

# Responsible Investment Policy

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Concerned:	CEO, managers and employees in Asset Management, Legal and External Communication.
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*This document is a translation of the Swedish original.  
If there are differences, the Swedish version shall prevail.*

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## 1. Introduction

### 1.1 Background and purpose

Alecta Tjänstepension Ömsesidigt (“Alecta”) is a Swedish occupational pension company with 37,000 corporate clients in the private sector and 2.8 million insured individuals. Alecta’s mission is to provide occupational pensions that offer the greatest possible value for both our corporate clients and private clients.

Alecta has been entrusted with managing a large amount of capital, which we aim to do in a reliable, competitive, efficient and sustainable manner. As an owner and investor, Alecta must act prudently in a way that earns respect and trust from Alecta’s clients, the companies in which we invest, and the parties we collaborate with.

Alecta conducts active asset management mainly by managing the majority of the investment assets in-house. External asset managers may be engaged when considered more effective for certain investments.

In light of the above, Alecta’s Board of Directors has adopted this policy to outline the principles for Alecta’s work on responsible investments, including stewardship and

corporate governance, and the integration of ESG<sup>1</sup>. The policy is a complement to *Alecta's Investment Guidelines [Investeringsriktlinjer]*.

## 1.2 Regulatory basis

Parts of this policy have been developed against the background of:

- Act (2019:742) on occupational pension companies
- The Sustainable Finance Disclosure Regulation, SFDR<sup>2</sup>

## 1.3 Scope

This policy shall apply to the management of Alecta's investments, including equities, fixed income and alternative assets. Alternative assets consist of investments in real estate, infrastructure, private equity and alternative credit.

Derivatives and cash are excluded from this policy's principles. Derivatives are used to manage financial risks related to equities, interest rates and currencies, and mainly consist of stock index futures, currency forward contracts, interest rate futures, or interest rate swaps.

## 2. Alecta's view on sustainability and integration of sustainability risks

Alecta's sustainability efforts<sup>3</sup> and its approach to responsible investments should be based on our mission to provide collectively agreed occupational pensions that deliver the greatest possible value for both our corporate and private customers.

For Alecta and our customers, sustainability is an important dimension in investment activities. Alecta believes that companies operated in a responsible manner are better positioned to create long-term value for investors. Alecta shall act to promote positive development in line with the sustainability goals and indicators set up internally. The analysis of sustainability risks and impact of investments on sustainability factors should be fully integrated into the investment process.

Selecting investments is a fundamental part of responsible investing. Alecta should seek investments that drive long-term value creation, which requires a structured investment process and analysis of each investment and choice of partner. Alecta should consider ESG factors, international conventions, and the exclusion criteria outlined in section 3.2 *Exclusions* for analysis and investment decisions.

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<sup>1</sup> ESG is an abbreviation of Environmental, Social and Governance factors which is a terminology used for sustainability in the financial sector

<sup>2</sup> Regulation (EU) 2019/2088 of the European Parliament and of the Council on sustainability-related disclosures in the financial services sector

<sup>3</sup> See Alecta's *Sustainability Policy*

Dialogue with portfolio companies and counterparties should serve as a key tool for integrating sustainability in the asset management. Alecta aims to support companies in their sustainability efforts through stewardship and dialogue.

In external asset management, dialogue should be conducted with the fund managers with the purpose to enhance the analysis of the investment and the development of the external managers' ESG processes.

## 2.1 Sustainability Risks

A **sustainability risk** is defined as an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment.

Sustainability risks should be integrated into the investment process, both prior to investment decisions and throughout ongoing management. Alecta shall monitor sustainability risks by screening portfolio companies and following up with counterparties. Examples of elevated sustainability risks include serious ESG incidents or inadequate preparedness and governance of ESG issues within a portfolio company.

Alecta's asset management shall have relevant routines and tools to integrate sustainability risks across all asset classes covered by this policy.

## 2.2 Sustainability Factors

Alecta's investment strategy reflects the long-term perspective required for managing occupational pension capital. Underlying investments must balance economic, environmental, and social values to ensure long-term value creation and returns for Alecta's customers. Therefore, the impact of investments on **sustainability factors** should be considered. Sustainability factors include, for example, environmental or social factors such as employee working conditions or gender equality.

