

OWNERSHIP POLICY 2011

AP4 AT A GLANCE

The Fourth Swedish National Pension Fund (AP4) is one of five buffer funds in the national pension system. The Fund's brief is to manage Fund capital so as to generate the best possible return over time for Swedish pensioners and thus support the stability of the pension system.

2011 GOALS

Based on its brief, AP4 has formulated two overall goals:

- The Fund's total return in real terms – that is, adjusted for inflation – shall average 4.5% per year over a 10-year period. According to the Fund's analyses, this is the return required for the pension system's assets and liabilities to balance in the long run.
- The Fund shall achieve an active return – that is, a return exceeding its benchmark index – of 0.5 percentage points per year.

OPERATIONS

AP4 is a governmental authority whose operations are regulated in the Swedish National Pension Funds Act. The Government appoints the Fund's nine Board members, and the Ministry of Finance continually supervises and evaluates the Fund's operations.

AP4 shall independently formulate its own targets and strategies.

By law, the Fund's operations and Board of Directors 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.

FUND CAPITAL

At year-end 2010, Fund capital totalled SEK 213 billion.

The Board has decided that the Fund will best fulfil its long-term asset management brief by holding a large proportion of publicly quoted equities, Swedish and foreign.

At year-end, equities accounted for 60% of assets. Fixed income securities accounted for 34% of assets. The remaining 6% was invested in other assets such as real estate, private equity funds, and other alternative investments.

AP4'S OWNERSHIP POLICY

BACKGROUND

During the past few decades, institutional ownership in the form of pension funds, insurance companies, and mutual funds has increased sharply the world over, while direct private ownership has decreased. Thus the demands on a "financial" owner such as AP4 have gradually changed and intensified.

Any ownership policy for AP4 must be grounded in the legislation that governs the Fund's activities. The Swedish National Pension Funds Act (2000:192) regulates those activities.

The legislator emphasised the importance of the national pension (AP) funds' ownership role being exercised explicitly for the purpose of better capitalising on opportunities for higher returns on assets under management for the benefit of those insured in the retirement pension system.

The Funds shall not pay heed to any national business or other economic policies.

The operational plan of each AP fund, adopted annually, shall contain guidelines for exercising voting rights in individual companies.

VALIDITY AND SCOPE

This ownership policy was adopted at the meeting of the Board of Directors held on 16 February 2011.

The Fund's ownership policy applies first of all to Swedish stock market companies. Particular emphasis is placed on companies in which the Fund has a significant shareholding or is one of the largest shareholders. In addition, the Fund strives to play an active role in significant issues of principle.

In foreign stock market companies, AP4's alternatives for active ownership are more limited, because ownership is more widely spread and holdings are relatively smaller. The Fund's corporate governance related to foreign companies is described on page 6 of this document.

In the field of the environment and ethics, AP4 has chosen to collaborate on many issues with AP1, AP2, and AP3. The principles for efforts in these fields apply to Swedish as well as non-Swedish stock market companies and are described in section 5, "Environmental and ethical issues in asset management".

1. GOALS AND PURPOSE

The Fund's overall goal is to generate the best possible return over time for Swedish pensioners and thus support the stability of the pension system.

AP4 has the responsibility of safeguarding and growing the capital invested. This is fundamental to AP4's active ownership. AP4 shall exercise the rights and obligations inherent in its ownership role in a responsible and sustainable manner. AP4 shall also promote the development of good practices in the securities market for the benefit of those insured by the retirement pension system.

The purpose of this ownership policy is to provide guidelines for such actions. The ownership policy shall safeguard the best interests of shareholders and individual companies. The policy shall take into account the unique circumstances and needs of each individual company and aim at contributing in the long run to maximising AP4's long-term return.

2. RULES FOR DECISION MAKING

The ownership policy is adopted by the Board of Directors.

Ownership issues are dealt with by AP4's CEO or other employees at the Fund, as delegated by the CEO.

Ownership issues of special importance shall be referred by the CEO to the Chairman of the Board of Directors. The CEO shall report to AP4's Board on such issues.

Ownership issues of exceptional importance or with ramifications for principles shall be referred by the Chairman to the Board of Directors.

3. ONGOING WORK WITH CORPORATE GOVERNANCE

AP4's goal of generating the best possible return over time is always the basis for the Fund's active ownership.

