

2. OWNERSHIP PHASE

AP6 sees the ownership phase as an opportunity to build knowledge and understanding, and to exercise influence. The holding's value-creation is monitored closely by the respective investment manager. Investments are monitored to ensure they are progressing according to plan in terms of return, strategy and sustainability. Continual dialogue and relationship-building add additional knowledge over and above the normal information-sharing in quarterly reports and at annual meetings. AP6's aim is to be an active partner with expertise in managing complex transactions from various perspectives – commercial, financial, legal and sustainability. In connections with an investment, AP6 communicates



its desires and expectations in a number of areas, such as transparency, fees, profit-sharing, key individuals' holdings, organisational structure, reporting and sustainability. Reporting is required on any incidents or material changes in a holding or among senior executives.

In the area of sustainability there may be an expectation of a higher level of ambition in reporting, as well as improved and more detailed reporting linked to various key performance indicators. AP6 exercises its influence in the area of sustainability through cooperation, evaluation and feedback. AP6 has many years' of experience in measuring, analysing and evaluating the sustainability approach of funds. During the ownership phase the model for evaluation



Investor meetings and financial reporting

Owner representatives participate in investor meetings that address return and sustainability. Also covered are financial reporting and the development of funds and co-investments.



ESG assessment

On an annual basis AP6 assesses the funds' efforts and progress on integration of ESG in the investment process, ownership phase and in reporting. Communicating the assessment results helps to promote a close dialogue with the fund managers.



Advisory committee – LPAC

The Limited Partners Advisory Committee (LPAC) consists of representatives of a number of investors in a fund. This representation enables closer monitoring of fund development. AP6 is represented on LPACs in a number of funds in the portfolio.



Incident reporting

It is customary in private equity for a fund manager to report incidents of a material nature to their investors through the formal quarterly reports or in other ways. AP6 is provided with these reports and takes action if necessary.



Cooperation and dialogue for co-investments

Each co-investment is an opportunity to further deepen knowledge about the fund manager's processes and ways of working as the co-investor has access to the fund manager's due diligence for the company.



Monitoring ESG and risk incidents

To supplement the funds' incident reporting, AP6 monitors the portfolio holdings through a third-party provider. This tool makes it possible to identify ESG issues, risk incidents, controversial activities, business conduct risk, compliance, etc.

Ownership phase

and dialogue described on page 27 is applied. For co-investments, sustainability topics are followed up within the framework of the ongoing investment monitoring process. Common to all types of investments is that any incidents are reported and followed up. In addition to reports from fund managers, AP6 also uses external tools to identify sustainability related events in the portfolio.

The LPAC (Limited Partner Advisory Committee) is an important forum when investing in funds. This committee has 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 committed amount. AP6 is represented on the LPAC in a number of funds in the portfolio, making it possible to follow fund development more closely. Representation on the LPAC gives AP6's investment managers the ability to participate in discussions at close quarters about the fund's holdings. Learning more about the respective fund team linked to strategy, teams, company acquisitions, value-creation and sustainability provides the knowledge needed for future decisions when the same fund team is ready to invest in a new fund. AP6 has many years of experience of investments in unlisted assets and uses well-established systems that have been adapted to handle large quantities of data in a resource-efficient way. Different funds use different structures and systems to report financial information, such as valuations. AP6 has developed models and uses a number of tools to monitor and analyse the portfolio. The ownership phase in co-investments is essentially



AP6's aim is to be an active partner with expertise in managing complex transactions from various perspectives – commercial, financial, legal and sustainability.”



the same as for investments in funds. AP6 invests in companies (minority investments) together with the funds to which AP6 has committed capital. Opportunities to build knowledge and understanding, and to exercise influence, arise from established fund relationships and close dialogue. Co-investments where AP6's ownership share justifies representation on boards allow AP6 to exercise an influence. The aim is to monitor the company's development from close quarters in order to deepen and strengthen the relationship over time. Important focus areas are the company's value-creation strategy and sustainability approach.

EXAMPLES OF EVENTS IN THE PORTFOLIO THAT LED TO DIALOGUE IN 2023

AP6 sets high standards for its partners. One important area is communication and management of any incidents or events of a more serious nature that could affect the value of an investment or have a significant impact on ESG. AP6 is keen to receive swift and clear feedback from the fund managers or companies in question regarding any such events.

