CESG Conference 2024. Vienna.

Panel: ESG next level: Where fo we go form here? (e.g in engagement).

Andreas Posavac,
Managing Partner and Founder of Embera Partners.

Jean-Philippe Desmartin,
Head of Responsible Investment team / Equity Portfolio Manager, Edmond de Rothschild AM.

Jan Westring,
Senior Portfolio Manager at the Swedish Pension Agency.

Frank Klein,
Senior Coverage Specialist DWS, Board member DVFA, Co-chair of EFFAS CESG.

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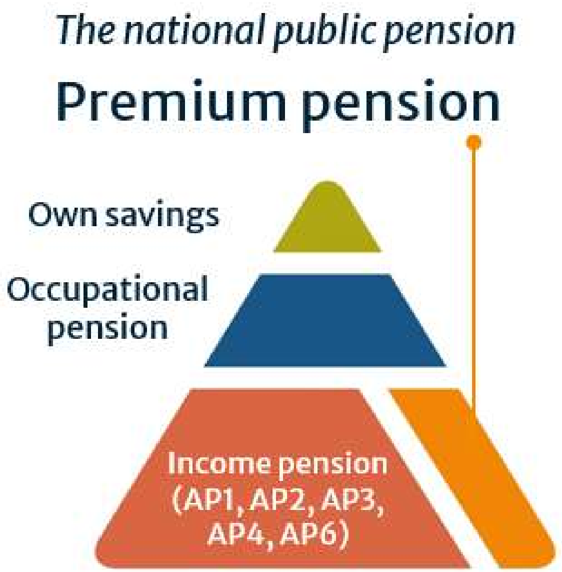
Jan Westring, FTN, Swedish Fund Selection Agency and

member of EFFAS CESG Commission
E-mail: jan.westring@ftn.se

Fondtorgsnämnden
Swedish Fund Selection Agency

FTN is responsible for the fund platform in the Swedish premium pension system



National public pension
- Lifelong, based on individuals pensionable income
- Consists of Income pension (annual contributions of 16%) and Premium pension (annual contributions of 2.5%), both based on pensionable income

Premium pension
- A fully funded, mandatory defined contribution system
- Pension savers are free to choose funds and reallocate at any time
- AP7 is the default option

