

# Annual Report 2023

Sustainable ownership through  
dialogue and engagement



## 2023 in brief

# New Head of the AP Funds’ Council on Ethics

Jenny Gustafsson took over as the new Head of the AP Funds’ Council on Ethics in June 2023. Her recruitment forms part of the development and expansion of the Council’s activities. Read an interview with her and Magdalena Håkansson, Chair of the Council on Ethics for 2023, [on page 6](#).

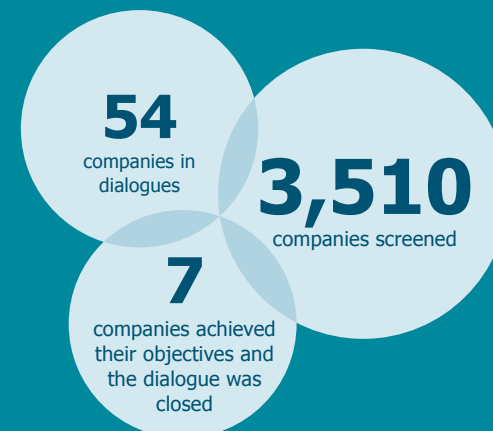


## Five new agreed focus areas

The Council on Ethics and AP1, AP2, AP3 and AP4 have jointly prioritised complex sustainability areas and systemic risks, and have selected five new focus areas for the Council’s proactive work. By working with focus areas, the Council can deepen its knowledge and involve itself in order to drive positive change. [Read more on page 16](#). This section also explains how the Council’s various engagement projects relate to the agreed focus areas.

## Seven dialogues closed with objectives achieved

An important part of the Council on Ethics’ work is to identify when companies in the AP Funds’ portfolios are deemed to act in conflict with the common values of the AP Funds and the Council. This is achieved through what is known as norm-based screening. The Council initiates a dialogue with companies identified in the screening in order to influence them to manage and remedy what has occurred – and, not least, to prevent something similar from happening again. A dialogue is concluded when companies have implemented the measures expressed as being necessary in the dialogue process and is proof of positive change and sustainable value creation. [Read more on page 34](#).



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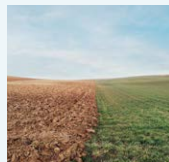
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The Council is part of the Ceres Valuing Water Finance Initiative, a project that encourages companies with a high water footprint to value and act on water as a financial risk and drive the necessary change. [Read more on page 27.](#)

**The guiding principle of the Swedish National Pension Funds' ("AP Funds") Council on Ethics**

## We want to make a difference

**The guiding principle of the AP Funds' Council on Ethics**

is to make a difference. Our mission is to exert influence on companies around the world to take sustainability into account with respect to the environment, social issues and corporate governance. This means putting pressure on companies regarding issues that have major impact on people and society and that create value for the companies concerned.

Through dialogue, we exert influence on companies to bring about positive change, both proactively and in response to incidents. It is through dialogue that violations are prevented and it is thanks to dialogue that high values can be upheld.

We believe that sustainable companies generate long-term value. That is how we contribute to sustainable development and sustainable pensions for the pensioners of today and tomorrow.

# This is the Council on Ethics

It is the view of the AP Funds (AP1, AP2, AP3 and AP4) that well-managed companies that take responsibility for sustainability deliver higher returns at lower risk over time. The Council on Ethics is an ownership collaboration between the AP Funds aimed at jointly acting to influence companies to pursue sustainable value creation and transparent reporting.



The Council on Ethics' Board of Directors and Head.

### Dialogue for change

Through dialogue and engagement with companies, the Council can, itself and with help from other partners, engage in dialogue and influence companies to make improvements, thereby contributing to the long-term returns of the AP Funds. As of 2023, the AP Funds expanded their cooperation through the Council by including Swedish and foreign listed equities and listed credit investments, both directly and indirectly owned through fund investments, in their screening and reactive work.

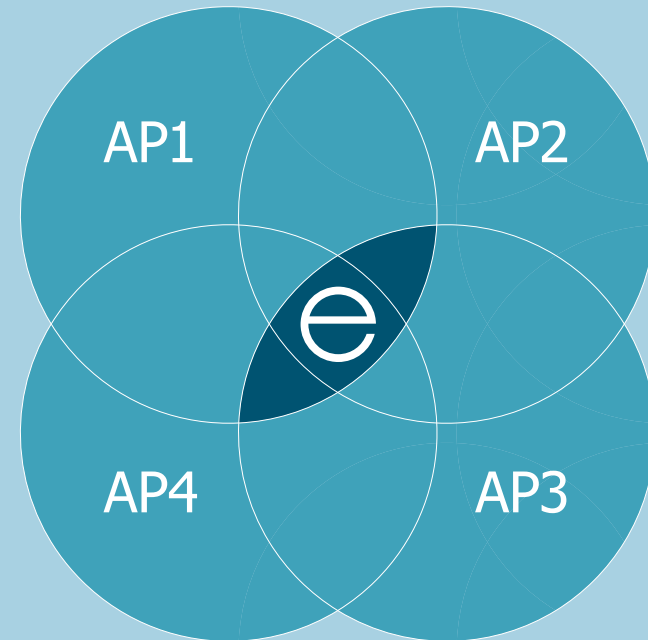
### Collaboration – a key to success

The collective work and communication of the AP Funds on sustainability issues help drive sustainable development, strengthen the role of the AP Funds as responsible stewards and exemplary managers and increase trust in the AP Funds. Working together for positive impact creates greater force in the dialogue with companies and plays a part in creating better investments and sustainable returns. The Council works **proactively** with companies to help bring about positive change in not only complex sustainability challenges but also material systemic risks. The Council also works **reactively**. If a violation of international conventions has already taken place, the

Council endeavours to ensure that the company takes action and reduces the risk of a similar violation being repeated. Collaboration with other international investors with a similar sustainability agenda further increases the scope to exert an influence on companies for positive change and increased transparency.

### Long-termism and responsibility part of the mandate

The AP Funds' mandate from Riksdagen (the Swedish Parliament) is to manage the funds for the maximum benefit of the pension system. Assets are to be managed in an exemplary way through responsible investments and stewardship. In asset management, particular emphasis must be paid as to how sustainable societal development can be promoted without compromising on the goal of high returns.



## Head of the AP Funds' Council on Ethics in dialogue with the Chair: Renewed leadership in a time of change

The Council on Ethics' work in 2023 largely consisted of developing its activities in line with the new strategy and governance model adopted in 2022. Priority has been given to building and strengthening the Council's organisation and identifying new focus areas. The aim is to strengthen the AP Funds as exemplary managers and responsible owners while streamlining sustainability efforts. The purpose is to contribute to sustainable value creation in the AP Funds' asset management.

Magdalena Håkansson, Chair of the Council on Ethics and Head of Sustainability at the First AP Fund, notes that the rapid development in the field of sustainability places ever greater demands on the AP Funds' sustainability work. This is something that characterised the Council's work in 2023 when Jenny Gustafsson took over as Head of the Council on Ethics.

“During the year, we have started to implement the new strategy and continued to develop the Council to ensure that its important work is carried out even more effectively,” says Magdalena. “The new strategy includes a new governance model and more resources, which will allow us to achieve better outcomes more efficiently over time. With the new organisation in place and Jenny at the helm, the operational work can continue to move up a gear and be allocated in a clearer way.”

The extra muscle, in the form of more resources and a clearer mandate for the Council, provides a more focused and efficient structure in which work can be performed more independently. The Council will become a well-integrated part of the sustainability work of the AP Funds in those areas in which cooperation provides the greatest benefits.

“There are clear synergies when we at the AP Funds cooperate through the Council,” explains Magdalena. “By using our limited resources more efficiently and by representing a large amount of capital in dialogues with companies, we can expect better outcomes from the AP Funds' sustainability efforts. 2023 has been a year of progress, and the Council would like to thank Tytti Kaasinen in particular for her work during the year.”

### Work during the year

During the year, the Council on Ethics decided on **five prioritised focus areas for proactive work**. This work aims to prevent and manage significant sustainability risks in the funds' portfolios through dialogue with companies.

“In practice, the work can be organised in different ways depending on the issue, scope and opportunities for engagement,” explains Magdalena. One example is the work with the mining industry – an area that the Council on Ethics has chosen to prioritise because the sector has several major sustainability-related risks. The sector is both critical to society and crucial to the climate transition, where everything from electric vehicle batteries to renewable energy production requires mineral-intensive solutions.”

The Council continues to work with mining companies in collaboration with other investors and stakeholders to mitigate ESG risks. This is particularly important as the industry expands to meet the growing demand for critical minerals. In this case, efforts are mainly channelled through the Global Investor Commission on Mining 2030, whose steering group the Council is part of.

Another example of proactive efforts is in the Tech companies and human rights focus area – an area in which the Council has been involved since 2019.

“Social media is playing an increasingly important role in society and brings many benefits but also several challenges in relation to human rights,” explains Magdalena. In March 2023, the Council launched a partnership with some 30 institutional investors with over EUR 7,000 billion

under management. These investors will work together for positive change in line with the UN Guiding Principles on Business and Human Rights.”

Jenny Gustafsson, Head of the Council on Ethics since June 2023, has been off to a flying start in her first six months, to say the least. Thanks to her extensive experience in the field of sustainability, she was able to quickly get to grips with the organisation and gain awareness of the AP Funds and their mission.

“Being involved in the further development of an organisation that combines value-creating influence on sustainability issues with working for the AP Funds is incredibly inspiring,” says Jenny. “I have naturally spent a lot of time familiarising myself with the organisation, and I can say that I am part of a committed and dynamic workplace that takes a long-term approach to sustainability. It makes me pleased and proud to see how strong the position of the Council and the AP Funds is internationally. It is a solid platform to build on.”

The **reactive work** takes place continuously and in parallel with the proactive work. It is based on the international conventions and guidelines that Sweden has ratified, and the Council uses structured processes to identify and manage sustainability risks in the AP Funds’ portfolios. After regular screening, priority is given to dialogue with companies deemed to be involved in the most serious incidents, the



aim being to influence them to take responsibility and manage their risks. At the end of the year, the Council conducted dialogues with 54 companies, with 36 dialogue steps having been achieved during the year. Seven dialogues have been closed, as their objectives had been achieved. In individual cases, the dialogue does not lead to the desired outcome, and the Council on Ethics may then recommend that the AP Funds exclude the company. Three companies have been recommended for exclusion in 2023. An important part of the work is also to ensure that excluded companies can be re-included.

“The goal of the Council’s activities is to influence companies to improve, and we are pleased to see significant progress among the companies we have engaged in dialogue with during the year, seven of which have fully achieved their objectives,” Jenny explains. “We have also been able to remove the exclusion recommendation for Walmart, as the company has improved its management of labour rights.”

“The purpose of the Council continues to be to help strengthen the AP Funds as responsible investors and owners and to contribute to positive change among the portfolio companies from an economic,

environmental and social perspective. If I were to summarise a dynamic and transformative year, I would say that sustainability issues are inherently more or less systemic and are becoming increasingly complex, while some of them are becoming even more urgent. We need to analyse and continuously monitor the world around us and work on both quality and commitment in the areas in which we operate. I look forward to welcoming two new staff members to the Council’s administrative office in early 2024 and working with them to accelerate the implementation of the Council’s renewed strategy,” Jenny concludes.

## How the Council on Ethics works

# Framework for the Council's work

The Council operates on the basis of the Swedish National Pension Insurance Funds Act, a number of Swedish and international conventions and other frameworks, which together set the course for its work.

### The Swedish National Pension Insurance Funds Act

Responsible investment is part of the mandate set out in the National Pension Insurance Funds Act (2000:192). The Council's activities are based on a collaboration between the AP funds on sustainability issues, which mainly apply to the foreign listed equity portfolios of the AP funds. The activities of the AP Funds are

governed by the Swedish National Pension Insurance Funds Act, which states that the overall objective is to manage the assets of the funds for the maximum benefit of the income pension scheme. The AP Funds are also required to manage their assets in an exemplary way through responsible investments and stewardship. Management of assets is to focus specifically on promoting sustainable development without compromising on the overall objective.

Sustainability (ESG – Environmental, Social and Governance) is today a common concept among investors and companies and embraces a number of different aspects:

- Environment (E)
- Social issues (S)
- Governance (G)

Stewardship is exercised by responsible owners through activities that include, for example, dialogues with companies with a view to bringing about positive change. The AP Funds exercise stewardship both individually and in partnership, including through the work of the Council.

### International conventions

The Council's work is based on national and international legislation and on position statements by Sweden and the EU. It is also based on the UN's international conventions that Sweden has signed up to concerning issues such as human rights, the environment and – in particular – inhumane weapons. These include:

- The International Covenant on Economic, Social and Cultural Rights (ICESCR)
- The Convention of the Rights of the Child (CRC)
- The Convention against Corruption (UNCAC)
- The Convention on Prohibitions or Restrictions on the Use of Certain Conventional Weapons (UNCWCW)





### Framework for the assessment of violations

The Council's regular reviews of the holdings of the AP funds form the basis for the Council's reactive dialogues with companies in order to exert pressure on them to improve their activities. Screening identifies violations and risks of violations, based on the ten principles of the UN Global Compact, see information box on the right. The principles are derived from the UN Universal Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, the Rio Declaration

on Environment and Development and the UN Convention against Corruption.

The OECD Guidelines for Multinational Enterprises represent another important framework, being recommendations from governments to multinational companies regarding responsible business practices. The OECD Guidelines set out voluntary principles and standards for responsible business conduct and are used as standards on a range of issues such as human rights, labour rights, the environment and anti-corruption measures.

**“ Selling holdings in companies is recommended only as a last resort, as the UNGP consider this to be less effective in bringing about positive change in society.”**



### UN Global Compact – 10 principles for business

#### Human rights

1. Support and respect international human rights in the sphere of corporate influence
2. Ensure that their own companies are not complicit in human rights abuses

#### Labour rights

3. Uphold freedom of association and recognise the right to collective bargaining
4. Eliminate all forms of forced labour
5. Abolish child labour
6. Eliminate discrimination in recruitment and occupation

#### Environment

7. Support a precautionary approach with regard to environmental risks
8. Undertake initiatives to promote environmental awareness
9. Encourage the development of environmentally friendly technologies

#### Anti-corruption

10. Combat all forms of corruption, including extortion and bribery

### UN Guiding Principles on Business and Human Rights

#### Define corporate responsibility for human rights

The UN Guiding Principles on Business and Human Rights (UNGPs) are a set of guidelines for states and companies in identifying, preventing and addressing human rights violations committed in business activities. The UNGPs were endorsed by the UN Human Rights Council in 2011 and have guided the process ever since. UNGPs are in part the basis of the work of the Swedish government and future EU legislation in this area.

A key principle of UNGPs that is particularly relevant to the AP Funds in their stewardship role is that responsible stewardship means continually seeking to identify and analyse risks in portfolios of holdings and exerting influence on companies in the way their portfolios are managed.

When a risk of negative impact is identified, the first step is to try to persuade the company to deal with the situation, compensate those affected and take action to prevent negative impacts in the future. In order to be better able to influence companies, UNGPs recommend that investors work together and speak with one voice, which is exactly the concept on which the Council is based. Selling holdings in companies is recommended only as a last resort, as UNGPs consider this to be less effective in bringing about positive change in society.

## The Sustainable Development Goals

The 17 SDGs (Sustainable Development Goals), 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 requires commitment not only from governments and companies, but also from investors.

The 17 SDGs address global challenges including climate change, inequality, environmental degradation, poverty, peace and justice. The SDGs have achieved a broad reach and acceptance among companies and investors alike.

The SDGs demonstrate the importance of sustainability in achieving good societal development, and clarify the conditions that are important for long-term sustainable development.

As global investors, the AP Funds are able to contribute in various ways to the SDGs via their sustainability work and via their investments. The Council endeavours

to contribute to the SDGs through both reactive and proactive work. Reactive work is guided by the violations that are

identified in the portfolios of the AP Funds and the seriousness of these violations. The Council’s proactive work helps bring about positive change by addressing complex sustainability challenges and material systemic risks. In support of this work, the Council has defined a number of priority sustainability areas and identifies how work on these priorities contributes to attainment of the SDGs.



“ The Council seeks to contribute to the SDGs through both reactive and proactive work.”

### The Council’s contribution to the UN Sustainable Development Goals

#### Antimicrobial resistance (AMR):



#### Child labour and forced labour:



#### Climate:



#### Tech companies and human rights:



#### Water:



## How the Council on Ethics works

# Dialogue as the primary tool for change

Engaging in dialogue with companies is the Council's principal tool. The aim is to influence and demand improvement. The Council's company dialogues always focus on companies acting to improve the governance of their own operations, i.e. policies, implementation and transparent reporting. Change takes time – often many years.



### What is a dialogue?

**A company dialogue is initiated when** contact is established with the company. In the dialogue, a discussion takes place with the company about challenges and about the Council's expectations and requirements for improvements in specific areas of sustainability. Dialogues are conducted directly by the Council, in some cases also with the support of a service provider. They can also be run jointly, for example with other investors. Contact is by e-mail, telephone, video meeting or on-site visit.



### Who takes part in a dialogue?

**Participants in a dialogue** may, for example, be a representative of the Council, a service provider engaged by the Council or a group of investors acting together in the dialogue with the company. The dialogue is often initiated via the company's investor relations or via direct contact with the company's sustainability officer, and with other stakeholders concerned.



### What are the objectives for a dialogue?

**The aim is to** exert influence on companies, for example, to strengthen their preventive work whereby they actively address and minimise sustainability risks in their operations. Companies are encouraged to identify areas for improvement and implement viable processes for identifying, managing and monitoring that work. The companies are also expected to report transparently on this work. A viable process requires staff training and effective complaints handling functions.



## The Council on Ethics supports transparency

The Council is very clear about the importance of openness, and demands transparency in reporting by companies. On that basis, the Council also strives to be as transparent as possible by openly reporting on how it conducts its own business.

At the same time, it is of the utmost importance to safeguard the trust the Council has built up through dialogue with a company. Work to achieve improvement takes time. If it is able to create a positive climate for the dialogue, the Council is more likely to be able to bring about positive change. Dialogue with a company is conducted in confidence and so cannot always be reported on publicly.

The Council strives to create greater openness and to the greatest extent possible reports on its work transparently.

**How the Council on Ethics works**

# Proactive and reactive work

The Council's engagement work underpins the role of the AP Funds as exemplary managers and responsible owners. This serves to improve management of sustainability by companies across the value chain from an economic, environmental and social perspective. The process helps to create better companies, reduce risk in the assets of the AP Funds and reduce negative impact on people and the environment.

