products Agency has approved drugs that contain a refinement of cannabis plant parts. If patients are successful in applying for a license, the Agency allows them to use cannabis as a medicine and then in accordance with the rules in the legislation on narcotics.

The Council's recommendation

The Council deems that global and Swedish regulations on drugs containing cannabis or cannabis extract are grounds for an acceptance by pharmaceuticals companies that develop this type of product. Global and Swedish regulations on this issue alike are based on conventions ratified by Sweden.

The Council deems that a company has violated UN conventions on narcotics if it:

- makes pure drugs classed as narcotics for recreational and/or religious use
- makes products that include drugs classed as narcotics, such as beverages or confectionery that contain cannabis in various forms.

The Council therefore recommends that the AP Funds exclude companies that make such products.

1) Single Convention on Narcotic Drugs 1961, Convention on Psychotropic Substances, 1971, United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, 1988

Sustainable ownership through active company dialogues

The Council on Ethics' aim is to influence companies to address environmental and social issues through active dialogue, often together with other investors. Improved sustainability in companies' business will give better returns in the long-term. The Council's experience to date shows that dialogue is an effective tool that produces results.

Part of the AP Funds assets are invested globally in diversified equity portfolios comprising of up to 3 500 companies. To focus dialogues, both reactive and proactive, on the companies where they will have the greatest benefit, the Council applies a systematic working process. This process also helps ensure an even spread across various sectors, geographies and sustainability issues.

The issues that the Council addresses are often complex, and their solutions are rarely obvious. This means that, to succeed in persuading companies to act in a more responsible way, many factors often must come into place, like specific industry knowledge, contacts, time and commitment.

The Council encourages the companies to adopt appropriate guidelines, processes and systems for implantation and mo-

The Council on Ethics' working process manages a steady flow of dialogues, which evolves in different directions over time.



The Council's working process includes approximately 3 500 companies. Among the sources are media, investors, interest groups, stakeholders, trade organisations, public authorities, judiciary, UN bodies and many other sources to monitor corporate incidents. Some incidents are inevitably overlooked. The Council incorporates all information that it receives about such incidents into its systematic working process.

PROACTIVE DIALOGUE

Within each of its four focus areas – climate, environment, human rights and business ethics - the Council reviews and analyses companies, industries, problem areas and investor initiatives.

REACTIVE DIALOGUE

Between 100 and 300 company incidents each year are examined more closely for possible implication in violation of international conventions. The Council, other investors and various service providers are all involved in the examination.

PROACTIVE DIALOGUE

The choice of proactive focus areas as well as dialogues does not represent a statement that one is more important than another but is simply a deliberate strategy to earmark the resources of the Council in ways that are most likely to yield the greatest benefits.

REACTIVE DIALOGUE

The Council carries on direct dialogues with 40–60 selected companies whose violations of international conventions are palpable and well documented. The Council also collaborate with various investors and service providers to dialogue with companies in response to alleged violations.

monitoring as well as transparent reporting. This will enable the companies to do business as responsibly as possible regardless of where in the world they are operating.

The number of areas in which responsible investors could engage is considerable, and constantly growing. These involve not only industrywide problems but also serious offences at individual companies. Engagement in all areas and all companies is neither possible nor effective, priorities must be set. The Council has systematic working processes for proactive dialogues as well as reactive dialogues.

The Council on Ethics champions transparency

The Council asks for transparency in its dialogues with companies and is well aware of the merits with transparency. Therefore, the Council aims to be as transparent as possible and show how its work has progressed during the year.

At the same time, it is of the utmost importance to safeguard the trust the Council has attained in a dialogue with a company. Work to achieve improvement often takes time, but if the Council can create a positive climate for the dialogue with the company, there is a better chance of bringing about the needed change. A dialogue with a company is conducted in confidence and as a result it is not always possible to report publicly on it.

However, the Council champions transparency and whenever possible aims to make aspects of its proactive work public.

How a dialogue proceeds

PROACTIVE DIALOGUE

In-depth corporate analyses and possible comparisons with minimum requirements and best practice for the industry in question.

REACTIVE DIALOGUE

Collaboration with other investors, submission of proposals and voting at general meetings, and other forms of pressure.

Objective achieved

PROACTIVE DIALOGUE

The dialogue is concluded.

REACTIVE DIALOGUE

The dialogue is concluded.

Objective not achieved

REACTIVE DIALOGUE

The dialogue continues if constructive.

TIME-LIMITED DIALOGUE

A dialogue, where a violation of a convention is verified, should last a maximum of four years unless the dialogue is constructive or achieves its objectives. If not, the Council recommends the AP Funds to exclude the company. Each AP Fund makes its own exclusion decision.

EXCLUDED COMPANY

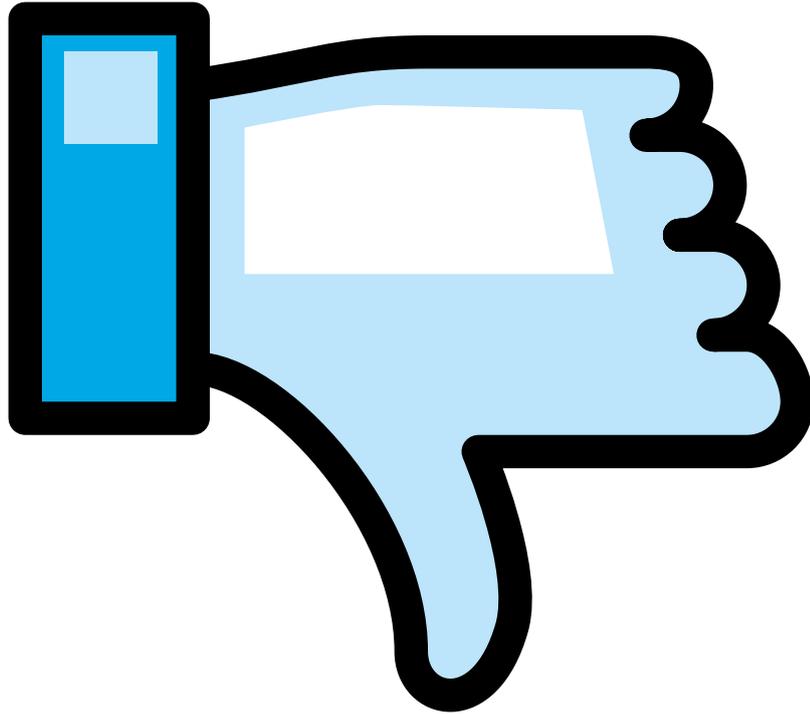
Companies that the Council has recommended the AP Funds to exclude. The Council investigates annually whether the situation has changed, and the company has begun to comply with international conventions. For more information www.etikradet.se.

Reactive dialogues

The point of departure and conviction of the AP Funds and the Council on Ethics is that - dialogue - is the best way of influencing and effecting positive change and transparency in companies. This course of action will give both better investments and financial return in the long term.

Reactive dialogues are conducted with companies if a serious incident has occurred. The following pages present a number of the Council's ongoing reactive dialogues.





Challenges in the new world

The Information and Communication Technology (ICT) sector is currently under intense scrutiny for its practices related to users' privacy, freedom of expression as well as data protection. The Council on Ethics is pushing for more transparency and accountability in the sector by engaging in dialogue with key players.

Facts

Region: US

Topic: Human rights

UN Sustainable Development

Goals:



As seen in recent years, the commercialisation of personal data without the proper consideration for human rights and due diligence has the potential to undermine democracies around the world and to provide tools which can harm people and societies.

The international human rights framework has not kept up with our new global cyber environment, and as a result, many issues have arisen relating to technology companies. Internet firms have been facing particular challenges pertaining to their business models, and have, until recently, been left to self-govern by the global regulators.

In 2018 all the key challenges of digitalisation came into focus for the biggest social media platform, Facebook. In March, a whistleblower report alleged the improper acquisition of information from around 50 million Facebook users globally with the goal to manipulate their voting behavior. The number later increased to 87 million. The following months brought more reports about the company's insufficient handling of the risks. Finally, in September 2018, Facebook admitted that about 30 million user accounts had been hacked.

Urging for increased product responsibility

The Council initiated dialogue with Facebook immediately after the report in March and since there have been a number of technical and policy improvements. However, the Council remains concerned with the company's reactive approach and it is unclear whether the company fully understands the Council's concerns. Facebook had been warned about the misuse of data for many years prior to the incidents mentioned above but did not address any of the issues adequately. Fixing the technical aspects of the problem alone is not enough to convince the Council that the human rights commitments have been met with due attention by the company.

It is important for Facebook to take on the full responsibility for the products it created. In the Council's view, Facebook should no longer consider itself 'a work-in-progress' that will slowly continue to evolve. The company should move as fast as it can to restore the trust it had broken. The Council will continue to urge Facebook to address the human rights impacts, enhance transparency, and further improve tools that protect users' data.



Resettlements after Samarco dam col

In November 2015, a tailings dam operated by Samarco Mineração (Samarco) breached, releasing a mud flow which inundated the settlement of Bento Rodrigues in Minas Gerais state, Brazil. The event caused fatalities and displacement of local communities as well as environmental damage.

Facts

Dialogue: Resolved in September 2018. In February 2019 the Council recommended the AP Funds to exclude Vale.

Region: Brazil

Topic: Human rights, Environment

UN Sustainable Development

Goals:



Samarco Mineração (Samarco) is a mining joint venture in which BHP and Vale SA (Vale) each hold 50 per cent. As a result of the tailing dam breach 19 people died, over 700 were displaced, and over 250,000 people had their water supply interrupted. Approximately 600 km of the Rio Doce river was impacted environmentally.