~165 bn EUR
Of which ~100 billion euro on the fund platform as of Dec 31st 2022

~8 million
Approximate number of Swedish pension savers

~340 bn EUR
expected in the premium pension by 2040

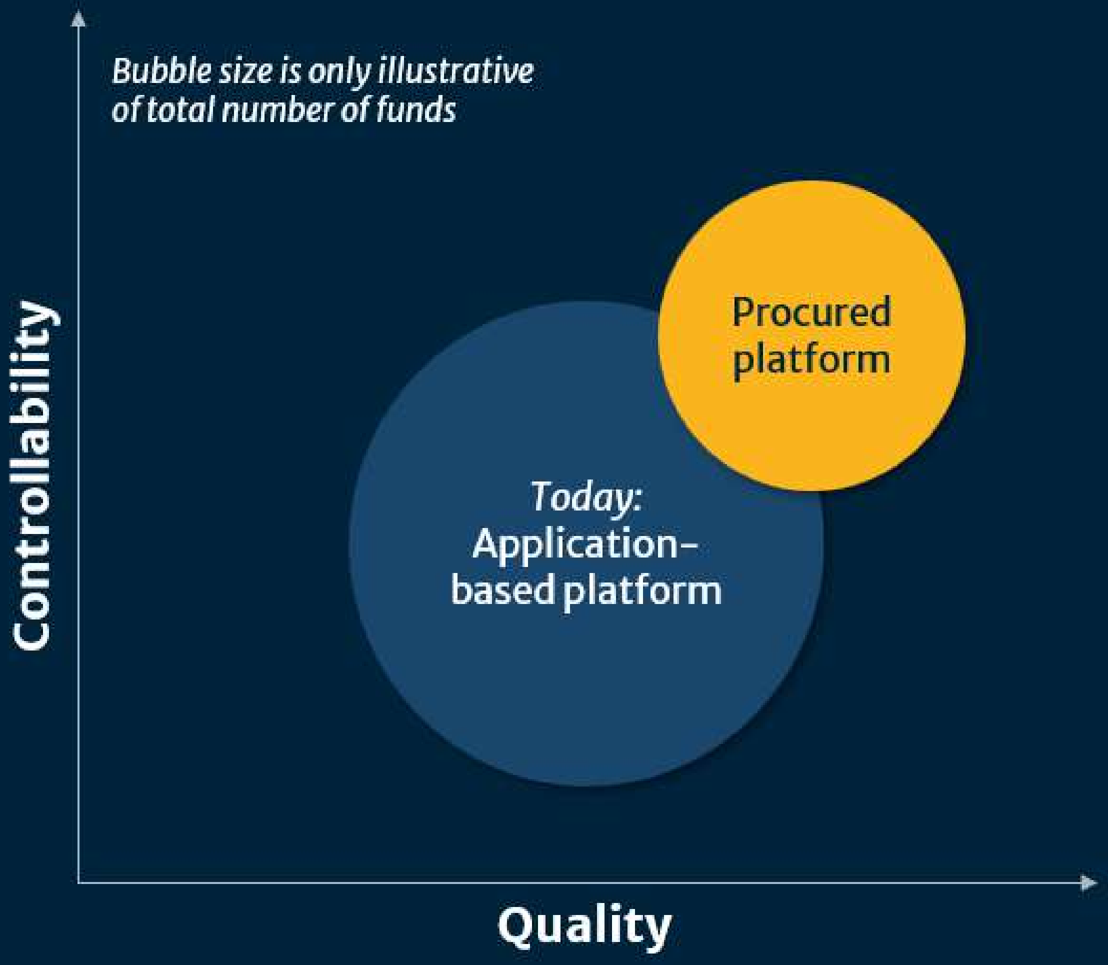
Swedish Fund Selection Agency, FTN – one of the world's largest fund investors

The Swedish Fund Selection Agency, FTN, is a government authority established in 2022 with a mandate to procure, monitor and quality ensure the funds in the Swedish premium pension system.

During ~ 2023–2025, FTN will procure funds for

~100 bn EUR

From an application based to a procured platform



The transformation from an application based to a procured platform aims to improve *controllability* and *quality* while ensuring *cost-efficiency* and raising *sustainability* requirements

If quality enhancement increases annual net returns of 50 bps =
~ 500 SEK (~ 45 Euro)/ month lifelong average increase to each pension saver

Swedish Fund Selection Agency’s task

- FTN’s task is to procure high-quality, cost-efficient, sustainable, and controllable funds. The Act (2022:760) governing FTN's operations also stipulates that the fund agreements that FTN signs with fund managers must contain conditions stating that the funds must be managed in an exemplary manner in terms of sustainability through responsible investment and responsible ownership.

Balancing legal requirements vs. freedom of choice

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Mandatory requirements on Fund Manager level

- Must **not be domiciled** in a **country on the EU's list of non-cooperative jurisdictions**
- Must **not be subject to EU or UN sanctions**
- Must have **signed and adhere** to the United Nations **Principles for Responsible Investment** (UNPRI)
- Must have a **policy for the integration of sustainability** in management
- Should have a **policies for voting** and **active ownership**

Mandatory requirements on Fund level

- Must be an **Article 8** or **Article 9** reporting fund under the SFDR
- Must have **processes** in place to
  - **identify and assess** whether portfolio investment, existing or potential, is associated with **violations of** any of the ten principles of the **Global Compact, UN Guiding Principles on Business and Human Rights** (UNGP) and **OECD guidelines for multinational companies**
  - **act as an investor** in case of identified violations in the holdings
- Must have **processes** in place **to identify whether portfolio investments take action** that follows from the goals of the **Paris Agreement**
- Must have **processes** in place for the **integration of sustainability in asset management**
- Must have **processes** in **place for voting** (applies to equity funds) and **active ownership**
- Must be able to **exclude businesses** based on **norm-based screening**

