

The Third Swedish National Pension Fund publishes an annual stewardship report after the close of Sweden's corporate AGM season.

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THIRD SWEDISH NATIONAL PENSION FUND STEWARDSHIP REPORT 2014-2015

The Third Swedish National Pension Fund (AP3) believes that companies with strong corporate governance offer superior returns at a lower level of risk over the long term. Being a committed and active owner that takes responsibility, engages in dialogue and works to ensure that our investees create long-term value is an integral part our investment strategy.

AP3 is one of five so-called buffer funds – known as the AP funds – that form part of the Swedish pension system. We are tasked by Parliament with managing our assets so as to generate maximum possible benefit for the income pension system by delivering strong investment returns at a low level of risk. The AP funds' mission is to ensure a balance between incoming contributions to the income pension system and outgoing pensions. The funds also play a part in the long-term financing of the pension system.

Together with the annual report, AP3 publishes a sustainability report that provides a detailed picture of our environmental, social and corporate governance and illustrates the ways in which we can play a proactive role in creating strong investment returns while also encouraging more companies to adopt high stewardship standards. The sustainability report is available on the Fund's website at www.ap3.se.

Over and above the sustainability report, AP3 aims to report on stewardship as openly as possible. However, it is not always practicable to disclose the details of discussions with other investors, nomination committees and corporate managements and boards because confidential dialogue is often the best way to achieve results. Nevertheless, transparency is vital to public trust in AP3, which is why this report documents how we have exercised stewardship in the 12 months ended 30 June 2015.

AP3 works closely with fellow AP funds AP1, AP2 and AP4 via a joint Ethical Council to monitor environmental and ethical compliance at investee companies. The Ethical Council presents its approach, engagements and investor initiatives in an annual report that is available at www.etikradet.se.

GENERAL APPROACH TO CORPORATE STEWARDSHIP

AP3's role in managing the so-called buffer capital of the state income pension system centres on creating value for current and future pensioners. We seek to create long-term value through asset management that takes a sustainability-oriented approach throughout the portfolio and a working environment founded on sound ethical principles. Our investment philosophy is based on diversification as a means to reducing risk, which means we divide our assets among a large number of investee companies all over the world. The AP3 equity portfolio is highly diversified and had a market value of close to SEK 144 billion at 30 June 2015, of which just over SEK 10 billion was invested in unlisted equity. The listed equity portfolio is invested in more than 3,000 stocks. The Swedish equity portfolio had a market value of close to SEK 32 billion at 30 June 2015 and accounted for 22% of the total AP3 equity portfolio.

Our foreign listed equity holdings are small, rarely exceeding 0.05% of the equity and voting rights in any one entity. The Swedish equity portfolio is similarly diversified, comprising holdings in 130 of the 280 or so companies listed on the Stockholm stock exchange. The Swedish equity portfolio has a home bias, which is reflected in a higher weight in the total portfolio compared to Sweden's market weight in a global equity index. As a result, our percentage holdings of Swedish companies are considerably higher than of foreign companies and average around 0.7% of the equity and voting rights. Nevertheless, there is

considerable variation and more than 40% of the portfolio is invested in entities where our equity stakes are less than 0.1%. Only in about one in 10 of our portfolio companies do our holdings exceed 1%. In some entities this figure may be much higher, however. In some life science companies, for example, our holdings exceed 2%.