## Proactive work

The Council's proactive work creates positive change by addressing complex sustainability challenges. It serves to improve management of sustainability by companies across the value chain, preventing violations and incidents and addressing material systemic risks.

Dialogues are conducted with companies in sectors where the AP Funds have direct and/or indirect exposure. Direct exposure refers to investee companies, whereas indirect exposure refers to the value chains of investee companies. In many cases, proactive work involves activities connected with various commodities and supply chains facing major challenges.

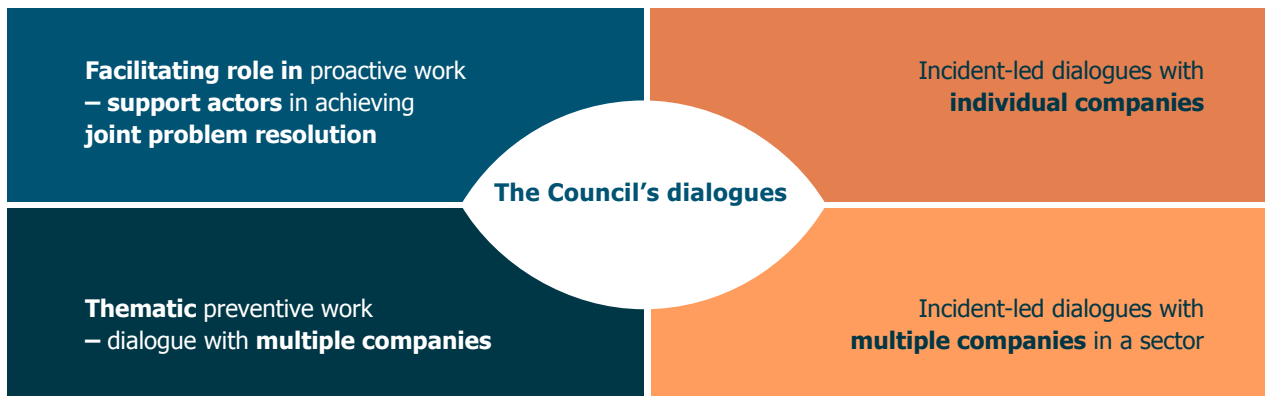
The Council's prioritisation and choice of focus areas is based, for example, on the risk of potential negative impact on people and the environment, as identified in the Council's analysis of external factors, the financial exposure of the AP Funds and the opportunities for the Council to make a positive difference.

## Reactive work

The Council's reactive work aims to make demands of companies to manage and remedy any accidents and incidents that occur. Another objective is, by influencing companies to take a more systematic approach to sustainability through policies, implementation and transparent public reporting, to help prevent incidents from occurring.

This engagement work applies to companies all over the world and addresses sustainability issues such as human rights, labour rights, the environment and business ethics.

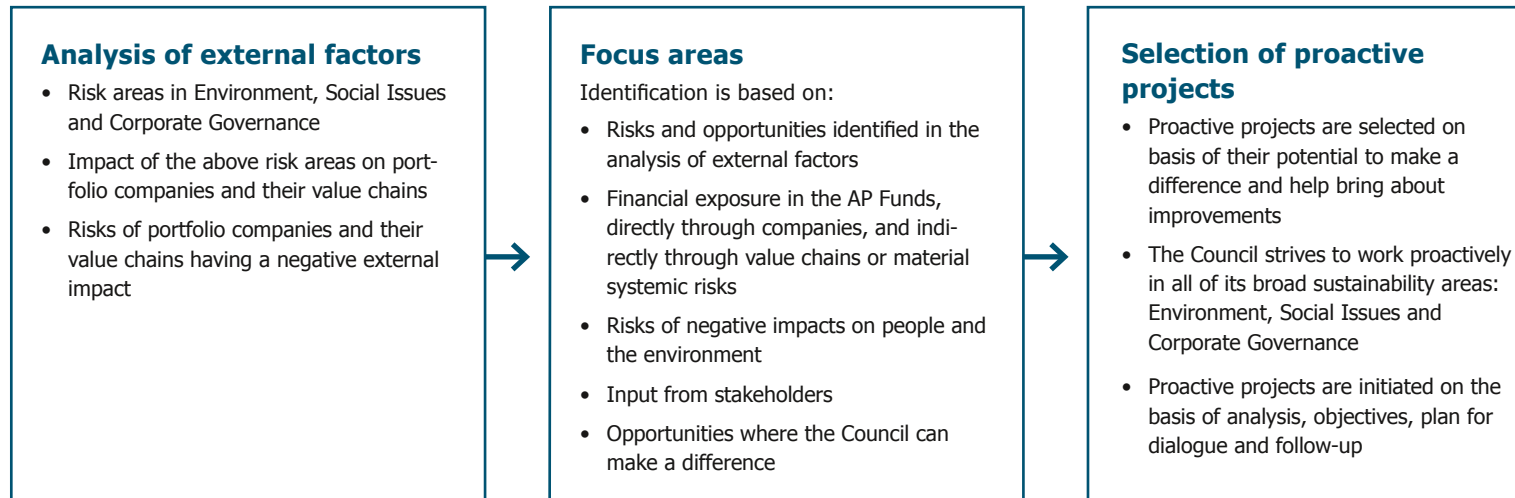
Dialogues are initiated with companies that have been identified in the bi-annual, norm-based screening process.



## How the Council on Ethics works

# Choice of proactive work

Prioritisation and selection of proactive projects and initiatives is based on a systematic process. The overall objective is to make a difference and help make a positive shift in the complex sustainability challenge being addressed. It is a long-term endeavour based on a number of agreed focus areas and often extends over several years.



## Different forms of dialogue – for the best impact

The Council conducts its proactive work through various mutually complementary forms of dialogue. The forms of dialogue have been developed over time to effectively address and contribute to solutions to various types of problems.

Depending on whether problems are company-specific or sector-wide, dialogues

are conducted on a company-specific basis or with several companies simultaneously within the sector concerned. In certain cases, various actors in the value chain may also need to be brought together to jointly address the problem.

In such projects, the Council can play a facilitating role and support the

participation of actors and their responsibility to achieve a common outcome and positive change.



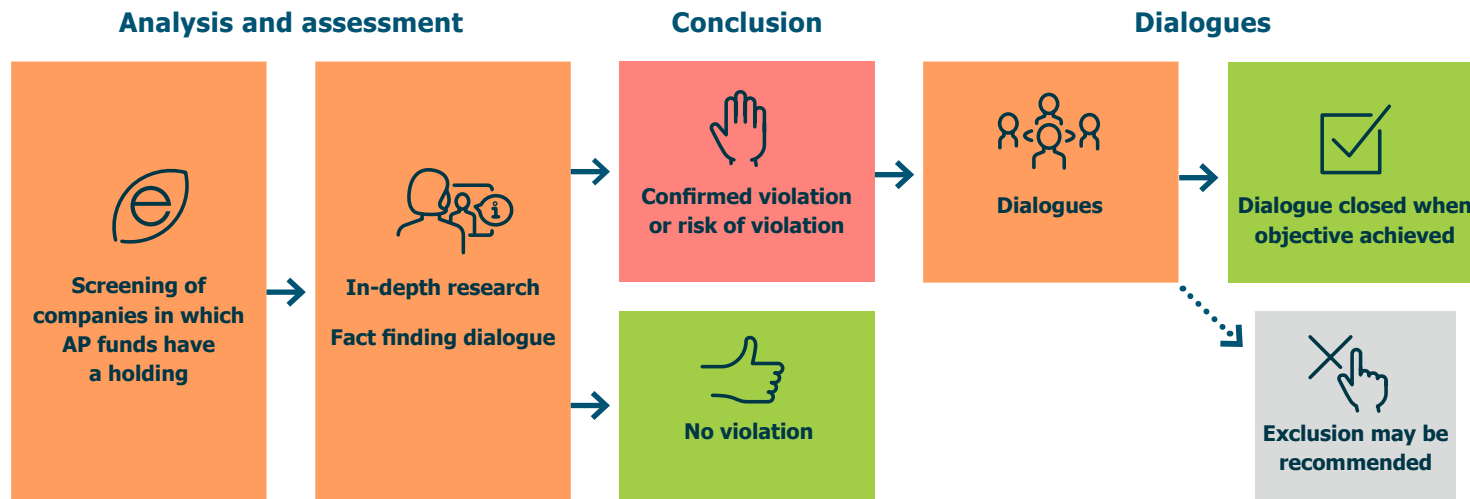
## Success factors

- **Good knowledge** of a sustainability area makes for successful dialogue.
- **Achieving the best impact through collaboration** – to be able to influence even large companies to change, the Council can work with other investors, often internationally, to create leverage for change.
- **Selection of procedure and form of dialogue** – the Council uses different forms of dialogue depending on the problem to be addressed.
- **Highlighting best practice in a sector.** No company wants to be the worst, and working with several companies in a sector at the same time is often a strategy for success.
- **Sharing best practices between different sectors** is a form of support that the Council can provide.

## How the Council on Ethics works

# Reactive work – screening and influencing

The Council screens all listed companies in which the AP Funds have a holding. If a company is found to be violating or at risk of violating an international convention, the Council seeks to ensure that the company remedies what has happened and reduces the risk of it happening again.



**Confirmed violation** – A violation of an international convention is regarded as being confirmed when it is verified and assessed against a number of criteria, such as: the seriousness of the violation in terms of scale, extent and preventability of the violation, how closely the company is involved or linked to the violation, and the company's handling of the situation.

**Risk of violation** – includes cases that do not meet all the criteria for a confirmed

violation, but where the Council judges the degree of seriousness as high.

If a dialogue does not, within four years, lead to the outcome that the Council considers reasonable, the Council may recommend that the

company be excluded from the AP Funds. However, this is a last resort that the Council regards as a failure, as the misconduct is likely to continue unless another responsible investor takes action to influence the company to improve.

### When?

Twice a year, the Council screens just over 3,000 foreign companies within the AP Funds' global listed equity and credit portfolios to identify any violations of the international conventions that Sweden has ratified. The Council uses service providers for both analysis and dialogue. The Council always makes its own assessment and, if necessary, conducts its own dialogues.

### Why?

In the screening process, a company is flagged when a violation is confirmed or when it is judged that a violation might have occurred. A dialogue is then initiated with the company to exert pressure on it to rectify what has happened and to reduce the risk of it happening again.

### Long-term involvement

The Council's reactive dialogues with companies address the most serious violations. An a dialogue with a company usually lasts for several years. This is often the time needed for a company to institute the remedy and reduce the risk of new, similar incidents recurring.

### Outcome

The objective of the Council's dialogues is to ensure that companies remedy what has happened and reduce the risk of it recurring. The Council's dialogues always focus on ensuring that companies improve their policies, implementation and transparency.



# The Council's proactive work creates positive change in complex sustainability challenges

The Council's proactive work helps bring about positive change and addresses not only complex sustainability challenges but also material systemic risks.

This work helps to improve the quality of companies' management of sustainability issues in all parts of the value chain and prevents violations and incidents. It often involves activities related to various commodities and supply chains with significant challenges.

The Council's proactive work helps create better companies and reduce risk in the assets held by the AP Funds.

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## Proactive work

# The Council on Ethics' five focus areas

The proactive work of the Council on Ethics addresses complex sustainability challenges and relevant systemic risks, and helps to improve companies' awareness and management of these risks. By working with focus areas, the Council can deepen its knowledge and engage in order to drive positive change. In 2023, five new proactive focus areas have been jointly prioritised with the AP Funds.

**1**

### Antimicrobial resistance (AMR)

Antimicrobial resistance (AMR) occurs when bacteria, viruses, fungi and parasites no longer respond to medicines, making infections more difficult to treat and increasing the risk of disease spread, severe illness and death. Drug-resistant infections are rising globally, both in humans and in animals, and can have significant consequences for global health and the economy. The Council on Ethics believes that AMR is a significant systemic risk for both society and the AP Funds' long-term value growth. The Council on Ethics must work to increase knowledge and awareness about the risks of AMR and drive positive change through dialogues with relevant companies. [Read more here](#)

**2**

### Child labour and forced labour

Child labour and forced labour occur all over the world, but are particularly common in certain industries and regions. Companies can be exposed to this in their direct operations or through their supply chains. Identifying, preventing and mitigating negative impact on human rights is a basic principle of responsible business practice. The Council on Ethics opposes the exploitation of workers and works proactively at industry level as well as with individual companies that have significant negative impacts to bring about systemic changes regarding child labour and forced labour. [Read more here](#)

**3**

### Climate

Climate change is deemed to constitute a serious systemic risk with a significant impact on the assets of the AP Funds and a negative impact on current and future generations. The scale of the climate transition means that the Council on Ethics needs to prioritise and focus its work to ensure that it achieves the best possible effect. The work will complement and reinforce the climate-related work conducted by each AP Fund. The Council prioritises two areas: the transition of emission-intensive industries, and critical metals and minerals needed for the climate transition. [Read more here](#)

**4**

### Tech companies and human rights

Online platforms and big tech companies are playing an increasingly important role in society. This brings many opportunities but also presents several human rights challenges. The human rights risks that digital services entail involve complex issues such as the processing and commercialisation of personal data, privacy and freedom of expression, as well as the impact on democratic systems and the fostering of extremism and terrorism. In many cases, these risks can be amplified by the business models, corporate culture and remuneration structures of the companies concerned. [Read more here](#)

**5**

### Water

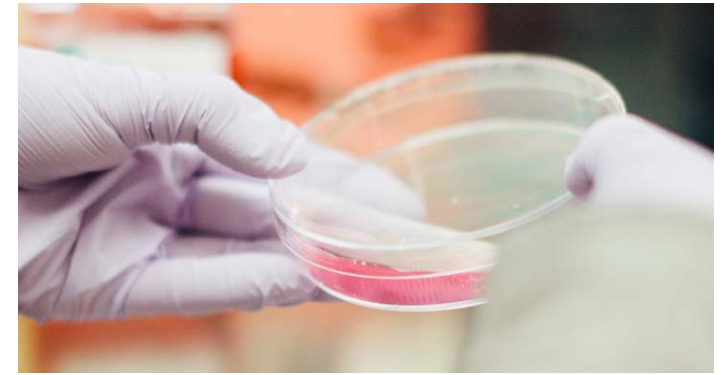
Having access to enough water of good quality is essential for everything from health and sanitation to food production, power generation and many other industrial processes. Water is also closely related to and affected by other global challenges, including climate change, biodiversity loss and forced migration. How this resource is managed and valued can have major consequences for both society and the economy. Water scarcity is therefore a pressing global challenge, with significant implications for companies and investors. [Read more here](#)



**Focus area: Antimicrobial resistance (AMR)**

# Responsible use of antibiotics in animal husbandry

Antimicrobial resistance (AMR) is a global systemic risk to both public health and the economy and is identified by the World Health Organisation (WHO) as one of the top ten global public health threats facing humanity. Through the organisation FAIRR (Farm Animal Investment Risk and Return), the Council on Ethics is participating in two projects to influence companies with links to AMR to be more responsible and transparent.

**Background facts**

Region: Global

Focus area: Antimicrobial resistance (AMR)

Topic: Responsible use of antibiotics in animal production

Number of companies: 19

UN Sustainable Development Goals:



Read more about the goals [here](#).

**Background**

Antimicrobial resistance (AMR) has been called the ‘silent pandemic’, as it makes it more difficult and in some cases even impossible to treat bacterial infections. It is not only a global threat to public health but also to economic prosperity and growth, posing a systematic risk from both a sustainability and a financial perspective.

One activity that plays a key role in this context is animal production. The reliance on growth promotion and prevention in the industry has resulted in animal husbandry accounting for an estimated 70 per

cent of antibiotic use globally. Overuse of antibiotics is a significant cause of antimicrobial resistance globally, and is expected to increase as more countries adopt intensive farming systems to meet the growing demand for meat, dairy products and fish.<sup>1)</sup>

In autumn 2023, the Council decided to engage in two projects through the organisation FAIRR. One project targets pharmaceutical companies with links to animal production, and the other project targets delisted fast food chains that are major buyers of animal products and whose overuse of antibiotics is a problem.

**Objectives for the project**

Two objectives have been set for the projects. Firstly, to influence companies to use antibiotics responsibly throughout the animal protein supply chain, in line with WHO guidelines. Secondly, companies should improve their policies, guidelines and transparency regarding how they use antibiotics. In addition to direct dialogue with the companies, the projects also contribute to experience sharing between different stakeholders connected with AMR. One of the objectives of the project aimed at the pharmaceutical industry (with a

<sup>1)</sup> Source: FAIRR

**OUTCOME OF THE PROJECT:** Initial phase.

The Council joins the FAIRR initiative in the autumn and participates in initial discussions with companies and experts.

2023

focus on animal production) is to develop a dialogue between investors and the pharmaceutical sector and to encourage greater transparency from companies. The project also aims to clarify how and whether these pharmaceutical companies are managing the risk of antimicrobial resistance throughout the value chain, from factory to farm. It also focuses on what actions companies should take to future-proof the long-term sustainability of their antibiotic portfolios, capitalise on the growing demand for alternatives to antibiotics and reduce the spread of antimicrobial resistance.

The Council's objective for the project, which targets fast food restaurants, is to improve information on how companies reduce the risk of antimicrobial resistance in their animal protein supply chains. The investors in the project will encourage

companies to a) disclose existing policies, b) develop antibiotics policies covering all key proteins, and c) set relevant targets that are regularly monitored and evaluated.

### Outcome

The Council joined FAIRR and the two projects in September 2023. During the autumn, the Council worked to deepen its knowledge in this area and participated in initial dialogues with the companies in the two projects.

### Next steps

The Council will participate in further company dialogues in 2024. The Council will also work to increase knowledge about AMR, both in the AP Funds' asset management organisations and among external stakeholders.



### About FAIRR:

The Council is a member of FAIRR (Farm Animal Investment Risk and Return), a global investor network that aims to raise awareness of the challenges associated with intensive industrial animal production and seeks to minimise ESG risks within the wider food system. The network includes over 400 investors, representing a total of over USD 70 trillion in assets under management.

Through FAIRR, the Council has access to experts in the field, help with coordination of company dialogues and analysis of the companies' work in connection with AMR. FAIRR experts also usually participate in the individual company dialogues.

The Council participates in two FAIRR projects that focus on antimicrobial resistance (AMR). The two AMR-related FAIRR projects aim to encourage responsible use of antibiotics in line with WHO guidelines across the entire animal protein value chain, from pharmaceutical companies whose products are used in industrial animal production to the fast food chains that are major purchasers of meat.