Mandatory requirements
Not invest in businesses based on norm-based screening

The Ottawa convention

Exclude businesses involved in the production, storage, trade and use of **anti-personel land mines**

The Convention on cluster amunitions

Exclude businesses involved in the production, storage, trade and use of cluster amunitions

The Convention on biological weapons (BWC)

Exclude businesses involved in the production, storage, trade and use of biological weapons

The Convention on chemical weapons (CWC)

Exclude businesses involved in the production, storage, trade and use of chemical weapons

The Non-Proliferation Treaty (nuclear weapons)

Exclude businesses involved in nuclear weapon programs – including countries allowed to have such weapons under the NPT.

The Paris Agreement

Exclude businesses with more than 5% of the turnover derived from thermal coal, tar sands and fossil based electricity generation

The WHO Framework Convention on Tobacco Control

Exclude businesses where more than 5 % of the turnover is derived from production of tobacco or tobacco products

Systematic violation of international agreements backed by Sweden

Exclude businesses that repeatedly violate the principles of the Global Compact, UNGP, OECD´s guidelines on MNE

Qualitative evaluation of processes in place to integrate sustainability throughout the management of the Fund

Notice

1. Design phase

2. Preparation phase

3. Procurement phase

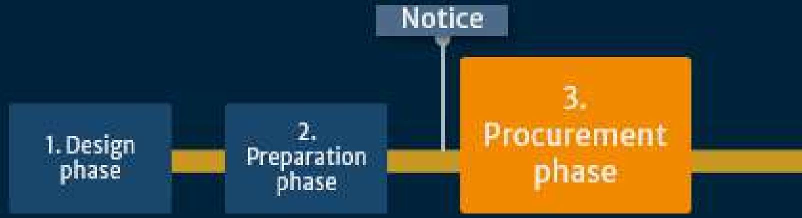
Investment philosophy	Investment process	Team and firm wide resources	Performance

Sustainability

"To be able to evaluate the quality of a fund, extensive evaluation of both the fund and the fund manager is necessary.
... research has found no support of past performance being a good indicator of future performance."

Council on legislation referral, December 2021

The procurement process…



”… the fund agreements shall contain terms and conditions stating that the fund managers must participate in the continuous monitoring.”