Monitoring progress in resettlement process

Dialogues with the three companies were initiated immediately after reports of the incident were received and have continued until September 2018, when the Samarco case was resolved.

Samarco was quick to initiate an emergency response and to reach agreement on 41 socio-economic and environmental remedial programmes with the Attorney General and the state and federal governments.

The dialogues with BHP and Vale focused on the companies' remedial efforts in regard to the socio-economic and environmental impacts as well their future preparedness.

For example, BHP responded to the Samarco incident by initiating an external

technical review into the causes of the dam collapse (reported in August 2016) and its non-operated joint ventures and tailings management. As a result of the reviews, the company reorganised to bring the expertise on tailings into a core head office function and brought together all its non-operated joint ventures into a single business to ensure standardisation of management and review.

The Council's focus in 2018 was to monitor the progress in the resettlement process. In August it was confirmed that the construction works on the resettlement for the Bento Rodrigues community would begin that month. Initial works include landscaping and infrastructure construction, with house construction commencing in January 2019.

Although, Vale did amend its tailings management, with the introduction of third-party audits, increased monitoring and improved emergency plans, the collapse in January 2019 of the Brumadinho tailings dam at the Córrego do Feijão iron ore mine, calls into question the resilience of such measures.



Call for action in 2019!

A collaboration of global investors seeks audit of tailings dams after Brazil catastrophe

The Church of England funds and the Council on Ethics as well as several other investors have called for independent classification system and new safety standards for mining tailings dams. The joint call follows the failing of the Vale dam in Brumadinho, Brazil and the tragic loss of lives, livelihoods and devastating environmental impact.

On 25 January 2019, the Brumadinho tailings dam at the Córrego do Feijão iron ore mine, owned and operated by Vale SA (Vale), burst, releasing a mudflow that inundated Vale's facilities and reached a nearby community in Brumadinho, Minas Gerais, Brazil. The flood and spills of the collapsed dam left near 300 dead victims and huge environmental damage.

The cause of the incident is so far unknown. As the mud contained mining waste, there were fears that huge areas of land could be contaminated, although the company has disputed this stating that the tailings were comprised of silica, a harmless mineral. The dam had been audited by a third-party German firm in September 2018 and by internal monitors in January 2019. Neither party had raised any concerns. Ibama, Brazil's environmental agency, fined Vale BRL 250 million (USD 65 million) for various violations related to the incident, including pollution and making the area unfit for habitation.

The joint investor call is for an accessible database with annual audits of all tailings dams as well as verification that corresponding safety standards are being implemented, ensuring that failures of dams should not happen. All reporting should be made public on an accessible data base that communities, governments, civil society and investors can access.

lapse commenced

Recommended exclusion of Vale S.A

The Council considers that Vale has not handled the risk that the company's tailings dams entail in a responsible manner. The company has been involved in two major accidents within a few years.

Vale has repeatedly after the first accident, assured both the Council, other investors and stakeholders that the company inspected all its tailings dams and assessed these as safe and that the company was implementing more stringent security measures. At the same time, the company has not acted on information on deficiencies regarding the safety of the tailings dam of the mine in Córrego do Feijão, Brumadinho. The consequences of the company's inaction can be equated with serious neglect, and the company's unsatisfactory actions has had devastating and tragic consequences, both for local people and the environment around Brumadinho, but mainly for the company's own employees.

In February 2019 the Council therefore recommended the AP Funds to exclude Vale from their assets. For further information www.councilonethics.se



Accountability and transparency on the health effects of chemical products

The dialogue with Bayer was initiated in April 2018 and focuses on the company's procedures in relation to the disclosure of health-related data on its products. The company faces allegations that the detrimental health effects of products have not been sufficiently disclosed to regulatory authorities and customers.

Facts

Region: USA

Topic: Environment

UN Sustainable Development

Goals:



The accusations relate from the acquisition of Monsanto. An acquisition which was announced by Bayer in September 2016 and closed in the autumn of 2018. The allegations concern multiple product groups over long periods of time and are linked to serious health and environmental problems.

Numerous media reports alleging that Monsanto has either not disclosed or has actively deceived its customers and the regulatory authorities on the detrimental health effects of numerous products for many years. The accusations relate to multiple products: PCBs (polychlorinated biphenyls) over a period of approximately thirty years leading up to their ban in the late 1970s, dioxins in the 1980s and most recently glyphosate since the 1990s. The newest range of dicamba-based products have also been proven to be extremely volatile in the environment and have been responsible for damaging non-resistant crops on an ever-increasing scale.

In August 2018, a jury in the Superior Court of California, found Monsanto responsible for “negligent fraud” stating the company knew or should have known that its glyphosate-based products ProRanger and Roundup

were “dangerous”. The jury awarded USD 249 million in putative damages to the plaintiff who has terminal Non-Hodgkin Lymphoma, a form of cancer. There are at least 8,000 similar cases awaiting trial in relation to glyphosate. Glyphosate-containing herbicides are so widely used globally that they are now present, at trace levels, in many cereal products including breakfast cereals and baby-products.

Dialogue with Bayer continues

The Council's dialogue focuses on trying to improve the company's procedures in relation to the disclosure of health-related data on its products; to ensure that data is released at the earliest practical date and appropriate health warnings are included on the relevant products.

To date, progress in the dialogue has been slow. After the first meeting with Monsanto, in April 2018, there has been little constructive dialogue. However, in a separate meeting with Bayer in August 2018, shortly before the finalisation of the acquisition, Bayer stated that it was happy to continue the dialogue and to bring representatives of Monsanto to the table. The Council will continue the dialogue in 2019.

Addressing sexual harassment and discrimination

Facts

Region: USA

Topic: Working conditions

UN Sustainable Development

Goals:



Despite an internal investigation, settlement payments and public apologies, as well as changes in senior management, the Council on Ethics believes further dialogue with 21st Century Fox is needed to achieve a shift in the corporate culture to ensure sexual harassment is no longer tolerated and effective policies, processes and monitoring mechanisms are implemented.

The dialogue with 21st Century Fox began in 2016 following allegations of sexual harassment and claims of sexual discrimination involving senior staff at Fox News, a subsidiary of 21st Century Fox. There were indications that the inappropriate actions of senior staff had been covered up and tolerated by the company.

Since then, the company has taken several initiatives to resolve the issues, including personnel changes, a new leadership structure, strengthening of the human resources team and training, as well as establishment of a council of independent experts.



However, the Council believes more work needs to be done to ensure that harassment and discrimination incidents are no longer tolerated. The Council would like to see the company implement policies and programmes against harassment and discrimination as well as develop mechanisms to monitor compliance.

Serious changes take time

Facts

Dialogue: Time-limited since 2017

Region: USA, Brazil

Topic: Labour rights including repeated health and safety violations

UN Sustainable Development

Goals:



One of the world's largest meat producing companies JBS SA, and its US subsidiary Pilgrim's Pride (Pilgrim's), have repeatedly been associated to labour rights violations, particularly in health and safety (H&S). The Council on Ethics' ongoing engagement focuses on encouraging the companies to improve their risk assessment, H&S management and transparency. In 2018 the Council saw some progress at JBS, but developments with Pilgrim's were less positive.

JBS has acknowledged the need to improve its ESG management and communications,

whereby its focus is on anti-corruption and environment and has been making clear improvements in these areas. However social issues, especially H&S, do not appear to receive the same attention on the group level.

While it is encouraging that there have been fewer reported fines and fatalities in 2018, the Council is nevertheless concerned about the lack of centralised H&S oversight and seemingly low importance that JBS places on ensuring that appropriate standards are followed across its operations. The Council will therefore continue to push JBS on this topic.

Disappointingly, the positive momentum at Pilgrim's, commended in the Council's last Annual Report, was not to last in 2018. The company became unresponsive and the amount of H&S information provided in its Sustainability Report decreased notably compared to the previous edition. Apart from labour rights, there are various concerns connected to Pilgrim's ESG management. The Council joined 18 other institutional investors in requesting Pilgrim's to initiate a dialogue on its water risks. This collaboration, as well as the Council's own efforts to get more action and answers from Pilgrim's relating to its employees' working conditions and safety, will continue in 2019.





Counteracting elephant poaching and trade of illegal ivory

Following accusations of facilitating elephant poaching and sales of illegal ivory, the Council on Ethics has been in dialogue with Yahoo Japan, the biggest online platform for ivory sales in Japan, for several years. The company has taken significant steps in 2018 but there is more to discuss. The dialogue aims to strengthen and extend company policies, strategy and reporting on this issue and to encourage collaborative action.

Facts

Region: Japan
 Topic: Environment
 UN Sustainable Development Goals:



Yahoo Japan has been receptive to the Council's dialogue and feedback and has started to provide more transparency and consistency in reporting. In 2018, the company published its first integrated report, launched a new website about the company's sustainability strategy and actions, and has acknowledged shareholder engagement as essential to achieve sustainable improvements.

The company has also included the UN Sustainable Development Goals in its newly established ESG (Environment, Social and Governance) strategy. The Council finds it encouraging to see these developments and hear that the management considers sustainability issues to be material and important to the long-term strategy.

Focus on international standards

Despite positive actions, the latest report (from September 2018) reviewing the state of ivory

trade in Japan found that Yahoo Japan remains central in fueling the international ivory trade, including illegal sales. The report acknowledged the company's efforts to improve compliance with existing and new Japanese regulations but considers the national laws to be ineffective.

The Council's ongoing dialogue will focus on collaborative action and urge the company to expand its policies to meet international standards. The Council finds Yahoo Japan's participation in Japan's main public-private initiative on the ivory trade commendable and encourages the company to extend this collaborative approach by joining international initiatives such as the Global Coalition to End Wildlife Trafficking Online. To implement best practices, the company should look beyond national legislation and aim for international standards.