[Read more about FAIRR here](#)

Focus area: Child labour and forced labour

# Forced labour in the construction and textile industries

Forced labour and various forms of modern slavery exist in all countries both in developed markets and in countries with weaker legislation in the area. Demand for low-paid, flexible labour is often filled by marginalised groups. Poverty and limited economic opportunities among low-skilled workers, especially among immigrants with poor language skills, often lead them to accept employment in abusive conditions. Fraud also plays an important role. The construction and manufacturing sectors are considered to be particularly susceptible to the use of forced labour.

## Background facts

Region: Global

Topic: Forced labour/modern slavery in the construction and clothing sectors

Number of companies: 16

UN Sustainable Development Goals:



Read more about the goals [here](#).

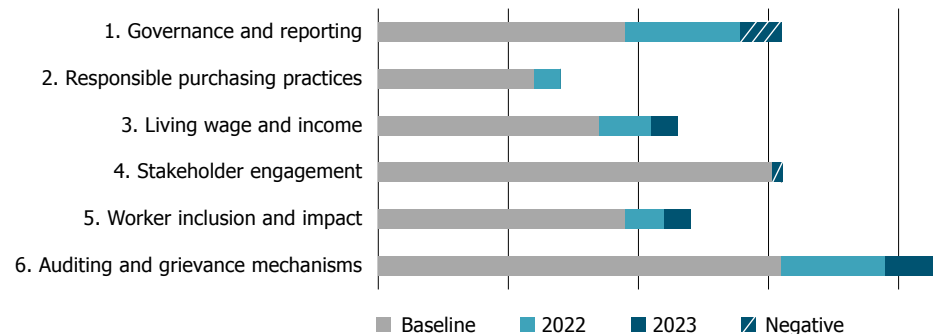
## Background

In 2021, the Council launched a three-year project focused on companies in the construction, clothing and footwear sectors. The focus is on ensuring that companies implement processes to identify and address various forms of modern slavery in their supply chains. The project is in its final phase and will conclude in Q1 2024.

The number of people in modern slavery is estimated to have increased sharply over the past years.

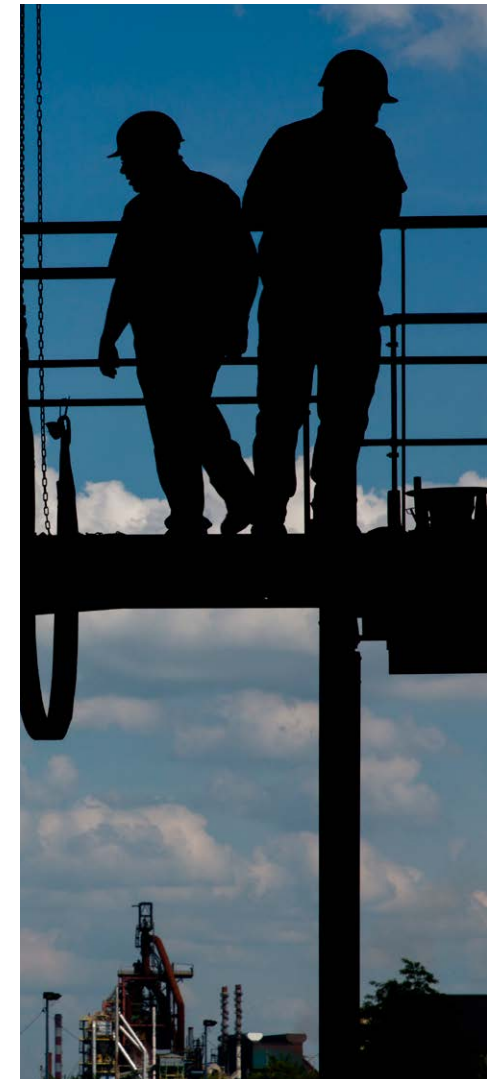
According to a report<sup>1)</sup> the number of people in modern slavery is estimated to have risen 25 per cent, from around 40 million people (2016) to approximately 50 million (2022). The private sector accounts for the largest number of forced workers, with an estimated more than 17 million people. All companies, including listed companies, are at risk of being linked to forced labour through their value chains. The manufacturing and construction industries are the two sectors – apart from domestic work – that are estimated to have the highest share of forced labour, with more than 18 per cent and 16 per cent of the total workforce, respectively. People in forced labour are highly vulnerable and the report also documents the serious abuses to which people are at risk of being exposed to in forced labour in industries such as manufacturing and construction.

## Progress in each target area for all companies, since inception



The graph illustrates developments, excluding four new companies not included in the base study.

<sup>1)</sup> International Labour Organization (ILO), Walk Free and the International Organization for Migration.



In 2021, the Council launched this three-year engagement project to support companies' work to combat forced labour. The project is led by a service provider and is conducted in collaboration with other institutional investors.

In 2023, the project continued with dialogues with selected companies in the construction and apparel sectors. Throughout the project, companies have been encouraged to strengthen their processes to identify and address the risks of slave and forced labour in their value chains, which includes adopting relevant policies and rigorous monitoring programmes. Examples of actions may include reviewing and developing the company's purchasing practices and training, as well as the provision of training to supply chain workers.

### Objective for the project

The objective for the project, which covers six development areas to address various forms of modern slavery, is to bring about positive advances in each target area, as well as for the individual companies involved in the project.

#### Target areas:

1. Governance and reporting
2. Responsible purchasing practices
3. Living wage and income
4. Engagement with stakeholders
5. Labour rights
6. Auditing and whistleblower systems

### Outcomes

There is still much that companies need to do to address the complex challenges of modern slavery, especially given that forced labour is often hidden, hard to detect and takes place deep in supply chains. Indeed, the vast majority of companies still report that they have not identified any forced labour. This could mean that forced labour does not exist in the companies' value chains, but as the companies operate in high-risk sectors, the existence of forced labour cannot be completely ruled out.

The project is now in its final phase. In 2023, 10 of the 16 companies measurably improved their performance and many companies are making progress to strengthen their management of risks. Among other things, several companies have strengthened their human rights policies. One company has implemented a responsible recruitment provision and internal training on forced labour risks for key teams, initiatives on human rights and improved disclosure through for example the publishing of supplier policies. Some companies have also been taking measures to support freedom of association and social dialogue. For example, in the case of one construction company, elections were held to elect worker representatives in the United Arab Emirates, which covered 1,600 workers. An apparel company became involved in a case of alleged discrimination against trade union

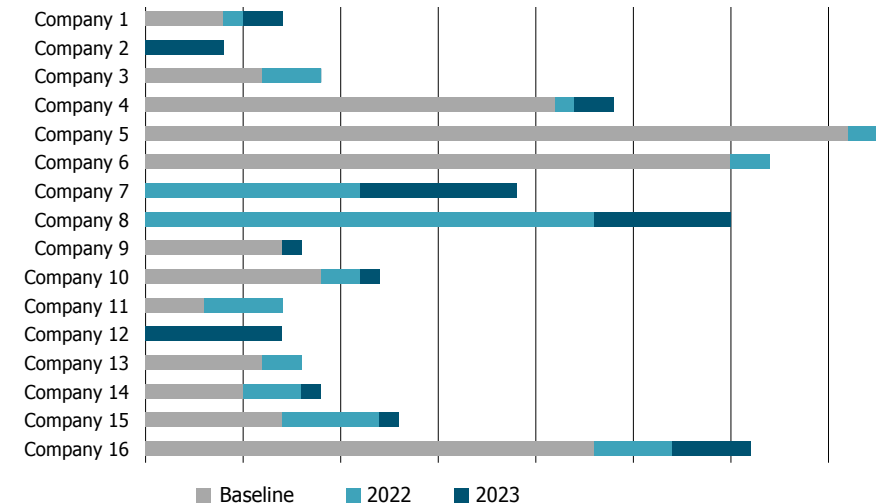
representatives in an Indonesian factory.

The company worked with the factory management and the matter was subsequently resolved. Another company which had conducted deep-dive assessments in several countries advised that it had made changes to its auditing protocols to ensure these were more robust. Many companies also shared plans to further strengthened their efforts, including mapping supply chains, publishing more relevant information and taking steps to address purchasing practices.

### Next steps

The dialogue in the final engagement phase will focus on ensuring constructive feedback is given to all companies to enabling them to build on their strengths and to address management gaps. Priority recommendations will also be made to companies to help support them in taking targeted steps related to the target areas.

Progress in the target areas for each company, since inception



For the companies that were not included when the project's baseline study was carried out, the scores have been calculated for 2022 and are used in both the baseline study and for 2022.

**Focus area: Climate**

# Responsible extraction of critical metals and minerals

The extraction of raw materials is essential for modern society, and it is necessary to expand extraction capacity to enable climate transition and achieve the goals of the Paris Agreement. But expanding capacity will bring increased social and environmental challenges, which can challenge both society's trust in the companies and their future growth if not managed well.



## Background facts

Region: Global

Topics: Responsible extraction of critical metals and minerals needed in the climate transition

UN Sustainable Development Goals:



Read more about the goals [here](#).

## Background

The Council on Ethics has played a leading role in establishing a global open database of information on mine tailings dams, the launch of a first global standard for mine tailings dams and an institute to ensure corporate compliance with the standard. In 2021, the Council closed this wide-ranging engagement project, which then entered an administrative phase. As a follow-up to this successful work, the Council is helping to launch the Global Investor Commission on Mining 2030.

Mining 2030 is an investor-led collaboration that aims to define and promote a vision of a socially and environmentally responsible mining sector, describing how it can be realised by 2030. The mining industry plays a crucial role in the climate transition, and Mining 2030 wants to ensure that the sector contributes to the transition in a manner that is sustainable in the long term.

The extraction of raw materials is essential for modern society, and it is necessary to expand extraction capacity to achieve

the goals of the Paris Agreement. One sign of this is the increasing efforts by governments and companies to secure the supply of the metals and minerals needed to realise climate transition and meet net zero commitments. For example, the ability of car manufacturers to meet the demand for new electric vehicles will partly depend on the availability of raw materials needed for functioning batteries. According to various estimates, lithium extraction will need to increase by 880 per cent and graphite by over 900 per cent from 2020 to 2030.

Source: [The Global Investor Commission on Mining 2030](#)

## OUTCOME OF THE PROJECT: Initial phase.

Through its participation in the Mining 2030 steering group, the Council has been involved in the work leading up to the launch of the Global Investor Commission on Mining 2030.

2023

Even with significantly higher levels of recycling, increased efficiency in the use of minerals and opportunities to substitute key minerals with other minerals, the path to net zero depends on a significant expansion of the mining industry.

At the same time, there are a number of social and environmental challenges for the mining industry to tackle. These involve challenges for the companies' future operations, society's acceptance of and confidence in the mining industry and minimisation of negative impacts on the environment and people.

### Objectives for the project

Specifically, Mining 2030 aims for the mining industry to:

1. have a 'social licence to operate', i.e. social acceptance and confidence in their activities;
2. be able to meet society's growing demand responsibly without contributing to conflict or corruption;
3. act in a way that respects planetary boundaries;
4. make a positive contribution to social and environmental development, today and tomorrow.

An important task of Mining 2030 is also to identify and evaluate how different mining standards can contribute to the development of best practices in the industry.

### Outcome

The initiative has started work in 2023 on a feasibility study aimed at understanding the supply of and demand for critical minerals for the energy transition, both now and in the future, and will contribute to an understanding of key challenges for the mining sector in meeting that demand. Through its participation in the initiative's steering group, the Council has been involved in the work leading up to the launch of the initiative.

### Next steps

The next step is to develop Mining 2030's activities, including enabling knowledge and experience sharing between stakeholders. Work on the feasibility study on the supply of and demand for critical minerals for the energy transition and the future challenges of the mining industry will continue in 2024.



### About Mining 2030:

Mining 2030 is an investor-led collaboration initiative that aims to define and promote a vision of a socially and environmentally responsible mining sector by 2030. Mining 2030, launched in 2022, has identified ten systemic risks related to the mining industry and the necessary transition to a low-fossil fuel society. The mining industry plays a crucial role in the climate transition, and Mining 2030 wants to ensure that the sector contributes to the transition in a sustainable manner in the long term. Mining 2030 also has the important task of identifying and evaluating how different standards can contribute to the development of best practices in the industry.

Mining 2030 is supported by investors representing total assets under management of USD 11 trillion. A commission of around 25 people from companies, academia, stakeholder organisations and the financial sector was recruited during the year.

Mining 2030 provides an opportunity for the Council to build on and share experiences from its previous work on mine tailings dams and learn lessons from other mining stakeholders. The Council on Ethics is part of the Mining 2030 steering group.

[Read more about Mining 2030 here.](#)

Focus area: Climate

# Transition in emission-intensive industries – dialogue across the entire value chain

Climate transition requires significant and rapid action. Governments need to introduce clear policies, consumers and the public at large need to change their patterns of consumption and behaviour, and many companies need to adapt their business models. It is important for long-term investors such as the AP Funds that the companies they have a stake in manage climate risks responsibly. The transition is system-critical and the Council on Ethics is working to ensure that actors in emission-intensive industries work together on developing action plans to enable the transition to take place.



## Background facts

Region: Global

Focus area: Climate

Topic: Transition in emission-intensive sectors

UN Sustainable Development Goals:



Read more about the goals [here](#).

## Background

In many emission-intensive sectors, the transition to a low-fossil society may be highly complex and costly. It demands a lot of individual companies to develop action plans for how best to manage the transition, as they are also dependent on the decisions and activities of other actors. In many cases, innovation and still-in-development technology are required. There is a major need for investors, companies, companies’ suppliers and customers, as well as other actors

in the sector, to work together to identify and prioritise technologies, activities and measures if an entire sector is to succeed in the transition.

## Objectives for the project

The objective of the Global Sector Strategies project, which is being conducted via the global investor collaboration Climate Action 100+, is for companies, investors, policy-makers and other actors to work together on developing practical plans for transitioning

to a low-fossil fuel society, and then to follow up implementation. The project is also producing and publishing expectations documents for emission-intensive sectors.

The project aims to bring together different actors in a sector’s value chain in order to develop joint action plans. Through coordinated interaction, investors are helping companies to increase the pace and scale of transition in their particular sector. The focus is on emission-intensive sectors such as energy and power, heavy

## OUTCOME OF THE PROJECT: Project’s sub-objectives achieved. Work is ongoing.

CA 100+ establishes Global Sector Strategies. Dialogues conducted with actors in the value chains of the sectors. Expectations documents for four sectors published: air transport, food, steel and power supply.

2021

A number of meetings were held in 2022, including with actors in the mining sector, with the aim of drafting a climate standard for that sector.

2022

Efforts continued in 2023 to develop work on existing and new expectations documents. A climate standard for the mining sector was published.

2023

transport, steel, cement, food, automotive, mining, chemicals and marine and air transport.

### Outcome

To accelerate the climate transition in particularly vulnerable sectors, Global Sector Strategies supports companies and their value chains in ensuring that they develop viable transition plans together. The work is performed by investors with in-depth industry knowledge in the sectors concerned, and in collaboration with other investors, experts and companies.

Efforts continued in 2023 to develop work on existing and new expectations documents. The Council has closely monitored developments in order to identify where in CA 100+'s sectoral work the Council should focus its efforts. Individual AP funds also participate in CA 100+ on an ongoing basis.

### Next steps

Work on both the development of additional expectations documents and activities linked to sectors identified is expected to continue during the coming year.



### Expectations documents published:

- [Recommended investor expectations for net zero aviation](#)
- [Recommended Investor Expectations for Food and Beverage](#)
- [Investor interventions to accelerate net-zero steel](#)
- [Investor interventions to accelerate net-zero electric utilities](#)
- [Investor Expectations for Diversified Mining](#)



### About Climate Action 100+:

**The pace of climate transition** is too slow, and to counteract the negative impact of the climate transition, we need robust and rapid action. Governments must pursue policies that promote a just transition, individuals must change their patterns of consumption and behaviour, and companies must manage climate risks responsibly.

**Climate Action 100+ (CA 100+)** was launched in 2017 and has grown into the largest investor engagement initiative on climate change. CA 100+ involves around 700 investors, who together have more than USD 68 trillion in assets under management. All AP Funds are participating in CA 100+.

**The CA 100+ investor group** collaboration is coordinating efforts to exert influence on the biggest listed companies that are sources of greenhouse gas emissions to reduce their emissions and transform their operations. The investor group is engaged in a variety of initiatives aimed at inducing listed companies to improve governance of their operations, reduce emissions and publish more transparent data and reporting on their efforts to do so. CA 100+ focuses on 170 companies that are considered to have a key role to play in the transition to a net zero greenhouse gas economy.

**Commitments to net zero emissions**  
In 2017, only five companies had committed to reduce their greenhouse gas emis-

sions to net zero. By 2022, the Council's screening activities showed that 75 per cent of CA 100+ companies had committed to net zero emissions by 2050 or earlier.

However, commitments to net zero emissions have not yet been matched by the development and implementation of credible corporate strategies to reduce greenhouse gas emissions. While external factors, such as the ongoing energy crisis, are raising the pressure for transition, companies must vigorously prioritise the development and implementation of credible corporate strategies to reduce greenhouse gas emissions. This would include, for example, companies setting short- and medium-term emission reduction targets, including all material emissions, including Scope 3 emissions, and aligning investment strategies with their greenhouse gas emission targets.

**The Council notes that progress continues to** be made on commitments by companies to net zero greenhouse gas emissions. For many companies, however, implementation is slow. The need for development and implementation of fit-for-purpose policies and investment plans to reduce greenhouse gas emissions is urgent.

**Through CA 100+,** the Council has access to experts in the field, help with coordination of company dialogues and analysis of the companies' work related to the expectations expressed. CA 100+ experts also participate in individual company dialogues.



Focus area: Tech companies and human rights

# Tech companies and human rights

Information technology has become integrated as a natural part of people's day-to-day lives throughout the world. The internet and social media have thus become part of the economic and social fabric, presenting both opportunities and challenges to sustainability. The Council on Ethics launched a new proactive international collaborative project with a number of investors to engage in dialogues with big tech companies, the aim being to persuade them to strengthen and adapt their human rights practices.



## Background facts

Region: Global

Topic: Disinformation, influencing and privacy, groups at risk

Number of companies: 7

UN Sustainable Development Goals:



Read more about the goals [here](#).

## Background

Tech companies need to understand and manage risks linked to human rights and social impact in a responsible way, to ensure long-term sustainability in their operations.

Big tech companies, including Alphabet (Google), Meta Platforms (Facebook) and Microsoft, are creating significant opportunities by making information available to the public. This is helping to advance, for example, human rights, democracy and an open society, but it also raises new questions.

Sustainability challenges are linked to complex issues, such as management and commercialisation of personal data,

extremism and terrorism, election rigging and other serious impacts on vulnerable people and groups at risk, particularly children and young people.