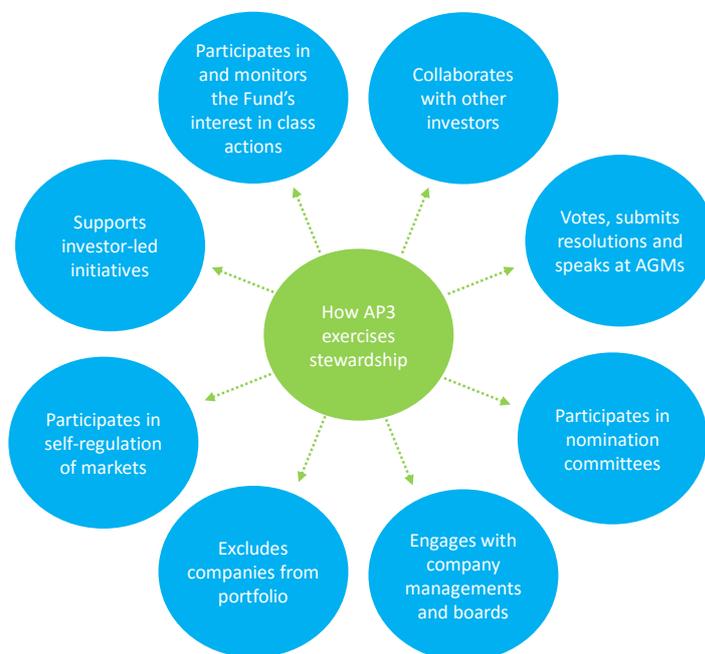
AP3 is a universal owner that has investments in more than 3,000 companies around the world. Our stewardship of these holdings varies depending on the size of our holdings. In companies where we own a substantial stake we can act more directly, for example by taking up a board seat to help drive a company's long-term strategy forward. Companies in which we follow this approach include the unlisted real estate companies Vasakronan, Hemsö and Trophi, the latter of which is wholly owned and operates a large retail property portfolio.

At companies in which AP3 is a major shareholder, we may be in a position to participate in nomination committee work, but these opportunities are relatively few because our equity holdings tend to be small due to our high degree of portfolio diversification. On the other hand, we retain the ability to engage with companies by interacting with nomination committees and nominating suitable candidates for directorships. Prior to the 2015 AGM season, AP3 held nomination committee seats at four listed companies (Aerocrine, Arise, Karolinska Development and Moberg Pharma) and two unlisted companies (Bergvik Skog and Vasakronan).

AP3 bases its stewardship on the principles of engagement, action and proactive change, concentrating on areas in which we see the greatest potential to achieve positive change. We are generally better placed to exercise influence over Swedish investees than foreign investees because our Swedish equity holdings are comparatively larger. Our views also resonate more strongly with Swedish investees because we represent the pension assets of the Swedish public.

AP3 engages in most stewardship issues, working proactively to influence the structure of executive remuneration packages and promote greater diversity on corporate boards. We exert influence by engaging boards and management in dialogue, by holding seats on nomination committees and by voting at company meetings. In recent years we have also applied this blueprint to parts of our global equity portfolio, where the primary focus areas include executive remuneration and the separation of the roles of chief executive officer and chairman. AP3 votes independently at the company meetings of foreign entities. We also contact selected investees to explain our reasons for how we voted on specific resolutions.

As a responsible owner, AP3 takes part in various investor-led initiatives aimed at persuading companies to take preventive action to reduce sustainability-related risks. In this context we work closely with other institutional owners or under the aegis of the Ethical Council.



STEWARDSHIP POLICY AT THE HEART OF AP3'S GOVERNANCE

AP3 bases its governance activities on the stewardship policy. The policy, which is approved by the board of directors, is kept updated and is available on the AP3 website. The stewardship policy reflects the National Pensions Act of 2000, which requires AP3 to exercise stewardship with the aim of improving our scope to generate high investment returns for the state pension system on behalf of the system's beneficiaries. Stewardship must be independent from political or macroeconomic policy considerations. Statutory investment rules prevent our Swedish equity portfolio from exceeding 2% of the capitalisation of the Swedish stock market. Moreover, we may not own more than 10% of the voting shares in any single company.

The stewardship policy incorporates the Fund's basic principles of corporate stewardship and our approach to environmental, social and corporate governance (ESG). These principles are general in character and apply to all the companies in which we invest, whether domiciled in Sweden or abroad.

