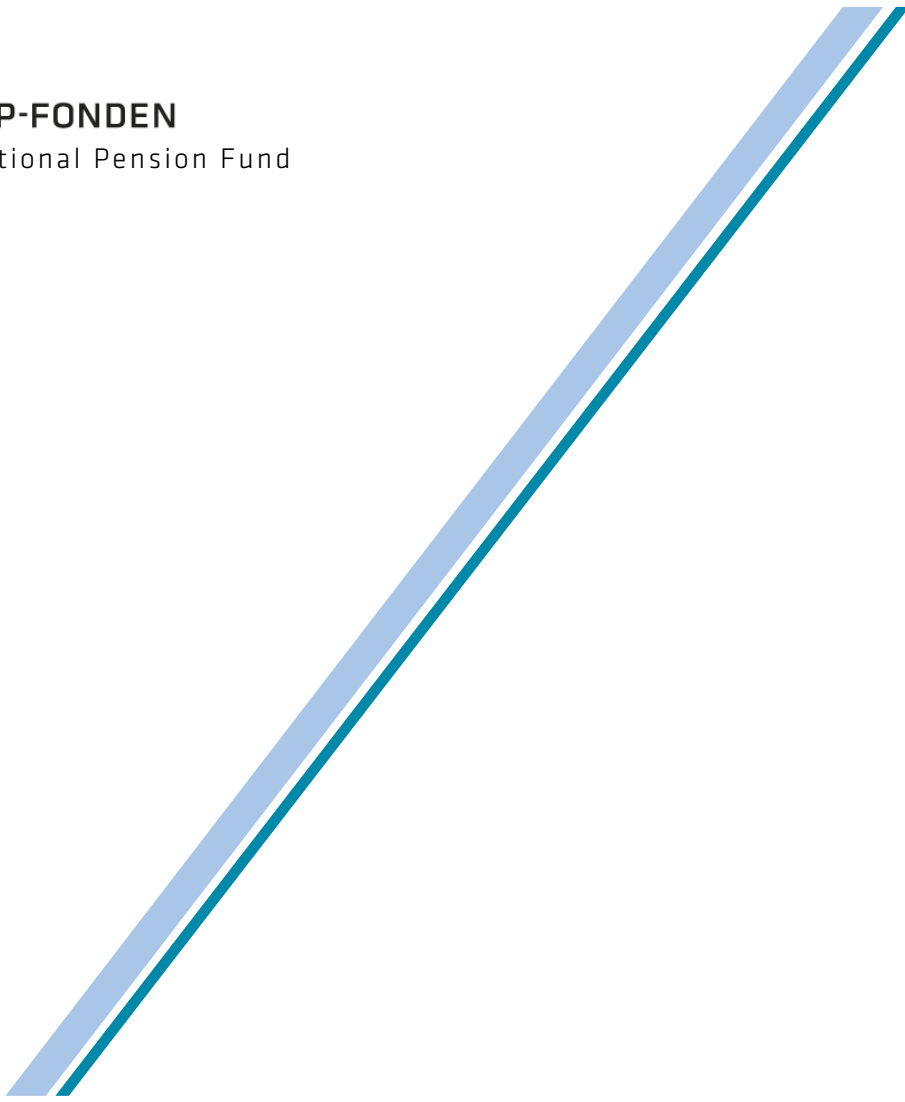




FJÄRDE AP-FONDEN

Fourth Swedish National Pension Fund



SUSTAINABILITY AND CORPORATE GOVERNANCE REPORT 2012/2013

Sustainability – that is, proper environmental and ethical considerations – is a **prerequisite** for companies to be able to attain a **sustainable solid return**.

Active, responsible owners propel **positive changes** and persuade companies to **take more responsibility**.

Welcome to the Fourth Swedish National Pension Fund's (AP4) Sustainability and Corporate Governance Report 2012/2013

The **Sustainability and Corporate Governance Report** summarises the past year's work on sustainability and corporate governance in AP4's management. This report is one of three supplementary reports that together describe the work AP4 is carrying on. The other two reports are the **AP4 annual report** and the **Ethical Council Annual Report**. The reports can be downloaded at www.ap4.se.

We hope all our readers will find this report of interest.



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The **brief** of the Fourth AP Fund (AP4) is to create the best possible return over time through fund capital management, thereby contributing to the stability of the national pension system.

AP4's corporate governance work:

- starts from the responsibility of protecting and developing the capital invested, and through that contributing to an adequate return on the fund's investments
- safeguards the best interests of both shareholders and the individual company
- takes the individual company's unique conditions and needs into consideration
- exercises the rights and obligations of ownership in a responsible and sustainable manner
- takes environment and ethics into consideration without compromising its goal of the best possible return
- promotes developing best practices on the securities market

AP4 believes that sustainability – that is, proper environmental and ethical considerations – is a prerequisite for companies to be able to attain a sustainable solid return.

AP4's conviction is that active, responsible owners are needed to propel positive changes and persuade companies to take more responsibility. This applies both to companies both in Sweden and abroad.

A sale of shares by AP4 rarely settles any improprieties; on the contrary, they may continue. Those buying shares may perhaps choose not to influence the company towards improvements. Divestment of shares is therefore an absolutely final expedient when the possibility of having an influence is judged to be futile.

AP4 supports Principles for Responsible Investment (PRI), a United Nations initiative. The purpose of PRI is to increase the responsible actions of companies and other entities within the fields of ethics and the environment.

This sustainability and corporate governance report refers to the period from 1 July 2012 to 30 June 2013. The figures indicated in the report refer to 30 June 2013 unless otherwise indicated.

For in-depth material on sustainability and corporate governance, see www.ap4.se.

The AP4 annual report for 2012:

- **AP4's low-carbon strategy**



- **An international investor dialogue in practice** – the Marlin mine



- **Japan in focus**
– interview on AP4's corporate governance work in Japan



AP4's Corporate Governance Report 2012

- **Differences in corporate governance between the US and Sweden**



Ethical Council Report 2012

- **The Ethical Council**
– a collaboration between the First, Second, Third, and Fourth AP Funds



AP4 at a glance

AP4's brief is to contribute to the stability of the national pension system through managing Fund capital with the aim of generating the best possible return over time.

Goals

Based on the brief, the Board of AP4 has formulated the two following overall goals:

- Total return in real terms – that is, adjusted for inflation – shall average 4.5% per year over a 10-year period. This is, in the opinion of the Fund, the average return required over a 40-year period for the pension system's assets and liabilities to balance in the long run.
- The tactical management's active return, that is the return in excess of the benchmark index, is to average 0.5 percentage points over a three-year period.

In 2012, AP4 overshot both short- and long-term return targets.

Yet another goal as of 2013

- The strategic management's active return, that is the return in excess of the benchmark index, is to average 0.5 percentage points over a five-year period.

Fund capital

At year-end 2012, Fund capital totalled SEK 230 billion. The Board has decided that the Fund has the best possibility of achieving the real long-term target by holding a large proportion of publicly quoted equities, Swedish and foreign.

At the end of the year, tactically managed assets constituted 89% of investment assets, of which 53% were equities and 36% fixed income securities. The remaining 11% of the Fund's investment assets were invested in so-called strategic assets such as real estate, shares in small and medium-sized enterprises and other strategic investments.

Operations

The Fund is a governmental authority whose operations are regulated in the Swedish National Pension Funds Act (2000:192). The Government appoints all nine of the Fund's Board members. The Ministry of Finance continually supervises and evaluates the Fund's operations. The Fund shall independently formulate its targets and strategies.

By law, the Fund's Board of Directors and operations are not to be controlled by Government directives or by national business or other economic policy interests. Environmental and ethical issues must be taken into account without compromising the goal of best possible return.

Investment policy

The investment rules according to the Swedish National Pension Funds Act include the following:

- Investments may be made in all listed and transferable instruments except those that are commodity-based.
- At least 30% of the assets must be invested in fixed income securities with low credit and liquidity risk.
- A maximum of 40% of assets may be exposed to currency risk.
- A maximum of 10% of assets may be exposed to a single issuer or group of issuers that are interrelated.
- Holdings of equities issued by listed Swedish companies may not exceed 2% of total market capitalisation.
- A maximum of 10% of the votes may be owned in an individual listed company
- A maximum of 5% of the assets may be placed in unlisted securities. These investments must be made indirectly through venture capital firms or similar.
- Shares and participations in real estate companies may be directly owned.
- At least 10% of the assets must be managed by external asset managers.

Letter from the CEO

Working with sustainability based on the conditions that our mandate and legislation gives us, and based on the sets of regulations each market has, is important. With a long-term mandate AP4 and the rest of the AP funds have better conditions than most pension managers for working and pursuing questions about ethics, the environment, and corporate governance.

As a long-term investment, sustainability is a hygienic factor. Our business model is based on sustainability being an express part of our management strategy. With our unique, long-term mandate, we have gradually moved a larger part of the investments from tactical operations (evaluations over a rolling three-year period) to the strategic level where the view is set on an even longer horizon. Express long-term thinking provides greater prospects of utilizing various business opportunities that the work with corporate governance and sustainability offer.

AP4's business model is built on four cornerstones of operations.

Long-term approach

AP4's rules and regulations, relative to those of many other pension managers, provide good opportunities for being forward-looking and for such things as tolerating volatility. AP4 tries to profit from the opportunity for a long investment horizon. As a long-term investor, it is also natural to pay attention to sustainability as a part of the investment.

Commercial approach

We ask ourselves what is best for the pensioner with the aim of creating the best total return for the lowest cost possible.

Transparency

AP4 strives for simple, clear solutions. We measure risk, cost and return in order to be transparent in the best possible way.

Individual before model

AP4 works with individuals who have functioning management models, not the other way around.

Unique long-term mandate

In contrast to traditional pension funds, the AP funds have simpler rules and regulations to relate to where adapting to short-term fluctuations on the securities market is concerned. At the heart of it, we could have an investment horizon of over 20 years. This gives us tremendous opportunities to pursue ownership issues and sustainability with greater credibility.

What follows is a few examples of how we use these four cornerstones in our work on sustainability in management.

The Rikshem real estate company

The Fourth AP Fund owns the Rikshem real estate company along with AMF. Rikshem acquires and develops housing properties and what is called "community property". The acquisitions are not infrequently from municipalities that have long sought a partner who may have just the long-term perspective that Rikshem has. Municipal investment perspectives often reach far into the future. They would gladly like to find collaboration partners who might have the same long-term perspective as they themselves and who can sign long-term agreements for 10-15 years.

An investment in Rikshem cannot be evaluated over just a few years, but rather after ten years or so. I would venture to assert, however, that Rikshem makes a difference even after three years. The company is an excellent example of how AP4 makes use of its long-term mandate.

"With a long-term mandate AP4 and the rest of AP funds have better conditions than most pension managers for working and pursuing questions about ethics, the environment, and corporate governance."



Great differences in opportunities for influence

There is, however, a great difference in the opportunities for influence within Sweden and outside of Sweden. The fundamental idea of the Swedish ownership model is that it is the owners who appoint the board and the board who, in turn, appoint and take responsibility for the choice of CEO.

For its nearly 40 years of existence, the Fourth AP Fund has always taken an active part in developing the Swedish model of corporate governance. The Fund is one of the larger institutional owners on the Swedish stock market, and it is therefore easier to arrive at and present the standpoint of the Fund on different issues among the management and boards of the companies. It is also often easier to arrive at a mutual understanding and contribute to changes if we can meet "face to face" and speak with each other in trust. This is usually the key to successful dialogue.

Many different tools for achieving success

Active participation on **nominating committees**, which work on appointing boards in companies, is one way of working on sustainability in our investments. Nominating committees often consists of the 3 or 4 largest owners of the company. In cases where the Fourth AP Fund has a sufficiently large shareholding to have a place on the nominating committee, standing as a candidate is self-evident. The place on a nominating committee gives us the opportunity to influence the composition of a board and to see to it that it is a good one, especially regarding being able to pursue issues of sustainability. Over the last ten years, AP4 has participated in 10 to 15 nominating committees per year.

Internationally, the owners of listed companies often have a marginal opportunity to influence the choice of board members. Not infrequently, management itself supervises the process. This compels us to use other strategies as regards environment and ethics and corporate governance than the ones AP4 has here in Sweden.

Together, the First, Second, Third, and Fourth AP Funds have created the **Ethical Council** where we can conduct a number of corporate dialogues, both proactive and reactive, within the field of environment and ethics for the purpose of achieving change. To further increase the opportunity for influence, the AP funds often collaborate with other pension funds around the world through the Ethical Council. But then this takes place on entirely different, more difficult premises than we have here at home in Sweden. The Ethical Council currently is in dialogue with approximately 200 companies yearly. In over 100 of these companies, the dialogue is conducted with the help of a consultant, and in the remaining 100 companies the dialogue is actively conducted by the Ethical Council; in addition, an intensified dialogue is conducted with 10 to 15 companies yearly.

"Sustainability must be based on our own conditions and be adapted to each specific investment."

A further alternative starting point as regards investments outside Sweden is to collaborate with a **local partner** who can pursue the issues in a way we ourselves cannot. For example, the Fourth AP Fund has invested in a Japanese fund that pursues ownership issues with local representatives in some ten Japanese companies.