Investment	Event	Action taken by AP6	Status
Indirect holding in fund	The company is accused of shortcomings in providing its services which had a negative effect on the company's stakeholders	Evaluation of the fund manager's ongoing communication on actions to manage the situation	The company has initiated several measures to address the situation
Indirect holding in fund	Reports on failure to comply with adequate working conditions at one or more production facilities	Dialogue with fund manager about the situation and what actions and measures are being put in place to address it	The company has carried out an external investigation and taken action to address its shortcomings. The fund manager is informing investors on updates regarding the situation
Indirect holding in fund	The company is accused of shortcomings in working conditions in its value chain	Dialogue with fund manager about the situation and actions to address it	The company has completed an investigation which determined that the company's products are not produced at the facilities in question. The company still decided to terminate the contract with the supplier and is continuing to strengthen control and processes to manage value chain risks

ANNUAL ESG ASSESSMENT

In 2023 positive development was noted in the area of sustainability among the fund managers in AP6's portfolio. For a number of years AP6 has evaluated the portfolio's ESG work, and provided feedback and examples of good practices. Evaluating and monitoring

the fund managers' sustainability work is an important aspect of AP6's efforts to achieve a higher and more sustainable, risk-adjusted return over time. Integration of ESG practices is primarily assessed based on the fund managers' formal processes for examining the sustainability perspective when they invest in companies, how they work with companies during the ownership phase, as well as their sustainability reporting. Further development

of ESG processes among fund managers in turn generates positive development for the underlying portfolio companies.

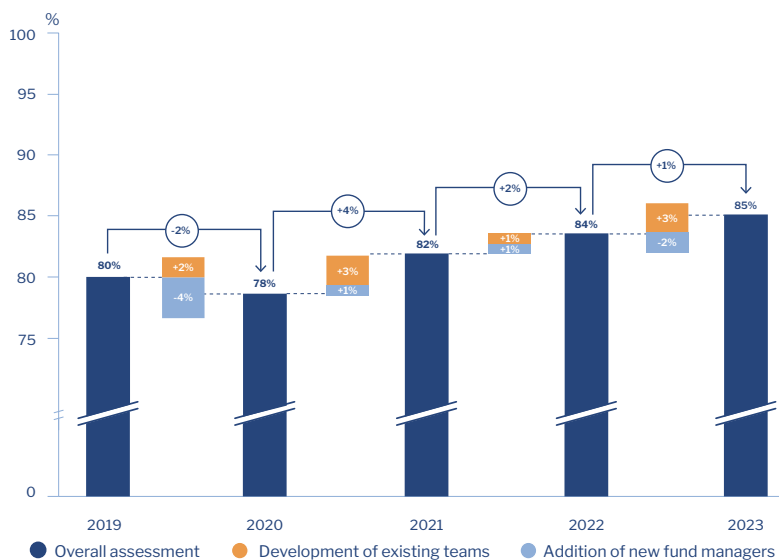
AP6's evaluation involves assessing the fund manager's ESG integration processes rather than the portfolio companies' actual impact on society and environment. AP6 have developed its model for assessment based on industry established assessment frameworks. It also involves examining efforts related specifically to AP6's sustainability focus areas, read more on pages 36–40. The process of evaluation is refined regularly in line with industry development.

AP6 has noted an upward trend over time in the portfolio, with the fund managers' ESG related processes developing in a positive direction. A decrease in the average score was noted in 2020 as a result of the addition of new fund managers in an earlier phase of ESG integration. The 2023 assessment demonstrated positive development in sustainability among AP6's fund managers investing in buyout, venture and growth. The largest improvement was derived from fund managers' development of processes and tools for evaluation during the investment phase. The largest contribution to the increase being from existing fund managers. ESG integration in the ownership phase was also a factor in the improved outcomes, mainly from existing fund managers' development during the year. Net results in the reporting module remained flat due to lower ESG integration in reporting among newly added managers decreasing the positive contributions from existing fund managers.

The overall conclusion of the assessment is that there is a positive development in all three areas of the assessment. Furthermore, fund managers with whom AP6 invests have an ambition to work actively on ESG. The progress is partly accelerated by sustainability efforts in private equity-specific industry organisations that continue to develop frameworks for standardisation and enable collaboration.

ESG assessment 2023

Overall result



Development of ESG integration

By area