Engaging with oil majors facing trial for international corruption

Based on serious allegations of corruption, the Council on Ethics continued its dialogue with the oil and gas companies Royal Dutch Shell (Shell) and Eni Spa (Eni) in 2018. The engagement aims at ensuring that the companies' code of conduct, due diligence and risk management processes in the areas of acquisitions and divestments are robust and universally applied.

Facts

Region: Nigeria

Topic: Corruption

UN Sustainable Development

Goals:



The central issue in this engagement is Shell's and Eni's involvement in a USD 1.1 billion transaction in 2011 to secure access to an oil block offshore of Nigeria, OPL 245. The two companies made the payment to the Nigerian government, but it is alleged that the companies had known at the time that the money would be transferred to another company - Malabu Oil & Gas, a company controlled by a former Petroleum Minister of the country.

Italian prosecutors investigating Eni's involvement in the deal have since alleged that at least half of the USD 1.1 billion was used to bribe local politicians, intermediaries and others.

In 2017, Italian prosecutors charged both Shell and Eni with international corruption. After some delays, the trial of the two companies and several current and former senior managers, including Eni's CEO, began in May 2018. In July, the court ruled that Nigeria could make a civil claim against the two companies, opening up the possibility of substantial damages. Then in September, the judge in the case sentenced two middlemen in the alleged transaction to four years in prison, which does not

bode well for either company as the proceedings continue.

Engagement in anti-corruption work continues

Meanwhile the Council has continued its dialogue with the oil majors. The Council has corresponded with the Chair over the course of 2018 on a range of relevant matters, including 'tone from the top', the structure of the company's anti-corruption unit and Eni's internal investigations.

The Council has also participated in a conference call with the Managing Director of Shell Petroleum Development Corporation (SPDC) - Shell's Nigerian subsidiary - and a face-to-face meeting with Shell in Stockholm. This covered due diligence in relation to transaction partners, dealings with government officials and the application of Shell standards by SPDC.

Looking ahead, the Council will continue to monitor the litigation affecting the two companies in Italy and continue engaging with them to strengthen their anti-corruption framework.





Emerging improvements for

The Council on Ethics continues dialogue with the main partners of the US Dakota Access Pipeline (DAPL), which transports crude oil from North Dakota to Illinois. The dialogue relates to the controversies around the pipeline and aims to achieve strengthened policy commitments and implementation on human rights and indigenous peoples' rights.

Facts

Region: United States
Topic: Violations of indigenous peoples' rights
UN Sustainable Development Goals:



The DAPL has been operational since June 2017, following approval by US regulatory agencies in the four states the pipeline crosses and the granting of the final permit by the US Army Corps of Engineers. The pipeline was developed by Energy Transfer Partners LP, a subsidiary of Energy Transfer Equity LP. None of the AP Funds holds shares in that company. The main other partners include Phillips 66 and Enbridge Energy Partners LP (Enbridge), an affiliate of Enbridge Corporation.

A report by the UN Special Rapporteur on the rights of indigenous peoples in 2016 found that the pipeline project posed significant risks to the Standing Rock Sioux tribe, a Native American tribe impacted by the operation, in relation to water pollution and the destruction of burial grounds and sacred sites. The Special Rapporteur, among others, also alleged that the tribe was not effectively consulted and did not give its consent to the current routing of the pipeline.



indigenous people's rights

Continued dialogue to follow open court proceeding

The Council has continued dialogue with Phillips 66 and Enbridge over the human rights and environmental concerns of the pipeline and some progress has been seen during the year.

In June 2018, Enbridge published its report on "Indigenous Rights and Relationships in North American Energy Infrastructure". The report outlines the company's indigenous rights policy and how it is systematically applied in company operations. Enbridge is currently engaging with relevant stakeholders for feedback on the report. The report is comprehensive and detailed and a best practice example in terms of transparency and stake-

holder dialogue. The report also includes a review, made by the company, of its practices in comparison to an expert good practice report on social impacts in the US pipeline industry.¹

Phillips 66 adopted its first stand-alone human rights policy in late 2017, with emerging efforts to implement it in its operations.

The Council is pleased to see the progress in 2018. However, there is still an open court proceeding in relation to the matter initiated by the Standing Rock Sioux tribe. Hence, the Council will continue its dialogues in 2019.

1) <https://www.foleyhoag.com>

Deforestation issues in South America

Following a report in 2017 on excessive deforestation in Brazil and Bolivia, the Council on Ethics has engaged with Bunge Limited (Bunge), an agribusiness and food production company, over land clearance practices in its soy supply chain. Over the course of the engagement, Bunge has taken initial steps to address deforestation issues in South America.

Facts

Region: Argentina, Brazil, Bolivia, Paraguay

Topic: Deforestation

UN Sustainable Development

Goals:



In February 2017, the NGOs Mighty Earth and Rainforest Foundation Norway released a report in which they linked Bunge to deforestation in Brazil and Bolivia. The investigation revealed that local farmers systematically carried out forest-burning to grow soybeans for Bunge. According to the report, around 700,000 hectares of forest land were cleared between 2011 and 2015 in Brazil and Bolivia, affecting jaguars, giant anteaters and sloths.

Following the allegations, the company made a commitment to eliminating deforestation from its agricultural supply chains worldwide using methodologies that aim to reduce

carbon emissions and incorporate biodiversity protection.

In March 2018, Mighty Earth and Rainforest Foundation Norway released another investigative report on soy production in the Gran Chaco area in Paraguay and Argentina, which showed widespread forest clearing and burning for soy production. The report indicates that there is a need for conservation in the Gran Chaco regions, Cerrado and the Bolivian Amazon.

Encouraging open public disclosure

Due to ongoing allegations, the Council decided to continue the dialogue with Bunge. The com-



pany has committed to eliminating deforestation in its supply chain between 2020 and 2025. In 2018, Bunge was implementing a three-phase approach to increasing traceability of its soy supply in South America. In August 2018, the company launched a financing mechanism that encourages and rewards suppliers who avoid conversion of native vegetation and intensify agricultural production in existing lands.

The Council expects Bunge to implement the time-bound zero deforestation policy and encourages more open public disclosure on the progress of the policy implementation.



Work against ship beaching progress

Facts

Region: Southeast Asia

Topic: Environmental and labour rights

UN Sustainable Development

Goals:



The practice of “beaching” end-of-life ships is highly controversial. NGO reports have highlighted environmental, human rights and labour rights issues associated with the practice. The Council on Ethics has been in dialogue with Maersk since 2016 with the aim to ensure that the company is fully compliant with its obligations under international law.

The dialogue with Maersk began in October 2016 after NGOs reported that the company had sent two of its ships to be recycled in Alang, India, one of the places in Southeast Asia where beaching end-of-life ships takes place. The company stated the belief that its presence there could be an incentive for local shipyards to further improve environmental and labour standards to reach an acceptable, or higher, level.

Maersk’s recycling of its ships in Alang was again criticised in 2018 by some stakeholders, including the UN Special Rapporteur on Toxic Wastes. Nevertheless, the company stands firmly by its position and indicates that the performance of the Alang yards which Maersk uses to recycle its ships has significantly improved against its Maersk Responsible Ship Recycling Standard, as shown by third party audits.

Ensuring compliance with international law

An independent company measured seawater pollution on industrial beaches in Alang in 2017, finding that the most relevant pollutants were below a level that would be harmful to the environment. However, amounts of oil, some metals and Tributyltin (TBT) were above this safety level. Maersk stated it was not possible to ascertain if the company’s vessels contributed to this particular pollution or come from other sources.

All in all, Maersk claims that after its engagement with the selected Indian yards, these perform better than yards in China or Turkey, which do not use the beaching method.

The EU recently agreed to inspect the Alang yards, which have filed for inclusion to the EU list of approved ship recycling facilities, and the Council will follow this development with interest. The Council’s ongoing dialogue aims at ensuring that Maersk is fully compliant with its obligations under international law.

Repeated fatal accidents spur dialogue with Chinese construction company

Facts

Region: China
Topic: Labour rights
UN Sustainable Development Goals:



The Council on Ethics has engaged with China Communications Construction Company (CCCC) since 2017, following reports of recurring severe fatal workplace accidents involving two crane collapses that caused 25 fatalities and left many more injured. The Council continues to work for constructive dialogue to increase safety measures in its engagement with CCCC.

In 2016, according to media reports, 18 people were killed, and more than 20 others were

injured at a construction site owned by a subsidiary of CCCC in Dongguan, China. Reportedly, due to heavy winds, a crane collapsed on a shed that was sheltering nearly 140 construction workers. In 2017, a fatal accident took place at CCCC's construction site in Guangzhou, China. Seven people were killed, and two others injured, also due to a collapsed crane. The local authorities suspended all construction projects in the city and are investigating the cause of the accident.

During 2018, some improvements have been seen. This includes the introduction of a risk identification checklist for engineering projects and the development of operational safety management systems by the company-level safety director and safety committee.

However, despite some positive actions there are still several steps that need to be taken, including further improvements to safety practices and due diligence, as well as transparency on the underlying processes. As such, ongoing dialogue will focus on increased disclosure and urging the company to improve and expand its policies to meet international standards.



Many gaps in anti-corruption and safety systems at Chinese railway company

Facts

Dialogue: Time-limited since 2017
Region: China
Topic: Health & Safety, Corruption
UN Sustainable Development Goals:



The engagement with China Railway Group (CRG) was initiated in 2013 due to reports on recurring fatal accidents at CRG's subsidiaries, the last occurred in 2017. There are also allegations of corruption in public tenders in China. Despite some improvement and measures taken by CRG, there are still gaps in anti-corruption and safety systems that should be addressed.