The Fourth AP Fund's investments in **low-carbon strategies**, which drops companies who impact the environment the most as regards carbon dioxide emissions, is another example of how we try to adapt our strategy according to the opportunities on offer for creating the best possible return at low risk over the long term.

The Swedish ownership model – well worth preserving

Our task also includes protecting the Swedish model of corporate governance, which works well. In this light, the Fourth AP Fund has taken up the fight in Scania against the principal owner, Volkswagen. At the last annual meeting, the nominating committee in Scania was shut down by Volkswagen. As mentioned, the role of the nominating committee in the Swedish ownership model is central. This contributes to the boards having a formulation that reflects a broad group of owners, which in turn is a good foundation for giving the board and management a clear ownership mandate.

At Scania the minority, which controls approximately 40% of the capital in the company, has been denied the influence that work on a nominating committee provides. Of the nine members on Scania's board, seven receive their salary from Volkswagen – who, moreover, are the principal owners in Scania's competitor, MAN. Since the commission from Volkswagen is to develop synergies, most of them ought to understand the importance of having the minority represented on the board to a sufficient extent. Our hope is that the situation that has arisen in Scania is a question of a cultural clash between two models of corporate governance for which a solution can be found before the next annual meeting.

Earnest work on improvement

Furthermore, we believe that sustainability must be based on our own conditions and be adapted to each specific investment. Our work on sustainability and corporate governance is therefore adapted to the types of assets and management model.

The cases I have brought up are built on AP4's credibility in acting as a long-term owner. Our ambition is to try in earnest to further improve ourselves.



Mats Andersson, CEO

CO₂ Greenhouse gas emissions are improperly priced

• CO₂ 2012 USA

During the autumn of 2012, AP4 invested in a “green” stock index in the United States. It is a low-greenhouse gas strategy that drops companies with the greatest greenhouse gas emissions. The strategy favours the most environmentally friendly companies, which have the least greenhouse gas emissions. It also favours companies that improve themselves and reduce their emissions.

• CO₂ 2013 Emerging markets

During 2013, AP4 has carried out a project for investing in a similar low-greenhouse gas strategy in emerging markets. It's a strategy that favours companies with lower greenhouse gas emissions and companies with lower fossil fuel reserves as well. The strategy drops both companies with high greenhouse gas emissions and companies with extensive fossil fuel reserves.

With few exceptions, most people are currently in agreement that carbon dioxide is having a negative impact on the climate. AP4 is of the opinion that emissions of greenhouse gases over the long term will be associated with higher costs. Companies with higher emissions and reserves will be evaluated and priced in different ways than they are today.

AP4 believes that current company valuations do not reflect the increased costs of fossil fuels. Companies with fewer emissions than their competitors will have an economic advantage and a relatively better value performance.

Companies with large emissions are dropped

The strategies follow established indices, and the companies that produce more greenhouse gases such as carbon dioxide compared with other colleagues in the industry are dropped. This takes place on a sector-neutral basis – that is, the worst company in each industry is dropped.

Improvements are rewarded

The companies are regularly evaluated on the basis of their emissions and fossil fuel reserves. Companies that implement improvements are rewarded with the opportunity to appear in the different indices of the strategies.

Gratifyingly, the American low-greenhouse gas strategy, with 350 companies selected, has developed considerably better than its

comparison index, the S&P 500. The evaluation period, however, is so far very short. If AP4 is correct in its assessment that greenhouse gases will be evaluated and priced differently in ten years than they are today, the low-greenhouse gas strategy will yield extra returns at approximately the same risk.

“The investments are a step in order to encourage AP4’s global equity portfolio to transition to a low-carbon economy.”

Facts about greenhouse gases

What are greenhouse gases?

Gases that trap heat in the atmosphere are called greenhouse gases, as they contribute to global warming through the greenhouse effect.

Carbon dioxide (CO₂) and methane gas

One greenhouse gas that has gotten a great deal of attention is **carbon dioxide (CO₂)**. It is formed in the combustion of fossil fuels (coal, natural gas, and oil), for example, as well as rubbish and wood. Carbon dioxide disappears from the atmosphere when it is absorbed by plants as a natural part of the biological carbon cycle.

Methane gas, another greenhouse gas, is approximately 20 times more powerful. It is given off from things like animal droppings and the thawed tundra of the Northern Hemisphere.

Why is the greenhouse effect detrimental?

When the natural cycle is in balance – living plants and trees manage to absorb the greenhouse gases – the greenhouse effect is good. It makes it so that the Earth has an atmosphere and a climate where people and animals can live.

But when people disrupt the balance through increasing the natural amount of greenhouse gas through combustion of fossil fuels, the temperature of the Earth rises and the climate changes.

How is the emission of greenhouse gases measured?

Each gas is compared with its influence on global warming. The measurement used is ton of carbon dioxide (CO₂)-equivalent gas. Carbon dioxide has a value of 1, while methane gas has a value of 20.

Apache on corporate governance

“Shareholders presumably underestimate the value that companies place on letters and other input they receive from their owners,” says Sarah Teslik, Senior Vice President Policy and governance at Apache Corporation in Houston, Texas.

“Companies notice, of course, when voting support for issues or directors drops and when stock price changes indicate shareholders are reacting to company decisions. But companies don’t always know *what* it is that shareholders are concerned about or what company actions and follow up they would most value. Letters can help fill these gaps”, continues Sarah.

AP4 wrote an explanatory letter to Apache about why AP4 voted against certain proposals from the board. Are letters a good ownership tool for interaction?

This kind of letter is an excellent example of the kind of communication that makes a positive difference. It is clearly company-specific, which gives it credibility and is focused on specific decisions which makes it easier for the company to understand both what the concerns are and what the most valuable follow up actions would be.

Can individual letters contribute valuable viewpoints?

In the last couple years it has become somewhat more common for a few large shareholders to send a letter after our AGM to explain any votes cast that were not aligned with the board’s recommendations. Most of these are also essentially form letters with blanks left to insert the company-specific issues.

A small number, however, are written specifically for Apache. It is these individual letters that tend to provide the most valuable input.



Do you often get letters from shareholders?

There are still relatively few individual-to-Apache letters sent; most are part of some larger campaign targeting many companies. Only one of Apache’s ten largest holders has ever sent us a letter on governance subjects, and that letter was a form letter sent to all the shareholder’s portfolio companies.

Non-US shareholders of Apache’s are taking the lead in reaching out to the company to ask for meetings or phone calls and to discuss issues specifically identified as being important to the company

What is the routine when you receive a letter?

Absent usual situations (such as when a letter is really a marketing initiative or reflects a personal grievance not

Pilot projects with letters and dialogue after the AGM

Together, the First through Fourth AP funds have conducted a pilot project with personal letters addressed to the boards of companies abroad where the AP funds voted against the board’s proposals.

The letter explains AP4’s standpoint at the AGM and why AP4 voted against proposals from the board. The letter is followed up with a personal telephone call where the issues are discussed with the companies.

The companies selected in 2013 were large, top-ranking businesses. They operate in various sectors and markets, and were companies where all AP funds voted the same way at the AGMs

The positions brought up in the letters were issues such as why AP4 does not like that the CEO and the chair of the board are the same person. Other positions are that the incentive programme should have requirements on the participants’ own investment or performance requirements, that emissions should have a limited dilution, and that the emissions mandate should be time-limited.

Read more about the pilot project in this report under the heading “The meeting season abroad”.

connected to board-level issues), letters from shareholders are immediately forwarded to the person or people to whom they are addressed (for example, the Lead Director, the CEO, or the compensation committee chair) so that replies can be drafted. It is Apache's practice to reply to all substantive shareholder correspondence.

In addition, any shareholder letter that raises board-level issues will be included in the materials for the board's corporate governance and nominating committee so the letter can be discussed at the next committee meeting. These letters and our replies will also be posted for the entire board to see on the board's website.

Can one letter make a difference?

Although Apache replies to shareholder correspondence, the full impact of shareholder input may not be felt for months or years, and may not, even then, be clearly linked to specific shareholder comments. This also may prompt shareholders to underestimate the value of engagement.

The focus on the calendar-year cycle from AGM to AGM tends to obscure the lasting impact of constructive engagement which often occurs over more extended periods of time.

Apache tries to let shareholders know when their input has had a significant impact on a particular decision. For example, Apache contacted quite a few of its large shareholders to thank them for their suggestions after we made changes to our executive compensation plans most of which were raised or supported by these shareholders.

US "say on pay" has been criticized for not being successful enough?

There are people who say that "say on pay" has been disappointing because it has caused some shareholders to use the vote for-and-against directors less (a vote perceived to be more innately powerful), and because the vast majority of pay plan receive overwhelming support.

However, we think better arguments can be made that the impact of say-on-pay is substantial—and growing.

One of the least visible but most important effects of this new requirement is that there is more communication between companies and their shareholders.

Because these conversations are carried out privately, they may be under-estimated. Some of these exchanges have revealed to each of the parties that they didn't understand as well as they thought they did what the other party wanted. Up until this year, really, most companies that considered themselves governance-forward only engaged with shareholders when a vote was pending or a traditional activist

campaign was brewing. What was called "engagement" was really little more than proxy solicitation.

This year, however, more companies are extending their engagement to include conversations and meetings outside of proxy season. As you know, Apache may be the leading example of a company for whom engagement is personal, real, and on-going. Some companies are following our lead and have adopted policies requiring Lead Directors or others to have such exchanges every year. Discussions over pay plans have been the starting point for some of these on-going exchanges. This trend makes it hard to call 'say on pay' a failure.

Would the Swedish model of corporate governance model work in the US?

The relative concentration of ownership of Swedish companies in the hands of Swedish shareholders makes Swedish nominating practices easier to initiate and maintain in Sweden than in the US.

However, US companies do periodically get suggestions

from their large shareholders for specific skill sets that should be represented on the board. These exchanges are the exception rather than the rule, but they are occurring a little more frequently than in the past.

What suggestions from owners do you get about individuals on the board?

Most of the interaction between large institutional investors and US companies concerning individual board members is still focused on shareholder comments on currently serving directors, not suggestions for new candidates to replace those directors. Indeed, most director voting by US shareholders is linked to issues such as meeting attendance, independence qualifications or specific board decisions rather than concerns about individual directors qualifications or performance.

Say-on-Pay

"Say-on-Pay" is a term describing that the Annual General Meeting (AGM) of US-based companies since 2010 is supposed to vote regarding the question if the level of already paid senior management remuneration is relevant or not. The result of the vote is a recommendation, not a governing decision for the level of compensation. Critics believe that say-on-pay is a reform without teeth, since the shareholders in the AGM do not have the right to decide upon the level of future remuneration for the senior management. Shareholders in, for example, Sweden are however entitled this right. "Say-on-pay" is today applied in, for instance, the UK and Switzerland.

"Apache's non-American shareholders are in the lead as regards requesting meetings or telephone calls to discuss questions that are considered especially important to the company."



Ownership power in Germany

“Did you know?”

Germany is the second-largest equity market in Europe... Foreign ownership in Listed German companies is large... Shares without voting rights are common in Germany... and...Employees have great influence over listed German companies...

Shares without voting rights

Shares without voting rights, or preferred stock, is relatively common in companies listed on the German stock market. In some of the larger companies, preferred stock comprises the type of share that is the most sold. Up to half of all shares issued in listed companies can be preferred stock.

In Sweden, preferred stock is still unusual; it is found chiefly in a number of medium-sized Swedish real estate companies. Sweden has no limitations on how large a portion of shares issued can be preferred stock.

Price differences between normal common stock (with voting rights) and preferred stock is due on the one hand to differences in the level of dividends between the different types of shares and how the right to vote is valued.

The Germans own less than 50%

Around 15 years ago, German banks and insurance companies were the predominant owners of German companies. This has changed. After changes in the German tax on shares around 15 years ago, foreign non-German ownership is today more than 50%. The foreign owners of the listed German companies come primarily from other countries in Europe and the United States.

The share of foreign ownership on the Swedish stock exchange is lower, approximately 40%.

Two boards in German companies

At first glance, the German corporate structure appears very different from the Swedish. German companies have two boards: the Aufsichtsrat and the Vorstand. Aufsichtsrat is sometimes called “överstyrelse” (central board) in Swedish, and best corresponds to the function that a Swedish board of directors has. Vorstand is sometimes translated as “understyrelse” (management board) in Swedish, and is the counterpart to the management in a Swedish company. The German shareholders’ meeting selects the Aufsichtsrat (board), which in turn appoints the Vorstand (company management).

The hierarchical structure in German companies can therefore be said to be quite similar to the Swedish corporate structure, where the AGM appoints the Board, which in turn appoints the CEO.