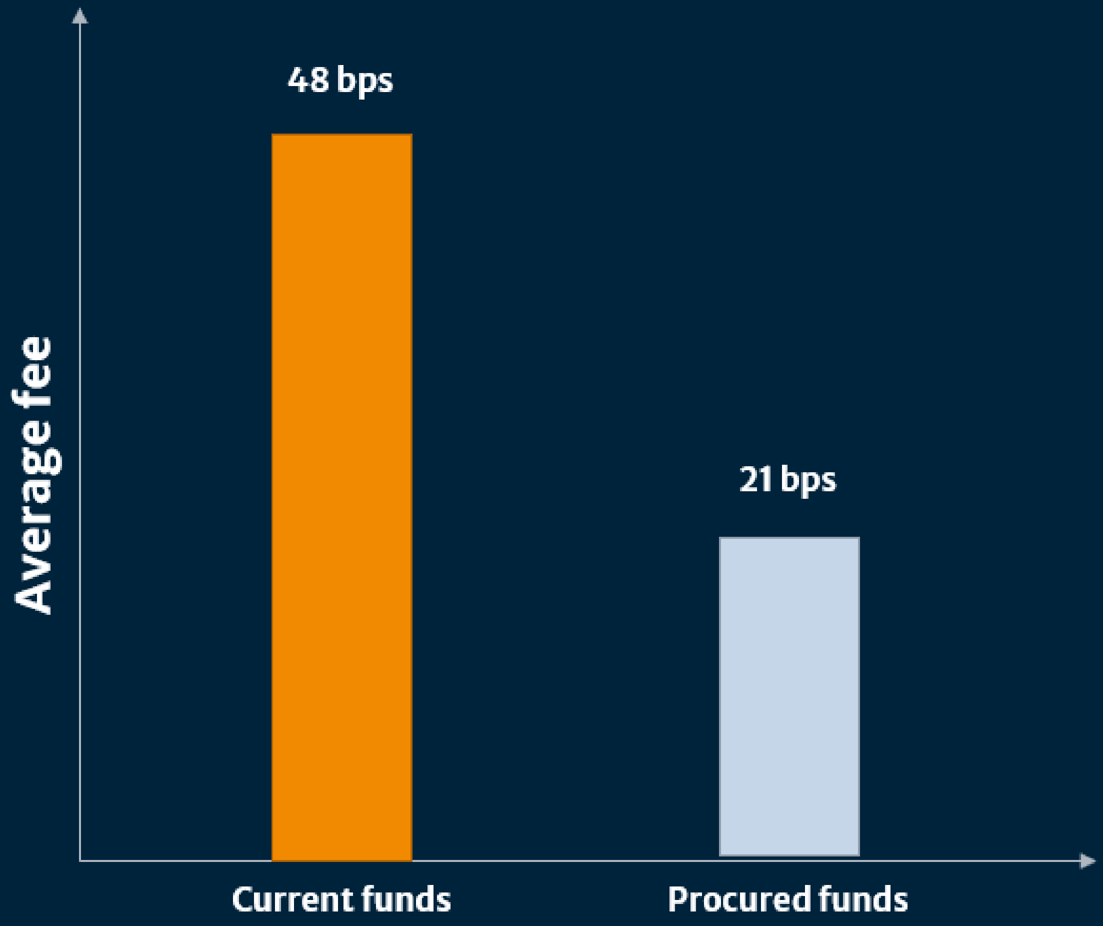
Law (2022:760) on procurement of funds to the fund platform of the Swedish premium pension

What does FTN do in the interview phase in practice?

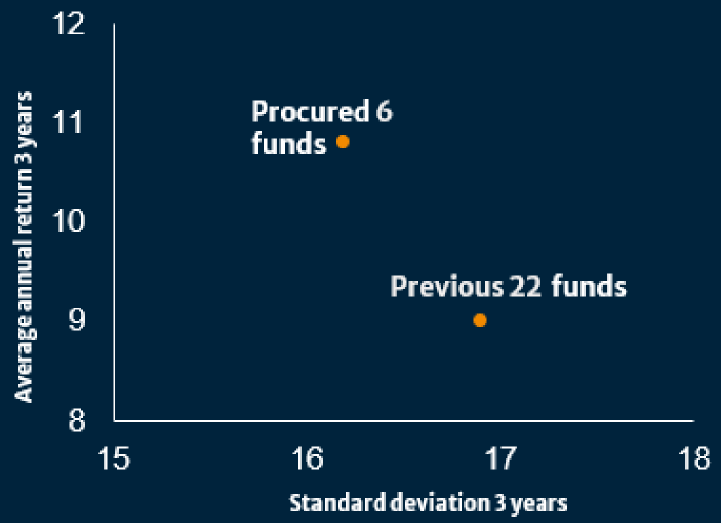
During the interview meetings we ask the Fund Managers about the investment philosophy and the process of integrating ESG. For example:

- which sustainability areas that are promoted and for which targets have been set according to the requirements of the SFDR,
- guidelines and process for active ownership including the exercise of voting rights at general meetings and engagement,
- voting statistics for the Fund's holdings at general meetings, (in absolute numbers and percent of the AUM)
- number of company dialogues and engagement statistics

FTN achievements – procurement of European active Equity Funds



- Reduced number of funds from 22 to 6
- Raise in overall sustainability requirements
- Only high quality funds on the platform
- Lower average fees



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On 26 September 2024, FTN presented preliminary procurement specifications for active Global Equity Funds

Global Equities
Active Management

~ SEK 200 (~ Euro 17,5) bn*
AUM

*As of July 31 2024. AUM here is the amount allocated to the category today and is not a guarantee that the procured volume will be the same.