Application of the stewardship policy may vary depending on where a company is domiciled and on the size of the Fund's holding. We focus on the areas in which we believe we have the greatest opportunity to exert influence. In this context, we tend to concentrate on Swedish investees because our holdings in these companies are usually larger than in non-Swedish investees.

The AP3 stewardship policy has six main focus areas and an overview of these is shown below. The full stewardship policy is available on the AP3 website at www.ap3.se.

1. Shareholder rights and responsibilities

In our view, the Swedish stewardship model, based on a clear division of responsibilities between executive management, board and shareholders, works well in practice. AP3 acts as an active and committed owner within this model by:

- Participating in and voting at the company meetings of investees in which we have large shareholdings or at which we are pursuing a matter of key importance
- Engaging with corporate boards, executive management and other investors to exercise influence at an early stage of the stewardship process
- Working closely with Swedish and foreign investors on specific issues
- Participating in efforts to develop the self-regulation system of the Swedish equity market
- Participating in class actions, whereby groups of plaintiffs unite to take joint legal action

2. Capital structure

AP3 works to ensure that investee companies have a solid long-term capital structure that reflects their strategic and financial goals. Key questions relating to capital structure include a company's dividend policy and approach to share offerings and buybacks. In respect of share offerings, AP3's view is that:

- New share issues should include preferential rights for existing shareholders, while private placements should be avoided and only used in exceptional circumstances
- In the event that a company proposes a private placement, we set high standards for the process and the transparency surrounding rationale and pricing
- A company's need to issue new shares promptly and without incurring major expense must be weighed against the interest of investors in ensuring that their holdings are not diluted or disadvantaged

3. Corporate boards

AP3 sees exercising influence over the election of directors as a core investor responsibility. The Fund believes that:

- Board structure should reflect the company's needs and the board itself should represent the interests of all shareholders
- The expertise, experience and backgrounds of individual directors are critical to board effectiveness
- It is important that directors have sufficient time to devote to their role. For this reason, directors should not have an excessive number of board memberships
- Ethnic and gender diversity is a key component of effective board operation
- The same individual should not hold the roles of chairman and CEO simultaneously

4. Audit and internal control

Auditors are elected by shareholders and give investors oversight over a company's affairs. It is thus important that the audit process is considered and evaluated from an investor perspective. The Fund believes that:

- The nomination committee should manage the processes of auditor procurement and evaluation
- Auditor independence is crucial to maintaining investor confidence

- The auditor's mandate should be confined primarily to audit services. Consulting services should be limited and should be disclosed to investors at the AGM and in the annual report
- Companies should regularly change their auditor to ensure full independence

5. Executive remuneration

AP3's stewardship policy takes a conservative line on performance-related pay to senior executives, in line with government guidelines.¹ AP3 may in certain circumstances accept the payment of variable remuneration to senior executives. Correctly structured share-based or share-price-based remuneration can be an effective way to marry the interests of corporate management and investors. Drawing up value-enhancing incentive packages should be a task for the board of directors. It is also the board's responsibility to explain the relationship between how an incentive programme is structured in terms of the company's goals and how the scheme's effectiveness in driving achievement of these goals will be evaluated. AP3's requirements for remuneration programmes are as follows:

- Share-based programmes are preferable to option schemes
- Performance criteria should be linked to the company's financial targets
- Incentive schemes should involve an element of personal risk in the form of an investment by the beneficiary in the company's shares
- Incentive schemes should have upper limits or contain prudence clauses to protect the company against unreasonably high payouts
- Executive pay schemes should be subject to review

6. Environmental and ethical considerations

AP3's core values are based on the international conventions signed by Sweden (including treaties on the environment, human rights, labour protection, corruption and inhumane weapons). They also reflect Sweden's support for initiatives such as the OECD's Principles of Corporate Governance and Guidelines for Multinational Enterprises, the UN Global Compact, and Sweden's stance on matters of international law. The Pension Funds Act requires the AP funds to take due account of environmental and social governance without compromising the ultimate objective of achieving high returns at a low level of risk. AP3 works proactively to encourage:

- Companies to identify and manage ESG risks in such a way as to create shareholder value
- Companies to perform risk analysis, implement risk management systems and have effective external reporting
- Companies to have corporate codes of conduct and policies in place that clarify their stance on ESG

¹ Government guidelines for remuneration and benefits to senior executives of the AP funds.