The annual general meeting (AGM) is the shareholders' principal forum, and voting rights are one of the chief means a shareholder has to influence a company. AP4 strives first of all to attend and exercise its voting rights at AGMs of companies in which the Fund has a large shareholding or AGMs deemed significant for some matter of principle.

The primary task of a nominating committee is to propose candidates for the board of directors to the AGM. One of the Fund's most important tasks as an owner is to ensure that each company has the best possible board. Thus AP4 will participate in nominating committees in companies as justified by the Fund's holding.

AP4 will also participate in processes preparatory to AGMs of companies in which the Fund has a significant shareholding even if the Fund is not among the shareholders with the most votes. In these tasks, the Fund will take the initiative for dialogue with other shareholders on issues of common interest.

The Fund will also actively attempt to drive the development of quality and practices in corporate governance and to promote a smoothly functioning Swedish securities market.

Direct contact with companies on ownership issues will normally be taken via the company's chairman of the board, paying heed to the general regulations that apply to disclosure by stock market companies.

3.1 Swedish Corporate Governance Code

AP4 supports the *Swedish Corporate Governance Code* (the Code). The Code largely summarises the principles that for many years were voluntary standard practice in the Swedish stock market. The Code is constructed according to the “comply or explain” principle, which gives each company the right and possibility of diverging from it. A justified divergence can be better for the company than complying with a specific rule in the Code.

The Code must not be applied as a rigid set of rules that lead companies to regard a public listing as unattractive, complicated, and/or financially burdensome.

3.2 Nominating committee

The primary task of a nominating committee is to propose candidates for the board of directors to the AGM.

Participating in such nominating committees is one of AP4’s most important means of active ownership. The nominating committee is to represent the Company’s main owners but must also be open to opinions and proposals from all shareholders.

The nominating committee is not an operational part of the company. Consequently the members of a nominating committee should not be compensated by the company for their work or for costs incurred.

An annual evaluation of the board, as a group and as individual members, is a natural part of the background information the nominating committee requires for its decisions. Interviewing individual members of the board may be an appropriate task in the work of the nominating committee.

4. AP4’S DEMANDS ON LISTED COMPANIES

AP4’s goal of generating the best possible return over time is always the basis for the Fund’s policy positions. The following sections present five fundamental principles for AP4’s active ownership, where the Fund sees reason to be explicit or where the Fund’s requirements are not covered by the Code.

4.1 Equitable treatment of shareholders

A key basic principle for the Fund is that all shareholders be treated equally. This means that no shareholder should be financially disadvantaged by any of the following.

- Dividends, whether paid in cash, shares, or any other manner.
- New shares, to be issued through preferential rights for existing shareholders. Deviations from preferential rights, allowed only in exceptional and justified cases.
- Offers for all the shares in the company.
- Liquidation of the company.

The Fund believes that if a board intends to exercise its authorisation to issue shares in any way other than a rights issue, then the decision must be justified in terms of the situation, price, and other conditions.

The Fund is restrictive in granting general authorisations to issue shares without preferential rights, especially for cash consideration or through convertible debt.

The total potential dilution shall be restricted when other outstanding programmes are taken into account; that is, a possible share issue authorisation including the maximum potential outcome of any share- or option-

related programmes. The potential dilution is an important factor in deciding whether the Fund will support a proposal for a general authorisation.

The Fund can more readily accept granting a general authorisation for non-cash issues without preferential rights for the acquisition of small companies or small parts of a company.

4.2 Share buybacks

One of the board’s tasks is to work to achieve a carefully balanced capital structure. A company acquiring its own shares is one of several available means to this end. Proposals concerning share buybacks shall be well justified, as shall the terms under which the board may exercise any such authorisation.

AP4 does not believe that the sale of repurchased shares in the stock market should be allowed, except when it is done to hedge a company’s share-based incentive programme.

When a buyback is used, the cheapest series of share shall be repurchased.

4.3 Members of the board

A company’s board of directors should be assembled taking into consideration the company’s needs, and the composition should embody variety and breadth in terms of the members’ expertise, experience, and backgrounds. An even gender distribution is desirable. Board members should be shareholders in the company. The purpose is to foster common interest among the board of directors and owners.