- Global Equity Funds Active with a primary focus on large/mid-cap companies
- Sustainability reporting - SFDR article 8 or article 9
- Same mandatory sustainability requirements as for the active European Equities procurement
- Global equity funds are sorted in to different categories on the fund platform today.
  - "Global & Sweden" – Global Equity Funds with a regional overweight.
- In total ~45 actively managed Global Equity funds on the fund platform, affecting ~1 million savers

We welcome comments and questions

Should you have any comments or questions, please e-mail procurement@ftn.se

We will not be able to answer all questions, but will review and consider all incoming comments

What could come next in ESG?

Will institutional investors continue to be the driving force behind the ESG development going forward or do you expect retail investors to take over in the future?

What constitutes a sustainable fund?

Market practice has developed, though, among other things, the EU's various sustainability regulations aimed at the capital market (such as the Disclosure Regulation – SFDR, the Taxonomy Regulation, CSRD, and CSDDD) on what, for an asset owner or asset manager, constitutes compliance with international agreements relating to sustainability issues.

Swedish Fund Selection Agency, FTN's view of sustainability is grounded in international agreements

There is currently no standardised definition of sustainable funds or sustainable investments. The Law (2022:760) on procurement of funds to the premium pension fund platform stipulates that we must evaluate whether the fund manager, in its management, observes what follows from international agreements related to sustainability that Sweden has endorsed. Our view of sustainability is therefore based on these international agreements.

What could come next in ESG for FTN?

Swedish Fund Selection Agency will increase the demands for sustainability, based on changes in international agreements, new regulations, and the development of best practice requirements in the financial industry.

Examples of what needs to be followed up

4.1.6 Impact screen based on SFDR PAI and UN SDGs

Analysis to assess reporting requirements according to SFDR and identify impact on SDGs

Negative impact:

4.1.6.1 PAI indicators at fund level (all 14 mandatory disclosure requirements for equity investments and 2 for fixed income as reported through EET template by the Fund Manager)

4.1.6.2 Reported PAI indicators vs a benchmark portfolio´s estimated | PAI indicators – to identify differences between the fund and a benchmark portfolio

4.1.7 PAI reported indicators vs estimated system providers PAI indicators – material differences between reported PAIs and system provider estimates

4.1.8 Mapping of negative impact on SDGs (fund level and compared to benchmark portfolio)

Positive impact

4.1.9 Mapping of positive impact on SDGs (fund level and compared to benchmark portfolio)

4.1.10 Mapping of net impact on SDGs (positive impact net of negative impact (fund level and compared to benchmark portfolio)

4.1.4 Paris Agreement screen

Analysis to assess if requirements in (iv.) of the agreement are met

(iv.) have established processes that are integrated with the fund's investment process and process for active ownership, to identify whether the businesses in which the fund invests take action on the objectives of the Paris Agreement and have established guidelines on how the Fund Manager, the Investment Manager or, if applicable, the Fund covered by this fund agreement should act in its capacity as an investor;

4.1.5 SFDR Sustainable Investment screen

Analysis to follow up on SFDR requirements in (i.) of the fund agreement are met and if reporting requirements under article 6 and 8 or 9) are met.

(i.) promote environmental or social characteristics, or a combination of these characteristics (so-called Article 8 reporting funds) or have sustainable investments as objectives (also referred to as Article 9 reporting funds) in accordance with Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial sector (the "Disclosure Regulation");