CRG was the main constructor of the Lanxin railway in China when two accidents took place in 2011 and 2012, resulting in 20 fatalities. The company, through its subsidiaries, was linked to breaches of health and safety standards which led to the accidents.

In 2014, apart from safety breaches, there were media reports indicating that CRG provided bribes to ministerial officials to secure contracts in the years 2005-2011. There were no official verdicts as trials were classified. CRG denied any involvement in corruption.

In 2017, two new workplace accidents occurred. In May, in Jinan City in the Shandong province, a crane collapsed at a construction site operated by a CRG's subsidiary, China

Railway No.10 Engineering Group, causing six fatalities. Moreover, in June 2017, the Sigiri Bridge in Kenya, constructed by CRG's subsidiary COVEC, collapsed before it was completed and injured 27 people.

Encouraging transparency in public disclosures

Over the course of the engagement, CRG stated that it improved the risk assessment process and health and safety guidelines as well as the safety training programme. However, there has been continued poor information disclosure in relation to measures taken by the company to mitigate corruption risks.

In 2018 the Council continued to pursue dialogue with CRG and sent an investor letter underlining its concerns over corruption and safety matters and highlighting the importance of well-functioning anti-corruption system and proper implementation of health and safety policy. The Council encouraged more open public disclosure on the above-mentioned issues.

Proactive dialogues

The Council on Ethics' proactive dialogues support the work of companies with regard to sustainability issues in order to prevent serious incidents from occurring.

The dialogues are about persuading companies to focus more closely on various environmental and social issues, improve internal processes and the transparency of their work. Thereby improving the sustainable value creation of the companies and ensuring better investments as well as financial returns long-term.

Several of the problems that the Council discuss with the companies arise from weak regulation, often in combination with sector-wide shortcomings. The overall playing field on which the companies operate is not controlled by investors but by governments and other political institutions and regulatory authorities. Simple, black-and-white solutions rarely present themselves for many of the problems the companies are confronted with.

During 2018 the Council's strategy work resulted in the decision to focus on four focus areas for its proactive dialogues:

- Climate – the Paris climate agreement
- Environment – biodiversity and water

- Human rights – child and forced labour and health and safety
- Business ethics – anti-corruption and responsible businesses

The Council's prioritization and choice of focus areas for its proactive company and sector dialogues takes in considerations regarding financial risks and opportunities, as well as public trust in the AP Funds and the Council. Contributing to this work is also the result and analysis of the AP funds and the Council's materiality dialogues regarding sustainability with stakeholders. A workshop with representatives from several of the Council's and AP Funds' stakeholders was held in the autumn of 2017.

The following pages present a number of the Council's proactive dialogues.





FOCUS AREA: ENVIRONMENT – BIODIVERSITY

Bee engagement

Over the last few years research has increasingly shown a link between the use of neonicotinoid-containing pesticides and a decline in bee populations. Through meetings with a variety of stakeholders, the Council on Ethics is seeking to understand and address this challenge to the world’s most important pollinators.

Facts

Focus area: Environment
 Region: Global
 UN Sustainable Development Goals:



Pollination is an important ecosystem service necessary for reproduction of about 35 per cent of global crop products. In the US, honey bee pollination is responsible for some 80 per cent of crop pollination and is estimated to contribute USD 20 billion to the US economy.

Research links pesticide to dying bees

Neonicotinoids are a class of neuro-active insecticide, effectively neurotoxins, which allegedly act upon the central nervous system of bees, causing nervous stimulation, disorientation and blocked receptors. The effects are irreversible and affects the behavior of the bee, such as foraging and navigation, but can also cause death.

Bayer and Syngenta are two of the major manufacturers of neonicotinoid products. In September 2018, reports came of new studies finding that glyphosate-containing pesticides, such as Bayer’s product Roundup, adversely affects the beneficial bacteria in the gut of bees, through an enzyme that is specifically targeted by glyphosate. The effect is that the bee larvae grow more slowly and often worker bees die when subsequently exposed to common bacteria.

The Council discussed the topic with Bayer in August 2018. The company questions the science behind research on bee colony declines, stating that although bee colony decline is doc-

umented, the quantity of bees is not declining. It also argues that colony decline is primarily due to the introduction of the Varroa mite into Europe where the bees had no natural immunity to withstand the mite. The Varroa mite spreads deformed wing virus into the bees. Any significant infestation can indeed cause the death of a colony.

Collaboration for guidance on practical measures

In 2019, further meetings are planned with two opponents to the use of neonicotinoid-containing pesticides namely The Soil Association in the UK and the Intergovernmental Science-Policy on Biodiversity and Ecosystem Services (IBPES). The Council seeks to understand the science behind the research and the level of scientific review as well as request guidance on the practical measures that could be taken by the manufacturers.

It should be noted that the insecticides and pesticides in focus make up a substantial proportion of the market and have arguably made significant benefits to the level of food productivity globally.

Following the above meetings, the Council shall seek a further meeting with Bayer to discuss the allegation that, now, two of its products are potentially adversely affecting the world’s most important pollinator.



Focus on water issues

Water is a natural resource that is already scarce in many places and for which demand is expected to increase in the future. Water shortages are a result of, among other things, increased global population and climate change. It is therefore necessary to ensure access to good quality fresh water.

Facts

Focus area: Environment
Region: Global
UN Sustainable Development
Goals:



Agriculture is the biggest user of fresh water from the world's lakes, rivers and groundwater. Roughly 70 percent of the world's fresh water consumption relates to irrigation in agriculture, over 20 percent is used by industries and the rest goes to household use. Most of the water used in agriculture comes directly from rain and not from irrigation. Globally, 60 percent of all cereal crops are completely dependent on rain, while 40 percent are wholly or partially dependent on irrigation.

Warmer climate, changing weather patterns and increased populations set new demands

Fresh water is a local asset, which is expensive to transport. Warmer climate, changing weather patterns and increased population put pressure on local water resources and require better water management. Traditionally, companies in the agricultural sector have focused actions on the direct water consumption in their operations. A small number of companies have also worked to understand and manage

risks throughout their subcontractor chains. Given the challenge, a holistic approach is required to understand the risks and opportunities of managing the company's direct and indirect fresh water supply.

Investor collaboration for better management of fresh water

An investor collaboration through the Principles for Responsible Investment (PRI) has for several years worked to get a better understanding of companies' preparedness and management of water. The investor collaboration has also worked for increased dialogue between companies and investors on water issues.

During 2018, the Council participated in the second phase of the investor collaboration project, which focuses on initiating dialogue with non-responding companies from the first phase. The Council is responsible for contact with two companies and has started dialogues where water issues have been discussed. The Council will continue the dialogue work in 2019.



A challenge in absence of global regulation

The Council on Ethics works with the aim to improve companies' climate reporting. In 2018, the Council, together with a group of investors, engaged with Shell as part of the AP Funds' overall involvement in the Climate Action 100+ project.

Facts

Focus area: Climate
Region: Global
UN Sustainable Development Goals:



The risks of climate change and assessments of how living conditions on Earth will be negatively affected by various expected temperature increases have been described in many reports. One important conclusion is that climate change, regardless, will have major negative impact on societies, businesses and lives, thus also on future pensions.

To mitigate climate change, it is important that all actors, such as politicians, businesses, investors, and civil society, cooperate. A challenge for the world's political systems and governments is to cooperate with the aim to create clear, effective, long-term and preferably harmonized regulation, which supports a fast and orderly transition to a global low-fossil society.

The AP Funds have for several years worked with implementing different investments strategies to mitigate climate change risks in their assets. The Council's work on the climate change issue is about influencing companies to raise their ambitions and be transparent with their climate work, supporting and participating in international projects as well as influenc-

ing decision-makers to take greater account of the climate issue.

Climate Action 100+

The AP Funds are active in the Climate Action 100+ project. It is a five-year initiative run by investors to systematically engage companies that have extensive greenhouse gas emissions, but it also focuses on other companies in the global economy that have great opportunities to push for the energy conversion and contribute to achieving the goals of the Paris agreement.

The AP Funds together with the world's largest investors urge companies to improve corporate governance on the climate issue, reduce the companies' emissions and strengthen climate-related financial data in the report's accounts. Companies that the AP Funds engage in dialogues with are, among others, Volvo, Petrobras, National Grid, Engie, Daimler and Volkswagen.

The Council, together with a small group of investors, engaged during 2018 with Shell as part of the AP Funds' overall involvement in the Climate Action 100+ project. As an oil company, Shell has set a long-term goal of reducing the company's carbon footprint for the products that the company sells. The goal is that net emissions over the entire life cycle from the energy sold will almost halve by 2050 and decrease by around 20 per cent by 2035.

Following the investor group's involvement with Shell, the company has now decided to set short-term goals for the company's carbon footprint. The goals will be updated every year and set for the next three or five years. The process is planned to start in 2020. It is also included in Shell's plans to link the goals to the remuneration to the management team and senior executives, but this is something Shell's shareholders must vote on as a proposal at the Annual General Meeting 2020.

Finally, the company has also undertaken to review its membership in various lobby groups. The reason for this is that some of these groups may oppose the intentions of the Paris agreement.

It must be seen as a success that this type of agreement comes about, and the coming years will be crucial in terms of the oil companies' handling of climate risks, both in the short and a little longer term.





FOCUS AREA: CLIMATE, ENVIRONMENT, HUMAN RIGHTS, BUSINESS ETHICS

Palm oil - a raw material with major challenges

Palm oil is the most widely used vegetable oil in the world and an important raw material in various consumer products such as cosmetics, sweets, soap, washing detergent, bread, cakes, etc. It is also a raw material with major challenges in terms of climate, environment and social aspects. The Council on Ethics is a member of an investor collaboration working for more sustainable palm oil production.