Board fees shall reflect the board’s responsibilities and workload. The fees shall be competitive to achieve the ambition of having the best board possible. A portion of the board fees could, for example, be set aside for the acquisition of shares in the company to reflect the board’s long-term responsibility and perspective.

In a few instances, AP4’s CEO or its employees who work with ownership issues can accept board assignments. Such assignments are to be approved by the Fund’s Board of Directors.

4.4 Auditors

Auditors are appointed by the company’s shareholders. Thus it is crucial that the audit is continuously evaluated from the owners’ viewpoint.

The process for evaluating and procuring audit services should be dealt with by the nominating committee. At the same time, it is the task of the board to handle this issue in practical terms.

4.5 Executive remuneration

According to the Companies Act (2005:551), the AGM shall vote on guidelines for remuneration to senior executives. However, it is important to note that the board of directors is responsible for total remuneration (fixed as well as incentive-based).

AP4 believes that the board of each individual company is best suited to determine how to structure remuneration. With solid reasons from the board, AP4 will support schemes in which incentive-based pay is included in total remuneration.

Remuneration and principles for executive remuneration shall be simple, clear, carefully considered, and reported in a transparent manner. The people concerned shall be able to directly influence the performance criteria.

Remuneration to senior executives must be devised for the purpose of attracting and retaining key personnel. Remuneration shall also be devised so that it is in harmony with the long-term interests of the shareholders. The specific circumstances of each company and the industry in which the company operates shall also be considered.

Remuneration to senior executives usually consists of four parts. First, there is the fixed salary. In addition, there is often a variable element. Further, many companies have long-term remuneration programmes with elements of different share-related instruments, that is, incentive programmes. Finally, the pension is a key part of remuneration.

The Fund takes into account the whole of the company's total compensation package in the assessment of proposals to the AGM.

An annual evaluation of ongoing programmes shall be reported to the shareholders. The evaluations shall also be included as part of the background information when new programmes are being considered.

Neither variable compensation nor long-term share-based pay programmes qualify as pensionable income.

Pensions for senior executives shall be defined-contribution plans. Exceptions can be made for contracts previously signed.

4.5.1 Incentive-based pay

Incentive-based pay programmes aimed at senior executives shall be in harmony with the long-term interests of shareholders. Such programmes shall reward favourable long-term performance but may also have the opposite effect; that is, when the desired performance is not delivered, total remuneration shall be less.

This makes stringent demands on the structure, evaluation, and transparency of the programmes. For these reasons, AP4 wishes to especially emphasise that the following aspects should be considered.

- Incentive-based pay shall require clear-cut and measurable performance.
- A good watchword is that the system shall be both "definable and defensible".
- The programme must embody a long-term approach in its structure, evaluation, and payout, so it harmonises with the entire company's (and thus the shareholders') long-term best interests.
- The remuneration shall have a ceiling.

4.5.2 Share-based compensation programmes

Long-term share-based compensation programmes must harmonise with the long-term interests of shareholders. The board shall thoroughly justify and present the reasons for and the structure of any proposed programme.

Worth noting is that the board bears the responsibility for total remuneration, though the AGM formally makes the decision concerning share-based payments.

Share-based compensation programmes are more often than not complicated and difficult to grasp. This makes especially strict demands on their structure, evaluation, and presentation. For these reasons, AP4 wishes to emphasise that the following aspects in particular must be considered.

- There shall be a clear connection to measurable performance or the employee's own investment; the targets shall be quantified and should be reported openly.

- The programme shall continue for multiple years; that is, the structure, evaluation, and payout shall harmonise with the entire company's (and thus the shareholders') long-term best interests.
- The total dilution shall be restricted when other outstanding programmes are taken into account.
- The total potential dilution (maximum outcome of any share or option programme together with potential share issues) is an important factor in the Fund's decision whether or not to support a general authorisation.
- The programme shall be furnished with a ceiling or "emergency brake", that is, a requirement that the board continuously assess the "plausibility" of the outcome.
- An option programme shall be relative; that is, changes in the company's own share price shall be related to changes in share prices in the industry, for example, or the stock market as a whole.
- Information shall be transparent and pertinent and be disclosed far enough in advance so the board can consider shareholders' opinions before the notice for the meeting is published.
- Detailed information about the proposal must be submitted in the notice.

