How AP6 invests

1. Investment process

• Sourcing and selection
Fund investment decisions are preceded by an extensive process that can take several years. The fund selection process is selective and focuses on high-return actors that prioritise sustainability. In co-investments, business is generated based in part on a partner perspective and in part on a company perspective. Dedicated resources in the form of specialists monitor and analyse the market to identify attractive companies.

• Evaluation phase
In fund investments, broad selection criteria are used to ensure that the evaluation includes a sufficiently large number of actors. The selection process then involves narrowing down the number of candidates.
Funds are gradually eliminated from the process as market mapping progresses.
The evaluation timeframe for co-investments is relatively narrow, which underscores the importance of specialist evaluation and analysis expertise.

2. Ownership phase

• Influence and monitoring
AP6 sees the ownership phase as an opportunity to build knowledge and understanding, and to have an impact by monitoring and follow-up activities to ensure that investments are progressing according to plan in terms of return, strategy and sustainability.

• ESG assessment model
Influence is exercised through cooperation, requirements and feedback. AP6 has many years of experience of evaluating how funds approach sustainability. This is manifested in the model that AP6 has developed to measure, analyse and evaluate the funds' ESG approaches.

• LPAC
An important forum when investing in funds is the Limited Partner Advisory Committee (LPAC) consisting of representatives from a number of investors. The number of seats on the LPAC is limited and they are generally allocated based on the size of the investment. AP6 is represented on the LPAC through a number of funds in the portfolio. LPAC provides opportunities for deeper investment relationships.

3. Divestment

• Divestments provide distributions
As funds and co-investors realise holdings, disbursements to investors take place. The strategy is to stay with fund partners and co-investors during the divestment process.

• Closed-end fund
AP6 is a closed-end fund with no inflows from or outflows to the income-based pension system. It is therefore important to achieve a balance in future obligations in the form of fund commitments as well as in ongoing inflows and outflows in investment activities by maintaining a liquidity reserve.

• Liquidity forecast
As the portfolio matures gradually there is a good balance between disbursements/divestments from the portfolio and capital drawdowns/new investments, even if the gross flows may be considerable. AP6 works on an ongoing basis to further develop liquidity forecasting models created based on long-term cash-flow data from the market for the purpose of monitoring future liquidity scenarios as carefully as possible.

Collective expertise based on common goals

Investment

- Unique specialist expertise built up over more than two decades of investing in unlisted assets.
- A broad network of contacts and long-term relationships with partners.
- AP6's own models and methods for evaluating potential investments.

Sustainability

- Sustainability is integrated in all investment activities.
- Carefully developed frameworks and tools are used for evaluation prior to an investment and during the ownership phase.
- Resources are allocated on an ongoing basis depending on issues and needs identified.

Financial

- As a closed-end fund, AP6 has developed detailed models to forecast and manage liquidity.
- Experts from the Financial unit participate in the investment process to ensure transaction quality etc.

Legal

- The Legal unit works with the investment team during the evaluation phase.
- Prioritised topics can be identified early on in the process in preparation for contract negotiations.

1. Investment process

Fund investment

Investment in a fund takes place by committing a certain amount that is disbursed when the fund in question invests in companies.

Commitments are made to selected funds in the market segments Buyout (large and mid cap), Venture/Growth and Secondary. Most (around 80 percent) of the commitments are made to funds and co-investments within Buyout (large and mid cap). This segment consists of mature companies with an established business model and market position.

A smaller percentage of the commitments are made to the Venture/Growth and Secondary market segments. Venture capital funds invest in companies in an early development phase where capital is required over a longer period to generate profits. This segment is characterised by significantly higher risk than Buyout. There are no co-investments in this segment. Secondary transactions take place when investors in a fund want to sell their share before the fund is closed down. Secondary carries far less risk than Buyout due to extensive diversification in the segment.

