

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 2015-2016

The Third Swedish National Pension Fund (AP3) is a committed and responsible owner who acts and requires positive changes in order to make a difference. The starting point is the belief that well-managed companies over time must be driven in a sustainable way in order to offer high returns at low level of risk.

AP3 is one of five so-called buffer funds within the Swedish national pension system. AP3 is 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.

Stakeholder communication is important in creating awareness and understanding of AP3's choice of emphasis and approach. The Fund strives to provide adequate information at a high level of transparency and clarity. To meet the increased public interest in and demand for sustainability issues, AP3 has developed a special Sustainability Report. The report provides a detailed picture of our work on environmental, social and corporate governance issues and illustrates how AP3 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 strives 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 2016.

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, i.e. 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 142 billion at 30 June 2016, of which just about SEK 10 billion was invested in unlisted equity. The listed equity portfolio is invested in about 3,000 stocks. About a quarter of the total equity value of the portfolio consists of Swedish companies. The Swedish equity portfolio had a market value of SEK 36 billion at 30 June 2016.

The Swedish equity portfolio is similarly well diversified comprising holdings in 150 companies, almost half of the approximately 280 companies listed on the Stockholm Stock Exchange. The 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 the ones of foreign companies and average around 0.8% of the equity and voting rights.

Nevertheless, there is considerable variation and almost 40% of the portfolio is invested in entities where our equity stakes are less than 0.1%. Only in about one in six of our portfolio companies do our holdings exceed 1%. In some entities, however, this figure may be much higher and in some companies the ownership can amount to a few percentage points.

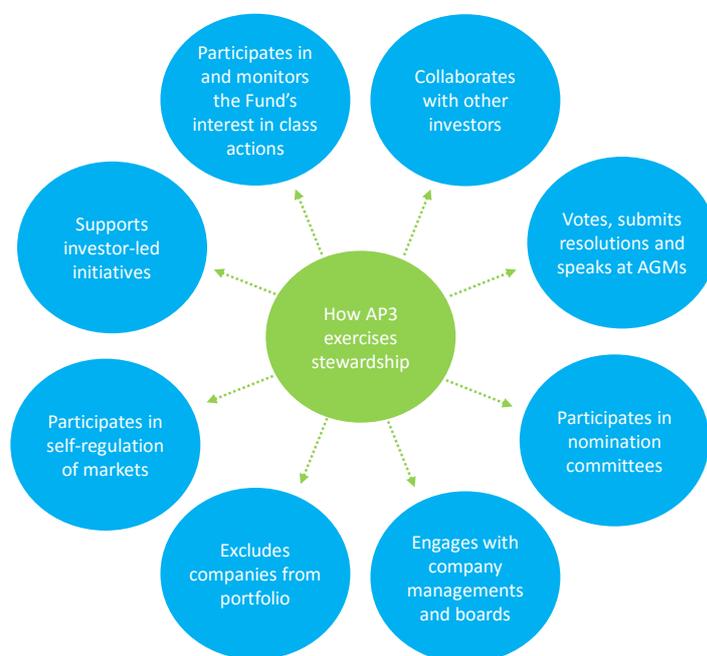
AP3 is a universal owner that has investments in 3,000 companies around the world. Our stewardship of these holdings varies depending on the size of our holdings. In companies where we own a substantial stake we can act more directly, for example by taking up a board seat to help drive a company's long-term strategy forward. Companies in which we follow this approach include the unlisted real estate companies Vasakronan, Hemsö, Trophi and Regio. In listed companies we engage through dialogues, voting at general meetings or by holding seats on nomination committees. Our holdings in foreign listed companies are typically small and we have, naturally, limited opportunities to influence through active corporate governance. In these companies we often exert influence in collaboration with other owners, mainly through the AP Funds' Ethical Council.

AP3 is a universal owner that has investments in 3,000 companies around the world. Our stewardship varies depending on the size of our holdings. 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 2016 AGM season, AP3 held nomination committee seats at two listed companies (Arise and Karolinska Development) 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 as 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. In recent years we have also applied this formula 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.



CORE VALUES FOR CORPORATE GOVERNANCE AND SUSTAINABILITY

The AP Funds are required by law, The Swedish National Pension Funds Act of 2000, to take due account of environmental and ethical considerations without compromising the ultimate objective of achieving high returns. The law states among other things that stewardship must be directed at achieving maximum 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.

As part of the Swedish national pension system, AP3's core values mirror those of the Swedish government, democracy and a sustainable development are key components in accordance with the wording in the Instrument of Government. AP3's core values are also based on the international conventions ratified by Sweden. In cases where Sweden support a new convention or modification of the existing convention, but where the new or modified one is not yet formally ratified AP3 will act as if ratification had already occurred. AP3 will regularly monitor the progress of the ratification process of the new or modified convention. If Sweden has not ratified the convention within three years from when Sweden endorsed the same, AP3 may revise its guidelines concerning the issues affected by the new or modified convention.

AP3's view is that companies have a responsibility to ensure compliance with international conventions and that this responsibility applies regardless of whether the conventions are addressed to governments, to individuals or to companies and organizations. This responsibility applies regardless of whether the countries in which the companies operate have signed the conventions or apply laxer standards at national level.

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 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 seven 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

The principle of equal treatment is a fundamental pillar of The Swedish Companies Act. AP3 works to ensure that shares with the same economic rights in the company always is treated equally in economic terms. It is important to protect the interest of minority shareholders and that shareholders are not disadvantaged financially in dividends, the liquidation of the company or the acquisition of all shares in the company. 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 nomination committees, participating and voting at company meetings and by engaging with corporate boards, executive management and other investors to exercise influence.