Other challenges concern data management and the dissemination of opinions; effects of content moderation that may lead to discrimination, and the circulation of one-sided opinions that can lead to polarisation and human rights abuses. At a systemic level, challenges exist regarding corporate risk management in order to protect democracy and healthy social structures.

Legislators and regulators have struggled to establish regulatory and governance

systems to keep up with the rapid pace of technological development. Tech companies have grown rapidly in a relatively short period of time; their businesses are dynamic, diversified, global and technologically complex. In many cases, the root causes of risks to human rights may be traced to the companies' business models, corporate culture, governance and remuneration conditions.

## Objectives for the project

The project is based on a framework developed by the Council on the basis of the expectations document produced jointly by the Council and the Danish Institute for

**OUTCOME OF THE PROJECT:** Sub-objectives achieved. Framework for systematic monitoring created. A number of international investors brought together.

Start-up and development of frameworks and key performance indicators for monitoring the progress in human rights by the tech companies. Brought together a number of international investors to engage in dialogues with the tech companies.

2022

Initial focus objectives were determined for each company, expressed and communicated. Company dialogues were initiated.

2023

Human Rights (DIHR), [Tech giants and human rights: Investor expectations](#). The document outlines the long-term expectations of the Council and other investors as to how the tech sector is to work strategically on human rights.

The Council's objective for the project is to persuade the tech companies to strengthen and adapt their human rights sustainability practices such as to bring their activities into line with the UN Guiding Principles on Business and Human Rights (UNGPs).

Another aim is to help companies focus more closely on understanding and managing systemic risks associated with the use and role of the internet platforms in society.

### Outcome

Collaboration between stakeholders usually increases the potential to promote positive change, especially in complex and global issues such as the impact of big tech companies on human rights. For this reason, when determining the scope, structure and objectives of the collaborative project, the Council consulted several investors with a lot of experience in the relevant field and other experts to ensure issues were aligned with recognised best practices and to avoid unnecessary duplication. The Council also built a strong investor network ahead of

the launch and announced the partnership in March 2023 with the support of over 30 other large institutional investors, representing more than EUR 7 trillion in assets under management.

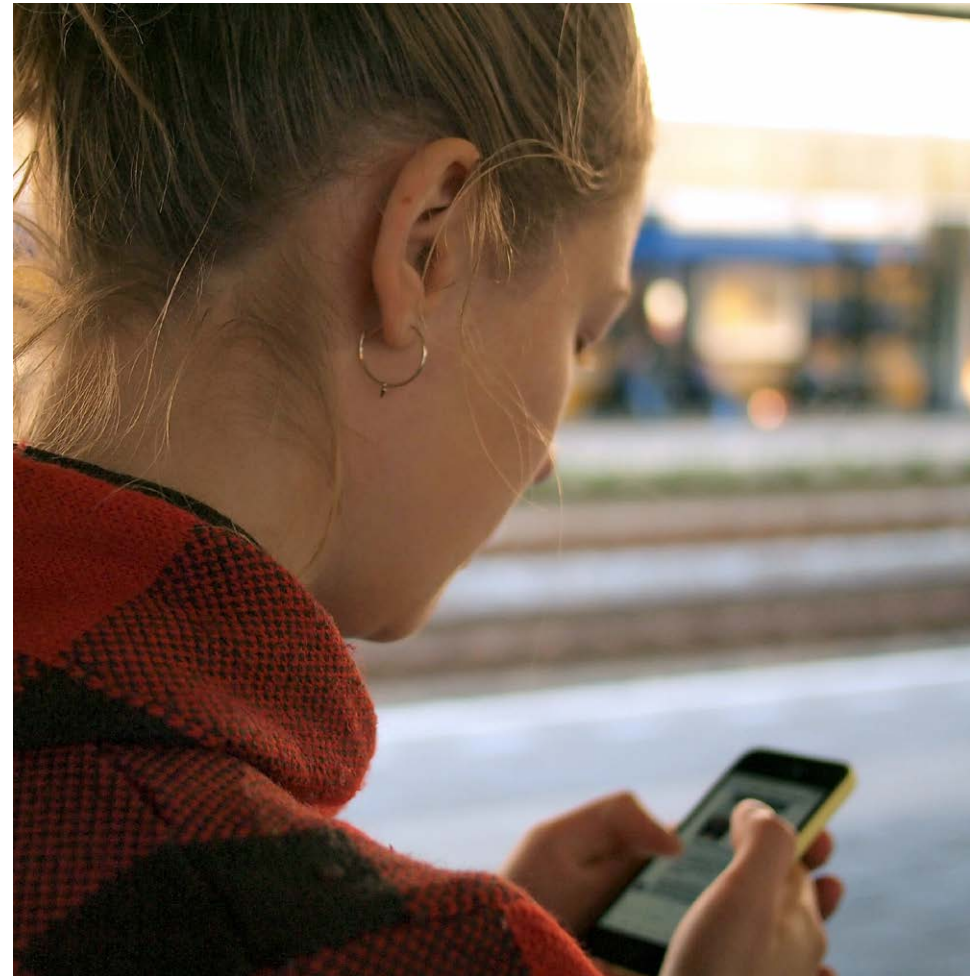
Exploiting synergies between different stakeholders has remained a cornerstone of the Human Rights and Tech Companies project throughout 2023. The Council organised three knowledge-building seminars for the international investors involved in the project and for the AP Funds' asset management organisations. The Council also maintained active contact with investor initiatives with a similar focus and presented to the UN's B-Tech Project on three occasions.

In 2023, the Council appointed the investors who would lead the company dialogues and those that would participate in each dialogue group. This process took place for all seven companies involved in the project.

So far, initial talks have been held with three companies.

### Next steps

Going forward, the focus is on the company dialogues, continued activities to promote collaboration, skills-building initiatives and mapping the companies' progress in relation to the established objectives.



**Focus area: Water**

# Water as a critical resource

Having access to enough water of good quality is essential for everything from health and sanitation to food production and power generation. Water is also affected by other global challenges and risks, including climate change, biodiversity loss and poverty. How this resource is managed and valued can have major consequences for society, companies and the general economy.

**Background facts**

Region: Global

Focus area: Water

Topic: Responsible use of water in terms of both quantity and quality

Number of companies: 72

UN Sustainable Development Goals:



Read more about the goals [here](#).

**Background**

Water scarcity can be seen as a remote risk in many places in developed countries, particularly given that around 71 per cent of the surface of our blue planet is covered by water. But only three per cent of the water on Earth is freshwater, and of that, only about 1.2 per cent can be used as drinking water without further treatment.

At the same time, demand and the industrial use of water is increasing rapidly, mainly due to population growth, economic development and new consumption

patterns. The consequences are that water is a scarce resource and water pollution is worsening, which in turn risks having a negative impact on communities and the environment.

Water-related risks are therefore a pressing and escalating global challenge that will also have significant implications for companies and investors. Some operations are more affected by water risks than others due to their location and/or dependence on large quantities (and/or high quality) of water. It is also usually these operations that have the

greatest potential impact on shared water resources. The sectors involved include, for example, food production, the fashion industry, power generation and mining.

In autumn 2023, the Council on Ethics joined the Ceres Valuing Water Finance Initiative, a global investor-led project to encourage companies with a high water footprint to value and act on water as a financial risk and drive the necessary large-scale change to better protect the Earth's freshwater systems. The project was launched in 2022.

**OUTCOME OF THE PROJECT:** Sub-objectives achieved. Work is ongoing.

The project is making an initial assessment of how the companies are performing in relation to expressed expectations using a benchmark.

2023

## Objectives for the project

A set of expectations for companies regarding their management of water as a resource has been developed. In summary, they concern:

- measures to limit the impact of current operations on water quality and water supply;
- integration of water management into business processes, including board oversight and relevant policies;
- initiatives to ensure access to water and sanitation in the company's value chains;
- protection of ecosystems, which are crucial to the freshwater supply on which the companies depend.

## Outcome

A number of company dialogues were held during the year, and an initial analysis of how the companies are performing based on the stated expectations ([The Valuing Water Finance Initiative Benchmark](#)) was published in the autumn. It found that of the 72 companies, 42 were at the beginning of their journey, 19 were on their way and the remaining 11 were on track. No company qualified as a leading company, but several were close.

## Next steps

The project is in the process of expanding the number of sectors and companies while continuing the work in the existing company dialogues.



## About the Valuing Water Finance Initiative:

Ceres launched an investor-driven project in August 2022 to promote responsible management of shared water resources by companies with large water footprints – also motivated by financial perspectives. Known as the Valuing Water Finance Initiative, it brings together 64 international investors and pension funds that collectively represent USD 9.8 trillion in assets under management. The project aims to encourage companies to value and act on water as a financial risk. At the same time, companies often contribute positively to the accelerating water crisis, protecting water resources on which their operations and global supply chains depend.

Through the project, the Council has access to experts in the field, help with coordination of company dialogues and analysis of the companies' work related to the expectations expressed. Experts from Ceres also participate in individual company dialogues.

[Read more about the Valuing Water Finance Initiative here.](#)

**Focus area: Water**

# Phasing out hazardous chemicals

Many of the products we come into contact with contain chemicals. Some of these chemicals, in particular those known as 'forever chemicals' such as PFAS (per- and polyfluoroalkyl substances), are very harmful to human health and the environment. The Council on Ethics has therefore been working since 2023 with around 50 international investors in the Investor Initiative on Hazardous Chemicals (IIHC), which is coordinated by ChemSec.



## Background facts

Region: Global

Topic: Hazardous chemicals

Number of companies: 50

UN Sustainable Development Goals:



Read more about the goals [here](#).

## Background

Use of hazardous chemicals is associated with negative impacts on human health as well as on biodiversity, such as insects, pollinators and bird populations. In addition, the production of chemicals requires energy-intensive processes and fossil oil and gas as production inputs, making the chemicals industry one of the largest emitters of carbon dioxide globally.

There has been a significant increase in chemicals production since the 1950s, and it is predicted to triple by 2050 compared

to 2010. At the same time, scientists estimate that the amount of hazardous chemicals in circulation has already exceeded the limit of what is considered safe from a planetary perspective.

In particular, the production and use of what are known as per- and polyfluoroalkyl substances (PFAS) – also sometimes referred to as forever chemicals due to them being non-degradable in nature – is problematic. Because these chemicals are non-degradable, they have a cumulative impact that is concentrated through food

in the food chain. Many of them have serious impacts on human and animal health, including various forms of cancer and reduced fertility. For example, PFAS are included as ingredients in firefighting foams and cosmetics.

PFAS are present in and accumulate in fresh water and are found in drinking water worldwide. These chemicals also have negative impacts on aquatic ecosystems. The Council has chosen to work with the non-profit organisation ChemSec in the Investor Initiative on Hazardous Chemicals

## OUTCOME OF THE PROJECT: Initial phase.

Launch of the initiative and initial contact with companies in 2023. The Council and the AP Funds are participating in the dialogue with six of the companies covered by the initiative. The dialogue will continue in 2024.

2023

(IIHC) project in the Water focus area. Companies that develop and produce hazardous chemicals are exposed to financial risks such as lawsuits and regulatory restrictions on the use of these chemicals, in addition to the reputational risk of being associated with hazardous chemicals.

Investors are exposed to these systemic risks directly (through ownership of companies that produce hazardous chemicals) and indirectly (through ownership of companies that are adversely affected in various ways by the use of hazardous chemicals).

The Council's work within the IIHC aims to persuade leading chemicals producers to reduce these impacts and encourage a shift to safer alternatives to manage both sustainability and financial risks associated with the use of hazardous chemicals.

### Objectives for the project

The objective of the Council's participation in the IIHC and its work in the Hazardous Chemicals project is to help influence the companies covered by the IIHC to phase out the use of hazardous chemicals in order to manage and reduce the chemicals' negative impact on people and the environment, thereby also managing legal and financial risks.

The work of the project focuses on three specific targets, with the companies

being asked to:

- increase transparency regarding the company's exposure to hazardous chemicals;
- publish a time-limited phase-out plan for products containing forever chemicals, with such a plan including clear indicators to allow for follow-up;
- develop safer alternatives to hazardous chemicals.

The companies are evaluated annually on the fulfilment of the targets; [read more here](#).

### Outcome

The Council joined the IIHC when it was launched in 2023, and during the year letters have been sent to companies urging them to deliver on established targets.

Company meetings were held with 15 companies, based on the evaluation, to discuss their work on phasing out hazardous chemicals, or lack thereof. One company (3M) has announced during the year that it is completely phasing out PFAS.

### Next steps

The Council will take part in following up on responses from companies and, in the next step, will continue the dialogue with the companies concerned while promoting greater awareness of and competence regarding hazardous chemicals.



## About the Investor Initiative on Hazardous Chemicals:

All four AP Funds and the Council are active members of the Investor Initiative on Hazardous Chemicals (IIHC), a collaboration of more than 50 international investors with a combined capital of more than USD 11 trillion under management or in advisory services.

The IIHC engages in dialogue with chemical companies to increase transparency and promote a reduction in the production of what are known as forever chemicals. Extremely stable (persistent) chemicals accumulate in the environment, humans and animals, posing serious health risks.

The IIHC is coordinated by Chemsec, experts in hazardous chemicals. It works to reduce the impact on people and the environment from the production of hazardous chemicals, and thereby also to reduce investment risks in chemical companies.

Through the IIHC, the Council has access to experts in the field, help with coordination of company dialogues and analysis of the companies' work related to the expectations expressed. Experts from the IIHC also participate in individual company dialogues.

[Read more about the IIHC here.](#)

# Biodiversity and food production

The importance of biodiversity is increasingly being recognised as the associated risks become clearer. One sector that directly affects, and is at risk of being affected by, biodiversity loss is the agricultural sector. Climate change means that more food will have to be produced on less land as the availability of fertile farmland and water is expected to decline. Companies linked to food production systems will face increased demands and expectations to limit their negative impacts on biodiversity and climate. These companies need to ensure that natural resources are used in a sustainable way. The Council's on Ethics' project focuses on environmental aspects. The aim is for the companies signed up to the project to develop their efforts to switch to long-term sustainable food production.



## Background facts

Region: Global

Topic: Sustainable food production, water, chemicals, food waste, biodiversity

Number of companies: 15

UN Sustainable Development Goals:



Read more about the goals [here](#).

## Background

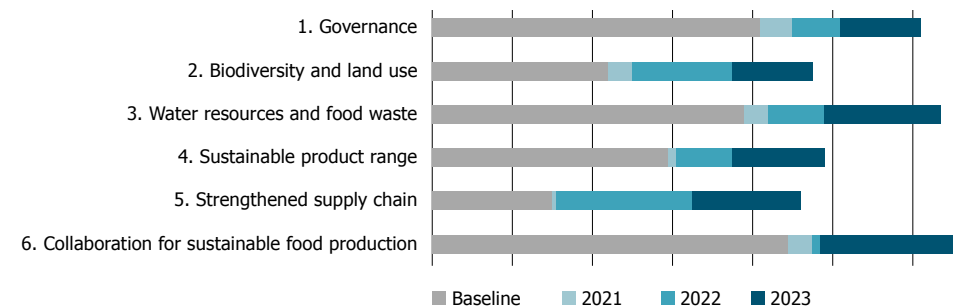
Food companies face a number of challenges. Food production can play a negative part in climate change, water scarcity and soil degradation, and can threaten biodiversity. At the same time, the companies concerned depend

on good and stable access to natural resources to assure food production over time. In addition, the value chain is often complex, with both direct and indirect suppliers and production units spread across the globe.

Higher expectations and tighter regulations, including stricter requirements on the use of chemicals and the import of goods, are affecting more and more companies. In December 2022 countries from across the world gathered at COP 15 to agree on global goals and guidance for addressing biodiversity loss.

The Council's Biodiversity and Food Production project was launched in June 2021. To date, engagement calls have been held with 17 companies in agriculture, agrochemicals, the food industry and grocery retailing, as part of the project.

## Progress in each target area for all companies, since inception



The average score for each target area is affected both by changes in scores and by changes in the companies selected.

### Objective for the project

The objective for the project, which covers six areas to develop more long-term sustainability in food production, is to bring about positive advances in each target area and for the individual companies involved in the project.

#### Target areas:

1. Governance
2. Biodiversity and land use
3. Water resources and food waste
4. Sustainable product range
5. Strengthened supply chain
6. Collaboration for sustainable food production

### Outcomes

Compared to the baseline study, the companies show improvements across all target areas. Dialogues with the companies have helped improve understanding of their strategies and actions, and have provided more clarity on the new initiatives they are working on.

Climate change has once again emerged as a key area of focus for companies, not only on its own merits, but also because of its connection with other issues, such as soil health, water stewardship, forestry management and biodiversity. Many of the engaged companies have published emissions reduction targets (as well as measures to achieve them) and some have had their targets approved by the Science-Based Targets Initiative (SBTi).

A key lever that companies are using to manage carbon emissions is to avoid deforestation linked to their own operations and/or supply chains.

Companies at different stages of the food value chain are developing and applying digital systems to strengthen their environmental stewardship. For example, an agricultural chemicals company has created a geospatial mapping system to help farmers detect and limit runoff of agricultural chemicals into watercourses. The Council on Ethics has been encouraged by the progress that other companies are publicly disclosing on water stewardship. An agriculture business discloses processing water usage and plantations water usage, divided by segment, and highlights strategic initiatives and the impacts they have had on water usage and water pollution.

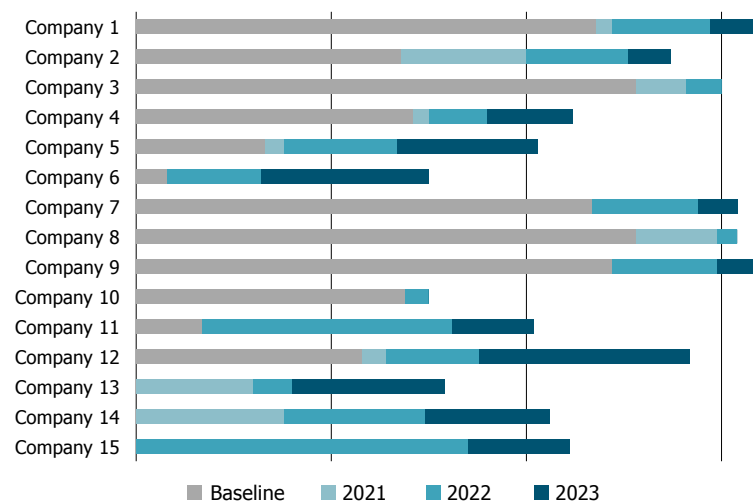
**Regenerative agriculture gains ground** – farming and grazing practices that, among other benefits, reverse climate change by rebuilding soil organic matter and restoring degraded soil biodiversity. This topic has been raised in some of the dialogues. There are a broad range of regenerative farming techniques such as crop rotation, minimizing tillage and using organic fertilizers. A majority of the engagement companies are recognizing the long-term value of this approach and building on it with ambitious commitments. For example, one multinational retailer has embedded regenerative land management practices in

a public position statement and helped to found a US regional initiative, which has set a 2030 goal of supporting at least 30,000 farm operations in the transition to regenerative agriculture.