EVALUATION

All of the organisation's expertise is brought to bear in each evaluation of a potential investment. Integrated cooperation is based on common objectives where each function and employee has an understanding of the various elements and parameters that make up an evaluation. As AP6 is a closed-end, national pension fund without flows to or from the state pension system, the Financial unit uses detailed models for liquidity that set the framework of AP6's investment volume.

Decisions to commit capital to a fund involve discretionary management for 10 years or more. To ensure that the fund is managed in line with AP6's requirements, detailed legal documentation is required that covers a number of scenarios and matters to address, such as incentives, fees, common interests, transaction structure and exclusion criteria, to name a few.

The Legal unit has specialist expertise in and many years of experience of negotiating with funds active in various segments and geographies. The Legal unit works with the investment team during the evaluation phase. Internal legal expertise is supplemented by an external network of legal services.

AP6 sees its commitment to funds as a process of building long-term relationships to generate stable and lasting returns. The life of a fund is generally around 10 years, although variations exist. Given this long timeframe, AP6 chooses to invest time and energy to monitor and become familiar with a fund focusing on its investment team and value-creation. This process can last for a number of years. Through constant review of the composition of the existing portfolio it is possible to identify the need for changes that could support continued, long-term value-creation and good risk diversification.

> "Important parameters are the funds' models for their portfolio companies' value creation and their approach to sustainability from a portfolio perspective and at the company level."

MARKET MAPPING

Decisions to add a fund to the portfolio are preceded by a process that starts with market mapping. Initially, broad selection criteria are used to ensure that there is a sufficiently large cohort of candidates to assess. The selection process then involves narrowing down the number of candidates. Funds are gradually eliminated from the process as market mapping progresses.

Market mapping is a process of obtaining extensive information based on in-house analysis and an exchange of knowledge and experience with investors who are active in the area of unlisted assets. This involves existing networks and also building new networks based on current needs.

The purpose is to gather and review the experiences of various investors. As a pension fund manager and investor in unlisted assets for more than two decades, AP6 has built up specialist expertise. This has enabled us to develop our own models to monitor and analyse funds. Important parameters are the funds' models for their portfolio companies' value-creation and their approach to sustainability from a portfolio perspective and at the company level.

At an early stage AP6 rejects candidates whose approach to important aspects of value-creation and sustainability are not considered aligned with those of AP6.

EVALUATION PHASE

Once the candidate pool has been narrowed down in the initial selection process,

a more detailed evaluation phase begins. Uniform processes are used to evaluate different investment alternatives. One of the fundamental criteria is for all potential investments to be outlined and assessed based on a uniform template that allows comparisons to be made. However, the differences between the Buyout, Venture/Growth and Secondary market segments requires the structure of the evaluation and assessment process to be adapted accordingly.

A fund's strategy and market position is assessed by looking at which sectors it operates within and in which regions it has a presence. With respect to the fund's investment process and ownership, a review is carried out of its structure capital, value-creation and how it monitors deviations. One important area is return and here the fund is examined based on which resources are available to develop portfolio companies, how well aligned the investments are with the fund's strategy, the length of the holding period and the fund's view of diversification. An important aspect is the possibilities for AP6 to carry out co-investments. When examining a fund's strategy and market position attention is paid to leadership, staffing and dependence on key individuals.

AP6 performs its own calculations, and analyses holding periods, portfolio returns and deviations. This creates a picture of the respective fund's value-creation and sustainability work.

Potential funds are examined based on a number of sustainability factors such as processes, dedicated resources, level of ambition and to what extent the fund has adopted international standards and frameworks, and its reporting of sustainability data to investors in the fund. As an investor in various businesses, industries and geographies, AP6 requires a broad approach to sustainability, including aspects linked to human rights, labour, the environment and anti-corruption. Additional aspects that are always included in the evaluation are climate, equality and diversity.

Based on experience from a very large number of evaluations carried out over many years, AP6 has developed its own scorecard to summarise the evaluation of a potential investment.