5. ENVIRONMENTAL AND ETHICAL ISSUES IN ASSET MANAGEMENT

According to the Swedish National Pension Funds Act (2000:192), each year the Fund shall determine how environmental and ethical issues will be taken into account in investment operations. The Act's legislative history shows that AP4's overall goal is to generate the best possible long-term return for the benefit of those insured in the retirement pension system. Environmental and ethical issues must be taken into account without compromising the overall objective of maximising returns.

The Fund's basic premise is that good ethics and attention to key environmental concerns are prerequisites for companies achieving sustainable healthy returns.

5.1 Basic environmental and ethical values

AP4's fundamental values are based on the principles of involvement, action, and change with the aim of making a difference in the environmental and ethical aspects of companies' operations. This is a responsible and ethical way to act as an owner. If the Fund divests its holding, a problem will not disappear; the unsatisfactory state of affairs will continue. Thus the sale of the Fund's holdings is the absolute last resort, when the possibility of making a difference is judged futile.

As part of the Swedish pension system, AP4 bases its principles of involvement, action, and demands for change on the same fundamental values as the Swedish state. Democracy, the equality of all people, individual freedom and dignity, and sustainable development are core values faithful to the letter of the Swedish constitution.

The fundamental values of the Swedish state are also expressed in the international conventions that Sweden has signed, including conventions on human rights, labour, corruption, and inhumane weapons, partly in the support Sweden gives to initiatives such as the UN Global Compact and the OECD Principles for Multinational Corporations, but also in Sweden's standpoints on questions of international law. Alongside the fundamental

values of the Swedish state, the international conventions serve as essential instruments for AP4 in its efforts to ensure that the Fund pays proper attention to the environmental and ethical aspects of its operations.

5.2 Principles for exercising ownership

When a company that AP4 has invested in can be linked to the violation of a convention, the basic aim will be for the Fund to exercise its ownership to force an end to the violation and to work for the implementation of preventive systems and for action to prevent future violations. By exercising its ownership role for involvement, action against violations of conventions, and demands for change, the Fund will make a difference. Only if this cannot be achieved will the Fund consider excluding the company and divesting its holdings.

Such a decision means that the Fund's holdings of all securities issued by the company – regardless of whether they are managed internally or externally – shall be divested in an orderly manner.

Dialogue with companies is the principal means for influencing companies found to have violated environmental and ethical standards, to bring the violations to an end, and to persuade the companies to subsequently act ethically and in an environmentally responsible manner. Thus AP4 can contribute in the long run to improving corporate behaviour without compromising on its required return.

AP4 believes that the companies themselves have a responsibility to comply with international conventions, regardless of whether the conventions are aimed at governments, individuals, or companies and organisations. This responsibility applies regardless of whether the countries where the companies operate have signed the

conventions or have weaker legislation protecting various rights.

5.3 Cooperation with other shareholders

By coordinating AP4's actions on environmental and ethical issues with other shareholders' actions, greater effects can be achieved. AP1, AP2, AP3, and AP4 have jointly formed the Ethical Council to monitor and conduct a dialogue primarily with foreign companies in which the funds own shares. Common dialogue can also be conducted with selected Swedish companies. The Ethical Council also cooperates with other owners in dialogue with companies.

5.4 Objective evaluations

AP4's assessment of companies will be based on a systematic procedure to identify the holdings for which involvement has the greatest benefits.

The method is based on screening the equity portfolio for violations of international conventions. When violations are reported, the sources are checked, and the companies are contacted to give them an opportunity to give their view on the reported violations.

Any corrective action taken by the company or planned for immediate implementation to redress the problem is taken into account in the assessment.

5.5 AP4 encourages external managers to support PRI

AP4 works towards ensuring that all of its external managers and other suppliers (where this is feasible) support and sign the UN Principles for Responsible Investment (PRI).

CORPORATE GOVERNANCE IN FOREIGN COMPANIES

AP4's goal of best possible long-term return is always the basis for the Fund's policy positions related to the exercise of its active ownership in Swedish as well as foreign companies.

The Fund's opportunities for exercising its ownership role abroad in the way it does in Sweden are limited. AP4 is one of Sweden's largest institutional investors. Internationally, the picture is completely different, because the Fund's ownership is more widely spread and holdings are relatively smaller. Thus the Fund may have limited opportunities for pursuing ownership issues on its own or for participating in nominating committees. The rules and regulations for pursuing ownership issues differ significantly among markets. What may appear self-evident in Sweden, in terms of opportunities for exercising an ownership role, can be completely different in another market.