# 3. Guiding Frameworks and Governance

Alecta is a signatory to the Principles for Responsible Investments and shall integrate ESG into the management of the investment portfolio and work to promote ESG efforts. Alecta's responsible investments approach is grounded in international conventions on the environment, human rights, labor rights, corruption, and controversial weapons to which Sweden is a signatory, reflected in frameworks such as the UN Global Compact, the UN Guiding Principles on Business and Human Rights, and the OECD Guidelines for Multinational Enterprises.

## 3.1 Focus Areas and Sustainability Goals

Within the framework of Alecta's overall sustainability efforts, Alecta shall identify focus areas for sustainability work within the asset management. The focus areas shall have long-term goals and measurable indicators that can be monitored.

Within the focus areas, the asset management shall deploy analysis and dialogue to promote positive development, reduced sustainability risk, and decreased negative impact on sustainability factors. The results shall be reported annually in public reports.

## 3.2 Exclusions

Generally, Alecta's investment model is based on making investments in selected assets that are expected to contribute to the goal of good long-term returns. This section outlines what Alecta should not invest in or finance. The starting point for these so-called exclusions is that they are associated with significant sustainability risks or negative impacts on sustainability factors.

The exclusion criteria described below are to be applied to direct investments and direct financing.

In cases of identified deviations from international conventions, and where a dialogue over time does not show development in a positive direction, Alecta shall have a process for divesting the holding. Violations of other exclusion criteria in existing holdings shall result in divestment according to a clear timeframe. Exceptions may be made if Alecta's assessment is that a company is undergoing a transition or in the process of phasing-out the relevant operations.

For indirect investments, that is, assets managed by external managers, Alecta shall assess the manager's ESG efforts and ability to monitor underlying assets. Alecta shall adapt the application of the exclusion criteria based on the nature of the investment, with reference to the intent expressed in this policy.

### 3.2.1 International Conventions

Alecta shall not invest in or finance companies that are associated with serious or systematic violations of **the international conventions** signed by Sweden. This includes conventions on the environment, human rights, labor rights, corruption, and controversial weapons, which are also reflected in initiatives such as the UN Global Compact, the UN Guiding Principles on Business and Human Rights, and the OECD Guidelines for Multinational Enterprises.

### 3.2.2 Controversial Weapons

Alecta shall not invest in or finance companies whose operations involve, directly or indirectly **controversial weapons**. These weapons include landmines, biological weapons, chemical weapons, cluster bombs, incendiary bombs, blinding laser weapons, and weapons containing non-detectable fragments.

### 3.2.3 Nuclear weapons

Alecta shall not invest in or finance companies whose activities are in conflict with the content of the Treaty on the Non-Proliferation of **Nuclear Weapons** or companies that develop, upgrade, or manufacture nuclear weapons or key components and services for nuclear weapons.

### 3.2.4 Fossil fuels

The climate issue is a central sustainability issue, and coal is the fossil fuel that has the greatest negative impact on the climate.

Alecta shall refrain from investing in or financing companies with more than 5 % of their revenue from the extraction of **thermal coal**, and companies with more than 5 % of their revenue from energy production based on thermal coal.

Alecta shall also refrain from investing in or financing companies with more than 5 % of their revenue from **unconventional oil and gas extraction**<sup>4</sup>.

Alecta shall also not invest in or finance **new fossil fuel extraction**.

### 3.2.5 Gambling and tobacco

Alecta shall not invest in or finance companies whose core business consists of **commercial gambling activities**<sup>5</sup> or **tobacco production**.

### 3.2.6 Prohibited states

Alecta shall not invest in or finance companies or funds domiciled in jurisdictions listed on the EU's list of non-cooperative jurisdictions with respect to **tax and transparency**<sup>6</sup>.

In addition, we expect the companies we invest in to avoid using these jurisdictions for tax planning purposes.

Alecta shall not directly finance **states** that systematically violate human rights and undermine democratic principles, have widespread corruption, or are listed on the UN, US, and EU sanctions lists.

## 4. Principles for Shareholder Engagement

These principles describe how Alecta shall exercise the stewardship related to its ownership of shares in listed companies and, where applicable, our ownership in private companies. These principles for shareholder engagement shall apply to both Swedish and international holdings.