In a joint review with representatives from the organisation's specialist units, the candidates are graded in each area. Finally, a balanced assessment is made of the grades received by a fund within each category. Although significant weight is attached to the overall assessment, an outcome that is too low in any individual area could disqualify a fund candidate.

Once an investment recommendation is made, a process begins that is handled by the Allocation Committee and the Fund Committee (see p. 22–23).

Co-investment

AP6 invests indirectly in companies (minority investment) in cooperation with funds to which AP6 has committed capital. A co-investment has a similar structure to a discretionary fund agreement where the principal owner/owners are responsible for the co-investment as managers/owners. AP6 has a co-investment strategy aimed at large and mid-cap buyout, where the majority of co-investments are made with existing fund partners. A smaller share of investments are with other co-investors. Co-investments do not normally take place within the two market segments: venture/growth and secondary.

Long-term relationships and a similar approach to value-creation, where sustainability is integrated, are what distinguishes the co-investments. Co-investment decisions are preceded by an intense process that involves various specialists. The integrated collaboration is based on common objectives, where each unit and employee has an understanding of the various elements and parameters that the process involves. The organisation has many years of experience of evaluating and investing in unlisted companies within the buyout segment in cooperation with fund partners in the Nordics, Europe and North America. This experience enables AP6 to efficiently allocate internal resources to match the requirements of the various fund partners.

Co-investment is carried out within a relatively narrow timeframe and it is therefore important to have efficient decision structures and routines in place. As various units are involved at an early stage there are more opportunities for resource-efficient handling of complex issues.

Unlike when AP6 invests in a fund by committing a certain amount to be paid out as and when the fund invests in companies, co-investment involves the whole invested amount committed being disbursed on one occasion.

The financial unit has many years of co-investment experience, where the standards are high for quality-assured processes and routines. Transaction security depends on co-investment actors meeting the requirements of each fund partner.

The legal negotiations that precede a potential co-investment generally involve reviewing and negotiating contracts in a process that is significantly faster than when investing in a fund. Most of the co-investments are with funds to which AP6 has committed capital. This makes it possible to use existing contract terms and conditions.

The Legal unit works with the investment team throughout the evaluation phase and can identify areas early in the process where clarification and contract negotiation are needed. To manage specific contract issues linked to various segments of unlisted assets and geographies, AP6's internal legal expertise is supplemented by an external network providing legal services.

SOURCING

Business generation from a partner perspective is prioritised in co-investments. Partners largely consist of funds to which AP6 has committed capital. AP6 has relationships with several of these partners that go back many years; in some cases up to 20 years. The fund partners are very familiar with AP6's strategy, interests and expertise in implementing co-investments.

The fact that AP6 has a well-diversified fund portfolio consisting of actors operating in various segments and geographies, places high demands on AP6's ability to generate business from a partner perspective. Presence, relationship-building and identifying potential investments are all crucial. Long-term relationships and frequent dialogue make it possible to identify early on the co-investment needs and interests of partners.

Business generation also takes place from a company perspective. Dedicated resources within the organisation, in the form of specialists that have many years of experience, monitor and analyse the market to identify attractive companies. In a parallel process the status of potential fund partners is checked on an ongoing basis. Finding the right fit is based on AP6's strategy and the focus and interests of potential fund partners.

All on all this is a complex process that requires being very familiar with the portfolio structure, strategy and priorities of potential fund partners. Long-term relationships and mutual trust are very important. Co-investments – regardless of the type of business generation – take place in a competitive environment that has multiple actors active in unlisted assets.

EVALUATION PHASE

Various factors provide a framework for a co-investment. The structure varies depending on the type of investment, market and partner. Those familiar with AP6's interests and expertise generally involve AP6 early on in the process. Contact with AP6 can also be initiated in the final phase of the process or after implementation.