Outside Sweden AP4 also uses several means to exercise active ownership. Important tools include exercising the Fund's voting rights at AGMs and cooperating with other institutional investors to put more weight behind the pursuit of key questions of principle.

AP4's guidelines for corporate governance in foreign companies are based on internationally accepted principles for good corporate governance, chiefly the UN Global Compact and the OECD Principles for Corporate Governance and Multinational Corporations.

The principles cover proposals from boards as well as shareholders. Local codes and regulations, industry standards, listing agreements, and circumstances specific to each market can lead to divergence from principles appropriate to particular markets.

The following are several items that the Fund considers significant in the exercise of corporate governance in foreign companies.

1. SHAREHOLDERS' VOTING RIGHTS

Shareholders' voting rights are a cornerstone of all good corporate governance. For companies with differentiated voting rights, it is important to safeguard the interests of minority shareholders.

Shareholders shall have the right to propose their own items of business for the AGM's agenda.

In areas of the environment and ethics, the Fund will encourage the submission of shareholder proposals at

AGMs where they can help redress an unsatisfactory state of affairs.

The Fund supports the abolition of restrictions on voting rights based on the size of the holdings.

2. BOARD OF DIRECTORS

AP4 supports boards of directors that have a majority of independent directors (here, “independent” means that the member is not employed by the company).

Board committees, including remuneration, nominating, and audit, shall be completely independent; that is, the members shall not be employed by the company.

The CEO and chairman of the board shall not be one and the same person.

The board shall be elected for a period of one year.

3. TAKE-OVER DEFENCES

As a rule, AP4 votes “against the implementation of” and “for the abolition of” take-over defences.

Take-over defences include “poison pills”, such as unlimited authorisations for fundraising, boards elected for periods longer than one year, and “golden shares”.

4. MERGER AND RESTRUCTURING PROPOSALS

AP4 evaluates proposals for mergers and restructuring when evaluation is possible. The goal is to assess whether the transaction will add value for shareholders in the long run.

5. CAPITAL STRUCTURE

Each company shall have a capital structure that, in the long run, carefully balances strategic and financial factors.

Shareholders shall be entitled to vote on issues of new shares to ensure that their rights are safeguarded.

6. REMUNERATION ISSUES

Remuneration to senior executives must be devised to attract, pay, and provide incentives to work in line with shareholders’ long-term interests. Remuneration programmes shall reward favourable long-term performance but may also have the opposite effect; that is, when the desired performance is not delivered, total remuneration shall be less.

When information provided about the remuneration programme is insufficient for a decision, the Fund will abstain from voting or vote against the proposal. This makes stringent demands on the structure, evaluation, and transparency of the programmes.

7. ENVIRONMENTAL AND ETHICAL ISSUES

AP4 takes the approach of the UN Global Compact and OECD Principles for Corporate Governance and Multinational Corporations.

If it is likely that a company in which the Fund has invested has violated any of the conventions that Sweden supports, the Fund shall attempt to influence the company to implement change so that future violations can be avoided. If the company proves not to be interested in changing or the process of change takes an unjustifiably

long time, the Fund shall consider excluding the company from its investment universe.

AP4 supports proposals on dealing with social and environmental situations that are important to the long-term appreciation of the company as well as relevant proposals from shareholders about adequate disclosure of the social and environmental consequences of the company’s business activities.

7.1 Human rights – a code of conduct

Companies shall respect human rights and internationally accepted norms for conditions in the work place.

Companies also have a responsibility to influence their subcontractors to comply with these norms. That is why AP4 supports proposals for introducing a code of conduct that will deal with these issues.

7.2 Political contributions

AP4 will support proposals for compulsory reporting of political contributions if the reporting is not already done in a satisfactory manner.

7.3 Discrimination and equal opportunity

Companies shall have internal policies that prevent all forms of discrimination in the work place. The Fund will support proposals for their adoption if such policies do not already exist.

7.4 Climate change issues

Companies have a responsibility to limit their contribution to the greenhouse effect. The Fund will support proposals for the adoption of policies and reporting if such policies do not already exist.