### Next steps

Continued dialogues with companies included in the project will take place during 2023. The three-year project is scheduled to end in July 2024.

Progress in the target areas for each company, since inception



For the companies that were not included when the project's baseline study was carried out, the respective scores are only shown for 2021 and/or 2022.



# Reactive dialogues

Through reactive dialogues, the Council on Ethics exerts influence on companies worldwide to make improvements regarding their environmental, social and corporate governance sustainability issues, which are highly important to people, society and the activities of companies. A company dialogue focuses on how the company handles violations or difficult challenges in its business, such as corruption, human rights, working conditions, health and safety, environmental pollution and biodiversity.

The dialogues are initiated with the companies that have been identified in the bi-annual norm-based screening process. The aim is to improve and be a force for positive change in the face of various challenges in sustainability.

## Contents

### Closed dialogues

3M	36	Rio Tinto	40
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JBS	38	Toshiba	42
Johnson & Johnson	39		

### Selection of dialogues in progress

Bunge	43	PG&E	48
Citigroup	44	Sibanye-Stillwater	49
EDP	45	Teleperformance	50
First Energy	46	Tesla	51
Grupo México	47	Westpac Banking	52

The progress in a reactive dialogue is illustrated by arrows in a five-stage process: 

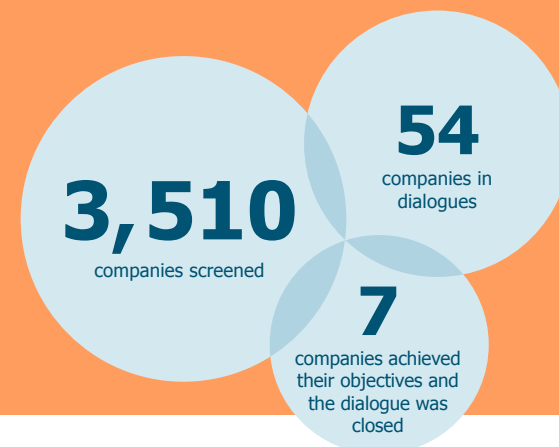
The five stages are 1. Address the issue 2. Establish a strategy 3. Start implementation of the strategy 4. Demonstrate appropriate development of strategy and transparency 5. Strategy implemented and objectives of dialogue fulfilled.

The progress in the dialogue over the year is illustrated by arrows in different colours: 

Reactive dialogues

# On reactive work

The Council on Ethics reactive work aims to exert an influence on companies to manage and address accidents and incidents if such occur. By influencing companies to take a more systematic approach to sustainability through policies, implementation and transparency, the Council can help prevent incidents from occurring.



## Screening

	2023	2022	2021	2020
Number of screened companies in AP Funds' portfolios	3,510	3,202	3,168	2,430
of which, with confirmed violation	18	28	23	22
of which, with risk of violation	66	83	89	72
of which, without comment from screening	3,426	3,091	3,056	2,336

In the Council's screening in September 2023 of just over 3,500 holdings, a total of 84 companies were identified with a confirmed violation, or at risk of violation, of an international convention. 3,426 companies passed the screening without comment. At year-end 2023, active dialogues were ongoing with 54 companies in AP1-4's portfolios, out of the 84 identified in the screening process with confirmed, or at risk of, violation. A total of 76 reactive dialogues were conducted in 2023.

As of 2023, the screening of the AP Funds' portfolios has been extended to include credits and indirect holdings through funds.

## Dialogues

Changes in the number of companies in active dialogue in 2023	Number
Number of companies in dialogue, December 2022	86
Companies with closed dialogue, with objectives achieved in the dialogue	-7
Companies with closed dialogue, for other reasons*	-5
Companies with new dialogues initiated	3
Companies recommended for exclusion by the Council on Ethics	-3
Changes in AP1-4's holdings, net number of companies	-20
<b>Number of companies in dialogue, December 2023</b>	<b>54</b>

\*For example, the company has sold the business concerned.

The dialogues which were successfully closed in 2023 are described in more detail on pages 36–42. The Council recommended the exclusion of three companies in 2023 and re-included one company, as the reasons for the exclusion have been addressed by the company.

## Violation

A **confirmed violation** of an international convention is one that has been verified and assessed against a number of criteria: the seriousness of the violation, the scale and preventability of the violation, how closely the company is involved or linked to the violation, and the company's handling of the situation.

**Risk of violation** includes cases that, after analysis based on the above criteria, do not meet all the criteria for a confirmed violation, but where the Council assesses the degree of seriousness as high. This category of companies also includes those where a possible violation is under investigation and those where a dialogue has not yet been initiated. The category also includes

companies where the Council has engaged in dialogue, the objectives have been achieved and the dialogue has been closed, but where the risk is still assessed as high. This is why the Council monitors the company's work and the outcome of the measures taken by the company.

The number of companies in active dialogue with the Council at the end of the year is lower than the 84 companies identified in the screening, as companies at risk of violation include the latter two categories. In addition, the holdings in the AP Funds' portfolios changed during the fourth quarter of 2023, which resulted in a reduced number of portfolio companies in dialogue in December.

## Progress

During the year, a total of 36 new dialogue stages were achieved in the dialogues conducted (66 stages in 2022), of which 29 stages were achieved in dialogues that were active at year-end and 7 stages in dialogues that were closed in 2023. See page 35 for a description of the progress in the dialogues and a breakdown by region and sector.

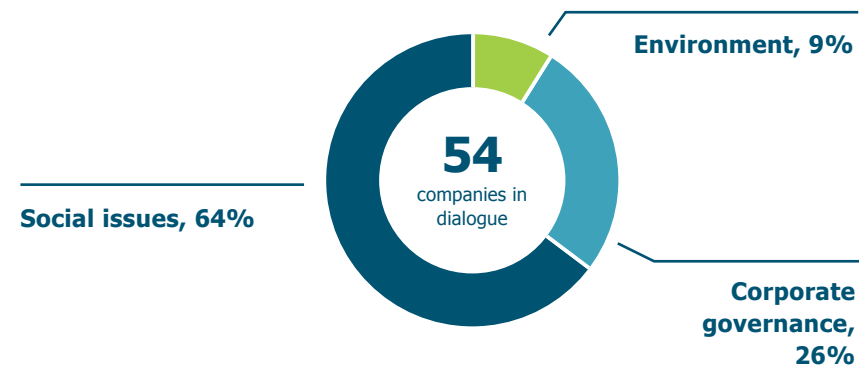
It is sometimes the case that the Council on Ethics is engaged in more than one dialogue with the same company. In such cases, the statistics include all stages achieved in all dialogues conducted with the companies concerned.

Reactive dialogues

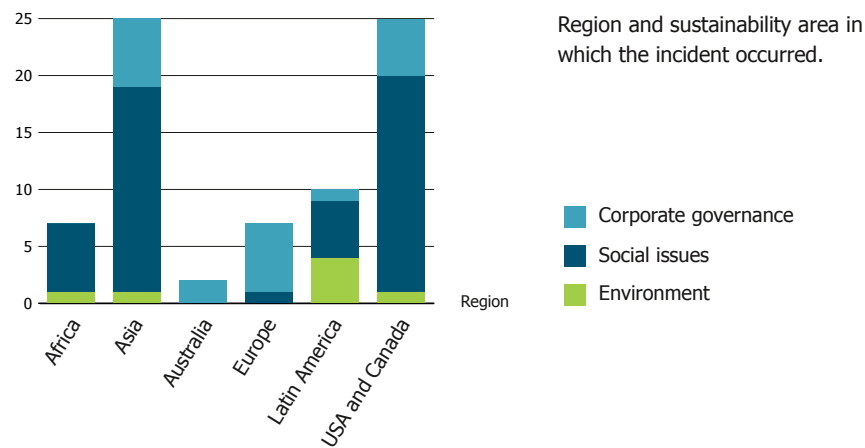
# On reactive work

At the end of the year, the Council on Ethics was engaged in dialogue with 54 companies. Some 64 per cent of these reactive dialogues were on social issues, 9 per cent on the environment and 26 per cent on corporate governance. The following graphs show the Council’s ongoing reactive company dialogues by region, sector and sustainability area. A total of 76 reactive dialogues were conducted during 2023.

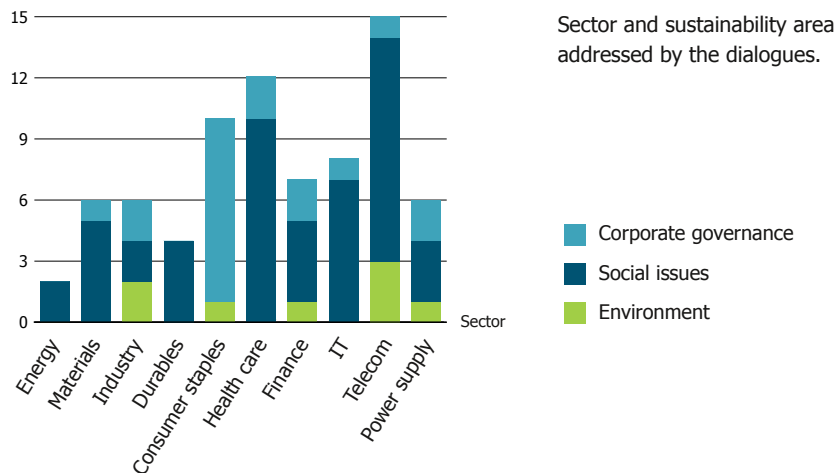
## Dialogues, by sustainability area



## Dialogues, by region



## Dialogues, by sector



## Resolved dialogue

# Dialogue with 3M on activities resulting in adverse environmental impacts

## Background facts

Status of dialogue: Closed

Company: 3M

Country: USA

Area: Environment

Dialogue on: Product management and stewardship, historical pollution

Progress this year: ▶

Stages achieved in the dialogue:



## Background

3M is a multinational conglomerate, which is organized in four business segments: safety and industrial, transportation and electronic, healthcare, and consumer. For several years, 3M has faced lawsuits brought by US states, local authorities and communities over alleged environmental pollution, especially the pollution of surface and ground water, with harmful contaminants from its past activities and products. The allegations relate to the chemicals PFOA and PFOS, two types of fluorosurfactants (PFAS) the company was manufacturing for use in its own products and selling to other companies between the 1950s and 2000s.

According to scientific studies, the PFAS chemicals are extremely persistent in the environment and can be linked to a wide range of adverse health effects in people, including different types of cancer, obesity, decreased fertility, thyroid disease and weaker immune response in children.

In the 1970s, 3M's internal studies reportedly started to show the toxicity of the chemicals. In the early 2000s, the company voluntarily phased out its PFOA and PFOS production and sales. In December 2022, 3M announced it will stop the manufacturing of all PFAS by the end of 2025. In June 2023, 3M reached a proposed settlement for over USD 10 bn in a multidistrict litigation in South Carolina to resolve PFAS water pollution claims.

## Objective for the dialogue

3M is to address the legacy issues relating to PFAS contamination and ensure appropriate protection from all products currently being manufactured. The company should provide greater clarity and public disclosure on its PFAS stewardship initiative and how it is mitigating potential liability from the historic sale/use of its products outside of the US. In addition, 3M should explain how it is applying the lessons learnt from PFAS to its product development.

## Outcomes

The engagement and dialogue in 2023 has been both constructive and meaningful. The company has continued to build on the investments it is making into remediation technologies and has committed in engagement with the Council to achieve its target of 99% clean up efficiency by the end of 2024. At its PFAS manufacturing plant in Belgium the company continues soil remediation, reducing future liabilities, and is in active dialogue with the regulators in that country. In 2023, 3M significantly improved its disclosures on PFAS chemistry, remediation and technologies for reduction

of PFAS discharges. 3M's public commitment to cease production of PFAS globally from 2025 is a significant milestone and substantially reduces potential future liabilities relating to release of untreated PFAS discharge into the environment. The company created a USD 10 bn fund to deal with historical contamination liabilities.

## Resolved dialogue

With the announcement that 3M is phasing out production of PFAS and the focus on effective remediation techniques, the engagement continues to be meaningful and moving towards a successful conclusion.



## Resolved dialogue

# Dialogue with Barclays on business ethics

### Background facts

Status of dialogue: Closed

Company: Barclays

Country: United Kingdom

Area: Corporate governance

Dialogue on: Business ethics and corporate culture

Progress this year: ▲

Stages achieved in the dialogue:



### Background

Over the last few years, Barclays has been implicated in significant allegations of business ethics misconduct. These allegations have included manipulation of foreign exchange (FX) markets and of benchmarks, such as Libor (The London Inter-Bank Offered Rate), corruption and weaknesses in governance, a lack of adequate controls, and malpractice concerning its whistleblowing function.

Since 2012, the Barclays has paid at least USD 800 million in settlements and penalties to a number of authorities and investors for the manipulation of Libor and Euribor (Euro Interbank Offered Rate) between 2005 and 2009. In 2018, Barclays

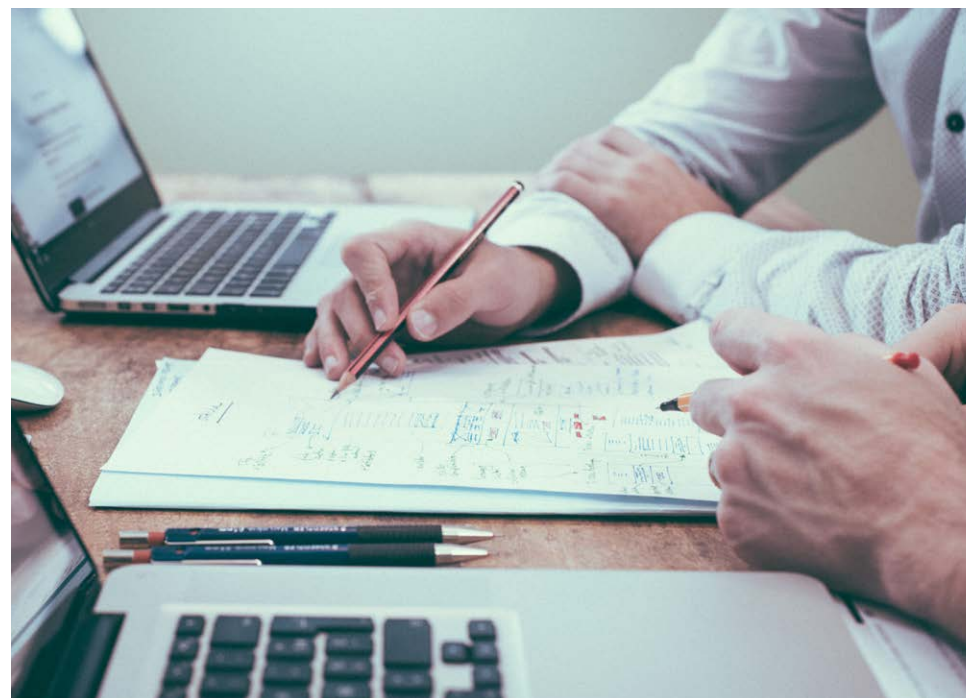
was issued a USD 15 million fine by US authorities and entered into a settlement with UK regulators for its then-CEO's and senior management's attempts to identify a whistleblower. In 2022, Barclays agreed to pay a USD 360 million penalty as part of a settlement with the SEC over internal control failures.

### Objective for the dialogue

Barclays was to implement whistle-blower policies as mandated by regulators. The company was to implement best practices on whistle-blower protections and procedures, ensure that whistle-blower bodies have the appropriate independence. Barclays was also to make disclosures on whistleblowing protections, business ethics at the executive level, and corporate culture.

### Outcomes

The dialogue with Barclays was successful and the objectives were achieved. Barclays retained an outside third party to conduct a full review of its whistleblower policies, programs, processes and controls. Barclays enhanced its whistleblower policies, grievance mechanisms, and reporting on grievance mechanism statistics. The company significantly strengthened corporate



governance of whistleblowing matters, including appointing a whistleblowing champion on the Board. It strengthened training and has taken various steps to reinforce a corporate culture that prioritizes ethical conduct and a compliance culture.

### Resolved dialogue

Based on Barclays' efforts to enhance protection measures for whistleblower treatment and improve ethics and compliance practices, the Council considers that Barclays has fulfilled the objectives and the dialogue has therefore been closed.

**Resolved dialogue**

# Dialogue with JBS on bribery and corruption

**Background facts**

Status of dialogue: Closed

Company: JBS SA

Country: Brazil

Area: Corporate governance

Dialogue on: Business ethics

Progress this year: ▲

Stages achieved in the dialogue:

**Background**

JBS, one of the world's largest meat producers, has been linked to corruption and bribery. In May 2017, seven former JBS executives including the former chairman and CEO reached a plea bargain with Brazilian prosecutors in which they admitted to paying over USD 150 mn in bribes to 1,900 officials.

**Objective for the dialogue**

JBS was to ensure that the bribery scheme was investigated thoroughly and full cooperation made with investigating authorities. JBS's anti-corruption programme was to be strengthened to reflect its corruption risk exposure. Allocated resources, implementation, corrective actions, and external

verification in relation to the anti-corruption programme was to be communicated transparently and publicly.

**Outcomes**

The dialogue with JBS was successful and the objectives were achieved. The Council had advocated for improved policies and programmes related to business ethics, corporate governance, compliance training, and independent third-party audits.

JBS implemented business ethics-related policies e.g. launched a global Bribery and Corruption policy and the Code of Conduct

was reviewed and strengthened. The company improved its corporate governance by significantly increasing the compliance team resources, establishing their independence, and elevating its status and influence within the organisation. Senior compliance resources were recruited from leading US regulatory and legal fields. Improvements were made to the reporting line, with the Head of Compliance now reporting directly to the Board. Several ethics committees were established. Compliance training has been expanded and includes employees, management, the Board, and third parties.

**Resolved dialogue**

Based on JBS's efforts to sustainably embed a culture of compliance, improve risk governance and business ethics practices, the Council considers that JBS has fulfilled the engagement objectives and therefore closed the dialogue.

**Continued dialogue on other topics**

This dialogue was one of three that the Council on Ethics conducted with JBS during 2023. The other two dialogues, related to deforestation and cartels, continue.