VOTING AT SWEDISH COMPANY MEETINGS 1 JULY 2014 – 30 JUNE 2015

AP3's Swedish equity portfolio varies in size over time according to equity market trends and how we allocate our investment capital. The portfolio consists of 130 holdings and the portfolio structure has historically been very stable. Since most of AP3's investments are under index management, the majority of our holdings in kronor terms are in the largest corporations listed on the Stockholm stock exchange, though our largest capital holdings are in four smaller companies: wind power operator Arise (in which AP3 owns 10% of the equity and voting rights), medical technology company Karolinska Development (9%) and real estate company Sagax (8%).

For practical reasons it is not possible to physically attend and vote at the AGMs of all companies in the Swedish equity portfolio or to prioritise heavy stewardship engagements in companies where we control only a minor share of the equity. For this reason, we focus our efforts on selected investees that are either large Swedish-listed companies in which we hold a large capital stake or enterprises in which we control a relatively large portion of the equity but where our capital stake is not especially large. We sometimes also attend the meetings of companies in which we are monitoring a specific governance-related issue.

In total, AP3 voted at 6 AGMs – 43 in person and six by proxy. These figures were slightly lower than in the previous period, in both overall terms and as a percentage of our portfolio holdings. The reason for our lower AGM attendance was a strategic review during the spring that resulted in the sale of most or all AP3 holdings in selected medical technology companies. The slight decrease in the ratio of Swedish investees at which we voted reflected an increase in the number of small cap companies in the equity portfolio during the period. At the end of the period, AP3 held shares in 130 companies, compared to 120 at the same time last year. In addition to AGMs, AP3 also attended one extraordinary general meeting. The Fund voted on around 1,000 agenda items, the same number as last year.

	2014	2015
No. of AGMs of Swedish companies at which AP3 voted	53	49
AGMs at which AP3 as percentage of Swedish portfolio	44%	38%
No. of Swedish AGM agenda items on which AP3 voted	approx. 1,000	approx. 1,000
No. of nomination committees on which AP3 held a seat	6	6

AP3's Swedish equity portfolio has a market capitalisation of SEK 32 billion and the Fund voted at the AGMs of 49 investee companies with combined market capitalisation was SEK 30 billion. This means that our voting engagements covered about 95% of the Swedish equity portfolio's market value. Extending our voting engagements to all 130 companies in the portfolio would require us to attend and/or vote at the company meetings companies of numerous small cap companies in which we have only a small stake. Due to limited resources we have chosen not to go down that path. On the other hand, AP3 works proactively to ensure that investors can vote by proxy at AGMs when physical attendance is not feasible, for instance by utilising web-based technology.

Intensive media coverage of events at SCA and Industrivärden set the tone for what in other respects was a relatively uneventful AGM season. Nevertheless, a number of observations can be made.

Sustainability advancing up the agenda

Sustainability issues gained added prominence at this year's AGMs as a clear consequence of the events at SCA and Industrivärden. It is likely that the media focus on these two companies encouraged other listed

companies to give higher priority to their sustainability reporting, over above the general trend in this direction. The fact that AGM presentations by CEOs and board chairmen routinely touch on sustainability nowadays indicates that these issues have risen up the corporate agenda. This is only to be expected considering the pressure from external stakeholders, but it is nevertheless gratifying to see corporate managements and boards demonstrating strong interest in this field. Until a few years ago, many listed companies saw sustainability as little more than a diversion and non-critical to daily business operations. Sustainability today is an integral part of the business structure and an area of great interest and focus.