Differences and similarities between Germany and Sweden

Function	Sweden	Germany
The Board	<p>Normally, representatives of the largest owners and at least two (2) members who are independent in relation to the company’s larger owners; often no one from company management.</p> <p>According to the Code, at most one representative from company management may be included on the board; this place is normally taken by the CEO.</p>	<p>In listed companies with more than 2,000 employees, half of the members are chosen by the AGM. The other board members are chosen by the employees through direct or appointed electors. These members are normally employed at the company, but persons from the trade union confederation who organise the employees at the company can also be elected as a board member by the employees.</p>
Chair of the Board	May not be the same person as the CEO.	May not be the same person as the CEO.
Auditor	Chosen by, and reports to, the AGM.	Chosen by the AGM, but reports to the Board.
Nominating committee	The annual meeting determines how the nominating committee is appointed. Normally, the nominating committee is comprised of representatives from the company’s largest owners.	A nominating committee for the members chosen by the AGM is appointed by a Board committee.

Only half the board selected by the AGM

In many listed German companies, the annual meeting selects only half the Board. The remaining half is elected by the employees.

In Sweden, the AGM selects the entire Board.

The Board proposes itself

In German companies with more than 2,000 employees – that is, most of the listed companies – only half the Board, including the chair of the shareholders, is chosen at the AGM. The rest of the Board members are elected by the employees.

The proposal for the Board members chosen by the AGM is prepared by a committee (Nominierungsausschuss) of members from the sitting Board. That is, the Board members chosen by the AGM in practice often propose themselves.

In Sweden, as a comparison, the entire Board is selected by the shareholders' meeting. The proposal for the Board is most often prepared at the request of the AGM by a nominating committee comprised of the largest shareholders.

Employees have a great deal of influence

The employees of the company elect half the Board. These members are elected either directly (smaller companies) or via appointed electors (larger companies). The persons elected as Board members are often employees at the company or

union representatives from one of the trade unions that organise the employees in the company. At least one of the Board members elected by the employees must represent the higher-ranking office workers in the company.

How are decisions made on the Board?

On the Board (Aufsichtsrat) all members have one vote each except the chair, who has two votes. This ensures that the Board is competent to act even if the members chosen by the AGM and those elected by the employees have different opinions on an issue.

On a Swedish Board, all members have one vote each, even the chair.

The Board proposes auditors

In Germany, it is the Board that proposes which auditors the AGM is to choose. The auditor's report is also delivered to the Board, which approves it. It may happen that the shareholders come up with counter-proposals for auditors, but the absolutely most common outcomes is that the proposal of the Board for auditors is passed at the AGM.

In Sweden, it is clearer that the auditors are the express control unit of the owners, since the nominating committee proposes the auditors. In Swedish companies, the auditor's report is delivered to the owners, and the annual general meeting approves it.

Differences and similarities between Germany and Sweden

Function	Sweden	Germany
Decision-making process	Owning one share is sufficient.	Owning one share is sufficient.
Allowed to present a proposal to the AGM?	Owning one share is sufficient.	Owning one share is sufficient.
How many proposals?	No requirements or limitations on number or formulation.	No requirements or limitations on number or formulation.
Are submitted proposals handled by the AGM?	Yes, if the proposal is part of the notice to attend the meeting.	Yes, if the proposal qualifies to be included as part of the notice to attend the meeting. No time limit for proposals that are tabled by the proposer at the AGM.
When must the proposal be submitted?	A proposal must be part of the notice to attend the AGM, which is made public four to six weeks before an ordinary meeting.	A proposal is published in the notice to attend the AGM if it comes in at least five weeks before the meeting from an owner with more than 5% in the company. Counterproposal to the proposal in the notice to attend is published on the company's website, if it comes in at least two weeks before the AGM. Smaller owners can submit proposals directly at the AGM.
Can the same proposal be submitted several years in a row?	Yes.	Yes, but with certain limitations if the proposer has less than 5% ownership.

The Swedish model of corporate governance

The Swedish model is simple and clear, with a hierarchical allocation of responsibilities.

The nominating committee is appointed by the owners and prepares proposals for such things as the Board and the auditors.

At the AGM, the owners select a Board, which appoints the CEO.

The auditors are appointed and selected by the owners, and also report to the owners.



The German model of corporate governance

In the German model, the Board has a more central role. The German Board also serves as nominating committee for the members chosen by the AGM.

Half of the board members are chosen by the employees.

The auditors are chosen by the AGM but are proposed by the Board, whom they also report to.



Sustainability – a part of AP4’s business model

AP4 is convinced that sustainability contributes to a sustainable solid return. Sustainability in management both ensures awareness of risks and takes business opportunities into consideration. This conviction is reflected both in the management structure and the business model.

Over the past few years, AP4 has developed both its management structure and its business model in order to better profit from its long-term mandate and the business opportunities with longer investment horizons that AP4 has identified and actively seeks out.

The management structure has a clear platform for strategic investments with investment horizons of 3 to 15 years. This is a new structure that has been in place since the end of 2012. AP4’s ESG¹ investments with a marked sustainability and/or corporate governance profile often have a relatively long investment horizon and are therefore often found in strategic management.

AP4’s business model is built on four cornerstones of criteria according to which the fund works, and which must be met in the various investment strategies and mandates.

- **Long-term thinking**
Compared to many other pension managers, our rules and regulations provide AP4 with good opportunities for being forward-looking and for such things as tolerating volatility. AP4 tries to profit from the opportunity for a long investment horizon. As a long-term investor, it is natural to pay attention to sustainability as a part of the investment.
- **Transparency**
AP4 strives for simple, clear solutions. We measure risk, cost and return in order to be transparent in the best possible way.
- **Individual**
AP4 works with individuals who have functioning management models, not the other way around.
- **A businesslike nature**
We ask ourselves what is best for the pensioner with the aim of creating the best total return for the lowest cost possible.

Various paths and tools

AP4 considers having the freedom of choice and the opportunity to be able to choose different paths and tools for how best to pursue corporate governance and sustainability in our investments to be crucial in being able to achieve success with preserving profitability and low risk.

The rapid development and increased awareness of corporate governance and sustainability in the past few years also means

that tools and methods for how the work can be carried out must be dynamic. It is both a necessity and an important competitive advantage.

Continuous work that is developing

Sustainability work is continuous work that is constantly developing. Sometimes it can take larger steps, but often it’s a question of many smaller steps that can require persistence, patience, and perseverance.

AP4’s work on sustainability is adapted to the types of assets and management model in the various mandates. These all have different conditions, which affects how our sustainability work can best be carried out. Sustainability is thus based on our own conditions and be adapted to each specific investment.

Finding our way – often takes, and is given, time

In long-term investments, for example express sustainability and corporate governance investments, AP4’s experience is that it takes time to find our way.

Take, for example, AP4’s conviction that carbon dioxide emissions are improperly priced; we held this conviction long before the first investment could be carried out at the end of 2012.

It can take time to go from idea to a completely developed new investable strategy. The strategy must fulfil a number of investment criteria and should preferably be scalable; this often requires comprehensive preparatory work before the structure, trading and risk systems, agreements and so on are in place. Also finding individuals with functional management models often takes, and is given, time.

Profitability – for “sustainable” sustainability

AP4’s assessment that the investment strategy will be able to provide solid returns at low risk is fundamental for our carrying out the investment. This applies to all AP4 investments, and also corporate governance and sustainability strategies.

Rooted locally – sometimes a necessity

In terms of value, Japan is the third largest market on the MSCI World Index; therefore it is an important market. Linguistic and cultural differences constitute an obstacle to successfully conducting investor dialogue there for AP4. In Japan, therefore, AP4 has chosen to pursue corporate governance with the help of a Japanese partner who can contribute networks, language and insight into the cultural differences.

¹ Ethical, Social, and Governance (ESG) – the name often used for questions concerning the environment, ethics and governance.

Corporate governance work during 2012/2013

AP4's corporate governance work starts from the responsibility of protecting and developing the capital invested, and through that contributing to an adequate return on the fund's investments.

Long-term owners

AP4 has a very special position as owner on the Swedish securities market, since its apolitical and independent position is fixed by law.

AP4 belongs to no ownership spheres or groupings, but works solely in the best interests of the company and its shareholders for the purpose of contributing to a solid return on the fund's investments.

Over the years, AP4 has been very active in the development of modern Swedish corporate governance, which facilitates and favours the fund's opportunities to gain a hearing for its standpoints.

Ownership policy

AP4's work on corporate governance issues is guided by the ownership policy that the Board of the fund establishes yearly. The ownership policy summarises the guidelines for corporate governance in Swedish and foreign companies. Ownership issues are handled by the chief executive officer of the Fund or, if so delegated, by another clerical worker at the Fund.

The guidelines of the ownership policy aim at promoting the overall goal of the Fund to create the best possible return over time through fund capital management, thereby contributing to the stability of the national pension system. The AP4 ownership policy has been published online at www.ap4.se.

For the best interests of the company and its shareholders

Our ownership policy must safeguard the best interests of both shareholders and the individual company. It must take the individual company's unique conditions and needs into consideration, as well as aim at contributing to the best return possible over the long term. Considering the tasks of the Fund and its opportunity for being a long-term investor, it is chiefly questions of how value is built over the long term that are in focus.

Swedish law and the Code

Our ownership policy is formulated based on the laws that govern AP4's activities and the *Swedish Code of Corporate Governance* ('the Code'). *The Code* summarises the principles that for many

years have been the voluntary practice on the Swedish equity market. It is built up according to the principle "follow or explain", which gives the company the right and the opportunity to deviate from it.

Properly justified deviations are good

AP4 believes that a properly justified deviation can be better for the company than following a specific rule in the Code.

Demanding owners force change

AP4 believes that owners who take responsibility remain as owners and try to influence the company through imposing requirements and pushing through positive change. For the fund, conducting a demanding dialogue with the management and Board of the company means that there will be more people who are accountable to the company, who will follow up and who will act so that any improprieties are taken care of. The Fund makes a positive difference through involving itself as an active owner that takes responsibility.

AP4's corporate governance work should work for the best interests of the company and its shareholders for the purpose of contributing to a solid return on the fund's investments.

Dialogue – the principal tool

Direct dialogue with the boards, corporate management, and other owners at the companies involved most often work the best and is the Fund's principal means in its role as owner.

One condition for dialogue to succeed is that it take place with the greatest trust between the parties. It is therefore not possible to make public all the dialogues conducted in the ongoing corporate governance work of the Fund. In cases where the dialogue does not lead to change, the Fund can push its opinion further at the AGM through interjections or protests, or through voting against the current proposal.

Proactive and reactive work for improvement

AP4 contacts companies and discusses issues and areas concerning environment and ethics. The Fund also works on "industry initiatives" where the goal is to raise the standard in an entire industry. This is important work also in order to promote the neutrality of competition, so that a company that holds a higher standard within environment and ethics is not dropped for reasons of competition to the advantage of a company that has not come as far.

Suspensions of improprieties

AP4 conducts dialogues with companies in the event of an incident or upon suspicion of improprieties. It is the conviction of the Fund that active, responsible owners are needed to propel positive changes and persuade companies to take more responsibility. This applies both to companies both in Sweden and abroad.

Selling shares rarely solves problems

If AP4 terminates its ownership, the problem in question will not disappear; the improprieties will go on. Divestment of the Fund's holdings is therefore an absolutely final expedient when the possibility of having an influence is judged to be futile.

Exclusion of companies

Dialogue is AP4's principal tool in influencing the actions of a company. Changes can take time, but if it turns out that there is no interest in changing within the company or that the process of change is taking an unjustifiably long time, the Fund may choose to divest from the company. A decision like this means that AP4's holdings of all securities issued by the company, regardless of whether they are internally or externally managed, will be liquidated under the arranged forms.

In accordance with its values, AP4 has excluded companies that are directly involved in the production or marketing of anti-personnel landmines or cluster weapons from its investment universe. Companies can also be divested if they violate the *UN Global Compact* and the *OECD Guidelines for Multinational Companies*, and where the dialogue conducted by the Fund with the companies has not led to improvements.

A list of excluded companies can be found on the last page of this report (information as of 30 Sep 2013). For current information on excluded companies, see www.ap4.se.

Values for environment and ethics

Making a difference is the guiding principle in AP4's values regarding the environmental and ethical dimensions in companies' operations. The values are based on the principles of:

- involvement,
- action and
- requirements for change.

These values are the same for the First, Second, Third, and Fourth AP Funds. As a part of the Swedish pension system, the AP Funds build their principles of involvement, action and requirements for change on the same values as the Swedish state.

The values of the Swedish state

Democracy, the equal worth of all people, the freedom and dignity of the individual and sustainable development are fundamental parts of the values of the Swedish state. All this is in accordance with the formulations of the Swedish Constitution.

International conventions

The values of the Swedish state also find expression through the international conventions that Sweden has signed, among them conventions on the environment, human rights, labour law, corruption and inhumane weapons; through the support Sweden gives to initiatives such as the UN Global Compact and the OECD Guidelines for Multinational Companies; and through Sweden's positions on issues of international law.

Together with the values of the Swedish state, these international conventions comprise the principal instruments for the Ethical Council in its work on ensuring that the AP Funds show the necessary consideration for environmental aspects and ethical dimensions in their activities.

Through starting from international conventions and through collaborating with other investors, the Fund can be a part of international collaboration on the finance market that ensures that violations of the conventions are noted and that problems are taken care of.