Facts

Focus area: Climate, Environment, Human rights, Business ethics
 Region: Indonesia, Malaysia
 UN Sustainable Development Goals:



Palm oil is an important raw material used by several companies in the AP Funds' portfolios. In the palm oil producing countries, the industry offers opportunities for local communities to new income and better living standards. Palm oil cultivation is largely undertaken by small-scale farmers and family companies. For example, in Indonesia, they account for around 40 per cent of the country's palm oil production.

The industry is associated with major challenges, among others, to bring about changes in the production methods of small-scale agricultural companies and to achieve traceability through the supply chain. A common way to increase production is to increase the area of the plantation by burning off forest. Forest fires contribute to global warming, and the rainforest, which is a globally important greenhouse gas sink, is depleted. In addition, the soil preparation often contributes to new greenhouse gas emissions. Deforestation also contributes to reduced biodiversity.

Low payment willingness for certified sustainable palm oil

Sustainable production requires knowledge and investments. The growth of certified sustainable palm oil is dependent on achieving greater efficiency from existing plantations and a demand and willingness by the market to pay a premium. Unfortunately, the demand for certified sustainable palm oil is relatively

low. The greatest demand comes from Europe followed by the US. There is not much demand from India or China, the two countries that buy approximately half of the global palm oil production.

Sustainability work is developing

In recent years, several large globally listed companies have worked on developing their policies, systems and processes, striving for a more sustainable production. Their work includes commitments to cause no deforestation nor to cultivate on peat land as well as improve their management of incidents in operations and greater transparency in reporting. The challenges are many, some others are how to achieve traceability in palm oil fruit and better methods to map and categorize the land's preservation value.

The Council is a member of an investor collaboration, which is coordinated by the Principles for Responsible Investment (PRI), for greater sustainability in palm oil production. In 2018, representatives from PRI and several global investors including the Council travelled to Indonesia and Malaysia to meet on site with companies, NGOs, local authorities, local investors and banks. The opportunities and challenges in financing were discussed with banks in order to influence them towards more sustainable palm oil production. The Council will continue to work in the PRI's working group for sustainable palm oil production.



FOCUS AREA: HUMAN RIGHTS – CHILD AND FORCED LABOUR AND HEALTH AND SAFETY

Human rights is one of the Council on Ethics’ focus areas

In both proactive and reactive dialogues, the Council on Ethics holds companies to account for their responsibilities by engaging with them. The dialogues aim to support improvements in, among others, the companies’ policies, implementation and monitoring processes as well as promoting transparent reporting regarding human rights.

Facts

UN Guiding Principles for Business and Human Rights (UNGPs)

The framework consists of three principles to guide companies in their work with human rights.

The framework stresses

- states’ duty to protect human rights (Protect)
- corporate responsibility to respect them (Respect)
- and joint responsibility to remedy problems (Remedy)

States still bear the fundamental responsibility for safeguarding of human rights, but the principles have clarified how companies should act. Companies should also undertake a screening of how their operations can affect human rights, which for investors can facilitate analysis of companies’ risk management and potential violations. For more information, see: www.business-human-rights.org

The demands for acting responsibly have increased, both for investors and for the companies. There is an ever-increasing focus among both companies and investors about corporate respect concerning human rights.

Contributing to this trend are several cases of strengthened legislations and guidelines on human rights, like the UK Modern Slavery Act, the California Transparency in Supply Chains Act and, the Modern Slavery Bill, which the Australian parliament passed in 2018. The latter require larger companies to outline transparently in the public reporting the risks of modern slavery in their operations and supply chains and the actions taken to address those risks.

Several companies are working on how to implement the UN Guiding Principles on Business and Human Rights (UNGPs). Reinforcing this positive trend is that several of the Sustainable Development Goals advocate for issues such as poverty reduction, reduced inequalities and decent work, which directly link to the respect and advancement of human rights.

Learning exchange project for greater awareness

In 2018 the Council, its engagement consultant and the four AP Funds have been focusing on how to use the UNGPs to assess whether companies do enough to control human risks and how salient the risks are. The Council and the AP Funds have had a “learning exchange project” together with Shift, an organisation focused on how businesses and organisations can implement the UNGPs. The purpose has been to look how to develop the processes of the Councils on Ethics’ operations and of respective AP Fund’s asset management.

The work entails, among other things, creating and developing various processes to identify the risks of different industries and companies for violations of human rights. It is an important and challenging work and it is important to retain a humble attitude to these complex issues so as to keep learning more, at the same time as to take a stand and contribute to greater awareness of responsibilities. The work will continue in 2019.

Combating labour issues in food supply chains

Child labour and forced labour are among the most salient human rights risks faced by many corporations. The Council on Ethics is part of a collaborative engagement programme targeting companies in the food and beverage production and retail sector.

Facts

Focus area: Human rights
Region: Global
UN Sustainable Development Goals:



The programme aims to address risks of child labour and forced labour in the supply chains of a selection of companies, with focus on a few high-risk commodities. By proactively influencing these companies and commodities the Council hopes to achieve knock-on effects throughout the industry.

In 2017 the number of child labourers globally was estimated to be over 150 million, of which more than 70 per cent are involved in agriculture. Forced labour was estimated to involve 25 million people, with around 11 per cent in the agricultural and fishing sector. It is

therefore very relevant to combat these problems in the food industry supply chain.

The Council has been addressing specific company cases regarding child and forced labour for many years, for example in palm oil and cocoa production. Through this new collaborative engagement, a wider range of companies and commodities will be targeted, drawing on the experiences and lessons learned from previous engagements and with the aim to remediate adverse labour rights impacts and to push the industry overall to improve practices.

Migrant workers

The engagement also seeks to address migrant workers elevated vulnerability to become involved in forced labour due to language barriers, integration challenges, and limited local knowledge and support. According to the International Labour Organisation (ILO), almost one in four victims of forced labour was exploited outside of their country of residence.

Living income

The engagement advocates living incomes for small-scale farmers and plantation workers, meaning that the income is enough to care for basic needs for the worker and his or her family. Farmers and agricultural workers receiving a living income are more likely to be able to send their children to school, secure a long-term supply of food for their families and, in general, escape poverty.

The engagement project is a global collaboration between investors, initiated by Swedish peers AP7 and Öhman, and coordinated by the engagement consultant GES, and is an example of a partnership aiming to strengthen and implement changes for sustainable development.

In 2018, dialogue was initiated with twenty companies, with the focus so far on establishing productive dialogue and benchmarking each company. Particular focus is placed on some high-risk commodities, namely coffee, rice, sugar, tea and tomatoes. The dialogue addresses issues, such as, company policy on human rights, due diligence, proactive mitigation and collaboration with industry stakeholders. Results will be updated biannually, tracking company progress throughout the course of the engagement.



Promoting responsible sourcing practices of cobalt

In 2018, the Council on Ethics and several other investors continued, in collaboration, dialogues with 15 companies from the electronics and automotive sectors on their cobalt sourcing practices. The dialogues have been ongoing since 2016 and among the 15 companies include Dell, Apple, HP and Microsoft, but also companies in the transport sector such as Daimler and Volkswagen.

Facts

Focus area: Human rights
Region: Democratic Republic of Congo (DRC)
UN Sustainable Development Goals:



Cobalt is an important raw material for coping with the transition to a low-fossil society. Cobalt is available in lithium-ion batteries which power products such as electric vehicles, mobile phones, laptops, and other household products.

Cobalt is most often sourced via a complex supply chain from the Democratic Republic of the Congo (DRC), which is home to more than half of the world's cobalt resource. Serious, systemic human rights violations, including child labour, are commonplace. Demand for the mineral is expected to continue growing in coming years.

Investor expectations highlighted in new brief

During the autumn of 2018, investor cooperation was incorporated into the Principles for Responsible Investment (PRI). In connection with this, a brief was published on the situation in the DRC where cobalt is extracted based on the investor group's work in recent years. The brief describes, among other things, the expectations and challenges that exist.

The three main areas of investor expectations towards companies with regards to the responsible sourcing of cobalt are:

- 1) The companies should carry out human rights risk assessments and continuous human rights due diligence efforts
- 2) Provision of remedy
- 3) Participation in collective initiatives.

One challenge that investors are concerned about is that companies have stopped or have considered stopping sourcing from artisanal and small-scale mines (ASM) permanently. If doing so this may have major negative effects on the livelihood of local communities.

Apple is considered to be among the leading companies on the issue. The company has identified all of its cobalt smelters and allows them to undergo external audits. The company has specifically included cobalt in its subcontracting policy. Apple is an active member of the most relevant industry groups - the Responsible Minerals Initiative (RMI) and the Responsible Cobalt Initiative (RCI) and has shared its expertise with them. The company has co-financed research to better understand the challenges of cobalt breaking in DRC. Apple has published reports on the updates in its cobalt sourcing work.

Dialogue to be continued together with PRI

The Council has been involved in the dialogue with Daimler in 2018. In the autumn of 2018, Daimler announced a new policy on human rights that specifically mentions cobalt and risks in the supply chain and the company also participated in the Responsible Cobalt Initiative in 2018. The Council continues its work with human rights and cobalt in 2019 together with Principles for Responsible Investment (PRI).



The Council on Ethics speaks at the OECD forum in Geneva

The pressure is high around cobalt and how the mineral is extracted. Many organisations are working actively to improve the situation in the Democratic Republic of the Congo (DRC) around the mines.

During the spring, the Council participated as a speaker at the OECD's forum in Geneva for responsible supply chains for minerals with a special focus on DRC. It is obvious that long-term patient work is needed to solve the problems.