Executive remuneration less contentious

Executive remuneration is a subject that frequently courts controversy, especially in the media. There was, however, less focus on this issue during the year. One reason may have been an absence of the turbulence surrounding increased directors' pay that was seen last year. In 2014, the boards of Swedbank, Nordea and SEB announced plans to set aside EU guidelines and increase the bonus ceiling for some employees from 100% of fixed salary to 200%. AP3, the only institution to vote against the banks' proposals, took the view that excessively high levels of variable remuneration can lead to risky behaviour. We were therefore pleased to see that the banks refrained from submitting similar resolutions to their AGMs this time.

Although Swedish listed corporations continue to introduce incentive schemes at an undiminished rate, it is rare nowadays for proposals to fall short of the standards we set for such programmes. A performance-based component is almost always included and the cost to shareholders is invariably known and limited. Schemes typically comprise a ceiling and an element of risk in the form of a personal investment by the beneficiary. Also, proposals are normally well-argued and include an analysis of prior schemes. Occasionally a company will propose a new incentive programme or changes to existing plans that fall short of our requirements, and in such cases we urge the board to withdraw or amend the proposal prior to the AGM. Companies are often willing to listen to us on these matters.

Continued focus on capital structure

In recent years, Swedish AGMs have focused more closely on issues of core business importance, namely operating activities, scope for development and earnings potential. The structure and reasonableness of banks' financial targets has been the subject of considerable debate both in the media and at bank AGMs. This was to be expected in the wake of the banking and financial crisis, which prompted far-reaching changes in the rules governing capital adequacy requirements in the banking sector. The previous government wanted the banks to continue to accumulate a capital buffer to see them through future crises rather than distribute capital to investors and threatened to impose tougher regulations on capital adequacy unless the banks took their "social responsibility". As yet, the current government has not called for this level of restraint and bank shareholders approved relatively high levels of profit distribution at this year's AGMs.

Increasing female board representation

AP3 has for many years been calling for Swedish listed companies to appoint more female directors to their boards. However, the Fund is rarely invited to take up nomination committee seats because we invariably hold only small stakes in investee companies. We have therefore pursued this issue in other ways, for instance by writing to nomination committees and urging them to address the matter.

The debate on corporate board representation, particularly from the standpoint of a greater female presence, has steadily increased. The Council for Swedish Corporate Governance recommends in the Swedish Code of Corporate Governance that Swedish companies seek equality between the genders in this area and has clearly articulated its desire for investors to press for a 40% ratio of female directors on listed company boards by 2020. By 2017 the largest listed companies are expected to have reached a figure of around 35%, with smaller firms approaching 30%.

In June the council published fresh data showing an increase in female board representation following last year's AGMs. At the turn of the year the ratio of female directors had risen by 3.4 percentage points to 29%. EU data, which excludes the 60 smallest listed companies and executive directors but includes trade union representatives, showed an increase of 3.3 percentage points to 32%. The increases show that company owners are taking the issue seriously, though work remains to be done to achieve the Council for Swedish Corporate Governance's objective of 40% female board representation and it is far from certain that the rate of increase will be sufficient to head off a government quota as imposed by Norway in 2004.

STEWARDSHIP IN THE FOREIGN EQUITY PORTFOLIO

Outside Sweden, AP3's stewardship includes voting at company meetings and lending support to investor-led initiatives. The foreign equity portfolio is managed both internally and by external managers. In recent years AP3 has voted at the company meetings of around 500 foreign investees. We have, however, extended our engagement in this area and in 2015 expect to vote at the AGMs of around 750 investees in the non-Swedish equity portfolio. Because this report is for the 12 months to 30 June 2015, the full impact of this shift has yet to be seen in our reported figures.