Corporate governance in Swedish companies

AP4 prioritises corporate governance work in companies where the Fund has significant shareholdings or is one of the larger owners.

At mid-year 2013, AP4 had a Swedish equity portfolio with a market value of approximately SEK 37 billion. AP4 was thereby one of the ten largest Swedish institutional owners on the Swedish stock market. The Fund owned shares in 139 listed Swedish companies, of which the largest shareholdings were found in the smaller companies.

The right to vote is an important tool

During the period from July 2012 up through June 2013, AP4 was represented at 53 Swedish shareholders' meetings, of which 46 were annual meetings. AGMs are prioritised for the companies where the Fund has a substantial ownership interest.

We have several tools

Apart from dialogues and voting at AGMs, AP4 also participates in nominating committees and supports various organisations in order to contribute to developing processes and practices within corporate governance and to promoting ESG. The Fund also strives to be active in issues of fundamental significance within the field of corporate governance in order to serve the development of the equity market.

37

billion kronor invested in listed Swedish companies

139

listed Swedish companies

AP4 works on corporate governance in Sweden through:

- voting at shareholders' meetings
- participating in nominating committees
- conducting dialogues prior to shareholders' meetings
- conducting dialogues with the boards, management and other owners of companies
- collaborating with other owners and organisations in order to pursue issues with increased weight
- developing processes and practices in corporate governance
- participating in the development of the self-regulation system of the Swedish equity market
- supporting organisations and projects that promote sustainability and ESG (Environmental, Social and Governance)
- Furthermore, the Fund strives to be active in issues of fundamental significance within the field of corporate governance

Corporate governance in foreign companies

AP4 prioritises corporate governance work in the companies with which the Fund conducts dialogues through the Ethical Council, as well as the larger foreign companies in the Fund's equity portfolio.

AP4 uses various tools for corporate governance abroad depending on the company and country. Important tools are those like exercising the right to vote at shareholders' meetings and collaboration with other institutional owners in order to pursue important issues of principle with greater weight

At mid-year 2013, AP4 had approximately SEK 97 billion invested in approximately 1,540 foreign equity market companies.

Voting in foreign AGMs

During the period from July 2012 up through June 2013, AP4 voted in 507 foreign AGMs; our ambition is to gradually increase that number. The increase will take place step by step for preserved quality in the standpoints of the Fund.

Increased institutional owner collaboration

On the Ethical Council, the Fourth AP Fund collaborated with the First, Second, and Third AP Funds around ownership issues concerning the environment and ethics abroad. AP4 also collaborates with one or more institutional owners from other countries, as well as within various industry initiatives in order to increase the opportunities for influencing companies. We also work with various stakeholders' organisations.

97

billion kronor invested in foreign listed companies

1,540

foreign listed companies

507

foreign shareholders' meetings

AP4 works on corporate governance abroad through:

- voting at shareholders' meetings
- submitting or supporting shareholder proposals at shareholders' meetings
- conducting dialogues with the boards, management and other owners of companies
- collaborating with other owners and organisations in order to pursue issues with increased weight
- supporting organisations and projects that promote sustainability and ESG (Environmental, Social and Governance)

The Swedish annual general meeting season

The annual general meeting is the shareholders' primary forum, and the right to vote is one of the most important and most effective tools an owner has to influence a company.

AP4's ownership policy summarises the guidelines the Fund follows when voting at AGMs; they are general in nature. The Fund often conducts dialogue with companies about future proposals that the shareholders' meeting (annual meeting or extraordinary meeting) is to take a position on.

During the period from July 2012 up through June 2013, AP4 was represented at 53 Swedish shareholders' meetings, of which 46 were annual meetings. AGMs are prioritised for the companies where AP4 has a substantial ownership interest or is a major holding in the Fund's portfolio.

Apart from AGMs where AP4 is physically represented, the Fund votes via proxy voting (submitted in writing) in companies listed on Swedish exchanges but which are legally domiciled in another country. During this period, AP4 has made use of proxy voting in five cases.

Notice to attend the annual general meeting

AP4's ambition in Sweden is early on, preferably before the company has sent out the notices to attend, to conduct dialogue with the company and work for more open reporting, to resolve differences of opinion or to reach a compromise in order to vote for the final proposal at the AGM. AP4 often conducts dialogue with companies about future proposals that the shareholders' meeting (annual meeting or extraordinary meeting) is to take a position on.

Dialogue before the notice to attend is published

Many of the proposals handled at the shareholders' meetings (annual meeting or extraordinary meeting) are therefore the results of a dialogue and gaining support among the larger shareholders prior to the AGMs. The owners are thus given the opportunity to bring out their viewpoints on the contents of the proposal, as well as the basis for decision presented.

When AP4 does not gain a hearing

If, despite dialogue with the company, a final proposal is not acceptable, AP4 may vote against the proposal or withhold its vote. A further alternative used is to vote for the proposal, but with a statement of opinion or protest read into the minutes.

53

Swedish shareholders' meetings where AP4 was present and voted

Remuneration for management

The ownership policy established by the Board of AP4 shows clearly that remuneration for the holders of leading positions is primarily a concern of the Board of the company and not an issue that, in its concrete formulation, is to be determined by the shareholders' meeting.

Even if the annual meeting, in accordance with the Swedish Companies Act (SFS 2005:551) is to decide on guidelines for remuneration, it is the Board of the company that is responsible for the total remuneration (that is, the sum of fixed and incentive-based remuneration and other benefits) being carefully structured and adapted to the company's conditions.

Prioritised issue

Issues of remuneration have always been a priority in AP4's corporate governance work, and they have become increasingly more important both as a corporate governance issue in itself and in the light of the recent debate around remunerations in listed companies. The norms emphasised in the Government's guidelines for conditions of employment for holders of leading positions in the AP Funds have played an important role in this development. In these guidelines, the Government has established that the total remuneration for holders of leading positions in the AP Funds must be reasonable and carefully structured. It must also be competitive, have a salary ceiling, and be suitable, and it must contribute to a good ethical and organisational culture. Variable compensation is not to be given to holders of leading positions in the AP Funds; it is, however, possible to pay variable compensation to the other employees.

In these guidelines, the Government further writes: "In companies where the AP Funds, either directly or through a company, are partial owners, the AP Funds and the company respectively, in dialogue with the other owners, work to apply these guidelines to the greatest extent possible."

The starting point is to try to resolve any ambiguities or differences of opinion before the shareholders' meeting, so that the Fund can support the final proposal.

In the AP4 ownership policy that the Board of the Fund established in 2009 immediately after the Government's guidelines were announced, the Board clarified and tightened up the requirements for remuneration programmes with elements of incentive-based remuneration. This has been confirmed in ownership policies established thereafter.

As a State pension fund, it is extremely important that SP4's actions on this issue inspire confidence. AP4's evaluation of proposed remuneration programmes has therefore been further systematised and tightened up as a consequence. Each remuneration programme AP4 votes on is evaluated in detail against the requirements in the Fund's ownership policy. AP4 and other institutions' dialogue with companies on remuneration issues has led to an improvement in proposals submitted.

Harmonise with shareholders' long-term interests

AP4 believes that incentive-based remuneration programmes directed at holders of leading positions should harmonise with shareholders' long-term interests.

They should reward positive long-term performances, but also work in the opposite direction. When the desired performance does not take place, the remuneration in total should be lower. People in these positions should therefore aim at clear, measurable performance in order to receive incentive-based remuneration. The remuneration should also be equipped with a ceiling.

AP4 therefore imposes strict requirements regarding the formulation, evaluation, and transparency of the programmes. They should be both "explainable and defensible". The Board of the company should be able to explain to the shareholders how the remuneration programme works and what the evaluations of these show.

In its ownership policy, the Board of AP4 decides what should be observed in particular for the Fund to be able to vote for the proposal in the annual meeting.

AP4 imposes strict requirements regarding the formulation, evaluation, and transparency of the remuneration programmes. Simply put, the remunerations should be both "explainable and defensible".

10

AP4 was one of the 10 largest Swedish institutional owners on the Swedish stock market

Dialogues on remuneration

As a result of several years of involvement in the remuneration issue from the Fund and other financial owners, the incentive programme has gradually been improved as regards transparency and links to performance. In the great majority of cases, the discussions between the Board and the owners contribute to a

better formulation of the programme. One trend that can be pointed out is that the share of programmes with their own contribution and/or performance conditions has increased markedly.

AP4's ownership work prior to the 2013 annual general meeting season, focused on such things as the companies' proposals for remuneration and incentive programmes for holders of leading positions. The Fund contacted and conducted dialogues with a large number of the companies whose AGMs they participated in.

After comprehensive discussions with many companies prior to their annual meetings over the past few years, both before the dispatch of the notice to attend and prior to the AGMs, AP4 has noted a clear improvement of the remuneration programmes.

Prior to this year's AGMs, AP4 conducted dialogues with fewer companies than it has in previous years. There were also fewer questions per company to discuss. Most companies are responsive and embrace viewpoints from the shareholders. During this AGM season, AP4 therefore did not vote against any proposed remuneration programme.

Questions of fundamental significance

Equal treatment of shareholders is an important fundamental principle for AP4, which means that issues are to be carried out with right of priority for existing shareholders.

AP4 therefore disapproves on principle the general authorisation of issues without right of priority for the shareholders. AP4 believes that shareholders should be part of deciding to whom, at what price, and under what conditions a non-public issue of shares is to be carried out, since an issue can drastically change the ownership structure of a company.

The advantages to the company of getting a general authorisation by the shareholders at the annual meeting are, above all, a shorter implementation period and a lower cost compared with calling an extraordinary meeting if the Board would like to utilize its mandate.

The shareholders, whose capital risks being diluted under unknown conditions if another party has right of priority on buying into the company at a possibly discounted price, are however depriving themselves of the right to make their voices heard.

Smaller issues against subscription

AP4 finds it therefore easier to accept giving up the general authorisation if smaller issues against subscription without the right of priority in the acquisition of smaller companies or smaller portions of companies.

In several cases, these companies have embraced viewpoints concerning issues without right of priority, and more often explain that the issue is to be used only as payment in the acquisition of companies.

Clear authorisation for repurchase

Proposals regarding repurchase of a company's own shares must be properly justified, just as the conditions under which the Board may make use of any authorisation must be.

One of the tasks of the Board is to work to achieve a carefully structured capital structure. Repurchase of the company's own shares are one of the available tools that can be used. AP4 does not believe that sales of repurchased shares on the stock market should be allowed, except if it takes place as part of what is called

"hedging" of the company's share-related incentive programme. In the even there are several types of shares, the least expensive share type must always be repurchased.

Annual general meetings, spring 2013

For several years, AP4 and other institutional owners have conducted dialogues prior to AGMs with companies about doubtful proposals, which is why we have been able to explain many disagreements and questions before the meetings.

The shareholders should be part of deciding to whom, at what price, and under what conditions a non-public issue of shares is to be carried out, since an issue can drastically change the ownership structure of a company.

The result of this long-term work and of the dialogues this year is that companies, in a number of cases, have changed or clarified their proposals in accordance with AP4's wishes.

But at two AGMs, AP4's opinions were not given a hearing. One of them was Scania's annual meeting, where AP4 voted against the principal owner, and was against the abolition of Scania's nominating committee. The other annual meeting was for Lundin Petroleum, where AP4 voted for a proposal

on a change to an existing remuneration programme. The proposal did not get sufficient support to be voted through.

Scania – preserve the nominating committee

Over the last few years Scania's principal owner Volkswagen has, according to AP4, not acted with sufficient consideration towards the large minority in Scania (40% of the capital).

Volkswagen has done things such as pushing through a reduction in the number of owners to be included on Scania's nominating committee, which in practice is dominated by Volkswagen and its subsidiary MAN. According to *the Code*, a nominating committee and a Board must always act in the best interested of all the shareholders. As regards Scania, the lack of faith from the larger minority owners in their opportunities to influence the proposals of the nominating committee for Board members is deep.

Prior to Scania's AGM in 2013, the nominating committee dominated by Volkswagen put forward a proposal to abolish Scania's nominating committee entirely. AMF, the only owner representative on the nominating committee detached from the Volkswagen group, dissented against the proposal.

Together with several of the larger Swedish institutional owners, AP4 conducted a dialogue with the principal owner, Volkswagen, about keeping Scania's nominating committee. There was no

interest from Volkswagen's side, however, either in this kind of dialogue or in having a nominating committee in Scania.

The nominating committee was abolished at the AGM despite strong, unified protests from the larger Swedish institutional owners, AP4 among them.

Lundin Petroleum

Prior to the 2013 Lundin Petroleum AGM, the Board put forth an unusual proposal for a change in the previously existing remuneration programme for holders of leading positions.

AP4 believes in general that any changes to already existing programmes must be done with great care. The proposal for the change in this case dealt with the value of accrued or conferred synthetic options being paid out as shares in the company (already owned by Lundin Petroleum) instead of in cash.

In this case, AP4 expressed its support for the proposal on payment of remuneration in shares (already owned by the company) instead of cash. AP4 believes that participants in the programme would be given an increased long-term incentive, through shares instead of cash, to work for greater shareholder value by getting exposure to the company through shares in the same way as other shareholders. The proposal for change was not adopted by the AGM.