FOCUS AREA: HUMAN RIGHTS – CHILD AND FORCED LABOUR AND HEALTH AND SAFETY

Investor collaboration to combat child labour in cocoa production

Over 100 million child labourers are estimated to work in agriculture worldwide. Two million of those are found in the worlds’ two top producing countries of cocoa, Côte d’Ivoire and Ghana. For many years, the Council on Ethics has been involved in a collaborative investor engagement to combat child labour in cocoa production.

Facts

Focus area: Human rights
 Region: Western Africa
 UN Sustainable Development Goals:



About 70 per cent of the world’s cocoa beans are produced in Côte d’Ivoire and Ghana. The beans are usually grown on small scale farms and are then passed through a complex supply chain. Due to this very fact, most of the major players claim it is difficult to properly control the supply chain.

Since the problem with child labour is so widespread and therefore concerns the whole industry, the Council participates in a collaborative investor initiative coordinated by its engagement consultant, which engage many of the largest cocoa grinders and chocolate manufacturers in the world. In 2017, when a first public investor expectations report was released on the topic, it was backed by more than 60 institutional investors in various countries.

The engagement dialogue continued in 2018 and a benchmarking report witnessed to considerable developments in the roll-out of child labour monitoring and remediation systems (CLMRS) in cocoa-growing communities in the past year. These systems have become mainstream practice among larger cocoa and chocolate companies.

Addressing poverty - living income

In terms of tackling poverty, a root cause of child labour, the Council’s engagement dialogues focus on the topic of living incomes for

cocoa-growing farmers. This term is commonly defined as being the means to sustain the producer and his/her family. The benchmarking report found that the current status of investor efforts and expectations to move towards living incomes is rather mixed.

Cocoa prices fell to very low levels towards the end of 2016 and all through 2017 and while prices have recovered slightly in 2018, they remain low. Although the reality for cocoa-growing farmers is challenging, there is a lot more recognition of, and efforts to promote, a living income from the industry and others, compared to previous years.

Recent studies have provided important data on actual levels of farmer income and living income in cocoa-growing communities and one study points to actual income levels in Côte d’Ivoire being on average 37 per cent of a living income. More studies are underway and the cocoa industry itself has shown notably increasing attention to the issue.

The Council is expecting concrete measures to be taken, and for child labour in cocoa to decrease and ultimately be eliminated. The Council will continue direct dialogues with cocoa and chocolate companies and advocate for further roll-out of CLMRS and more corporate efforts to advance towards a living income for cocoa-growing farmers.



FOCUS AREA: CLIMATE, ENVIRONMENT, HUMAN RIGHTS, BUSINESS ETHICS

Raising the bar on ESG in emerging markets

The Council on Ethics has been participating in a proactive engagement program on the emerging markets for several years. Dialogue addresses environmental, social and governmental (ESG) risks and opportunities in companies across fifteen different emerging markets.

Facts

Focus area: Climate, Environment, Human rights, Business ethics
 Region: Global
 UN Sustainable Development Goals:



Since the beginning in 2009, the Council's engagement consultant has conducted more than 600 face-to-face meetings in the engagement program, all with the aim to drive positive change based on constructive dialogue. The Council is actively participating in fifteen of these company dialogues, including companies from Brazil, China, The Philippines, Russia, South Korea, and Thailand.

From limited disclosure to open and systematic approach

One of the company engagement cases endorsed by the Council is the Philippine-based real estate development company Ayala Land. There have been four face-to-face meetings with Ayala Land in Manila.

At the first meeting in 2013, the company disclosure on ESG issues was very limited and the meeting was the first ESG-focused investor meeting that Ayala Land had experienced. Ayala Land claimed that accident rates were close to zero, but the safety statistics were not reported externally. Such a low number is unlikely in a construction company with thousands of employees and subcontractors in the Philippines, where many are low-skilled workers. So, the engagement initially focused on improving ESG transparency and disclosure and building up proper risk assessment and management structures.

Ayala Land was responsive to the feedback from the dialogue. The company has significantly expanded disclosure to investors and started working more systematically with safety as well as other ESG issues such as climate change. Safety statistics are now shared externally, and the engagement meetings feature detailed discussions on accident prevention.

Besides the focus on safety, Ayala Land has taken a strong interest in climate change and announced a progressive program for commercial properties to become carbon neutral by 2022. It has identified three strategies to achieve carbon reductions: provide passively cooled spaces, shift to renewables and clean energy, and establish and protect carbon forests.

Engagement in emerging markets continues

The scope of the emerging markets engagement program continues to expand. In 2018 each company was assessed against the UN Guiding Principles for Human Rights (UNGPs) and the engagement was matched according to the UN Sustainable Development Goals (SDGs).

The proactive engagement approach on risks makes the program well aligned with the expectations outlined in the OECD Guidelines for Institutional Investors. The Council will continue its engagement with companies in the emerging markets.

Transparency is important in tackling corruption

Business ethics - anti-corruption and responsible businesses - is one of the Council on Ethics four focus areas. The reason is simple - corruption undermines good governance, ethical businesses and society at large - but solving the problem is all the more complex. Work to tackle corruption is and will continue to be a sustainability issue for the Council to pursue.

Facts

Focus area: Business ethics
 Region: Global
 UN Sustainable Development Goals:



The Council dialogues with a large number of companies and in principle, all proactive dialogues include the issue of anti-corruption. Different forms of corruption are a common risk for most companies. Corruption distorts competition and can deplete a company's assets. It is important that companies work actively to reduce the risk of corruption in their business.

Corruption is widespread in many countries and industries and it is very harmful for societies. It undermines people's trust in political and economic systems, institutions and public officials, civil servants and political leaders.

Anti-corruption work is a challenge both for companies and the communities in which they operate, because corruption by its very nature often happens in the hidden and is difficult to detect and prevent.

The Council's involvement in the work against corruption aims at getting companies to strengthen their work against corruption. Some methods that can be used to reduce and prevent corruption are increased trans-

parency, whistleblower mechanisms and improved compliance work in the companies.

New investor collaboration to start in 2019

During the year, the Council has worked to set up an investor collaboration with a focus on anti-corruption, which will commence in 2019.

Over the last decades, several global frameworks such as the UN Global Compact, the UN Convention Against Corruption, the OECD Foreign Bribery Convention as well as far-reaching national legislation have been established to help combat corruption. Numerous anti-corruption efforts have also been initiated providing space for exchange on good practice and joint commitments on anti-corruption. Despite such efforts, significant allegations of corporate involvement in corrupt activities keep making the headlines.

Every year, corruption losses represent over 5 per cent of global GDP. This has detrimental effects on governments and society and can be costly and harmful to companies and their investors.



Assessing companies' anti-corruption work

One point of departure that one can use when assessing companies' anti-corruption work is to look for indicators such as:

- Code of Conduct for all employees and board members
- Code of Conduct for suppliers
- Code of Conduct for agents
- Statement on zero tolerance to corruption
- Employees' ability to report confidentially
- Prohibition of retaliation during reporting
- Requirements for rules for gifts, hospitality, travel
- Training programs in place
- Support for senior executives
- Regular review of the work against corruption
- Reporting of political contributions
- Ban on facilitation payments

THE COUNCIL ON ETHICS

2018 in short

The Council on Ethics engaged in more than 330 dialogues, both reactive and proactive, with companies all around the world. The dialogues addressed human rights, climate, corruption, the environment and other sustainability issues with companies in various international industries.

The dialogue often addressed more than one area of sustainable development. Many of the dialogues result in positive change and improvements by the targeted companies.

As a result of its strategy work, the Council decided to focus its proactive work into four focus areas:

- Climate – the Paris climate agreement
- Environment – biodiversity and water
- Human rights – child and forced labour and health and safety
- Business ethics – anti-corruption and responsible businesses

The Council and its engagement consultant GES (now Sustainalytics) worked together, with the human rights organization Shift in a 'learning exchange pro-

ject' aiming to further develop their working processes for assessing human rights risks according to the UN Guiding Principles on Business and Human Rights (UNGPs).

Acting on recommendations of the Council, the AP Funds divested three companies - Aurora Cannabis, Canopy Growth and Aphria. These companies had been implicated in violations of the UN conventions on narcotics, manufacturing and/or marketing products with cannabis for non-medical use. The Council had determined that continuing the dialogue with the companies would not be meaningful.



The UN Sustainable Development Goals (SDGs) part of the framework

The Council on Ethics and the AP Funds use the SDGs as part of their framework for both sustainability work as well as asset management.

The 17 SDGs, adopted by 193 member states at the United Nations in 2015, provide a globally shared framework to address the world's most urgent sustainability challenges.

Achieving the SDGs, which are divided into 169 sub-targets, requires commitment not only from governments and companies, but also from investors. The SDGs address global challenges including those to climate, inequality, environmental degradation, poverty and peace and justice.

The SDGs have achieved a broad reach and acceptance among companies and investors alike. For example, the SDGs are used as a framework for sustainability in dialogues with companies and in the development of financial products.

The SDGs show that sustainability is fundamental to the development of society as they help to stimulate investments that

can contribute to solutions to major global problems. At the same time, the SDGs help set the conditions for long-term sustainable development.

There is a strong business case for investing in opportunities aligned with the SDGs, and the benefits of meaningful sustainability disclosures are well established. The 169 sub-targets need to be reworked in order to be used by companies and investors. The work on compiling metrics and indicators and to devise methods for reviewing and measuring the effects of different projects, dialogues or investments is ongoing. The companies operate in various sectors and are therefore faced with a range of challenges.

THE GLOBAL GOALS For Sustainable Development



The Council on Ethics' dialogues during 2018

The Council took part in dialogues with more than 330 listed non-Swedish companies. A company dialogue focuses on how companies deal with difficult issues in their operations, including corruption, human rights, labour rights, health & safety, pollution and biodiversity. In this way the Council can contribute to the prevention of problems, violations and accidents in various companies and industries.