Pressure is growing steadily on institutional investors to take an active role in the stewardship of companies in which they own shares. In Britain, the recently introduced UK Stewardship Code seeks to encourage investors to be more active and involved. This involvement envisages institutional investors publishing a stewardship policy, voting at company meetings and communicating their views on a range of topics to the companies concerned. Similar initiatives are being considered elsewhere in the EU. For AP3, such codes have little direct impact as we already include these factors in our stewardship.

Responsible owner of foreign equities

AP3 has a diversified equity portfolio with relatively small holdings in a wide range of companies, so the extent to which we vote at AGMs involves striking a balance between the costs involved and the value that our interventions can create. AP3 has investments in more than 3,000 companies worldwide and votes at the company meetings of around one quarter of these investees. The global nature of our holdings means it is not practicable or financially feasible to vote in person at all company meetings. In some cases, therefore, we vote by proxy, whereby Institutional Shareholder Services (ISS), a global corporate governance consultancy, provides access to an electronic voting system and Nordic Investor Services, a Swedish corporate governance consultancy, monitors the company meetings, analyses relevant paperwork and administers the voting process. At all times, however, AP3 draws its own conclusions and decides independently how to vote. It should be noted that AP3 voted differently from ISS's recommendations fairly often during the period. In around one out of five cases in which ISS issued a voting recommendation based on its own analysis, AP3 instead chose to vote in accordance with our own stewardship policy. This is significant and is one of the main reasons why we have extended our voting responsibilities with regard to foreign investees in recent years rather than leaving this to governance consultants.

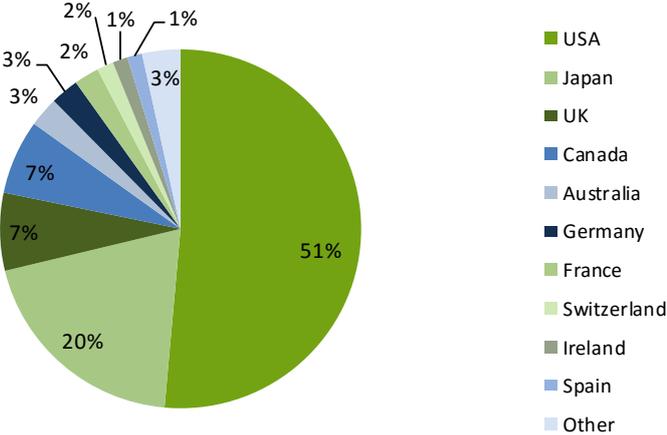
Extensive voting at global level

Outside Sweden, AP3 voted at investee company meetings in Australia, Austria, Canada, France, Germany, Ireland, Italy, Japan, the Netherlands, Spain, Switzerland, the UK and the United States, along with a handful of companies domiciled in Bermuda, Curacao, Hong Kong, Jersey, Liberia, Luxembourg, Panama, Singapore and the Virgin Islands. Here we selected investees based on their relative weights in the MSCI ACWI global share index, which meant we voted at the meetings of the largest investees in the chosen markets. We also voted at the meetings of investees that are part of the Ethical Council's universe (for instance those with which the council engages or where it supports international initiatives on specific topics) and at meetings where AP3 filed a resolution.

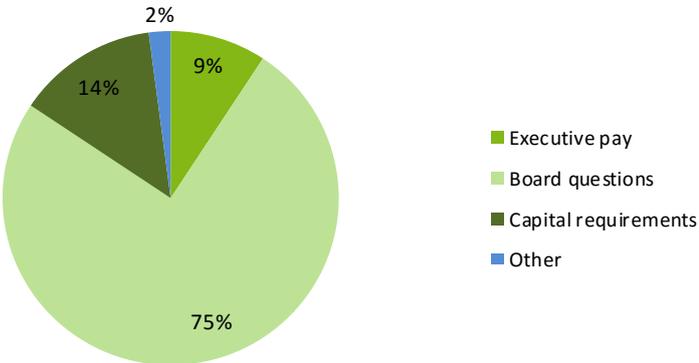
Compared to the previous period, AP3 voted at a larger proportion of US and Japanese AGMs and a smaller proportion of European AGMs. This change reflected the gradual refocusing of the Fund's European equity exposure from index-based management onto a small number of large cap companies and a large number of small cap companies.