## Resolved dialogue

# Dialogue with Johnson & Johnson on product safety

### Background facts

Status of dialogue: Closed

Company: Johnson & Johnson

Country: USA

Area: Social issues – Health and Safety

Dialogue on: Product stewardship and quality

Progress this year: ▲

Stages achieved in the dialogue:



### Background

Johnson & Johnson (J&J) is a large and diversified healthcare firm. It has been implicated in repeated quality and safety issues of several of its products, including hip implants, pelvic mesh and talc-based baby products, resulting in severe adverse impacts on customers, and risks for the company. J&J has several times in recent years been ordered to pay multi-billion in damages to users of the company's talcum powder who had developed ovarian cancer, and patients who suffered serious complications due to the company's defective hip implants and pelvic mesh products.

### Objective for the dialogue

J&J was to review its quality procedures and processes to ensure an appropriate

and effective product stewardship. J&J should provide evidence that necessary revisions and updates to its protocols and procedures have been completed as a response to the issues relating to quality performance.

### Outcomes

The engagement during 2023 meant that the engagement case could be closed. The engagements focused on understanding in detail how J&J delivered on its quality commitments, through its quality management framework. This includes a review of the product withdrawal process to ensure robustness especially in relation to how grievances/complaints are made and then managed. Focus was also made on the safety assurance process, and how detrimental side effects are assessed and embedded into product review and revision. Issues of ethical behaviour were also discussed, especially as they related to the marketing of products.

The overall outcome is that effective quality control can be evidenced through reduced FDA activity, the US Food and Drug Administration (FDA) which approves new human drugs and biological products, and product recalls. Importantly J&J has mostly resolved its product controversies.

The company favours regular internal audits to monitor the effectiveness of its quality management system, complemented with external regulator led audits.

### Resolved dialogue

Based on these initiatives, the Council considers that J&J has fulfilled the objectives and the dialogue therefore has been closed.



## Resolved dialogue

# Dialogue with Rio Tinto on community relations – indigenous peoples

### Background facts

Status of dialogue: Closed

Company: Rio Tinto Ltd

Country: Australia

Area: Community relations

Dialogue on: Engagement with First Nations peoples, Free, prior and informed consent (FPIC), respect for cultural heritage

Progress this year: ▲

Stages achieved in the dialogue:



### Background

Rio Tinto is a large diversified mining company. The company has faced a parliamentary inquiry, public protests and external reviews related to the destruction in 2020 of two ancient caves at Juukan Gorge in Western Australia in order to give the company access to iron ore. The caves are located on land that traditionally belongs to the Aboriginal Puutu Kunti Kurrama and Pinikura (PKKP) people. The area has a high archeological value for Australia and is of unique cultural significance to the PKKP.

### Objective for the dialogue

Rio Tinto was to compensate PKKP for the destruction of the caves. The company

had to ensure that it rebuilt community relations with the PKKP and had suitable community relations mechanisms across all its operations. The company needed to ensure that its community relations teams were fully integrated into its operations and involved in operational decisions, in order to prevent similar incidents in the future.

### Outcomes

Rio Tinto has made significant progress over the last three years relating to community relations, risk governance and heritage management. The company has moved to a model of co-management to ensure indigenous voices are heard as part of its operational decision making.

Evidence of Free, Prior and Informed Consent (FPIC) include a signed remedy agreement with the PKKP. Physical rehabilitation of the Juukan Gorge rock shelters was completed in 2021 and Rio Tinto is working with the PKKP, as part of rehabilitating the destroyed cultural values.

Rio Tinto has strengthened heritage management and social performance governance, capacity and capability to better integrate heritage and indigenous peoples' values into mine operations decision-making. The efforts to change the corporate culture and build trusted relationships with

indigenous peoples are considered some of the most material components of its risk management.

### Resolved dialogue

Based on the company's efforts to integrate indigenous peoples' values into mine

operations decision-making and improve heritage management practices, the Council considers that Rio Tinto has fulfilled the objectives, and the dialogue has therefore been closed.





**Resolved dialogue**

# Dialogue with Stryker on health and safety

**Background facts**

Status of dialogue: Closed

Company: Stryker Corporation

Country: USA

Area: Social issues – Health and Safety

Dialogue on: Quality management systems and business ethics

Progress this year: ▲

Stages achieved in the dialogue:



**Background**

Stryker designs, manufactures, and markets an array of medical equipment, instruments, consumable supplies, and implantable devices. Over the past several years Stryker has been involved in a number of controversies related to product quality and safety. The most serious concerns its hip replacement devices, Rejuvenate and ABG II, for which the company has faced thousands of claims from plaintiffs who alleged that Stryker was negligent in designing, manufacturing and marketing the products with potential risks associated with fretting and corrosion, which has caused metal poisoning in patients.

Stryker has paid around USD 2 billion to settle thousands of lawsuits filed over these

defective devices as well as allegations that the company downplayed the risks of using other defective devices.

In 2020, the US Food and Drug Administration (FDA) issued a recall for Stryker’s Trevo XP ProVue retriever, a device intended for the removal of blood clots during a stroke. The recall was due to a risk that the device may break and be left inside patients’ blood vessels or tissue. There have been 11 reports of injury or illness related to the device and one death.

**Objective for the dialogue**

Stryker was to provide evidence that it has effectively remediated those individuals impacted by its products. Furthermore, Stryker was required to exhibit improvements in the delivery of its quality management systems as well as on issues relating to effective delivery of improved business ethics.

**Outcomes**

The engagement during 2023 meant that the engagement case could be closed. Throughout the four years of engagement Stryker has shown considerable improvements in the level of meaningful disclosure. Whilst the company responded to queries with strong technical responses, it also provided additional assurances that its quality



system was effective through compliance and certification with international standards (ISO). The effectiveness of Stryker’s refreshed approach to quality is seen through reduced numbers of the US FDA interventions.

**Resolved dialogue**

Based on these initiatives, the Council considers that Stryker has fulfilled the objectives and the dialogue therefore has been closed.

## Resolved dialogue

# Dialogue with Toshiba on business ethics – accounting and taxation

### Background facts

Status of dialogue: Closed

Company: Toshiba Corp

Country: Japan

Area: Corporate governance

Dialogue on: Business ethics, financial crime, accounting fraud

Progress this year: ▲

Stages achieved in the dialogue:



### Background

Toshiba fraudulently overstated its financial results between 2008 and 2014. The profit overstatements amounted to about USD 1.22 billion. The scandal led to multiple fines and investor lawsuits, and eight executive board members including the CEO resigned. In 2015 Toshiba received penalties from the Tokyo Stock Exchange and from Japan's Financial Services Agency.

### Objective for the dialogue

Toshiba was to establish robust policies on risk management and implement effective internal compliance controls addressing accounting fraud.

### Outcomes

The dialogue with Toshiba was successful and the objectives were achieved. The Council had advocated for the company to establish an effective risk management and compliance system and to strengthen controls to prevent accounting fraud. Toshiba has not faced allegations of accounting irregularities for the past three years. The main reasons for resolving the case are due to Toshiba refreshing its Board and executive management team, improving its accounting controls and increasing compliance resources and oversight at the Board level.

Toshiba has implemented “segregation of duties” to reduce the risk of accounting fraud and unreliable financial reporting. During the past three years, Toshiba has implemented fraud detection and prevention measures, including a full evaluation of its compliance and fraud risk management and increasing the size of the audit committee and expanding the use of outside fraud and compliance professionals. Toshiba's culture of compliance has improved and it has raised staff awareness through compliance training in fraud risk and accounting compliance. The company



has also implemented a “speak-up and call-out” culture, including enhancing its whistleblower system.

### Resolved dialogue

Based on Toshiba's efforts to strengthen its accounting compliance by establishing

specific accounting controls and assurance and evolving the system into one that encompasses accounting compliance, the Council considers that Toshiba has fulfilled the objectives, and the dialogue has therefore been closed.

## Ongoing dialogue

# Dialogue with Bunge on land use and biodiversity

### Background facts

Status of dialogue: Ongoing

Company: Bunge Ltd

Country: Brazil

Area: Environment

Dialogue on: Land use and biodiversity

Progress this year: ▶

Stages achieved in the dialogue:

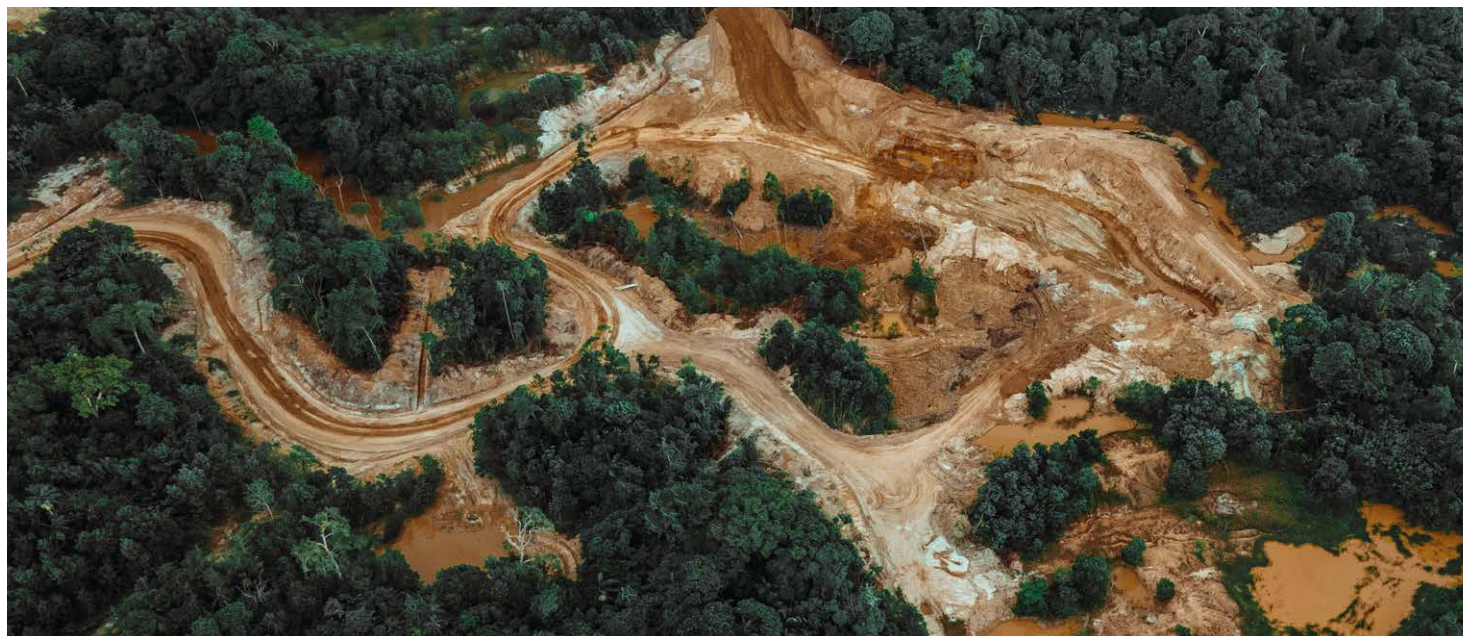


### Background

Bunge has operations in agricultural products and has for several years been criticised for its links to deforestation. In 2021, the NGO Mighty Earth reported that Bunge showed the highest deforestation risk among industry peers when deforestation from all its indirect suppliers were included. The report related to operations in Brazil's Cerrado region.

### Objective for the dialogue

Bunge is to stop buying soy from suppliers that are directly or indirectly involved in deforestation activities. Bunge is to implement wide-ranging measures to identify non-compliant suppliers, to use the best available practices to achieve its deforestation commitments and to report regularly.



### Outcomes

Bunge has committed to stop purchasing soy from suppliers which directly or indirectly contribute to deforestation. Bunge has also committed to implement significant measures to identify non-compliant suppliers, apply the best available methods to fulfil its commitments and to report regularly. Bunge has committed to make its supply chain free of deforestation by 2025.

### Next steps

The focus will be on evaluating the effectiveness of the changes to the Citigroup Three Lines of Defence model. The Council on Ethics will also focus on understanding the extent of systemic culture transformation in improving risk conduct and compliance.

## Ongoing dialogue

# Dialogue with Citigroup on business ethics

### Background facts

Status of dialogue: Ongoing

Company: Citigroup Inc

Country: USA

Area: Corporate governance

Dialogue on: Business ethics, money laundering, financial crime

Progress this year: ▶

Stages achieved in the dialogue:



### Background

Citigroup is a global financial-services company doing business in more than 100 countries and regions. The company has faced regulatory investigations and court action related to financial misconduct, particularly foreign currency manipulation, money laundering and fraud.

In 2014, the US Department of Justice (DOJ) reached a USD 7 billion settlement with Citigroup over mortgage fraud claims and exchange rate manipulation. In 2016, the company was fined USD 425 million for interest rate manipulation. During 2017–2018, Citigroup was made to pay nearly USD 170 million for anti-money laundering deficiencies. In 2019, Citigroup agreed to pay a European Commission fine of EUR

310 million for colluding on foreign-exchange trading strategies. In 2020, the US Federal Reserve and OCC imposed a USD 400 million fine for shortcomings in the bank's compliance risk management, data governance, and internal controls.

Over the last three years, Citigroup has improved its disclosures related to business ethics management, but is still in the process of implementing its corporate transformation and remedial plans.

### Objective for the dialogue

Citigroup is to implement on-going systematic controls related to money laundering, financial crime risk management as well as to implement strong oversight mechanisms to govern those systems and disclose these systems and changes. Citigroup is to adopt a robust strategy to positively influence the corporate culture into one that results in less regulatory challenges and accusations.

### Outcomes

Citigroup has made major progress over the last three years in its disclosures related to business ethics and responsible business conduct. Citigroup has identified compliance, transformation and conduct risk as a material risk.



Citigroup has made improved disclosures in 2023 on the topics of “culture and conduct risk”. It is clear from the dialogue in 2023 that improvements have been made to the company risk management framework to incorporate a focus on culture and conduct risk. Citigroup's culture transformation initiative has been expanded to include comprehensive monitoring and assessment of cultural and behavioural risk signals of ethical behaviours. Improvements in 2023 also include incorporation of

Citigroup's transformation programme into the short-term incentive plan and implementing an employee-led “Change maker” initiative to drive culture change.

### Next steps

The focus will be on evaluating the effectiveness of the changes to the Citigroup Three Lines of Defence model. The Council on Ethics will also focus on understanding the extent of systemic culture transformation in improving risk conduct and compliance.

## Ongoing dialogue

# Dialogue with EDP on bribery and corruption

### Background facts

Status of dialogue: Ongoing

Company: Energias de Portugal SA

Country: Portugal

Area: Corporate governance

Dialogue on: Business ethics, bribery and corruption

Progress this year: ▶

Stages achieved in the dialogue:



### Background

Energias de Portugal SA (EDP) is an utility company and the largest generator, supplier, and distributor of electricity in Portugal. In recent years, EDP and its former CEO are being investigated by Portuguese authorities over allegations of corruption involving ex-government officials.

In July 2020, a Lisbon judge ordered the suspension of the CEO of EDP, along with the CEO of its subsidiary EDP Renovaveis, as part of a corruption investigation where the public prosecutor alleged that the former Portuguese Economy Minister personally benefited when he approved a scheme to compensate EDP for the early end of fixed multi-annual power purchase agreements, and a 25-year extension of 27 dam concessions without public tender.

EDP denies the allegations of corruption. Both CEOs resigned in December 2020.

As of November 2023, EDP was still under investigation over corruption allegations.

### Objective for the dialogue

EDP is to ensure that it has implemented anti-corruption management systems and internal controls aimed at preventing business ethics-related incidents. EDP should commission an independent investigation into the allegations, it should disclose the findings and show how it plans to enact any recommendations. The company should also ensure that executive contracts have contractual provisions that allow a company to reduce or recover remuneration from an employee, so called malus and clawback provisions.

### Outcomes

During 2023, EDP has shown a willingness to engage. The dialogue focused on corporate culture and the importance of leadership's communication on matters of ethics and compliance as well as driving awareness of the importance of countering bribery and corruption.

EDP has put significant controls in place over the past several years, which includes

a Code of Conduct for top management, an Integrity Policy which provides the principles relating to the interactions with politically exposed persons and a Corporate Risk Management Policy, which provides the framework for internal and external requirements in corporate governance, control and reporting.

In addition, EDP shared the implementation of its Plan for the Prevention of Risks of Corruption and Related Infractions as part of the compliance with the Portuguese 2020-2024 National Anti-Corruption Strategy (MENAC) and the General Regime

for the Prevention of Corruption ("RGPC"). EDP's plan has a specific risk assessment methodology that covers the different risks/types of corruption, different risks factors/scenarios and the different areas of activity of the company.

### Next steps

The focus will continue to be on strengthening EDP's culture on business ethics. Another aim is to obtain an understanding on how effective the new Plan for the Prevention of Risks of Corruption will be once is fully implemented and functioning.



## Ongoing dialogue

# Dialogue with FirstEnergy on bribery and corruption

### Background facts

Status of dialogue: Ongoing

Company: FirstEnergy

Country: USA

Area: Corporate governance

Dialogue on: Business ethics, bribery and corruption

Progress this year: ▶

Stages achieved in the dialogue:



### Background

FirstEnergy, an electric utility company based in Ohio, has been fined for its role in a bribery and corruption scandal. According to US federal prosecutors, between 2017 and 2020, FirstEnergy bribed Ohio House Speaker Larry Householder with more than USD 60 million to ensure the passage of a bill called “House Bill 6” (HB6). The bill was passed and became law during 2019. Under the law, taxpayers were to fund a USD 103 billion bailout of Ohio’s nuclear power plant, which, at the time, was owned by a subsidiary of FirstEnergy. In 2020, the House Speaker Householder and four of his aides were arrested and charged with bribery. The incident is described as “probably the largest bribery and money

laundering scheme ever perpetrated against the citizens of the State of Ohio”. FirstEnergy admitted its involvement in the plan to make taxpayers pay for the rescue of the company’s nuclear power plant. The company reached a settlement with the US Department of Justice (DOJ) and agreed to pay a fine of USD 230 million to avoid possible criminal charges related to the HB6 bribery scandal.

### Objective for the dialogue

FirstEnergy is to cooperate with all related investigations and implement their recommendations. The company is to ensure robust anti-bribery and corruption systems and

provide anti-bribery training for its staff. FirstEnergy is to adopt an appropriate complaint management and and whistleblowing system. The company is to demonstrate transparency and integrity in its lobbying activities.