### 4.1 Corporate Governance in Swedish holdings

The conditions for exercising corporate governance practices vary across markets. As a player in the Swedish market, Alecta shall contribute to the development of Swedish ownership practices and corporate governance, including voting at general meetings and participating in nomination committees where our ownership stake warrants it.

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<sup>4</sup> Unconventional oil and gas refers to shale oil, shale gas, arctic drilling and oil sands.

<sup>5</sup> Gambling business refers to the terms "operations of casinos, lotteries, bookmaking", "online casino and gambling operators", and "slot machines and other gambling devices", "gambling software and technology developer", so-called gambling.

<sup>6</sup> EU list of non-cooperative tax jurisdictions

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### *Swedish Corporate Governance Code*

Swedish limited companies are governed by the Companies Act, the Swedish Corporate Governance Code ("**the Code**"), the listing agreement with the marketplace, and other applicable regulations. These regulations establish uniform rules for how companies should be governed and define the distribution of responsibilities between owners, the board, and the company management.

Alecta shall work to ensure that all Swedish companies listed on a regulated market in Sweden apply the Code, either by following its rules or by explaining any deviations. In addition, Alecta shall work for the further development of the Code and to ensure that the Code is as widely anchored as possible.

## 4.2 Corporate governance in foreign holdings

Alecta expects its international holdings to follow the corporate governance code or equivalent principles applicable in their country of domicile or primarily listing. The regulations governing shareholder rights and practices have generally developed in each respective capital market, and differences between these markets are common. The composition of nomination committees in international companies often comprise independent board members rather than shareholders.

As a consequence, the conditions for Alecta to exercise stewardship in foreign companies are different compared to Swedish companies. In international holdings, voting at the general meeting is the key tool for influencing governance decisions.

## 4.3 Equity Investments

Alecta's equity investment strategy aims to help fulfil our mission by generating good and competitive returns, through responsible risk-taking and cost efficiency. The balance between economic, environmental, and social values is an important prerequisite for long-term value creation.

To deliver good and competitive equity returns, we must identify companies whose characteristics enable profitable growth that exceeds other listed options over time. We find these companies through a proprietary investment process tailored to Alecta's needs, which provides a deep understanding of potential investments. In this way, we can create a portfolio that balances the potential for good returns with acceptable risk. Our active investment model is designed for long-term commitments that extend over a very long period.

Through shareholder engagement, we promote sound governance in the companies we invest in with the aim of promoting long-term value creation. We do this primarily by continuously monitoring relevant issues and engaging in dialogue with company representatives and other shareholders, participating in nomination committees, and exercising our voting rights at general meetings.

Alecta continuously monitors key issues in our portfolio companies. This is done both before a new investment and as part of the ongoing follow-up of Alecta's holdings. The

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analysis before an investment is based on information from various sources, which may include the company's own reporting, external financial analysis, ESG analysis, and dialogue with company representatives. In ongoing management, the company's development in these areas is monitored through reports, analyst meetings, external analyses, media reviews, and matters raised at general meetings.

Alecta continuously follows up on how portfolio companies deliver on their **strategy** and how well it addresses the company's strategic and operational challenges in both the short and long term. This is continuously assessed through meetings with the company, as well as through our own analysis and participation in the companies' various public presentations.

The **financial and non-financial performance of the companies** and potential **risks** are continuously monitored and followed up as part of our active management.

It is important for long-term sustainable returns that the companies have an efficient and appropriate **capital structure** that supports the company's development in both the short and long term. In our ongoing analysis, Alecta monitors the companies' development in areas such as debt levels and capital structure. New share issues by the companies may trigger more in-depth analysis. Alecta has a number of basic principles for how companies should handle capital structure issues, which are described further in section 4.4, *Alecta's position on specific governance matters*.

**Corporate governance** aspects, such as board composition and remuneration programs, are part of our ongoing analysis, and we continuously follow up on these types of issues in dialogue with both the representatives of our portfolio companies, boards, and, when necessary, other stakeholders. Based on the principles described in section 4.4, *Alecta's position on specific governance matters*, Alecta is to analyze and make decisions on all voting matters prior to general meetings in our holdings. This includes using meeting analyses from external voting advisors.