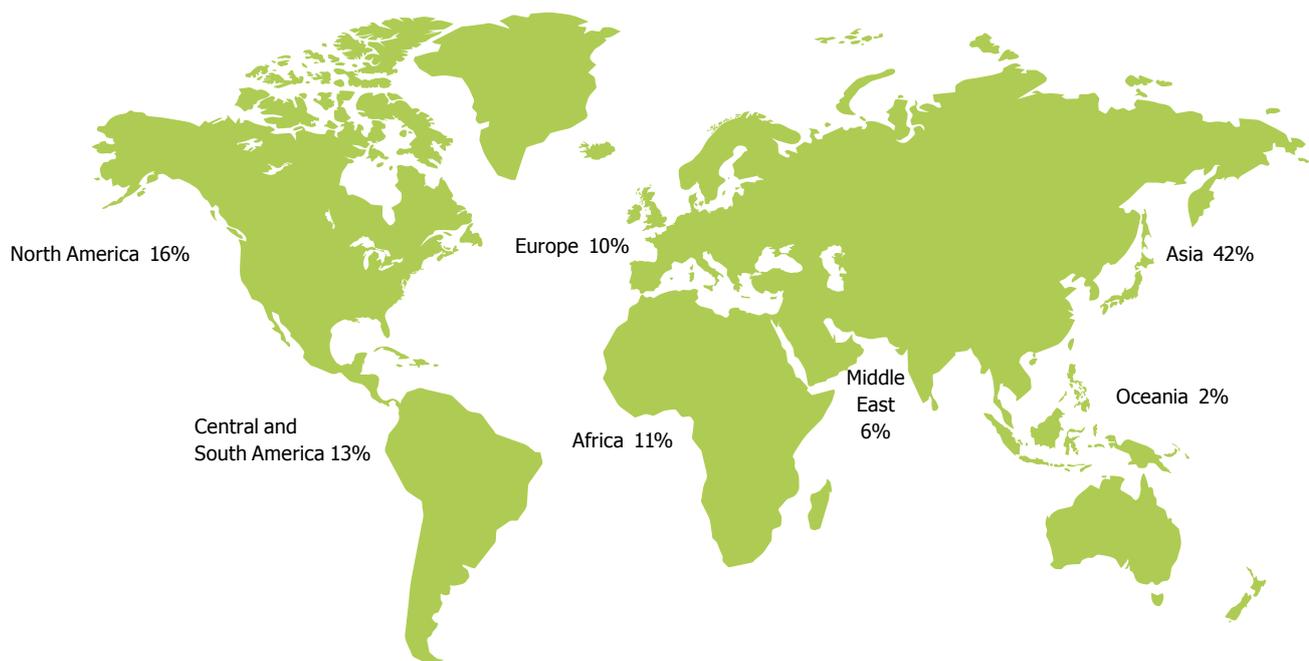
During 2018 the Council was engaging with 45 companies in proactive dialogues regarding different topics supporting the Council's four sustainability focus areas.

The Council recorded more than 380 incidents in its systematic process for reactive dialogues. More than 110 reactive dialogues concerning incidents were resolved during the year. The

Council carried on direct dialogues with more than 50 selected companies concerning reported incidents, where the violations are palpable and well documented. At the end of 2018 the Council was engaged in 3 time-limited company dialogues (JBS, Pilgrim's and China Railway Company). On the Council's list of recommended exclusions there were 16 companies at year-end 2018.

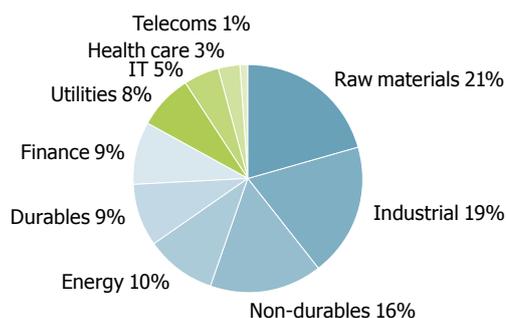
Region where incident occurred

(382 recorded incidents)



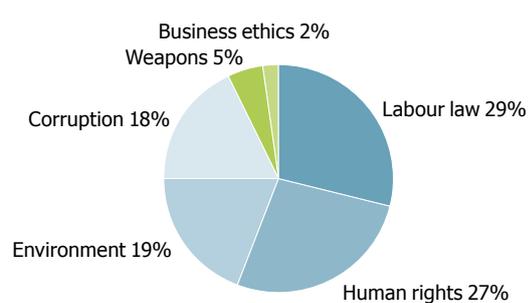
Sector for incident

(382 recorded incidents)



Type of incident

(382 recorded incidents)



Dialogues in progress

The Council on Ethics works in tandem with GES (now Sustainalytics) conducting dialogues with large numbers of companies around the world. Below are examples of the dialogues in progress as well as the areas of concern in question.

Company (selection)	Associated with	Country of incident
Aphria	Cannabis	Canada
Apple	Responsible sourcing of cobalt	Democratic Republic of the Congo
Aurora Cannabis	Cannabis	Kanada
Barry Callebout AG	Child labour	Ghana
Bayer	Neonicotinoids and pollinators	Global
Bayer	Concealing data on product-related toxicity	Global
BHP Group	Environmental and human rights violations caused by dam collapse	Brazil
Bunge	Deforestation	Argentina, Brazil, Bolivia, Paraguay
Canopy Growth	Cannabis	Canada
China Railway Group	Labour rights, fatal workplace accidents, Corruption	China
China Communications Construction Company (CCCC)	Labour rights, fatal workplace accidents	China
Daimler	Climate	Global
Daimler	Responsible sourcing of cobalt	Democratic Republic of the Congo
Dell	Responsible sourcing of cobalt	Democratic Republic of the Congo
Enbridge	Violations of indigenous peoples' rights	USA
Engie	Climate	Global
ENI Spa	Corrupt practices	Nigeria
Facebook	Privacy breach	Global
Fast Retailing	Human Rights in the supply-chain	Vietnam
Google	Data management	Global
HP	Responsible sourcing of cobalt	Democratic Republic of the Congo
JBS SA	Labour rights including repeated health and safety violations	Brazil
Johnson & Johnson	Product safety	USA
Lindt	Child Labour	West Africa
Maersk	Environmental and labour rights	India
Microsoft	Responsible sourcing of cobalt	Democratic Republic of the Congo
Mondelez International	Child labour in the cocoa industry	West Africa
Nestle	Child labour	West Africa
National Grid	Climate	Global
Newcrest Mining	Deep sea tailings	Papua New Guinea
Norilsk Nickel	Environmental and health impacts from metal extraction	Russia
Petrobras	Climate	Global
Pilgrim's Pride	Labour rights including repeated health and safety violations	USA
Phillips 66	Violations of indigenous peoples' rights	USA
Posco	Child labour in the cocoa industry and cotton supply chain	Uzbekistan
Posco Daewoo	Child labour in the cocoa industry and cotton supply chain	Uzbekistan
Royal Dutch Shell	Corrupt practices	Nigeria
Volkswagen	Climate	Global
Samarco	Environmental and human rights violations caused by dam collapse	Brazil
Sumitomo	Labour rights violations	Honduras
21st Century Fox	Sexual harassment	USA
Vale S.A	Environmental and human rights violations caused by dam collapse	Brazil
Volkswagen	Responsible sourcing of cobalt	Democratic Republic of the Congo
Volvo	Climate	Global
Yahoo! Japan	Trade of endangered species	Japan

International collaboration is key

The Council on Ethics is an ownership collaboration focused on pursuing positive sustainability change through dialogue and engagement with listed, non-Swedish companies. The Council often collaborates with other international investors with a similar agenda of pursuing sustainable development, thus together increasing the opportunities to encourage companies to effect positive change.

The Council and the AP Funds support and are members of various organisations which work with issues they consider to be important. Below are some examples of such organisations.

PRI

The Principles for Responsible Investment is a global initiative for institutional investors that started in 2006. The aim of the PRI is to support investors to take into consideration Environmental, Social and Governance (ESG) factors into their investment and ownership decisions. To find out more, visit www.unpri.org

EITI

Extractive Industries Transparency Initiative provides a standard for open and accountable management of extractive resources like oil, gas and minerals.

There is a need for transparent disclosure of information along the extractive industry value chain from the point of extraction, to how revenues make their way through the government, and how they benefit the public. Transparent reporting and governance is especially important in countries rich in natural resources, but where governments are weak.

Clearer reporting from companies on what they pay and from federal governments on income derived from oil, gas and mining industries increases openness in society and contributes to better conditions for financial governance. To find out more, visit www.eiti.org

IIGCC

Institutional Investors Group on Climate Change is a forum for European investors to collaborate on climate change. The objective is to ensure investors' voices are heard on climate issues and to engage with business, policymakers and other investors in order to encourage public policies, investment practices, and

corporate behavior that address long-term risks and opportunities associated with climate change.

There is currently a great deal of uncertainty surrounding future regulation and frameworks to reduce greenhouse gas emissions and to stimulate alternative energy sources. This makes it difficult for companies to make long-term investment decisions and for investors to calculate risks and returns.

IIGCC is an effective platform for advancing investors' concerns on climate change. It is also a good way for the Council and the AP Funds to obtain the latest information on various climate-related investments. To find out more, visit www.iigcc.org

Hållbart värdeskapande

Hållbart värdeskapande (Sustainable Value Creation) is a Swedish collaborative project between 17 of Sweden's largest institutional investors and Nasdaq OMX Stockholm to highlight the importance of Swedish listed companies working in a structured way with and reporting on sustainability issues.