For the other AGMs, read more at www.ap4.se.

Different ways to act – when an owner does not support a proposal

If a shareholder does not support a proposal from the Board presented in the notice to attend the AGM, there are different ways to act on this. The owner can, despite having a dissenting option regarding a specific proposal, still trust the Board.

Depending on which issue it deals with and which majority requirement applies, it can have more or less serious consequences for the ongoing activities of the company if a proposal is voted down. Below are some of the different options that Swedish owners usually use.

Prior to the annual general meeting

- Sell their shares. Sales can be a way out if an owner does not feel he has confidence in the Board or does not feel the company is acting in the right way. Upon the sale of shares, the owner is at the same time depriving himself of the opportunity to try to influence the company at the AGM.
- Not participate in the AGM.
- Influence through conducting a dialogue with the Board, either individually or through joint action together with the other owners, in order to get the Board to change its standpoint and/or perhaps withdraw the proposal.

At the AGM

- Voting for a proposal despite the owner not thinking it has been formulated in the best way. The owner can then comment on the proposal, explain his views, and ask to have his commentary recorded into the minutes. But still choose to vote for the proposal.
- Abstaining from voting involves a stronger indication. Even then, the shareholder can comment on and explain his actions, and ask to have his commentary recorded into the minutes. Abstaining from voting can make it more difficult for the Board to get its motion through.
- Finally, there is the possibility of voting against the proposal.

Nominating committee

AP4 prioritises putting resources into listed Swedish companies having the best Boards possible.

A good Board promotes the unique conditions and needs of the individual company, thereby contributing to the best possible return for the Fund and the other shareholders in the company.

Both an opportunity and an obligation

AP4 considers participating in nominating committees as both an opportunity and an obligation. As an owner, AP4 has a responsibility towards its companies to participate in nominating committees, as we have a requirement that they follow the *Swedish Code of Corporate Governance* ('the Code'), which requires that the companies have a nominating committee.

The Code today shows clearly that there must be nominating committees in all publicly quoted companies. Nominating committees promote a systematic nomination process which – in AP4's opinion – contributes to better boards in listed Swedish companies.

AP4 has long worked for the development of best practices on the equity market. The Fund was, for example, one of the institutions that, 20 years ago, was part of contributing to a new market practice – nominating committees – being established when the nominating committee at Volvo was formed.

10

nominating committees on which AP4 has participated in during the year

The principal task of the nominating committee

Participating in a nominating committee is a very important tool for a financial institution to exercise owner influence. The main task of the nominating committee is to propose a properly composed board; apart from skill and experience, diversity is important.

The board is the owners' representatives

The board of a company is the selected representatives of the owners. Its members are selected according to their skills and experience in order to take charge of and ultimately bear responsibility for the individual company and the owners' interests. The shareholders in a company must always have the right to be able to choose the board members who are considered to be best suited for the assignment in question.

What tasks does a nominating committee have?

- The nominating committee is the organ of the shareholders' meeting; its principal task is to prepare decisions for the annual general meeting regarding the choice of board members, auditors, and remuneration.
- The shareholders' meeting must appoint the members of the nominating committee or indicate how the members are to be appointed.
- The members of the nominating committee must take care of the interests of all the shareholders. Persons from company management may not be members of the nominating committee.

Nominating committee must:

- Propose a chair and other members of the board, as well as remuneration and other compensation for assignments to each of the board members
- Propose the choice and remuneration of auditor.
- Submit a report on how its work has been carried out, and present and justify its proposals.

The nominating committee process

Nominating committee work is often quite varied, depending on the unique situation of the company; it begins with obtaining information on the situation and future challenges. After that, there is an evaluation of how the work of the Board has functioned over the past year. Interviews are often conducted with the entire Board or parts thereof; sometimes an external evaluation consultant is also hired. The nominating committee, as a rule, has a separate meeting with the CEO of the company.

The analysis of the current situation and future needs, supplemented with the evaluation of the Board's work, shows the need for any changes to the board and what any new board member's skills and experience profile should look like.

Nominating committee work sometimes involves very work-intensive periods with many meetings and interviews with both existing and potential new board members. Other times, a smaller number of meetings in the nominating committee may be enough as the need for changes in the board is not so great.

The company's best interests in focus

Changes to boards must always be based on the needs of the individual company where diversity, skills, continuity and properly functioning boards are important factors to take into account so that the changes are done at the right juncture.

Established routine in insider situations

It may sometimes happen in Swedish companies that the Fund could be what is called an "insider". This could sometimes have its starting point in an in-depth dialogue in nominating committee work where thorough discussions on the work of the board and its composition are conducted. In the long run, issues of strategy and finance could also be discussed. Sometimes these discussions could be exhaustive and continue for a long time. These special cases often lead to what is called an "insider situation", which is handled according to the internal regulations and routines of the Fund.

THE NOMINATING COMMITTEE CYCLE

SPRING

The annual meetings of these companies usually take place during the spring. The AGM chooses the board members for the company at that time. The procedure for how the nominating committee is to be appointed is also decided. The main task of the nominating committee is to submit proposals to the board for the next annual meeting. All shareholders can submit proposals to the nominating committee for suitable candidates to the board of the company.

Normally, the AGM decides that the nominating committee will be composed of the largest owners at the end of August or September. It may also happen that the nominating committee representatives are chosen directly at the annual meeting. The choice between them can be due to the ownership structure in the company or if the nominating committee has begun more comprehensive work on change.

SUMMER

The new boards usually have their first meeting at the beginning of summer. The individual board members must have been properly introduced to the activities of the company in order to contribute their respective skills and experiences in the best possible way.



AUTUMN

At the end of August or September, the 3 to 5 largest owners will be consulted as to whether they wish to be represented on the nominating committee. The Fourth AP Fund, in principle, always participates in the nominating committees they are consulted about. Now the nominating committee work is picking up speed. The nominating committee meets the chairperson of the company, who tells them how the work of the board has functioned and which strategic issues are important in the coming period. This is so the nominating committee will be able to find suitable board candidates with the right skills that the company's future board needs.

The nominating committee conducts or studies the evaluation of the board and its work. Sometimes the evaluation is conducted by external consultants.

Afterwards, the nominating committee discusses the composition of the board. Issues that the nominating committee elucidates are those such as "How many members are needed?", "What experience and skills do we have or are missing?", "How well does the work of the board or group function?", "What does diversity look like on the board?"

WINTER

The nominating committee search process for suitable board candidates is begun.

A long list of suitable candidates is produced both from the nominating committee proposals and, perhaps, from the proposals by the recruitment consultant. After that, a short list is produced. Potential candidates are interviewed.

The nominating committee makes a decision on proposals to the annual meeting for new board members and whether any members are to leave the board. The proposal is presented in the notice to attend the annual general meeting for a decision at the meeting.

The 2013 nominating committees

During 2013, AP4 was involved in 10 nominating committees in listed Swedish companies with annual meetings during 2013 – in one of them as the chair. AP4 participated in more nominating committees for listed companies than the other AP Funds combined.

Diversity contributes to good boards

As before, AP4 emphasises the importance of diversity on the boards and emphasises that diversity does not only deal with gender but also, for example, age, background, nationality and experience.

More women board members

In nominating committee work, AP4 attaches great importance to the needs of the individual company; within this framework the nomination of women board members has had high priority. The results from previous years have been good, with an increased share of women as a consequence in companies where the Fund has participated in nominating committees.

The share of women board members in the companies where AP4 participated in nominating committee work during 2013 was somewhat lower, and totalled on average 23%, compared with 24% for the rest of the stock market. The lower share of women in the nominating committee companies of the Fund is principally due to which companies AP4 is represented in. This is a combination that can change from year to year. A number of companies have changed from 2012.

The share of newly-elected women board members in companies where AP4 participated in nominating committee work totalled 43% in 2013, compared with the stock market average of 30%.

Nominating committees where AP4 participated during the period

Company	Share of women in %	Number of newly-elected women	Number of newly-elected, total
Atlas Copco	30	0	1
Beijer Electronics	29	0	2
Concordia Maritime	0	0	0
Intrum Justitia	20	1	2
Lundin Petroleum	25	2	2
New Wave Group	33	0	0
Oriflame	33	0	0
Svolder	40	0	0
TradeDoubler	17	0	0
Transcom	0	0	0

Annual general meeting season abroad

The rights of a shareholder differ greatly from country to country, and the right to vote in foreign countries is often more limited than in Sweden. AP4 pursues many issues in shareholder's rights in foreign countries that in Sweden are perceived as self-evident.

The AGM must be the shareholders' primary forum, and the right to vote must be one of the most important and most effective tools an owner has to influence a company.

Harder to influence

AP4 is a relatively small shareholder globally. The opportunities for conducting dialogue prior to AGMs in the way that occurs in Sweden are small.

507 annual general meetings abroad

AP4 has chosen to vote on companies from ten countries included on the MSCI Developed Markets Index and which have relatively well-developed equity markets. These are the United States, Canada, Great Britain, Australia, France, Germany, Switzerland, Holland, and Spain. The larger companies on the respective markets have been selected, as well as the companies the Ethical Council works with and the companies in which AP4 supports an international initiative.

How does voting abroad happen?

AP4 makes use of an external party in the practical voting process at the shareholders' meeting and votes in writing (proxy voting) with the help of what is called an electronic voting platform. This is a prerequisite for being able to vote in a time- and cost-effective way in shareholders' meetings abroad.

507

foreign shareholders' meetings where AP4 voted

66%

remuneration proposals AP4 voted against or abstained from voting on

6,770

meeting points AP4 voted on

Issues in focus for AP4:

- shareholders' right to vote for their entire holding, submit their own proposals and propose their own meeting points
- the independence of the board members
- CEO and chair of the board must be different people
- the board must be chosen for a period of one year at a time
- remuneration for holders of leading positions
- transparency; that is, open provision of information and reporting
- environmental and ethical considerations
- Impediments to takeovers
- capital structure, for example that shareholders have the right to decide on issues in order to make sure that their rights are safeguarded

In accordance with AP4 ownership policy, instructions for how the Fund wishes to vote in shareholders' meetings abroad are to be drawn up. Business-driven matters and, for example, remuneration issues on the agenda of the shareholders' meeting are sent directly to AP4 for assessment, decisions and manual voting.

Shareholder proposals for Wal-Mart's AGM

Together with AP2 and AP3 via the Ethical Council, AP4 conducted a dialogue with Wal-Mart for several years on various questions, primarily regarding labour law but also corruption and transparency.

An example of serious problems in the operations of the company has been the existence of corruption, which during 2012 was declared to have occurred in Wal-Mart's Mexican subsidiary, WellMex.

The incentive-based remuneration for Wal-Mart's corporate management is, among other things, dependent on the development of performance. The company has reclaim clauses linked to incentive-based remuneration. Unfortunately, it is difficult to gather from Wal-Mart's reports if the opportunity for reclamation has been used against those persons in management who may have been aware of the problem with corruption in the company but despite this did not act to stop it.

The shareholder proposal (resolution) that AP4 gave its support to, which was under the leadership of the American UAW Pensioner Medical Benefits Trust, received strong support from the AGM. The resolution received over 32% of the independent votes, which in general is considered to be very strong support. Wal-Mart's largest owner is the Walton family, the founder, which owns over half of the shares in Wal-Mart. They are considered to be dependent in relation to the company and did not support the resolution.

Pilot projects with meeting companies

In voting abroad, there is no opportunity to explain why AP4 is voting against a proposal the board put forward. Therefore, AP4 was part of starting a project in 2012 together with the First, Second, and Third AP Funds where each of the AP Funds wrote letters in their own name to approximately 50 companies and explained why the respective funds voted against certain proposals put forward by the boards. The response was satisfactory, and sufficient for AP4 to continue pursuing the project. During 2013, AP4 wrote to 50 companies other than those from the previous year; so far, the response rate is approximately 25%, the same level as 2012.

The companies selected in 2013 were large, top-ranked businesses. They operate in various sectors and markets, and were companies where all AP funds voted the same way at the AGMs.

Influencing and explaining the vote against

The positions brought up in the letters were issues such as why AP4 does not like that the CEO and the chair of the board are the same

50

letters to top-ranking companies in a project where AP4 explains its position at the shareholders' meeting

person. Other positions are that incentive programmes should have a requirement for the participants' own investment or performance requirements, that issues should have a limited dilution and that the issue mandate should have a time limit.

Created opportunity for dialogue

Approximately one-fourth of the letters resulted in the companies contacting AP4. Usually, they wanted to inform us of the background to the company's view of the issues, but also to discuss differences in the respective positions of the company and AP4 on the issues in question. A smaller number of companies also wanted to discuss ownership issues more generally and to inquire about AP4 and its opinions concerning these issues.

The table below shows meeting statistics from the shareholders' meetings abroad in which AP4 voted during the period.

Meeting statistics (July 2012 – June 2013).