Data on AP3's global voting in 2014-2015

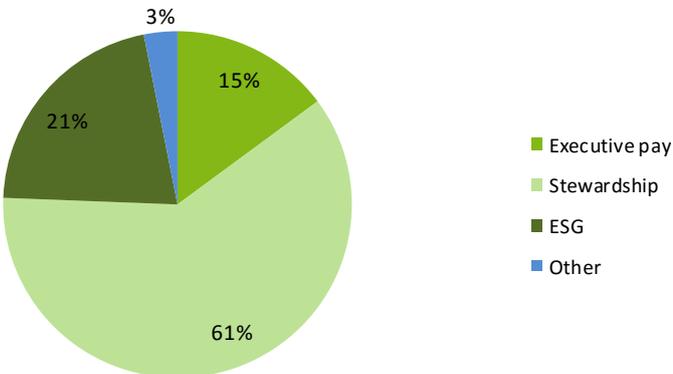
Geographic breakdown of company meetings 2014/2015



Breakdown of board resolutions 2014/2015



Breakdown of shareholder resolutions 2014/2015



Foreign investees struggle to meet AP3's requirements

In the 12 months ended 30 June 2015 AP3 voted on almost 9,200 resolutions at 670 foreign company meetings. We abstained or voted against board proposals in around 23% of cases. The ratio of “no” votes was slightly higher than in the previous period and was considerably higher than the ratio for Swedish investees. This confirms the fact that foreign entities find it more difficult than their Swedish counterparts to meet AP3's governance requirements and also indicates that foreign company boards and managements are less successful in gaining shareholder assent for their AGM proposals. Typically, Swedish companies inform institutional investors about proposed resolutions in good time before the AGM. Generally speaking, Swedish resolutions tend to enjoy broad shareholder support by the time the meeting is held. Executive pay is one area in which there are major differences between Swedish and many non-Swedish investees. On executive remuneration, we voted or abstained in approximately half of resolutions proposed by non-Swedish investees, reflecting the fact that foreign entities are less likely than Swedish companies to meet our requirements in this field.

AP3 also be voted in favour of more than half of resolutions submitted by other investors. Many institutions move their own resolutions to the company meetings of foreign entities and these are often of a high standard. Examples include resolutions for improved reporting of political donations and resolutions demanding separation of the role of CEO and chairman.

A list of all the foreign AGMs at which AP3 voted is available on the Fund's website at www.ap3.se.

	2013/2014	2014/2015
No. of AGMs of non-Swedish companies at which AP3 voted	501	671
Ratio of foreign portfolio companies at which AP3 voted	12%	22%
No. of agenda items at foreign companies on which AP3 voted	7,238	9,191
Ratio of agenda items on which AP3 voted in favour of board resolutions	82%	77%
Ratio of agenda items on which AP3 voted against/abstained on board resolutions	18%	23%

	2013/2014	2014/2015
No. of board resolutions	6,873	8,707
No. of shareholder resolutions	365	484
Total no. of agenda items	7,238	9,191
No. of votes in favour	5,940	7,212
No. of votes against	811	1,075
No. of abstentions	487	904
Total no. of agenda items	7,238	9,191
No. of votes in favour of board's recommendation	5,920	7,092
No. of votes against board's recommendation	1,318	2,099
Total no. of agenda items	7,238	9,191
No. of votes in favour of shareholder resolutions	196	267
No. of votes against shareholder resolutions	159	214
No. of abstentions on shareholder resolutions	10	3
No. of shareholder resolutions	365	484

As in previous years, AP3 contacted a group of 50 or so foreign investees to provide feedback on our reasons for voting against certain AGM resolutions. Here we highlighted several core governance issues. For instance, we explained that we voted against the same individual holding the positions of chairman and CEO as we believe these roles should be separate. We also voted against mandates for share offerings that were too loosely framed and against share-based incentive schemes that lacked clear and measurable performance criteria because these lead to unacceptable levels of dilution. The companies concerned replied either in writing or verbally and our hope is that this dialogue will develop over time and lead to greater understanding of our position on the part of company managements and boards.