**Social and environmental aspects** are integral to our ongoing analysis. With the support of an external company specialized in sustainability screening, we review our holdings to ensure compliance with the principles outlined in section 2 (*Alecta's view on sustainability and integration of sustainability risks*), and 3 (*Guiding framework and governance*). The screening is carried out prior to any potential new investment and continuously for all listed portfolio companies each quarter. In addition, we use reviews from other external sources as a basis for our own analysis.

## 4.4 Alecta's position on specific governance issues

### 4.4.1 Board composition

Alecta believes that boards should have a majority of independent directors. The CEO and the chairman should be separate, even in jurisdictions where combining them are permitted.

When board directors are appointed, the company's need for experience and competence should be the deciding factors. Furthermore, the aim should be for the

board's composition to reflect diversity and gender equality. Over time, boards should comprise at least 40% shareholder-elected directors of each gender. The directors should dedicate the time required for the role to safeguard the interests of the company and its shareholders.

#### 4.4.2 Board remuneration

Alecta believes that board remuneration should be based on the responsibility and commitment expected from the directors and that the remuneration should be market-based. To avoid conflicts of interest, board directors should not take part in employee incentive programs, as it is the board's responsibility to design, decide on, and monitor the effects of such incentive programs.

#### 4.4.3 Compensation for employees and senior executives

Compensation for senior executives should be fair, transparent, market-based, and aligned with the long-term shareholder and company interests. Market-based refers to alignment with the local market conditions. Alecta may vote against proposed compensation programs if they are perceived to conflict with the long-term interests of shareholders.

Alecta believes that it is the board's responsibility for the company to have a well-considered and appropriate compensation policy. It should be understandable and transparent. Compensation should encompass fixed and, where applicable, variable pay, share-based incentive programs, pension contributions, and other significant benefits.

The board should be prepared to motivate the compensation strategy to shareholders, clients, and the public. The balance between economic, environmental, and social values is an important prerequisite for long-term value creation. ESG issues that are material to the company's long-term financial development should be reflected in the compensation programs. Compensation systems – including variable pay – should be clear and easy to understand. They should primarily be performance-based, and performance requirements should be challenging and measurable.

Share or share price-related incentive programs must be decided by the general meeting of shareholders. The programs should be time-limited and disclose any caps and potential dilution of existing share capital. Before the general meeting, the board should present detailed cost estimates and justify the programs' benefits. As part of this account, previous programs should also be reviewed.

Information from companies about compensation programs for senior executives should be anchored by the board with the owners well in advance of the general meeting.

Alecta supports defined-contribution pension plans for senior executives.

#### 4.4.4 Shareholdings

Alecta is supportive of employees, management, and board directors of listed companies acquiring shares in the respective companies on market terms.

#### 4.4.5 Capital structure issues

The board and management are responsible for maintaining an effective capital structure that supports the company's short- and long-term development. If capital needs to be injected or distributed, Alecta believes that the basic principle should be that existing shareholders are treated equally.

New share issues should primarily grant preferential rights to the company's existing shareholders. When the board finds it justified to deviate from the existing shareholders' preferential rights, for example in the case of directed new share issues or contributions in kind, detailed justification from the board is required. Authorization for the board to decide on directed share issues must include clear reasoning and specifications as to when and under what conditions it may be used. In the case of directed new share issues, the board must clearly explain the reasons for deviating from the shareholders' preferential rights as well as how the issue price is determined and how market conformity is ensured.

It is the board's responsibility to maintain a well-balanced capital structure. Capital distribution may occur through dividend payments, redemption of shares, or repurchase of own shares, based on what best serves the company.

#### 4.4.6 Takeover Barriers

In cases of proposals to introduce rules in or outside the articles of association aimed at preventing or complicating acquisitions, Alecta intends to vote against.

#### 4.4.7 Environment, Business Ethics, and Social Issues

Alecta believes that a sound approach to the environment, business ethics, and social issues is a prerequisite for companies to achieve strong competitiveness and sustainable profitability. This means that companies should operate in accordance with regulations, conventions, and laws, and furthermore, develop and maintain a strong corporate culture that permeates their operations. Alecta will work to ensure that portfolio companies have clear guidelines, objectives, resources, action plans for improvement measures, as well as transparent reporting on their work with the environment, business ethics, and social issues.