Meetings, number	507
Meeting points, number	6,770
AP4 voted against proposal put forth, in %	17
AP4 voted against proposal from the board, in %	20
AP4 abstained from voting on the grounds of too little information, in %	4
Remuneration issues where AP4 voted against or abstained from voting on proposals put forth, in %	66

During this period, AP4 voted for several shareholder proposals in areas such as the environment and ethics.

Sustainability in AP4 management

It is AP4's conviction that sustainability – that is, proper environmental and ethical considerations – is a prerequisite for companies to be able to attain a sustainable solid return.

Companies that actively work on the environment and social issues create sustainable value and are therefore good long-term investments.

AP4's conviction is also that active, responsible owners are needed to propel positive changes and persuade companies to take more responsibility. This applies both to companies both in Sweden and abroad.

Profitable in the short term?

Creating the best return possible for Swedish pensioners is the guiding principle for all AP4's strategies and mandates – even mandates with an ESG focus. ESG mandate that AP4 invests in are expected to create at least as good a return as mandates without ESG focus.

Academic research and studies of ESG mandates so far display no clear positive connection between ESG focus and a good relative return. The research yields no clear or uniform evidence that ESG mandates are equally as or more profitable. The opposite – that ESG mandates yield poorer relative returns – can just as easily be asserted.

AP4 follows current research and studies within the field and will continue to assess ESG investments in the same way as it does other potential investments. AP4 pursues integration of ESG into management, as it both ensures awareness of risks and takes business opportunities into consideration.

The work is carried out on several fronts

AP4's work with sustainability (environment and ethics) is carried out in management in the various types of assets, in management of the corporate governance unit, and through AP4's work in the Ethical Council.

The corporate governance unit pursues and organises the work on sustainability and corporate governance. This work includes such things as conducting dialogues with companies regarding sustainability and exercising corporate governance through voting for the Fund's shareholding at shareholders' meetings. AP4's representatives on the Ethical Council work in the corporate governance unit.

Ownership policy and values – the guiding principle

Sustainability is an express part of AP4's business model and management structure. Our ownership policy and values are the guiding principle of the work.

Integration is an administrative responsibility

The various types of AP4's assets, its management models and mandates provide different conditions for how the work with sustainable value creation can be pursued. The responsibility for integration work with the goal of being fully able to integrate sustainability into management lies with the respective management units.

The work on integrating sustainability in the management units is carried out in close collaboration with the corporate governance unit, which is responsible for such things as conducting dialogue with companies concerning sustainability. The head of the management unit reports on the integration work to the Chief Investment Officer and CEO. The work on sustainability and corporate governance is monitored by the Board of AP4.

Screening of all holdings

All our holdings are screened with the help of an external consultant, who daily searches for and gathers up relevant information from a large number of sources including various UN sources, media, and reporting from other volunteer and interest groups. AP4's holdings are matched against this database, and in the event there are reported incidents regarding infringements of international conventions, these companies are investigated in further detail.

ESG in global equities management

During this reporting period, global equities have worked for more comprehensive exposure to low-carbon strategies in the Fund's global equity portfolio.

Low-carbon strategies

At the end of 2012, global equities management invested in an equities index portfolio in the United States consisting of companies with relatively low emissions of greenhouse gases including carbon dioxide, CO₂. The strategy uses the S&P 500 as a comparison index. 150 companies were dropped from this index – those that emit the most greenhouse gases – and 350 companies with the relative least emissions remain. The selection takes place on a sector-neutral basis. Historically, the strategy has shown relatively little difference in returns compared with the S&P 500 and since its start has developed well.

During the reporting period, global equities management has worked on facilitating investments in low-carbon strategies that also take potential emissions of greenhouse gases from fossil fuel reserves into consideration. The purpose is both to supply cost-effective strategies that are investable on several geographic markets, and to create conditions for obtaining broad support where other investors can participate and co-invest.

AP4 has worked on strategies where larger index providers furnish the reference index. This creates conditions for obtaining broad support from investors who can replicate the index mandate themselves or go to external providers who offer this.

AP4's global equities management

Global equities management believes that ESG considerations should be taken as an integrated part of management. It focuses on the choice of external managers, portfolio construction and index management. The management is separated into alpha and beta categories.

Alpha management – active global management – is carried out by external managers with customised mandates. AP4's internal global equities management is systematic in its monitoring of the investments in the hands of the external managers with regard to ESG factors in order to handle any risks with corporate governance and management.

Beta management – AP4's index management – is primarily carried out internally and has been meeting PRI index management requirements for several years.

Index management according to the PRI

AP4 meets PRI requirements for

- voting;
- dialogue with problem companies; and
- activities of a more long-term character.

This work is carried out through such entities as the corporate governance unit and the Ethical Council, and is described more thoroughly under other headings in this report.

Customised mandates

AP4 has chosen to work to an increasing extent with what are called "managed accounts", or mandates that are customised to reflect any exclusions or inclusions in the AP4 investment universe. This ensures that AP4's external managers use the desired investment universe. This has been priority work, since specific adjustments of the index are often costly or even impossible to maintain in investments in index funds.

The advantage of index funds is that they invest in accordance with recognised market indices and can often provide a relatively affordable exposure to different geographic markets. The disadvantage is that, among other things, any desired adjustments to the Fund's index and investment universe are often difficult and costly. This is due to such things as the index funds often being owned by many different investors with various desires.

Changes to an index that have been decided upon involve a range of activities that must be dealt with, for example purchasing the adjusted index, updating agreements that must be renegotiated and amended, updating risk systems to ensure correct risk and return measurements. Changes like this are easier to implement in a time- and cost-effective way in an internally handled index portfolio or in a customised external mandate.

Risk management and ESG criteria

Previously, AP4 had integrated quantitative ESG factors into its management system. This facilitates greater insight into and understanding of where any risks within the ESG field can be found in the portfolios.

Management views ESG criteria as an integrated field within it. These criteria are studied on an ongoing basis in order to improve the handling of ESG criteria in the tools that the managers use. The efficiency and influence on returns of ESG factors on different types of management mandates are studied with the help of back-testing tools. This is work that has contributed to a deeper understanding of the forces, and also pitfalls related to how ESG can be integrated into different management mandates.

Better data a prerequisite

Increased transparency and qualitative information from the companies' side makes it easier for AP4 to create more detailed quantitative strategies for the purpose of identifying companies with sustainable development. The difficulty often lies in finding information with a high degree of relevance for quantitative comparisons of different ESG factors across a global market.

Regular meetings about ESG

Global equities management and the corporate governance unit, which are also AP4's representatives on the Ethical Council, have regular meetings where current information on the development of ESG in various holdings is reported. The work and activities of the Ethical Council are discussed, as are the investment activities of management.

Preferably more "green" mandates

Global equities management is in continuous contact with international investment banks and independent analysts with a dedicated focus on ESG. These contacts are a natural part of the work in management and the search for suitable management mandates. Management also follows academic research in the field.

Individual studies show interesting relations between various ESG factors and companies' key ratios, which can form the foundation for AP4 establishing more mandates with a focus on ESG.

Events after this reporting period

During the autumn of 2013, AP4 – on the recommendation of the Ethical Council – excluded a number of companies who had neglected ESG observance from the Fund's investment universe. Management carried out an arranged divestment of the securities holdings concerned from the global equity portfolio. More information on the excluded companies can be found on the last page of this report and at www.ap4.se.

During the autumn of 2013, AP4 carried out an initial investment in emerging markets with a low-carbon strategy. The strategy take both existing emissions and potential emissions from fossil fuel reserves into consideration and is expected to replace a significant part of AP4's exposure to these markets.

The UN Principles for Responsible Investment (PRI) state that:

- index managers can take responsibility primarily through voting for their holdings and through involving themselves in dialogue with problem companies.
- managers can take a further step in its integration by integrating ESG factors in the formulation of an index.
- long-term investors can involve themselves in activities of a more long-term character such as working on companies handling climate issues, anti-corruption and ESG transparency in a proper way.

AP4 has been meeting PRI index management requirements for several years.

ESG in Swedish equities management

Swedish equities management is conducted with its starting point in fundamental analysis. ESG is a part of management's assessment of the various companies' equity risks and potential.

AP4 managers discussing environmental and ethical aspects with corporate management also sends clear signals as to how important these issues are for the Fourth AP Fund.

Dialogue with the company is important

The work on gathering information in support of fundamental analysis and decisions is pursued and carried out by Swedish equities management. AP4's corporate governance unit and the Ethical Council are also contributors to this process through the corporate governance unit as well as external consultants.

The primary source of information for Swedish equities management is the regular company visits carried out at the majority of the portfolio holdings. It is management's ambition to assess the risks and opportunities regarding the environment and ethics that can be found in the companies in the same way as other risks and opportunities are handled in the fundamental company analysis.

ESG increasingly important for companies

A positive development has been noted in the companies over the years that Swedish equities management has actively worked on the environment and on ethics. The companies have been working in a more structured fashion with ESG for a few years, and the responsibility for these issues, which have increased in significance, have moved higher and higher within the organisations.

The transparency of the companies within the ESG field has also increased, and long sections are today often included in the annual reports dealing with these issues or in separate sustainability reports. It is the ambition of management to follow the information the companies provide about their work concerning ESG and follow up on any questions.

It may also happen that companies themselves take the initiative to invite investors to discuss sustainability issues. These meetings are most often quite informative. It is usually the most ambitious companies that arrange these kinds of meetings, and they provide a reference framework to start from during meetings with the less ambitious companies.

Information from different sources

Management uses AP4's counterparts (banks and brokerages) to throw light on ESG. The interest in including ESG in analyses has increased among them. In the future, AP4 expects that ESG factors will be integrated to an increasingly greater extent in the analysis of banks and brokerages.

The weekly meetings with the corporate governance unit

Swedish equities management works in close collaboration with the Fund's corporate governance unit, with often daily contact regarding questions of an ESG nature and joint weekly meetings as well. At the weekly meetings, for example, relevant questions from company visits that Swedish shares, the corporate governance unit, or the Ethical Council (through a representative from the corporate governance unit) carried out.

Screening of all holdings

Management also gets help from external consultants with screening its Nordic corporate universe twice a year. The consultants also search daily for and gather up relevant information from a large number of sources including various UN sources, media, and reporting from other volunteer and interest groups. The intent is to catch any infringements of international conventions concerning such things as the environment, human rights and corruption that the companies have committed.

The work process in any incidents

Swedish and Nordic listed companies are, in general, well-managed companies that look after their trademark and carry out their operations in a sustainable manner. Despite this, incidents in the field of the environment and ethics occur in a few exceptional cases. When AP4 is made aware of such incidents or the suspicion of improprieties, management and the corporate governance unit immediately check the situation and contact the company management to verify the facts.

The corporate governance unit, in close collaboration with management, normally handles ongoing contact with the company as regards ESG. AP4 requests notice of the measures the company is taking to solve the problem and to make sure that the risk of something similar happening again is small. If the problem is not solved immediately, AP4 follows up on the issue to make sure that the company has an action plan with measures to handle the improprieties.

AP4 may also request to meet the persons responsible at the company in order to discuss problems that have arisen. Sometimes, these meetings are conducted together with other investors. These meetings are most often constructive, and the companies are quite eager both to submit relevant information and to solve the problem.

ESG in global macromanagement

During this period, AP4's fixed-income management made its first investments in what are called "green" bonds. These are bonds whose revenue from sales often goes to dedicated investment projects in green technology.

Green bonds

In the first half of 2013, AP4 invested in a "green" bond for the first time. The investment was made through the Development Bank of Korea's Green Bond programme after extensive discussions around the structure and how the environmental line would be ensured.

Since its issue, this green bond has certainly had a worse return than management's comparison index, but this can be explained by market development and is not due to the structure of the green bond.

During this period, management has analysed a number of green bonds marketed prior to issue, but these bonds have tended to be priced more expensively than the secondary market for similar securities, which is why AP4 chose not to invest in these green bonds.

AP4's opinion is that green bonds also must offer sufficient economic compensation for intrinsic risk if they are to be sustainable over the long term. This is a condition for green bonds to grow into a major asset class.

Management follows the development within the green bond asset class carefully, and intends to participate in issues that meet the Fund's criteria for bond investments. Management also takes part in discussions with the largest syndicated banks, as well as the issuers, in order to develop the asset class.

Corporate bonds

At the end of this reporting period, corporate bonds composed approximately 17% of the total fixed-income management portfolio.

All corporate bond investments require a BBB rating or better. Today, rating agencies put greater focus on what are called "contingent liabilities", where the companies' ethics and environmental management are taken into account. Shortcomings in environmental and ethical management can entail a lower rating, since these factors have been given increased significance in the ratings. Consequently, AP4 believes that its rating requirement provides protection against violations of ESG principles.

In addition, management conducts a commercial risk assessment in the ESG analysis of the holdings. It can be extremely costly to own corporate bonds in companies that fail within ESG.

Government bonds/investments

The government bonds that fixed-income management deals in are limited to the countries of Europe, the United States, and Australia. Fixed-income management has made an assessment that these states do not involve substantial risk from an ESG perspective.

Events after this reporting period

During the autumn of 2013, AP4 – on the recommendation of the Ethical Council – excluded a number of companies who had neglected ESG observance from the Fund's investment universe. One of these companies, Wal-Mart, was in the fixed-income management corporate bond portfolio and was accordingly divested.