### Outcomes

FirstEnergy has demonstrated an openness about the failings which led to the incident and an intention to address the issues. Staff training, including anti bribery and corruption has already occurred and is ongoing. FirstEnergy is progressing an improvement plan in line with the agreement it made with the DOJ. The agreement contained 130 action points for the company and FirstEnergy

committed to address all of these points. The company has stated that the progress is very far advanced and that approximately 80% of actions have been addressed.

FirstEnergy continues to hold back on the disclosure of its internal report, it has stated that there is no intention of making this report public. Regarding the independence of the whistleblowing system the company has made improvements to have the system fully third party operated.

### Next steps

The Council on Ethics will monitor FirstEnergy to ensure that the changes are effective.

## Ongoing dialogue

# Dialogue with Grupo México on leaks, spills and pollution

### Background facts

Status of dialogue: Ongoing

Company: Grupo México SAB. de CV

Country: Mexico

Area: Environment

Dialogue on: Leaks, spills and pollution

Progress this year: ▶

Stages achieved in the dialogue:



### Background

In 2014, toxic spill of 40,000 cubic metres of copper sulphate acid and heavy metals from the Buenavista copper mine in Mexico (owned and operated by Buenavista del Cobre, a subsidiary of Southern Copper Corporation, which is majority-owned by Grupo México), contaminated the Sonora and Bacanuchi rivers in northern Mexico. The toxic spill impacted a 322-kilometre area, and directly affected the health and livelihoods of at least 24,000 people in seven municipalities. The regional economy and the basic sectors of agriculture, stock breeding, mining, tourism, and handicrafts were severely affected by the contamination with toxic heavy metals and many productive activities ceased.

Even though the company since then has been obliged to and in effect implemented certain measures, several negative impacts on the environment and people persist. Government testing undertaken in 2022 showed that the environment and community negative health impacts have persisted.

### Objective for the dialogue

Grupo México is to consult with affected communities and authorities to address concerns over shortcomings in the remediation and compensation measures taken as well as mitigate any remaining negative impacts of the toxic spill and address shortcomings in compensation measures. Grupo México should strengthen its management of its tailings storage facilities to meet international tailings dam standards.

### Outcomes

The Council has been in dialogue with Grupo México regarding the Buenavista spill since 2014. The company has provided information on its short-term mitigation actions taken in response to the spill including its emergency response and long-term mitigation measures. Grupo México claims that its remediation efforts are successful, but there is no transparency

and no independent assurance to verify that the company data and conclusions have been represented fairly and free from misstatements. A significant and positive development during 2023 has been a proposal from the company to the federal government to establish a working group to address contamination of the Sonora and Bacanuchi rivers

### Next steps

The dialogue with Grupo México continues with a focus on encouraging the company to submit comprehensive details about its corrective action plan, provide insight into environmental measurements and results, and to commission an independent audit of the environmental management programme.



Ongoing dialogue

# Dialogue with PG&E on quality and safety

## Background facts

Status of dialogue: Ongoing  
 Company: PG&E Corp  
 Country: USA  
 Area: Quality and safety  
 Dialogue on: Public safety incidents  
 Progress this year: ▲  
 Stages achieved in the dialogue:



## Background

PG&E has faced regulatory scrutiny, criminal investigations and court action related to wildfires, due to vegetation ignition from its electrical equipment. For example, in 2018 a deadly and destructive wildfire, known as The Camp Fire, erupted in the Sierra Nevada foothills in California. The Camp Fire burned more than 153,000 acres, killed 85 people and destroyed approximately 14,000 homes in the town of Paradise. In 2020, PG&E pleaded guilty to involuntary manslaughter and unlawfully starting the Camp Fire. Another two wildfires in California in 2020 and 2021 resulted in four fatalities and the destruction of more than 1,500 buildings, for which PG&E

paid fines and damages of more than USD 100 million.

## Objective for the dialogue

PG&E is to address the impacts of the wildfire incidents and ensure that suitable remedial measures have been put in place. The company is to also develop a comprehensive, risk-based, safety strategy. The company-wide strategy is to address the employee, contractor and public safety and consider future potential risks, including those related to changing climate conditions. PG&E is to establish a process for monitoring the execution of the strategy.

## Outcomes

PG&E has made major progress over the last three years in its disclosures related to wildfire distribution risk, probability of ignitions caused by equipment failures, interactions of vegetation with PG&E equipment and wildfire consequence data. Importantly, PG&E has continued to identify safety, as its top material risk.

During 2023 PG&E produced a comprehensive Wildfire Mitigation Plan and a 10-year plan for undergrounding electrical lines in areas of high wildfire risk. It is clear from the dialogue in 2023 that improve-

ments have been made to integrating wildfire risk into critical business decisions, implementing improvement plans and updating the company's wildfire mitigation strategy.

## Next steps

The focus will be on evaluating PG&E's safety culture and understanding how its climate resilience program is helping the company prepare for and adapt to extreme weather and climate hazards.





## Ongoing dialogue

# Dialogue with Sibanye-Stillwater on occupational health and safety

### Background facts

Status of dialogue: Ongoing

Company: Sibanye-Stillwater Ltd.

Country: South Africa

Area: Social issues

Dialogue on: Occupational health and safety

Progress this year: ▶

Stages achieved in the dialogue:



### Background

Since 2018, Sibanye-Stillwater, a multinational mining and metals processing company, has experienced multiple ongoing safety accidents at its operations in South Africa, which have cumulatively resulted in more than 60 fatalities. In 2018, seven workers died as a result of an earthquake and five workers died due to poor underground ventilation. Both accidents occurred in Sibanye-Stillwater's mines west of Johannesburg. In total the company recorded 24 fatalities in 2018. This represented the highest number of fatalities reported since 2013.

Despite significant investments in safety training and preventative measures to reduce safety risks, there were 21 worker fatalities during 2021, five during 2022

and four during 2023. Deep gold mining in South Africa occurs in geologically challenging environments. There are significant risks for rockbursts, gas outbursts, high rock stresses and high temperatures which can have catastrophic consequences.

### Objective for the dialogue

Sibanye-Stillwater is to review all safety incidents, seek to identify the main causes of the accidents and to put into place improvements in its health and safety training and working practices to develop an enhanced health and safety culture at its operations.

### Outcomes

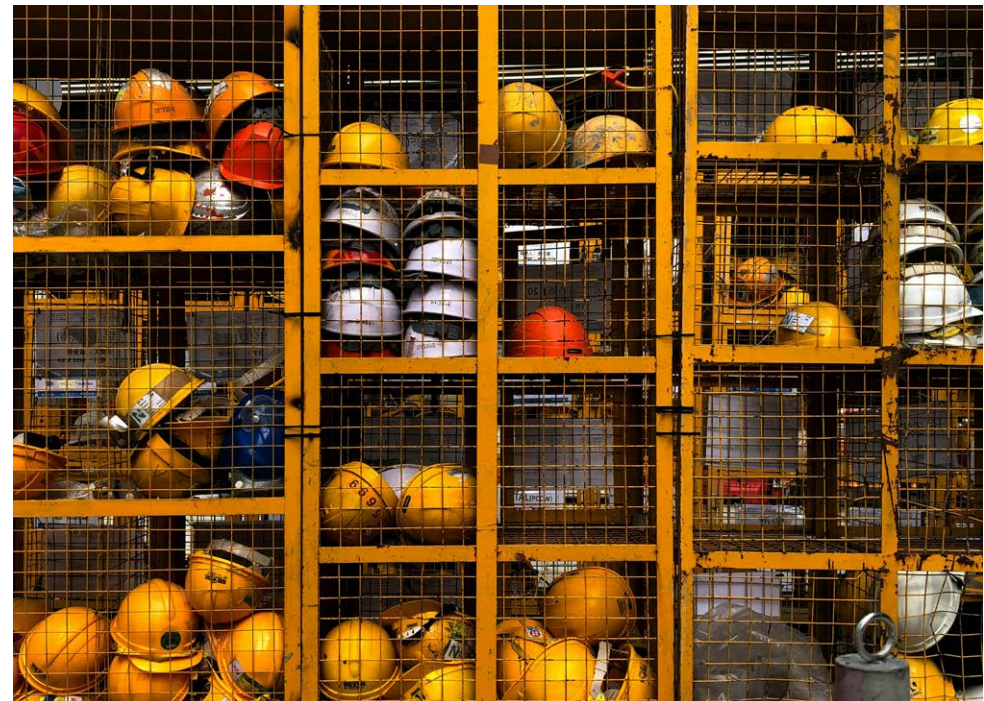
Sibanye-Stillwater has made significant progress over the last three years embedding safety as an operating philosophy with a particular focus on reducing serious and fatal injuries.

Sibanye-Stillwater has a zero harm to people policy and accepts that zero loss of life is the only acceptable target and should be the minimum standard for all its mining operations. Sibanye-Stillwater has implemented a Fatal elimination strategy that comprises the key pillars of critical controls, critical life-saving behaviours, and critical management routines. Sibanye-Stillwater has also commissioned an independent,

leading safety expert to conduct a review of its safety programme. It is clear from the dialogue in 2023 that Sibanye-Stillwater's safety focus remains on its strategy for eliminating fatalities and serious injuries as well as the management and mitigation of high-potential incidents.

### Next steps

The focus of the ongoing engagement is to monitor the implementation of Sibanye-Stillwater's strategy to reach the zero fatalities vision, and that the company develops an increased safety awareness, as an important part of continued safety improvements.



## Ongoing dialogue

# Dialogue with Teleperformance on freedom of association and labour relations

### Background facts

Status of dialogue: Ongoing

Company: Teleperformance SA

Country: France

Area: Social issues

Dialogue on: Labour rights, health and safety, working conditions

Progress this year: ▲

Stages achieved in the dialogue:



### Background

Teleperformance is a global player in call centers. In 2020, several of Teleperformance's wholly owned subsidiaries were accused of violations of workers' freedom of association. UNI Global Union, a global union federation, filed a complaint with the French OECD National Contact Point (NCP), regarding several labour issues, such as the restriction of freedom of association and weak management of the COVID-19 pandemic in 10 countries. Allegations included failure to recognize legally registered unions and punitive dismissals of union organizers.

In 2021, the NCP found Teleperformance's actions in Albania and Colombia were "contrary to the freedom of association of workers, as recommended by the OECD Guidelines, thus akin to anti-union practices" and issued a series of recommendations to the company to improve its performance.

### Objective for the dialogue

Teleperformance is to ensure no anti-union practices or other labour rights violations are occurring and to remediate the issues, as appropriate. The company should demonstrate that, across its operations, labour practices align with international standards, enable freedom of association, and that due diligence practices are sufficient to manage concerns.

### Outcomes

The results of the dialogue have continued to be encouraging. Teleperformance has been open to the dialogue since initiation and has shown a progressive attitude in addressing the labour relations concerns that triggered the engagement. While the company had sustained continued scrutiny



of its support of labour rights and provision of appropriate working conditions in some of its markets – most notably Colombia – the company has also continuously been addressing concerns and certifying new unions, e.g., Albania.

Of note is the establishment of a global framework agreement with UNI Global Union. The agreement also coincided with the positive closure of the OECD NCP's proceedings with the company.

In 2023, Teleperformance published an updated human rights policy that explicitly committed to the UN Guiding Principles and ILO conventions.

### Next steps

The focus will continue to be on understanding and ensuring Teleperformance's implementation of its labour rights commitments and implementation of the global framework agreement with UNI Global Union.

## Ongoing dialogue

# Dialogue with Tesla on labour rights – discrimination and harassment

### Background facts

Status of dialogue: Ongoing

Company: Tesla

Country: USA

Area: Social issues

Dialogue on: Labour rights, discrimination and harassment

Progress this year: ▶

Stages achieved in the dialogue:



### Background

Employees at Tesla’s Fremont plant in California, US, have reported being repeatedly subjected to racial discrimination and harassment. In August 2021, Tesla paid more than USD 1 million in damages to a former worker at the factory. The damages concerned racist verbal harassment by the employee’s superiors.

In October 2021, Tesla was ordered to pay USD 137 million to a contractor who claimed that he suffered racist abuse when he worked at the factory between 2015 and 2016, and that his superiors did not act on his complaints. Tesla has appealed the ruling.

In February 2022, after a three-year investigation California’s Department of

Fair Employment and Housing (DFEH) said it had complaints from hundreds of workers and evidence that Tesla’s Fremont factory is a “racially segregated workplace”. In connection with this, DFEH filed a complaint against Tesla for systematic racial discrimination and harassment.

### Objective for the dialogue

Tesla is to allow an independent third party to investigate these incidents and to fully participate in the investigation.

Tesla is to reinforce anti-discrimination policies, including thorough training to create a culture of diversity, equality, and inclusion, and ensure an effective complaints management mechanism.

Tesla is to appoint anti-discrimination and HR experts at senior management level with sufficient resources and a strong mandate from the management team and the board. The company is to regularly report on the related work and have it audited by a third party.

### Outcomes

Tesla has communicated its intent to tackle issues related to labour and discrimination. The dialogue is focusing on Tesla introducing preventative actions going forward. It has been noted that management was

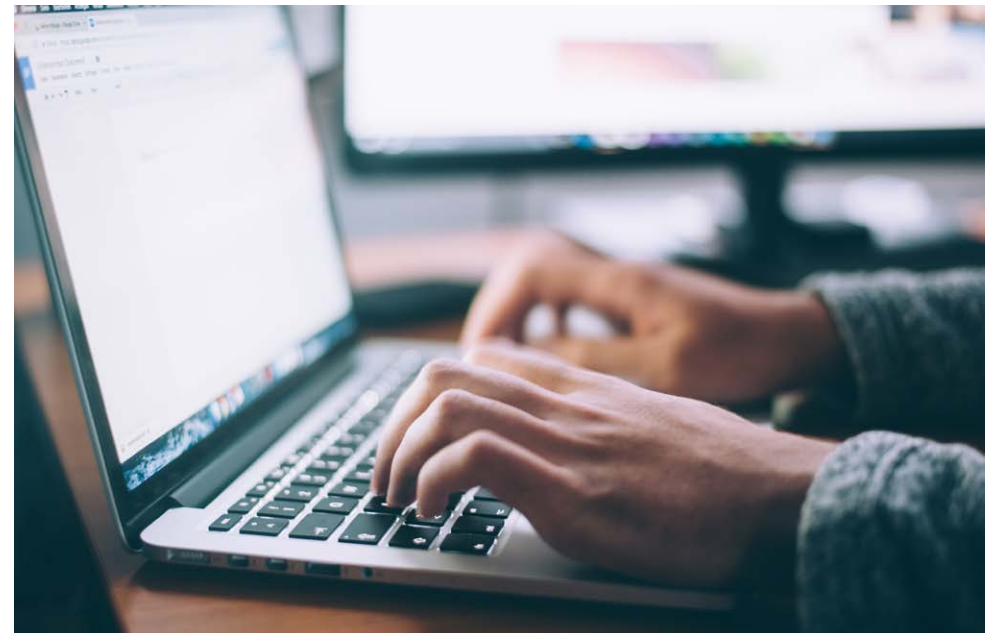
insufficiently aware of the discrimination and harassment exposure. Tesla confirms it is learning how to uncover issues quicker and implement training and policies to remedy and prevent them.

Furthermore, the dialogue has focused on transparency and the importance of Tesla to stay open and responsive to its shareholders. The company has begun to employ appropriately qualified people to

lead in this area and has made substantial disclosure detailing both diversity and efforts to prevent discrimination.

### Next steps

The focus will be to ensure Tesla’s actions around diversity, equity and inclusion constitute a cohesive strategy. The effectiveness of these actions will also be assessed. Other dialogues about labour rights continue.



## Ongoing dialogue

# Dialogue with Westpac on business ethics

### Background facts

Status of dialogue: Ongoing

Company: Westpac Banking Corp

Country: Australia

Area: Corporate governance

Dialogue on: Business ethics, money laundering, financial crime

Progress this year: ▲

Stages achieved in the dialogue:



### Background

Westpac Banking Corp (Westpac) is Australia's oldest bank and financial services group, with a significant franchise in Australia and New Zealand. In 2020, Westpac agreed to a USD 919 million penalty over anti-money laundering (AML) breaches. Westpac violated AML laws on 23 million occasions, involving over USD 7.5 billion in transactions, between 2013 and 2019. Westpac failed to appropriately assess and monitor the risks associated with the movement of money into and out of Australia through its correspondent banking relationships, including with known higher risk jurisdictions. Westpac did not conduct adequate customer due diligence in relation to suspicious transac-

tions with the risk of child exploitation in South-east Asia.

### Objective for the dialogue

Westpac is to ensure it is not complicit in any money laundering. The company should strengthen its Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) processes and implement all improvements in accordance with the Response Plan. Westpac is to ensure it has robust internal controls, risk management, sufficient and effective board oversight.

### Outcomes

Westpac has made significant progress over the last three years related to risk management, compliance and culture transformation. Westpac has implemented a three-year remediation program, primarily overseen by the Board Risk Committee and designed to enhance the management of risk and risk culture. Westpac's progress has been independently assessed by a third-party to be significant, and that programs related to culture, governance, and accountability have been fully completed.

In 2023, Westpac focused on internal staff engagement and communication around its risk management, Westpac has been making consistent progress in

implementing a risk culture framework across the group and this is demonstrated by the improvement in its organisational culture metrics. The dialogue in 2023 confirms that improvements have been made to Westpac's financial crime controls, such as, enhanced customer due diligence, record keeping, customer and payment screening, transaction monitoring,

regulatory reporting, threshold transaction reports and suspicious matter reports.

### Next steps

The focus will be on evaluating whether culture transformation, behavioural change and risk conduct has been sustainably embedded across all levels of management in Westpac.



# Progress in a five-stage process for reactive dialogues

The Council on Ethics was engaged in 76 reactive company dialogues during the year. Illustrated below is a summary of the progress assessed to have been made in each of the dialogues, based on the five steps of a reactive dialogue. A factor in the success of an engagement dialogue is that it is based on trust. The Council has therefore chosen not to include company names below and reports each company dialogue according to the sector in which the company operates.