Alecta expects portfolio companies to comply with international conventions and agreements, including conventions on the environment, human rights, labor law, corruption, and controversial weapons, as well as initiatives such as the UN Global Compact<sup>7</sup>, the UN Guiding Principles on Business and Human Rights, and the OECD

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<sup>7</sup> Covers principles on human rights, labor law issues, the environment, and corruption aimed at companies. The principles are based on the UN Declaration on Human Rights, the ILO's fundamental conventions on human rights in the workplace, the Rio Declaration, and the UN Convention against Corruption.

Guidelines for Multinational Enterprises<sup>8</sup>. The responsibility applies regardless of whether the countries where the companies operate have ratified these conventions or maintain weaker legislation.

## 4.5 Exercise of voting rights and other shareholder rights

### 4.5.1 Voting at general meetings

Alecta shall vote at all general meetings for holdings where share ownership entails voting rights. The principles for shareholder engagement included in this policy shall guide voting, including matters concerning board composition, capital structure, remuneration, and ESG.

### 4.5.2 Participation in nomination committees

Nomination committees are a Nordic practice where the largest owners of a company prepare proposals for board composition, fees, and auditors. Shareholders decide on the proposals by voting at the general meeting.

Where it is warranted by the size of Alecta's ownership stake, we actively participate in the nomination committees of Swedish companies. Appointing competent, effective, and well-functioning boards is one of the most important responsibilities of an owner.

Alecta shall strive for gender balance, aiming for at least 40% of each gender among board directors elected at general meetings where Alecta participates in the nomination committee.

## 4.6 Engagement, Cooperation, and Communication

Alecta shall conduct active and professional stewardship to enhance investment value.

Dialogue with representatives of the companies in which it holds shares can be conducted proactively to support the development of, or transparency regarding, ESG or other issues that Alecta considers important. The purpose of engagement can also be to strengthen our own analysis of risks and opportunities related to investment. Dialogue is also a tool for follow-up and influence when companies deviate from Alecta's ESG or sustainability expectations.

Alecta shall act independently in its stewardship activities and tis not part of any ownership constellation. Alecta may engage in dialogue on its own or together with other investors on ESG or other key issues where joint action improves impact, Alecta shall make all investment decisions independently.

Dialogue efforts may also involve stakeholders such as interest organizations with relevant expertise.

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<sup>8</sup> The OECD Guidelines for Multinational Enterprises are common recommendations to companies from 40 governments. The recommendations partially overlap with the UN Global Compact, but also include aspects of how companies should handle disclosure, consumer interests, science and technology, competition, and taxation.

## 4.7 Management of conflicts of interest

Alecta continuously identifies, prevents, and manages conflicts of interest that may arise between Alecta and its stakeholders. This includes activities related to Alecta's stewardship activities. Stakeholders in Alecta's corporate governance activities include companies where Alecta holds shares and maintains other relationships.

Alecta's board has adopted a *Conflict of Interest Policy* covering conflicts of interest related to corporate governance. Any conflict of interest in Alecta's governance activities will be managed transparently and in line with the *Conflict of Interest Policy*.

## 5. Roles and Responsibilities

**The board of directors** is responsible for annually monitoring compliance with this policy.

**The CEO** is responsible for ensuring that the organization operates in accordance with this policy and that necessary governing documents are adopted. The purpose of such governing documents should be to ensure that there are routines and processes for implementing the policy.

**The CEO** reports on developments within the focus areas to the board, and ensures that portfolio screening results, as well as stewardship and governance activities are reported to the board's Capital Management Committee (formerly the Finance Committee).

## 6. Information, Training, Compliance, and Revision

**Managers** are responsible for informing relevant employees about the content and any changes in policies and guidelines. Department managers are informed at executive management meetings and are responsible for passing the information on to those concerned. Managers are also responsible for ensuring that governing documents are followed and for informing the document owner of any training needs.

**The policy document owner** is responsible for identifying general training needs and arranging training where required. This policy document shall be reviewed by the document owner as needed, but at least annually as part of the coordinated revision process, and subsequently approved again.