During the autumn of 2013, fixed-income management invested in things such as the African Development Bank's green bond issue and the green bond from the Dutch development bank FMOP. AP4 took a considerable part of the issues.

Green bonds

In the long term, "green" bonds often lead to investments in different projects that support economically neglected areas. Preferably, they also have express environmental considerations or go to dedicated investment projects in green technology.

Green bonds are often issued by supranational units such as the European Investment Bank (EIB), for example. Therefore, they are often also called supranational bonds. Other examples of supranational issuers are development banks and organisations such as the World Bank, the European Bank for Reconstruction and Development (EBRD), the Asia Development Bank (ADB), the Inter-American Development Bank (IADB) and others.

Previously, green bonds were often issued in relatively small numbers so they could be linked directly to an individual environmental project. This has changed partially during the reporting period. Green bonds now often have a structure and amount at issue that makes it possible for several investors to invest in them.

They still comprise a very small share of the total bond market. At mid-year 2013, the market totalled approximately USD 7 billion, which can be compared with the total market for American government bonds at approximately USD 9 trillion.

ESG in property management

Over the last few years, AP4 has expanded into properties as a strategic type of asset. The Fund has, on the whole, chosen to directly own real estate companies, since this was judged to be the most cost-effective and transparent, thereby yielding a better expected return.

As an active owner, AP4 wants to contribute to systematically sustainable environmental work in real estate companies. All of AP4's property investments today have policies in place for how ESG is to be observed in property management.

At the end of the period, Vasakronan and Rikshem comprised the main part of the Fund's property exposure. The Fund owns 25% of Vasakronan, which is Sweden's largest real estate company. Rikshem has been co-owned since 2011 by the Fund and AMF, with 50% each.

Properties are often major consumers of electricity

An important area for systematic environmental work in real estate companies is energy consumption. Energy costs are a major expense item, and reduced energy use is also positive for the environment. According to the Swedish Energy Agency, real estate is responsible for 35% of energy use in Sweden, of which heating and cooling comprise almost 60% of a property's total energy consumption.

AP4 part of GRESB

During 2012, AP4 adopted GRESB (the Global Real Estate Sustainability Benchmark). AP4's unlisted real estate companies, Vasakronan and Rikshem, and the partially-owned ASE Holdings, which invests in and develops commercial properties in Great Britain, have reported information into the GRESB database during this period.

GRESB is furnished by an international industry organisation for property investors and is a tool for monitoring and evaluating sustainability criteria in property management.

Systematic monitoring and evaluation

AP4 asks its unlisted real estate companies to respond to the GRESB annual electronic survey. The companies themselves, and AP4, thus obtain a systematic review of the status and documentation for the companies stand from a sustainability perspective, which areas the companies are doing relatively well in or where improvements need to be made. The information the companies reported in, and the comparison with other companies, is support for the companies themselves and a starting point for AP4's dialogue with them.

During this period, GRESB has served well as a tool and support for monitoring, evaluation, and dialogue with AP4's real estate companies.

ESG in unlisted investments

AP4 applies the UN's PRI recommendations for unlisted investments, which aims to increase the responsible actions of companies and other entities within the fields of ethics and the environment.

Unlisted investments are primarily indirect, through funds and managers. The focus therefore lies on evaluating and monitoring the actions of these managers within ESG.

Rapid integration of ESG

A couple of years ago, management inaugurated a review of the guidelines and policies concerning ESG, which were found in AP4's external managers for unlisted investments. They were also informed that AP4 supports the Principles for Responsible Investment (PRI).

Since then, AP4's management has a routine of informing potential external managers for unlisted investments that the Fund supports the PRI. If an external manager has not yet signed off on the PRI, they have to explain why, and they are also encouraged to support and sign off. AP4 requires that external managers have an ESG policy.

Handling ESG is a factor in AP4's analysis prior to an investment. In evaluating unlisted investments, an assessment is made of how well the manager integrates ESG in their investment operations, as is a risk assessment regarding ESG factors. A risk assessment of this kind involves such things as how the external manager works with ESG and if its operations in countries and sectors, for example, bring about increased risks of different kinds.

Afterwards, ESG is continuously monitored with the managers. Extra focus is put on ESG in new investments, since the opportunity for influence is then greater.

ESG policies a practice with managers

A review at the end of 2010 showed that the main part of the Fund's portfolio within venture capital funds was then managed by external managers with an ESG policy, but only a few individual managers had adopted the PRI.

More venture capital managers in the UN's PRI

During 2011 and 2012, several managers erected new funds, and adopted the PRI in connection with this. In principle, all of AP4's managers today have an ESG policy, and a significant part of the capital is managed by managers who have adopted the UN's PRI.

Since mid-year 2012, AP4 has invested in six new funds. Of these, two of the management organisations had already adopted PRI, two adopted them during the process, and the remaining two have internal ESG policies. These last two are very small organisations; one of them has just been newly established.

AP4 works for increased transparency

During 2013, a practice was developed in collaboration with other institutional investors regarding ESG reporting from managers: the *Environmental, Social and Corporate Governance Disclosure Framework for Private Equity*.

Implementation in focus

After significant improvements concerning the existence of ESG policies and the adoption of the PRI, the next step in development is a clearer integration of these issues into the investment activities and active ownership of the external managers. They are now working on concretising responsibilities, monitoring routines, integration into the work of the boards, developing policy documents and implementing them at the portfolio company level.

For 2013, AP4 estimates that the managers will have an internal structure in place and have implemented pilot projects in individual portfolio companies. For 2014, the hope is that this can be implemented in several more portfolio companies.

No violations of international conventions

AP4's portfolio has been reviewed by the underlying portfolio companies since 2012 in the same way that AP4 and the Ethical Council allows portfolio screening and reviews of any violations of international conventions and guidelines with the help of a consultant. This review has not noted any violations.

Honours

AP4 garnered positive attention in several different contexts during the first half of 2013, including the following nominations.

The Fourth AP Fund was nominated for two different international prizes:

- **aiCIO European Innovation Awards 2013 – Asset Allocation Innovation – Asset Owners**

AP4 was nominated by aiCIO (Asset International's Chief Investment Officer) for the stance it has taken on ESG investing - in particular the low-emission portfolio - and the long-term horizon AP4 has taken on relatively illiquid investments.



- **RI – Best Responsible Investor Report 2013 – Large Pension Funds**

AP4 was nominated by RI (Responsible Investors) in competition with larger pension funds globally for its reporting on the Fund's work with sustainability and corporate governance.



The Ethical Council

The Ethical Council is pursuing positive change in foreign companies that are linked to violations of international conventions on the environment and human rights. It is a collaboration between the First, Second, Third, and Fourth AP Funds.

Over 200 companies

During 2012, the Ethical Council conducted dialogues with more than 100 companies around the world. In many cases, the dialogue concerned more than the field of sustainability. In addition, the Ethical Council's external consultants conducted dialogues with more than 100 companies on behalf of the AP Funds and other clients.

Goals achieved

During this period, two companies linked to violations of conventions and who were "in-depth dialogue" companies

with the Ethical Council – Goldcorp in Canada and Rio Tinto in Australia – took measures in accordance with the requirements the Council imposed. Since these goals were achieved, the dialogues were concluded.

Preventive initiatives and collaboration

Preventive initiatives, often in collaboration with other pension funds, are an important part of the Ethical Council's work on influencing companies towards responsible free company. The Council's mining project is proof that this is an effective way to influence companies towards more responsible free company.

The **mining project** began in 2011 and has run since then with further contact with mining companies during 2013. The purpose is to get an overview of how companies in the industry are working with sustainability issues and to work towards their having policies and routines in place. Mining operations often take place in countries with weak legislation, which makes the operations particularly vulnerable.

These companies should work systematically on environmental issues, human rights, anti-corruption, and health and safety and it should be an integrated part of their operations. The mining project is divided into several phases such as analysis, dialogue and monitoring. The project includes some thirty companies of varying sizes from different parts of the world.

Representatives from the Ethical Council visited places like Burkina Faso during autumn 2012 to get a better understanding of what challenges mining and other companies face when they establish themselves in developing countries. The Council is collaborating with the Dutch pension fund PGGM and then Seventh AP Fund on the project.

Other **projects and initiatives** pursued by the Ethical Council are within areas such as the tobacco industry and the cacao industry, where problems with child labour are also being addressed. An additional preventive initiative is the oil sands in Canada.

During 2013, the Ethical Council started yet another initiative, this time in the telecommunications industry. Among the priorities are issues related to wire-taps and tracking of conversations, as well as provision of information during network shutdowns.



Anti-corruption is and will remain an important issue for the Ethical Council to pursue, as corruption undermines legitimacy and sustainability in the financial system.

The Ethical Council conducts dialogues with a large number of companies; in principle all proactive projects the Council works on include issues of anti-corruption.

How are focus areas chosen?

In selecting focus areas for preventive initiatives, the Ethical Council's opportunities for making a difference are taken into consideration. The areas where many entities are already working towards improvements can be dropped in favour of areas that have not yet received much attention from investors.

The choice of focus area is not a standpoint that other areas are less important, but that the results of a conscious strategy to apply the Council's resources where it is estimated they can do the most good.

Active owners

The four AP Funds invest globally in diversified portfolios with several thousand companies. A large part of the Funds' holdings are index-managed, which means that the funds have widespread ownership with relatively small shareholdings in different companies.

Two important tools for active corporate governance that the AP Funds make use of are voting at shareholders' meetings and conducting direct dialogues together through the Ethical Council with a smaller number of selected companies.

The AP Funds believe that an active, responsible owner contributes best to changes through influence via dialogue and at shareholders' meetings. Selling shares rarely settles any improprieties; on the contrary, they may continue. Those buying shares may perhaps choose not to influence the company towards improvements. Divestment of shares is therefore an absolutely final expedient when the possibility of having an influence is judged to be futile.

Advantages of the Ethical Council

- **Greater opportunities for influence**

The aggregate capital of the four AP Funds totalled nearly SEK 1 trillion at mid-year 2013; this increases the opportunity to influence a company compared with individual campaigns.

- **Collaboration a success factor**

The Ethical Council is an attractive collaboration partner for other international investors with similar agendas for environmental and ethical considerations, which further increases our opportunities for influence. Through the four AP Funds collaborating and conducting dialogues jointly abroad under one name – the Ethical Council – the Funds are perceived as a more important, stronger owner, which increases our opportunities to influence companies towards permanent improvements.

Since the start of the Ethical Council, the four AP Funds have established contacts with a number of experts and expanded its international contact network in order to strive towards being on the leading edge of development.

- **Time and cost effectiveness**

This collaboration also means that the work of the four AP Funds becomes more time and cost effective. This increased efficiency finds expression in such things as more proactive and reactive corporate dialogues and an increased number of international investor initiatives. Through their collaboration, the Funds can participate in more conferences and share their experiences and working methodology, as well as follow developments in the ESG field.

Ethical Council members

The Ethical Council consists of one ordinary representative from the respective AP Funds, with the right to substitute. AP4's representatives on the Ethical Council work in the corporate governance unit.

The chair alternates between the Funds, with a change at the beginning of every year. The Ethical Council has a full-time general secretary, whose most important tasks are to coordinate the Council's corporate dialogues and the investor initiatives they

support, as well as to be part of the development of Council strategies. In addition, external consultants – and internal resources from the various Funds if needed – are used.

Dialogue – the best tool

Dialogue is the Ethical Council's most important tool for getting companies to act responsibly. The dialogues aim at companies setting to work on the documented violation and stopping it. Additionally, as long-term investors the AP Funds also want to see the company implement measures and set up a preventive system in order to avoid future violations. Pursuing such work towards change requires both discipline and a large share of patience.

When the goal set up by the dialogue has been achieved, the company becomes the subject of special surveillance for five years.

Corporate dialogues

Qualitative dialogues require lots of time and resources, which means that the Ethical Council does not have the resources to itself conduct investor dialogues with all foreign holdings where there are suspicions of violations of conventions. The Council therefore prioritises conducting in-depth dialogues with 10 to 15 companies per year. In these selected dialogue companies, the problem is judged to be manifest and well-documented, and the Council can make a difference.

Besides these companies the Council conducts direct dialogues with – approximately 100 companies – the Council's consultants are tasked with conducting dialogues with an additional approximately 100 companies on the Council's behalf.

A systematic process

The Ethical Council's working methods are built on a screening of the four AP Funds' equity portfolios as regards violations of international conventions. The screenings are done with the help of an external consultant, who daily searches for and gathers up relevant information from a large number of sources including various UN sources, media, and reporting from other volunteer and interest groups.

The AP Funds' shareholdings are matched against this database. In the event there are reported incidents regarding infringements of international conventions, these companies are investigated in further detail.

A number of companies are selected by the Ethical Council for direct dialogues, and the Council's consultants are tasked with conducting dialogues with an additional approximately 200 companies on behalf of the Council and other clients.

The Ethical Council annual report

In spring 2012 the Ethical Council published an annual report that describes thoroughly the work the Council is pursuing.