Solid knowledge of market conditions and relevant companies, combined with existing relationships with fund partners, enables AP6 to efficiently bring the right internal resources into the process. The process leading up to implementation of a co-investment is generally characterised by having a narrow timeframe during which critical matters are examined by fund partners and participants on an ongoing basis.

The transaction security requirements are high for a number of reasons. If actors pull out towards the end of the process this could cause delays, resulting in increased costs and missed windows of opportunity. Professional management involves ensuring that potential investors early on in the process identify factors and circumstances that are crucial for continued participation.

Based on many years of experience AP6 has developed highly efficient routines and decision processes involving dedicated resources and a careful evaluation of the potential co-investment within a set timeframe. The potential investment is analysed and assessed based on a number of established criteria that are used in all evaluations. This ensures continuity and a uniform process to assess investments over time, which is essential in order to make comparisons.

In the part of the process that involves finding the right fit, a variety of parameters are used to determine how well aligned the

> All on all this is a complex process that requires being very familiar with the portfolio structure, strategy and priorities of potential fund partners."

potential investment is with AP6's investment strategy and portfolio.

The company in question is evaluated based on a vintage perspective, holding period, exit, and risk and return profile. Relevant partners are assessed and evaluated. An assessment is made of the effect on the portfolio in terms of diversification based on geography and sector.

An analysis is made of the market in which the company operates, as well as a review of the company's offering, customer base, competitors, business model and financial development.

A sustainability assessment includes reviewing the formal reporting structures, operations, future projects and level of ambition. AP6, as an investor in various businesses, industries and geographies, must take a broad approach to sustainability; one that is based on international agreements on human rights, labour, the environment and anti-corruption. Various standardised tools are used in co-investment processes to determine which sustainability aspects are the most material in a specific case.

To test a company's resilience under different conditions, various types of yield analysis are carried out. The company's value-creation plan is analysed and assessed. In exceptional cases where an investment may involve representation on the company's board of directors, an assessment is made based on this. The investment team compiles a report on each area examined and analysed. Then a collective assessment is made of the results.

Once an investment recommendation is made, a process begins that is handled by the Allocation Committee and the Fund Committee (see p. 22–23).

Decision structure

The strategy established by the Board of Directors is applied to all investments. The portfolio is gradually constructed through selective investment commitments and co-investments, where selection is the result of a process of identifying, evaluating and analysing.

The focus is on partnering with actors who share the vision of a long-term approach to value-creation and an emphasis on sustainability. We are constantly working across a broad front to identify actors with the same approach as AP6. Building long-term relationships is a key component in AP6's efforts to impact outcomes. A fund or a co-investment which, following an evaluation, meets the criteria profile of AP6 requiring long-term and sustainable value-creation is forwarded to the Allocation Committee.

ALLOCATION COMMITTEE

Based on a portfolio perspective, the Committee is responsible for determining which investments and divestments to prioritise and propose for implementation.

A portfolio strategy has been adopted by the Board of Directors to support the Allocation Committee in its decision process. The portfolio strategy is based on an analysis of return and risk with the aim of generating returns that are sustainable in the long term with a good risk balance.

The Committee also works on an ongoing basis to evaluate the existing portfolio in relation to the long-term strategy.

The Committee is chaired by the Managing Director and consists of representatives from the investment department and the CFO.

After the Allocation Committee has decided to approve an investment, it goes to the Fund Committee.

FUND COMMITTEE

The Fund Committee is tasked with reviewing proposed investments from a broader perspective. The Fund Committee is also responsible for assessing whether there is any reason not to approve an investment based on any issues that arose during the investment analysis process. These may relate to various aspects of sustainability, reputational risk, legal aspects or operational risk. The Fund Committee is chaired by the Managing Director and consists of the Head of Sustainability, General Counsel, Head of Communications, a portfolio strategist, and heads from the investment department.

An approval decision from the Fund Committee is needed before an investment can go ahead. In accordance with the decision-making procedure at AP6 certain investment decisions are taken by the Board.