## The progress in a dialogue is monitored in a five-stage process

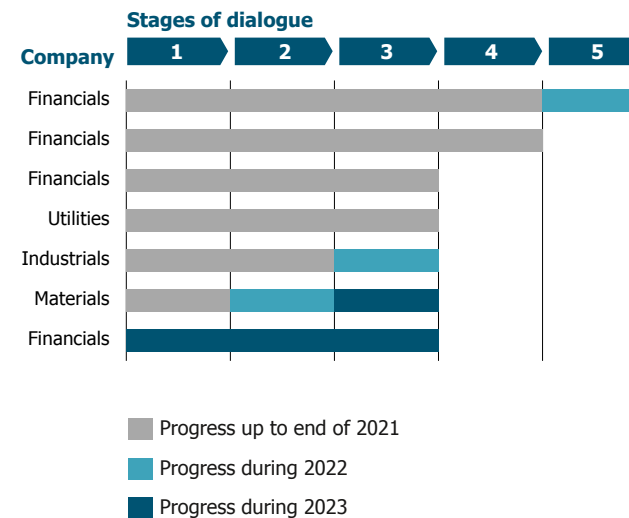
1. Addresses the issue
2. Establishes a strategy
3. Starts implementation of the strategy
4. Demonstrates appropriate development of strategy and transparency
5. Strategy implemented and objectives of dialogue fulfilled

A **new dialogue begins** with an analysis of the company and the violation in question. The objectives and strategy of the dialogue are based on the analysis. These companies have not yet reached stage 1 but are included in the statistics on the following pages.

Stage 1 is achieved when the initial contact with the company is made and a dialogue can begin.

The new dialogues for the year, listed in the table on page 34, may either be in the analysis phase or have reached stage 1.

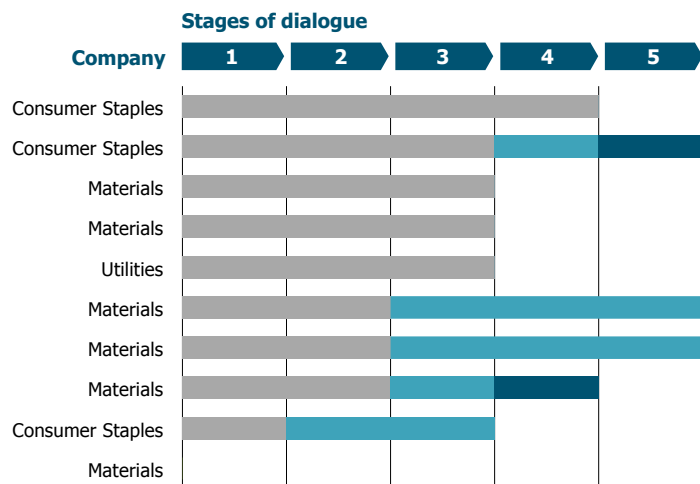
## Europe



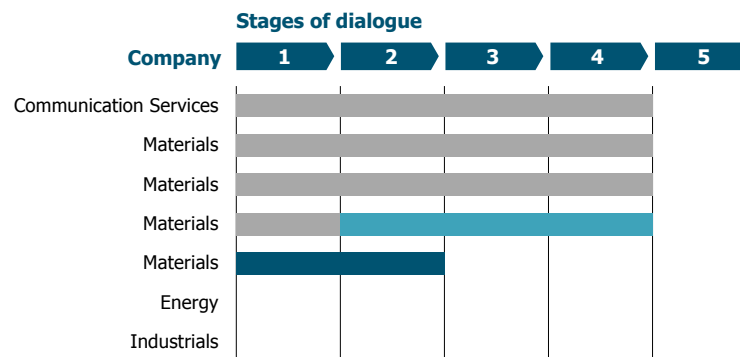
Progress

# Latin/South America, Africa/Middle East, Australia

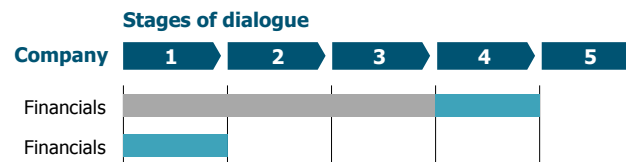
## Latin/South America



## Africa/Middle East



## Australia



Progress up to end of 2021

Progress during 2022

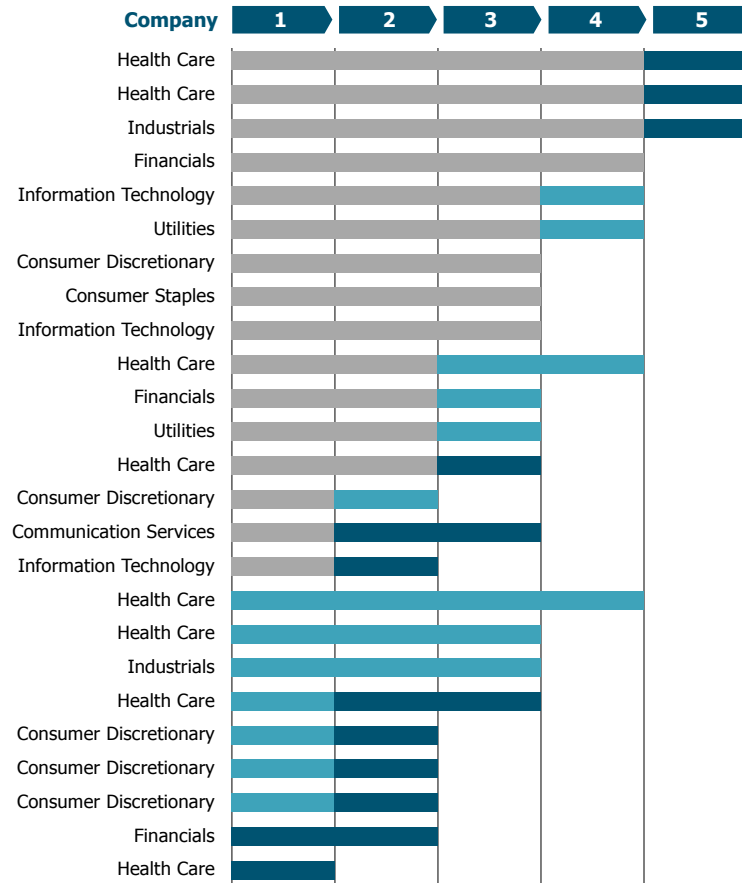
Progress during 2023

Progress

# USA and Canada, Asia

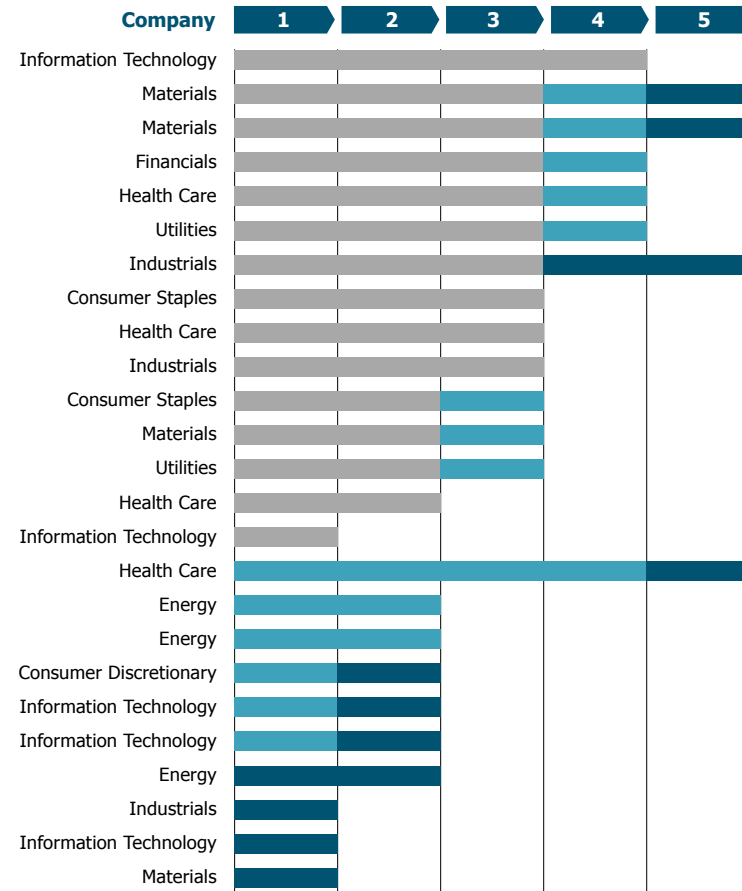
## USA and Canada

Stages of dialogue



## Asia

Stages of dialogue



Progress up to end of 2021

Progress during 2022

Progress during 2023

# Council on Ethics of the AP Funds 2023

## Board of Directors 2023



**Magdalena Håkansson**  
Chair 2023 and  
Member since 2019.  
Sustainability Manager AP1.



**Åsa Mossberg**  
Member since 2021.  
Head of Communication  
and Sustainability AP2.

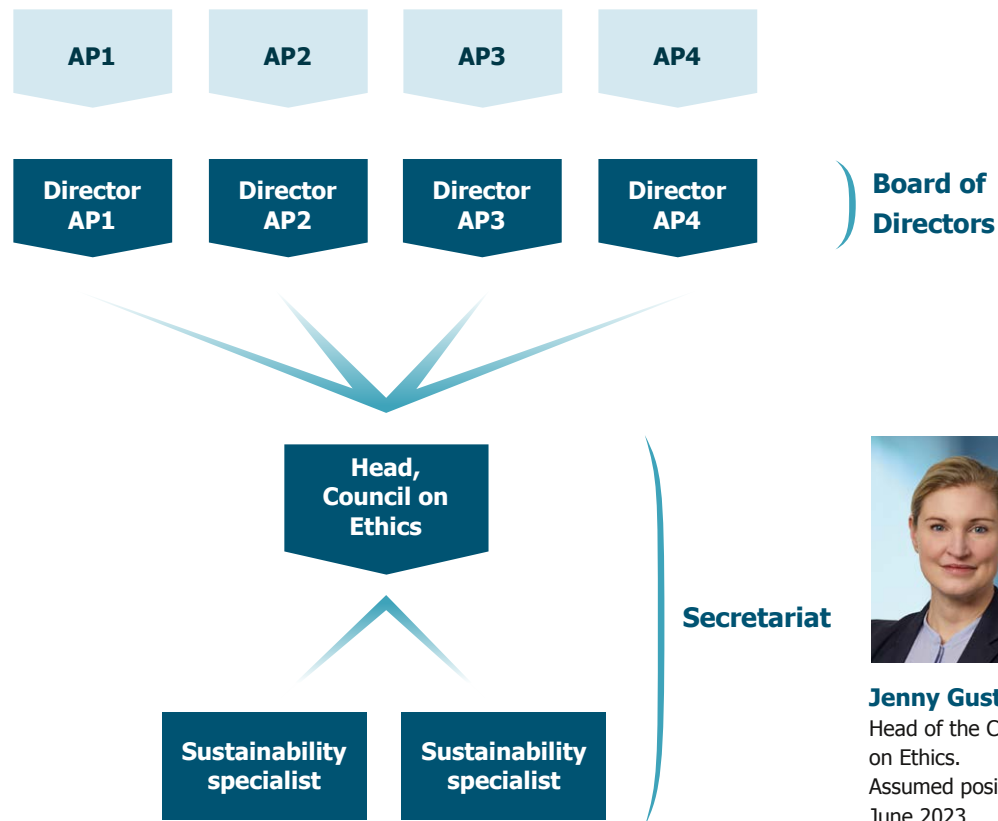


**Fredric Nyström**  
Member since 2023.  
Head of Sustainability and  
Stewardship AP3.



**Pia Axelsson**  
Member since 2012.  
Senior Sustainability  
Analyst AP4.

## The Council on Ethics' new organisation



**Jenny Gustafsson**  
Head of the Council  
on Ethics.  
Assumed position in  
June 2023.



**Tytti Kaasinen**  
Engagement Director.  
Left the Council on  
Ethics in October 2023.



# Part of the income pension system

The AP Funds' Council on Ethics was founded in 2007 at the initiative of the Swedish National Pension Funds (AP Funds AP1, AP2, AP3 and AP4). The role of the Council is to use dialogue with a view to encouraging non-Swedish listed companies to make improvements in sustainability. The mandate of the four AP Funds is to manage the buffer capital of the State income pension system. Since 2001, when the current pension system was launched, the AP Funds have made a positive contribution to stability of the national pension system and have managed the buffer capital to develop good value growth.

The contribution of the AP Funds to a strong Swedish income pension system is through managing the buffer capital of the national pension system. Withdrawals are made from this capital to cover any deficits in pension payments. Deficits may arise, for example, if demographic generational differences arise, or if there is weak socio-economic growth. The pension system is planned to handle such occurrences; it is why the system of buffer capital exists. Through long-term asset management, the AP Funds are charged with ensuring positive growth in value of the buffer capital. This helps to assure a stable pension system and secure pension payments over time for current and future generations.

## Mandate from Riksdagen (the Swedish Parliament)

The AP Funds' mandate from Riksdagen is to generate high returns at low risk for current and future pensioners and at the same time help

assure the stability of the pension system. On 1 January 2019, the rules in the Swedish National Pension Insurance Funds Act were amended. A new objective is that the AP Funds must contribute to sustainable development by managing their assets in an exemplary way. This requires responsible investment and responsible stewardship. The 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 shown good value growth and has increased to currently account for more than 16 per cent of the pension system's assets. Four AP Funds with the same mandate, to manage their share of the buffer capital, serve for example to spread the risks in the pension system ("not to put all your eggs in the same basket") and incentivises the AP Funds to positive competition and development. Partly through the latter, asset

management and stewardship at the AP Funds are viewed as leading the way internationally. The managements of the AP Funds are assessed annually by external auditors and via a government audit. An audit report is published annually and presented to Riksdagen.

## Mandate of the AP Funds' Council on Ethics

The Council seeks to exert influence on companies globally to improve their work on sustainability. This includes environmental, social and corporate governance aspects that are important to people, society and value creation by the companies themselves. Through dialogue, the Council engages both proactively and reactively. The fact that the companies' operations are conducted in a sustainable manner underpins both long-term earnings capacity and long-term financial returns for the companies, benefiting both the pension system and pensioners over time.

## Pensioners

The income retirement scheme is a defined benefit system where the year's paid-in pension contributions from the employed are used to pay out the current year's pensions to current 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 its launch in 2001. Deficits occur in times of high numbers of retirements, as has been the case since 2009, and forecasts indicate deficits until 2040. Low unemployment, a high birth rate, labour migration and Sweden's socio-economic development are important factors in terms of whether pensions are to show good growth over time. [To find out more about the system, visit the Swedish Pensions Agency website.](#)



# History of the Council on Ethics

In 2007 the AP Funds launched the Council on Ethics – a stewardship collaboration focused on pursuing greater sustainability and positive change in non-Swedish companies through dialogue and engagement.

## 2007

The Council on Ethics is established. The Council's first report is published. Dialogue is conducted with 14 companies. One company can already be removed from the dialogue list in the first year because the objectives of the dialogue have been achieved. The Council travels to China to learn more about companies' approach to social responsibility and sends a clear message: there are foreign investors willing to take their responsibility as owners.

## 2008

The objectives for three dialogues are achieved; for example, the French company Sodexo adopts and implements a human rights policy in response to inhumane conditions found at refugee accommodation centres in the UK. The UN adopts the Convention on Cluster Munitions, and the Council recommends exclusion of nine companies, all based in nations that have failed to ratify the convention.

## 2010

Together with a group of Canadian investors, the Council prompts the mining company Goldcorp to carry out an independent assessment of the extent to which human rights are taken into account at the Marlin Mine in Guatemala. This leads to the company adopting a wide range of measures to improve the situation – a process that has a ripple effect, with a number of other mining companies turning

to Goldcorp to learn from its experiences. John Howchin is appointed Secretary General.

## 2011

The Council expands its operations. During the year, the Council completes its first proactive project, focused on the mining industry. The general aim is to expand the Council's proactive work by persuading companies to strive for the best working methods practices in each area of the industry. When the project is reviewed in 2014, the Council notes general improvements in all of the areas of sustainability discussed with the companies.

## 2012

The cocoa industry, tobacco industry and anti-corruption activities are the themes of several proactive projects the Council is conducting or involved in. Highlighting both the strengths and weaknesses in companies' sustainability strategies has led to positive action.

## 2013

The Council on Ethics arranges a seminar about financing for the transition to a low fossil-fuel society. Politicians, stakeholder organisations and investors participate. 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.

## 2015

The AP Funds' Council on Ethics hosts a Nordic seminar based on the UN Guiding Principles on Business and Human Rights (UNGP), also known as the Ruggie Principles. The aim is to inspire Nordic companies to implement the principles and report according to them.

## 2017

The Council celebrated its ten-year anniversary. On the occasion, two seminars on responsible and sustainable investment were organised on climate change, responsible investment, human rights and the environment. Al Gore and Johan Rockström participated in one of the seminars.

## 2018

The Council recommends the exclusion of three cannabis companies. In the Council's view, the companies are in breach of the UN conventions on narcotics, since they manufacture and/or market cannabis-based products for non-medical use. The Council decides to focus its proactive work on three sustainability areas: climate and environment, human rights and business ethics. The Council and its company dialogue consultant work with the human rights organisation Shift in a project aiming to further develop the processes for taking human rights into account.

## 2019

The mining company Vale's tailings dam, in Brumadinho, Brazil, collapsed with catastrophic consequences. The Council was already engaged in an ongoing dialogue with the company following a similar accident two years previously. The Council recommended the AP Funds to exclude Vale. Shortly thereafter, the Church of England Pensions Board and the AP Funds' Council on Ethics initiated a major joint project to ensure that mining companies globally take responsibility for their tailings dams.

## 2020

In January, one year after the tailing dam accident in Brumadinho, a public global database had been established, with information on more than 1,800 tailing dams. In August, a Global Industry Standard on Tailings Management was presented. The Mining and Tailing Dam Safety Initiative won the PRI Stewardship Project of the Year Award. The year ended with the Council publishing an expectations document on human rights and the tech sector, produced in collaboration with the Danish Institute for Human Rights.

## 2021

In 2021, the Council closed a successful three-year project focusing on safety in mine tailings dams. The expectations document "Tech Giants and Human Rights – Investor Expectations" is used in dialogues and plays a part in improvements at tech companies. In 2021, the Swedish National Audit Office audited the sustainability work of the AP Funds and the Council on Ethics, and found it to be effective.

## 2022

The AP Funds' review and development of the Council's mandate, strategy and organisation, and as a collaborative body, was completed. The Council is considered to remain an important collaborative body and an essential part of the AP Funds' joint sustainability work. The Council launched a new proactive international collaboration project to positively influence the human rights practices of major tech companies. Two proactive projects, which are considered to have achieved their objectives with good effect, were closed during the year.

## 2023

The Head of the Ethics Council took up her post and by the end of the year, two sustainability specialists had been recruited. The AP Funds and the Council prioritised five new focus areas for proactive work: Climate, Water, Antimicrobial resistance (AMR), Tech companies and human rights, and Child and forced labour. Five new proactive projects were launched in these five focus areas.



Council on Ethics  
Swedish National Pension Funds

# A stewardship collaboration for sustainability through dialogue and engagement

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