Read more at www.etikradetapfonderna.se.

Initiatives that promote ESG

The Sustainable Value Creation initiative

Sustainable Value Creation is a collaboration project between a group of Swedish institutional investors, who together represent a shareholding of approximately 20% of the capital on NASDAQ OMX Stockholm. The goal of the collaboration project is to illustrate the significance of listed Swedish companies working in a structured manner on sustainability issues.



At the beginning of 2013, investors in Sustainable Value Creation – together with NASDAQ OMX – invited the chairs, CEOs, and other company representatives in the largest listed companies to a seminar on corruption. The seminar was followed by a round-table discussion in smaller groups, the purpose of which was to share experiences and learn from each other.

During 2009 and 2011, Sustainable Value Creation carried out questionnaire surveys that were directed at the 100 largest companies on NASDAQ OMX Stockholm, where the companies responded to questions concerning responsible and sustainable business activities. Sustainable Value Creation focused on areas such as the companies' internal guidelines, their implementation and observance, and the responsibility of the boards.

The questionnaire was addressed to the chairs of the company boards for the purpose of raising the significance of companies working in a structured manner on sustainability. The companies that participated in the study received individual feedback on their assistance.

The hope is that the studies can also serve as a guiding instrument for companies in their work on sustainability, and can contribute to a screening of the companies. The initiative thereby also contributes to creating a better basis for investors' decisions.

The sustainability analysis could contribute to reduced risks, lead to savings, and even to business opportunities being taken advantage of.

Read more at www.hallbartvardeskapande.se

The Institutional Owners' Association (IÄF)

The Institutional Owners' Association for regulation issues on the equity market (IÄF) is an association for institutional owners, the Fourth AP Fund among them. It is a collaboration between entities such as the AP Funds, and funds connected to insurance companies and banks.

Sweden has a long tradition of self-regulation where companies and other parties in the market together agree on which rules – apart from those required by law – should apply to companies and market entities on the Stockholm stock exchange. The IÄF was formed for the purpose of facilitating collaboration in order to develop best practices within corporate governance and to nominate members to the self-regulation body to influence, for example, how the *Swedish Code of Corporate Governance* ('the Code') is developed. This is important work that affects the development of, and confidence in, the Swedish equity market and listed companies.

Read more about self-regulation on the securities market at www.godsedpavpmarknaden.se

International collaboration

PRI – Principles for Responsible Investment

AP4 has signed the UN's Principles for Responsible Investment (PRI) initiative.

The purpose of PRI is to increase the responsible actions of investors within ethics and the environment, and is a framework in

the daily work of integrating ESG into management and their own organisations. PRI both pursues development within the field of ESG and expands areas of contact and exchange of knowledge about ESG between responsible investors around the world. Read more at the PRI home page: www.unpri.org

PRI	AP4 activities
<p>1 AP4 includes sustainability in investment analyses and decision-making processes</p>	<ul style="list-style-type: none"> • Integrates sustainability in the investment analysis and decision-making process. • Continuous work in order to expand its implementation in the investment process. • Invests “thematically” in sustainability, e.g. CO₂ portfolios, green bonds, activist investments. • Screens portfolios, a part of the analysis process. • Internal fund presentations on the work in sustainability. • Follows academic studies within the area. • Includes in procurements and due diligence processes. • Part of ongoing dialogues with external managers.
<p>2 AP4 is an active owner and sustainability is an express part of their ownership policy</p>	<ul style="list-style-type: none"> • AP4's first ownership policy was written in the mid-1980s. • Active dialogues with companies for over 40 years. • Participates in shareholders' meetings and nominating committees, and has direct contact with companies prior to annual general meetings about ownership issues such as incentive-based remuneration and the board. • The ownership policy provides guidance for how AP4 takes a position and votes. • Collaborates with other owners on sustainability issues. • Active corporate dialogues on sustainability issues. • Active dialogues with external managers, encourages them to work on sustainability issues and follow the PRI. • Participates in developing self-regulation systems and is in contact with decision makers.
<p>3 AP4 openly reports on its work with sustainability, and works for increased transparency in its companies</p>	<ul style="list-style-type: none"> • Conducts dialogue with companies on sustainability issues and encourages its companies to be transparent in reports and presentations and on the Web. • Supports initiatives and resolutions aimed at: <ul style="list-style-type: none"> ○ increased transparency and ○ improved reporting of such things as environmental issues. • Supports companies working responsibly with environmental and social issues. • Conducts dialogues with AP4's external managers regarding sustainability issues.
<p>4 AP4 supports and works for PRI also being accepted and implemented by other investors.</p>	<ul style="list-style-type: none"> • Conducts dialogues with other investors and stakeholders on sustainability issues. • Participates in general and industry-specific round-table discussions to share AP4's knowledge and experiences around sustainability issues. • Encourages external managers to sign off on the PRI. • Includes sustainability issues in procurements. • Supports academic studies of sustainability issues.
<p>5 AP4 collaborates with others to facilitate implementation of the PRI</p>	<ul style="list-style-type: none"> • The Ethical Council, a collaboration between AP1, AP2, AP3, and AP4. • Collaborates with Swedish and international investors, both on its own and via the Ethical Council, and also with other stakeholders. • Uses the PRI to study “best practices” and to support investment initiatives.
<p>6 AP4 reports on what successes the Fund has had in implementing the PRI</p>	<ul style="list-style-type: none"> • Regular reporting on sustainability issues in the Sustainability and Ownership report, annual reports, mid-year reports, the Ethical Council annual report and www.ap4.se. • The AP4 ownership policy can be found at www.ap4.se. • AP4's response to the PRI annual survey is publicly accessible on the PRI Web site.

CDP - Carbon Disclosure Project

The Carbon Disclosure Project (CDP) is an international collaboration project to reduce companies' impact on the environment and to increase awareness of climate change.

In order to effectively reduce emissions, the companies need to know what they're releasing. A first step is to start measuring and documenting.

Through the CDP, investors encourage the companies to measure and report on their environmental impact and their strategies for climate issues. The CDP aims at streamlining the data gathering process through a number of investors collectively signing a joint request for data and reporting on the release of greenhouse gases.

Read more at the CDPI home page: www.cdproject.net

EITI - Extractive Industries Transparency Initiative

The Extractive Industries Transparency Initiative (EITI) is an initiative for open reporting within the recycling industry. The need for open reporting and governance is especially great in countries with rich natural resources but weak governments.

Clearer reporting from companies, on the one hand, about what they pay, and the countries' governments on the other about revenues from the oil, gas, and mining industries increases transparency in society and contributes to better conditions for financial governance.

Together with other international investors the Fund provides support to EITI, which signals to countries and companies with recycling operations that shareholders value clear and open reporting of their revenues.

Read more at the EITI home page: <http://eiti.org>

ICGN – International Corporate Governance Network

The International Corporate Governance Network (ICGN) is a global collaboration in order to raise the standard of corporate governance globally.

ICGN works for shareholders being given expanded rights to vote at shareholders' meetings and a stronger attitude towards corporate management. It pursues development within the field of corporate governance by formulating recommendations on responsible corporate governance. It also contributes to expanding areas of contact and exchange of knowledge between countries and investors.

Read more at the ICGN home page: www.icgn.org

IIGCC – Institutional Investors Group on Climate Change

AP4 is a member of the Institutional Investors Group on Climate Change (IIGCC), which collaborates around climate issues for European investors.

The goal is to put forward the voice of investors on climate issues and involve companies, government agencies, and other investors. The purpose is to address the long-term risks and opportunities that arise with climate change and to study current information around various climate-related investments.

Read more at the IIGCC home page: www.iigcc.org

Anti-corruption

During this period, AP4 has participated – through the Ethical Council, together with a couple of larger international pension funds – in an initiative focusing on corruption. A basic analysis has been conducted where a number of companies were analysed regarding their preventive work around corruption; approximately 20 companies were contacted. The project is expected to continue during 2013 as well.

Oil sands

Through the Ethical Council and a large number of international investors, AP4 supports an initiative regarding the development of oil sands in Canada. This type of operation has a major environmental impact; the purpose of the initiative is to increase transparency, that the companies conduct environmental impact analyses, and to give the companies recommendations regarding measures that can be taken to reduce environmental impact.

Sustainability within the mining industry

The Ethical Council is pursuing an initiative for the purpose of getting an overview of how companies in the mining industry work on sustainability issues, and then conducting dialogues with the companies on the shortcomings that come out in the analysis. The companies' work on sustainability is analysed based on the sustainability principles of the International Council of Metal and Mining (ICMM), which are developed by the mining companies themselves and in principle comprise an industry standard. Other participants in the initiative are the Dutch PGGM and the 7th AP Fund.

The cacao industry

Through the Ethical Council, AP4 is part of an initiative aimed at around ten companies in the cacao industry. The idea behind the initiative is to influence the industry through asking the companies to report on their long-term strategies for combating child labour in the supply chain. Continuous monitoring will take place over the next few years.

The tobacco industry

To a large extent, cultivation of tobacco takes place in countries with a high risk of corruption, degradation of the environment, and violations of human rights and employee rights. Through the Ethical Council, AP4 is part of a collaboration together with a European pension fund to get a better picture of how companies in the tobacco industry work on sustainability issues.

“Cotton campaign”

High-quality cotton for the clothing industry comes from places like Uzbekistan. The cotton is of high quality due to the fact that it is picked by hand. Over the years there have been several reports of schoolchildren and adults being forced out into the field to take part in the cotton harvest. Together with a number of European managers, AP4 has written a letter to the European Commission with the demand that they check the situation of cotton-pickers in Uzbekistan on-site through the ILO.

Bangladesh

Major accidents at textile factories, with a large number of fatalities and injured workers as a result, have been reported from Bangladesh. Together with a large number of Swedish and international investors, AP4 has signed a demand to companies that make use of production in Bangladesh that they take greater responsibility. The reason for the demand is that a number of companies have chosen not to sign an industry agreement on improvements to safety at facilities in Bangladesh. In contrast to many American companies who have not signed, several leading companies in Europe such as H&M and Zara have signed.

Russia

Currently AP4 does not invest in Russia, for reason such as a weak corporate governance structure. Together with some thirty international [??], AP4 has signed a proposal that was presented to the OECD Russia Corporate Governance Roundtable regarding an update and reinforcement of the Code of Conduct for the Russian stock exchange.

Principal events after the end of the reporting period

On September 30, 2013, AP4 decided on the recommendation of the Ethical Council to exclude four companies: Freeport McMoRan, Incitec Pivot, Potash and Wal-Mart. The Fund had exposure to all four companies through shares and interest rate instruments, which were liquidated under the arranged forms.

For several years, the Ethical Council had conducted dialogues with the mining company Freeport McMoRan, the chemical companies Incitec Pivot and Potash, and the retail chain Wal-Mart Stores. Despite its involvement in these companies, the Council did not succeed in reaching the goals set up for the dialogues. The Council therefore chose to conclude the dialogues and recommended that the respective Funds exclude the companies. All the Funds decided to follow the Council's recommendation to the four AP Funds.

The chair of the Ethical Council justified the exclusions with reasons such as the following:

“The Council's most important tool is getting companies to act responsible through dialogue. A sale is the final expedient when other opportunities for influence do not work. We therefore view this as a setback since we – after several years of involvement – did not succeed in influencing these companies to bring about improvements. We believe that continued involvement with these companies is not meaningful and therefore recommend that the AP Funds exclude these companies.”

The Ethical Council conducts dialogues with approximately 200 companies yearly for the purpose of making a difference. As long-term, responsible, and involved owners, the AP Funds influence companies around the world towards improving their work on environmental and social issues. The Council conducts dialogue with companies as long as their assessment is that involvement leads to improvements.

List of excluded companies 2013-09-30

Excluded companies

Company	Excluded, year	Country	Sector
Alliant Techsystems Inc	2008	USA	Aviation and defence
Elbit Systems Ltd	2010	Israel	Aviation and defence
Freeport McMoRan Copper & Gold Inc	2013	USA	Mining and metals
GenCorp Inc	2008	USA	Aviation and defence
General Dynamics Corp	2008	USA	Aviation and defence
Hanwha Corp	2008	South Korea	Chemicals
Incitec Pivot Ltd	2013	Australia	Chemicals
L-3 Communications Hlds	2008	USA	Aviation and defence
Lockheed Martin Corp	2008	USA	Aviation and defence
Poongsan Corp	2008	South Korea	Mining and metals
Potash Corp	2013	Canada	Chemicals
Raytheon Company	2008	USA	Aviation and defence
Singapore Technologies Engineering	2007	Singapore	Aviation and defence
Textron Inc	2008	USA	Aviation and defence
Wal-Mart Stores, Inc.	2013	USA	Food and convenience goods

For more information on excluded companies, read more at www.etikradetapfonderna.se

As a yearly routine, the Ethical Council demands that all excluded companies act in accordance with international conventions.

More information and contact

If you have any questions regarding the Fourth AP Fund, you can e-mail us at info@ap4.se or contact Mats Andersson, CEO
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More information on the Fourth AP Fund can be found at www.ap4.se

AP4 / Fourth Swedish National Pension Fund

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