Montreal Pledge

Under this pledge the AP Funds together with many other investors undertake to measure and report its portfolio's carbon footprint annually.

ICGN

International Corporate Governance Network is an investor-led organization which promotes effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies world-wide.

It seeks to influence policy-makers, connect peers at global events to enhance dialogue between companies and investors around long-term value creation and to enhance professionalism of governance and stewardship practices. To find out more, visit www.icgn.org.



An UN-backed initiative for responsible investments.



An initiative for open reporting in the extractive industries, primarily oil companies.



An investor's group that collaborates on climate issues for European investors.



A collaborative project between 17 of Sweden's largest institutional investors and Nasdaq OMX Stockholm.



An initiative to encourage investors to measure and publish their carbon footprint annually.



A global cooperation to raise standards in active ownership globally. The ICGN works e.g. to give shareholders greater rights to vote at general meetings.

Members of the Council on Ethics

The AP Funds are represented on the Council by two members from each Fund. The Chairmanship, which alternates between the AP Funds, was held in 2018 by Pia Axelsson at the Fourth Swedish National Pension Fund (AP4). In 2019, Ossian Ekdahl at the First Swedish National Pension Fund (AP1) will be the Chairman. The Secretary General, of the Council on Ethics, is John Howchin.



FROM LEFT TO RIGHT: Nadine Viel Lamare, John Howchin (Secretary General), Pia Axelsson, Peter Lundkvist, Ulrika Danielson, Arne Lööw, Christina Olivecrona, Ossian Ekdahl (Chair 2019), Lil Larås Lindgren.

First Swedish National Pension Fund
www.ap1.se
Ossian Ekdahl, Chair 2019
Nadine Viel Lamare (left at the end of 2018)

Second Swedish National Pension Fund
www.ap2.se
Ulrika Danielson
Christina Olivecrona

Third Swedish National Pension Fund
www.ap3.se
Peter Lundkvist
Lil Larås Lindgren

Fourth Swedish National Pension Fund
www.ap4.se
Pia Axelsson
Arne Lööw

Council on Ethics
www.councilonethics.org
John Howchin, Secretary General

The Council works in tandem with GES (now Sustainalytics)

GES is a corporate engagement company serving the financial industry. GES has over 60 employees globally dedicated to corporate engagement. GES has offices in the UK, Sweden, Denmark, Poland and Switzerland with engagement professionals based in a number of other European countries. GES is a provider of responsible investment and engagement services to institutional investors. They support asset owners and asset managers in developing and implementing integrated investment strategies with regard for environmental, social and governance (ESG) considerations.

In January 2019 GES was acquired by Sustainalytics, an environmental, social and governance research firm.

History of the Council on Ethics

In 2007 the AP Funds' launched the Council on Ethics – an ownership collaboration focused on pursuing positive sustainability change through dialogue and engagement with listed, non-Swedish companies.

Since its formation the Council has conducted dialogue with several thousands of listed non-Swedish companies. Many of these dialogues has been constructive and led to tangible improvements. In some cases, the Council recommended the AP Funds to exclude the companies in question as the objectives of the dialogue had not been achieved. A number of these companies became investible once again after having adopted measures in line with the Council's demands.



2007 The Council on Ethics is founded, and its first report is published. Dialogue is conducted with 14 companies, with one company struck off the dialogue list as early as the first year because the objectives of the dialogue has been achieved. The Council travels to China to learn more about companies' approach to social responsibility and send a clear message: that there are foreign investors willing to take their responsibility as owners.

2008 The objectives of three dialogues are achieved. For example, the French company, Sodexo, adopts and implements a human rights policy following pressure from the Council related to inhumane conditions at refugee accommodation centres in England. The UN adopts the Convention on Cluster Munitions, and the Council recommends exclusion of nine companies, all of which are based in nations which have failed to ratify the convention and where there is little scope for the Council to exert influence.



2011 The Council expands its operations and completes its first proactive project, focused on the mining industry. The general aim is to increase the proactive measures taken by companies and encourage them to strive towards the best working methods in each area of the industry. When the project is reviewed in 2014, the Council notes general improvement in all of the areas of sustainability discussed with the companies.

2010 Together with a group of Canadian investors, the Council prompts Goldcorp, the mining company, to carry out an independent evaluation of the extent to which human rights are taken into account at the Marlin Mine in Guatemala. This leads to the company adopting a large number of measures in order to improve the situation – a process which has a ripple effect, as a number of other mining companies turn to Goldcorp to learn from its experiences. John Howchin is appointed Secretary General.

The ownership collaboration in the Council has enabled the AP Funds greater opportunities to influence companies, led to greater resource and time efficiency, enabling, among other things, more reactive company dialogues and proactive initiatives to be carried out. The Council also collaborates with other international investors with a similar agenda of pursuing sustainable development, increasing the opportunities to encourage companies to effect positive change.

2012 The cocoa industry, tobacco industry and anti-corruption measures are the themes of several proactive projects the Council runs or is involved in. Highlighting both the strengths and weaknesses of the companies' sustainability strategies has proven to be an effective way to ensure that they adopt measures.



2013 The Council arranges a seminar about financing the transition to a low fossil-fuel society. Politicians, trade associations and investors are invited to listen to Michael Liebreich, from Bloomberg New Energy Finance. The telecommunications sector is in the spotlight as one of the Council's proactive initiatives. The Council elects to adopt a four-year time limitation for reactive dialogues, as from 2014. The change is made in the light of certain dialogues continuing for many years without a time restriction, diverting resources from other important initiatives.

2015 The Council hosts a Nordic seminar based on the UN Guiding Principles on Business and Human Rights (UNGP). The aim is to inspire Nordic companies to conduct implementation and reporting according to the UNGP and encourage the 50 or so Nordic companies and asset managers in attendance to share their experiences with each other.



2017 The Council celebrated its ten-year anniversary. In connection with this, two highly attended seminars were held on responsible and sustainable investments. The first seminar was about climate change with Al Gore and Johan Rockström, the second about responsible investments, human rights and the environment.

2018 The Council recommends exclusion of three cannabis companies, which the Council finds to violate the UN conventions on narcotics, since they manufacture and/or market products with cannabis for non-medical use. The Council decides, as a result of strategy work including stakeholders' dialogues, to work with four focus sustainability areas: Environment, Climate, Human rights and Business ethics. The Council and its engagement consultant work together with the human rights organization Shift in a 'learning exchange' project aiming to further develop the processes for taking into account human rights.

Part of the income pension system

The Council on Ethics was founded in 2007 on the initiative of the First, Second, Third and Fourth Swedish National Pension Funds (AP Funds). The role of the Council is to use dialogue aimed at encouraging non-Swedish listed companies to make improvements in sustainability. The mandate of the four AP Funds is to manage the state income pension system's buffer capital. Since their formation in 2001, the AP Funds have contributed positively to the pension system and managed the buffer capital with good value growth.

The AP funds contribute to a stronger Swedish public pension system by managing the system's buffer capital - from here, money is taken to cover deficits in pension payments. Deficiencies can arise if there is, for example, demographic generational differences or weak socio-economic development. The pension system is planned to handle such occurrences - that's why the systems buffer capital exists. Through long-term asset management, the AP funds should ensure positive value growth of the buffer capital, which contributes to a stable pension system and secure pension payments over time - for this and the next generation.

Mandate from the Swedish parliament

The AP Funds' mandate from the Swedish Parliament (Riksdagen) is to create high returns at low risk for current and future pensioners, which at the same time will contribute to the income pension system's stability.

On 1 January 2019, the rules in the National Pension Insurance Funds (AP Funds) Act changed. For example, a new goal has been introduced that the AP Funds must contribute to sustainable development by managing their assets in an exemplary way. This requires responsible investment and responsible ownership. This goal has to be achieved without the AP Funds compromising the objective of attaining a high return in the long run.

The pension system's buffer capital has over time been well managed by the AP funds. The capital has had good value growth and today accounts for more than 15 per cent of the pension system's assets.

Four AP funds with the same assignment, to manage part of the buffer capital, spreads among other things the risks in the pension system (don't put all eggs in the same basket) and spurs the AP funds to positive competition and development. The latter has contributed to the AP funds' asset management and ownership being viewed to be at the forefront internationally. The AP funds' management is evaluated annually, by external auditors

and an special appointed auditor by the Government. A comprehensive evaluation report is published and presented to the Swedish parliament (Riksdagen) every spring.

The Council on Ethics of the AP Funds

The Council strives to influence companies around the world to pursue corporate social responsibility to ethical, environmental and sustainability issues that are of major importance for people and communities, and for the companies' own value creation.

Through dialogues and talks, the Council becomes engaged both preventively and in connection with incidents. The fact that the companies' activities are conducted sustainably benefits both the companies' long-term earning capacity and the long-term financial return. Sustainable companies contribute over time to good investments, which benefit the pension system and pensioners.

Pensioners

The income retirement scheme is a distribution system where the year's paid-in pension contributions from the gainfully employed are used to pay out pensions to the same year's pensioners. Those who work and pay taxes make an automatic provision of 18.5 per cent in pension contribution. 16 per cent goes to the income pension system and 2.5 per cent to the premium pension.

The pension system

Today's pension system has worked as intended since the start in 2001. Deficits occur in times of large retirement benefits (as has been the case since 2009) and forecasts show deficits until 2040. Low unemployment, high nativity, labor migration and Sweden's socio-economic development are some important factors for the well-being of pensions to develop well over time. Read more about the system Pension Authority's website www.pensionsmyndigheten.se.





Council on Ethics
Swedish National Pension Funds

An ownership collaboration for sustainability through dialogue and engagement

For more information, visit:

www.etikradet.se

www.ap1.se, www.ap2.se,

www.ap3.se, www.ap4.se

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