AP3'S APPROACH TO ENVIRONMENT AND ETHICS

AP3's guiding principles of engagement, action and driving change reflect the core values of the Swedish government. The Instrument of Government defines these values as democracy, the equal worth of all individuals, the right to human freedom and dignity, and sustainable development.

Sweden's core values are reflected in the international conventions signed by Sweden (including treaties on the environment, human rights, labour protection, anti-corruption and inhumane weapons) and through the country's support for initiatives such as the UN Global Compact² and the OECD Principles of Corporate Governance and Guidelines for Multinational Enterprises.³

AP3 sees a connection between companies' ethical conduct and their capacity to deliver long-term shareholder value, and it is our firm belief that companies which are well run offer a better long-term investment. We screen investees to make sure they do not violate international conventions, we engage in active dialogue to encourage them to act responsibly, and we support investor-led initiatives aimed at specific companies or industries.

The AP funds' Ethical Council – a successful partnership

As of 2007, AP1, AP2, AP3 and AP4 collaborate on ESG-related governance via a joint Ethical Council. The Ethical Council's mission is to make a difference by engaging with investee companies in the field of sustainability and ESG. In this role it helps to reduce risks that might adversely affect the funds' long-term investment returns.

The Ethical Council takes both a proactive and reactive approach. With the help of an external expert it screens the funds' equity portfolios twice a year to determine whether any investees are acting in contravention of international conventions. If a company is suspected of breaching a convention, the Ethical Council investigates the facts, contacts the company concerned and encourages it to take action to address the breach and avoid any recurrence. Infringements of international conventions often indicate a company's failure to understand its responsibility for incidents or to focus adequately on taking proactive action in ESG issues. The Ethical Council works proactively to encourage companies in specific sectors to take preventive measures to reduce ESG risks and ensure more responsible stewardship.

The Ethical Council's objective is to drive change and the AP funds believe this is best achieved through active engagement with investees. In 2014 the Ethical Council engaged with more than 300 investees worldwide on issues including human rights, environmental protection and anti-corruption.

² The UN Global Compact is a voluntary United Nations initiative to help companies operate in conformity with 10 universal principles based on UN conventions on human rights, labour protection, the environment and anti-corruption.

³ The OECD Principles of Corporate Governance and Guidelines for Multinational Enterprises are recommendations to businesses from 40 governments, including Sweden's. They cover human rights, anti-corruption, employment, competition, taxation and disclosure.

AP3 sees exclusion of an investee from its investment universe as an absolute last resort when prolonged engagement fails to produce progress. Without pressure from active owners, the risk is that infringements will continue and for this reason AP3 and the other AP funds believe it is more responsible to engage with such investees insofar as is possible rather than taking the exclusion route. As of 30 June 2015, AP3 had excluded a total of 14 investees from its investment universe.⁴

The Ethical Council publishes an annual report containing information on its corporate dialogues and investor initiatives. The report and further information about the Ethical Council is available at www.etikradet.se.

⁴ As of 30 June 2015 AP3 had excluded the following 17 companies from its investment universe (including three subsidiaries): Agrium, Barrick Gold, Freeport-McMoRan Copper and Gold Inc., Elbit Systems, Hanwha Corporation, Incitec Pivot Limited, L3 Communications Hldgs, Motorola Solutions, Orbital ATK, Poongsan Corporation, Poongsan Holdings Corporation, Potash Corp of Saskatchewan, Singapore Technologies Engineering, Textron, Wal-Mart Stores Inc, Wal-Mart de Mexico and Wal-Mart Chile.