2. Capital structure

AP3 works to ensure that investee companies have a solid long-term capital structure. Key questions relating to capital structure include a company's dividend policy and approach to share offerings and buybacks. With respect to 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. Redemption of repurchased shares is one of several available ways to return capital to shareholders. However, it should be clear to shareholders how and when the board may utilize any authorization to repurchase shares.

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. 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. AP3 believes that the nomination committee should manage the processes of auditor procurement and evaluation. Auditor independence is crucial to maintaining investor confidence. Companies should regularly change their auditor to ensure full independence. The auditor's mandate should be confined primarily to audit services. Consulting services should be limited and should be disclosed to investors.

5. Executive remuneration

AP3's stewardship policy takes a conservative view on performance-related pay to senior executives, in line with the 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 align 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. Share-based programs are preferable to option schemes. Incentive schemes should include performance criteria, an element of personal risk in the form of an investment by the beneficiary in the company's shares and should have upper limits or contain prudence clauses to protect the company against unreasonably high pay-outs.

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

7. Information disclosure

Companies should aim for an open and ongoing dialogue with shareholders. Company information should be accurate, clear, objective and credible. The information from the companies should enable a qualified assessment of the company's future development and of the factors that create value for shareholders. Companies should be clear on the objectives and the financial and strategic implications of the goals.

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

VOTING AT SWEDISH COMPANY MEETINGS 1 JULY 2015 – 30 JUNE 2016

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 about 150 holdings. 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 three 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 corporate governance-related issue.

In total, AP3 voted at 53 AGMs – 46 in person and seven by proxy. These overall figures were slightly higher than last year, but lower as a percentage of our portfolio holdings. 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 150 companies, compared to 130 at the same time last year. In addition to AGMs, AP3 also attended a couple of extraordinary general meeting. The total number of agenda items which the Fund voted on is considerably higher than last year, 1,300 compared to 1,000. This is partly due to the fact that the Fund voted in more meetings this year, but the main reason is that many companies have chosen individual election of directors instead of previously as a unit.

	2016	2015
No. of AGMs of Swedish companies at which AP3 voted	53	49
AGMs at which AP3 as percentage of Swedish portfolio	35%	38%
No. of Swedish AGM agenda items on which AP3 voted	approx. 1,300	approx. 1,000
No. of nomination committees on which AP3 held a seat	4	6

AP3's Swedish equity portfolio has a market capitalisation of SEK 36 billion and the Fund voted at the AGMs of 53 investee companies with combined market capitalisation of SEK 34 billion. This means that our voting engagements covered about 95% of the Swedish equity portfolio's market value. Extending our voting engagements to all 150 companies in the portfolio would require us to attend and/or vote at the company meetings of numerous small cap companies in which we have only a small stake. Due to limited resources we have chosen not to do this. 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.

Overall, the AGM season was relatively calm, and the companies managed to largely focus on what is essential, namely, the business and the results generated by the companies. AP3 notes that the companies' sustainability efforts have moved higher up on the agenda of most meetings, which is good. The fact that AGM presentations by CEOs and board chairmen routinely touch on sustainability nowadays indicates

that these issues have moved up the corporate agenda. Sustainability is an integral part of the business structure and an area of great interest and focus.

Executive remuneration tends to attract a lot of attention before and during the AGMs, not least in financial companies. However, in recent years it has been somewhat less focus on these issues. Although Swedish listed corporations continue to introduce incentive schemes at an unabated 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.

The greatest media attention was about Swedbank, whose AGM was preceded by major management changes and eventually a new chairman of the board.

Individual election of directors

A highly topical issue on AGMs this year was the individual election of directors. In connection with the revision of the Swedish Code of Corporate Governance, international investors, including Norges Bank Investment Management (NBIM) and some Swedish institutional investors, proposed that rules for mandatory individual voting and counting of votes at the election of directors should be introduced in the code. The investors also argued that it should be mandatory for listed companies' nominating committees to present their proposal of the board of directors as a number of individual proposals, one for each proposed member of the board, and that voting at the AGM shall be made individually for all proposed candidates. Furthermore, special counting should always be the case and the result should be noted in the minutes. According to the proponents this procedure is standard in the majority of the most advanced countries, and it would provide better governance by strengthening owners' ability to hold individual board members accountable.

The Swedish Corporate Governance Board, however, found that the rationale for introducing such rules in the code, is not sufficient. Additionally, the Swedish Corporate Act already provides this possibility and there are well-functioning practices in the companies and its nominating committees. The board decided to leave to each company and its shareholders to decide the arrangements for the board election and at the same time it was noted that it is in each shareholder's power to request counting of the votes if desired. It was also this that NBIM did when they contacted the companies and urged them to formulate the notice in such a way that individual election of directors would be possible. Many companies chose to meet NBIM's request. AP3 has in principle no objection to board members being elected individually rather than as a unit. Individual election of directors leads to that some AGMs will take slightly longer, but the Fund does not consider this as a major problem.

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.

Since its introduction, the Swedish Code of Corporate Governance, has stipulated that listed companies should strive to achieve gender balance on their boards. Nominating committees are to consider the code's stipulation on gender balance in their reports. In 2014 the board issued an instruction containing a number of initiatives to achieve a more even gender distribution on the boards of listed companies. The

instruction entered into force on 1 January, 2015. The board want shareholders to drive the development towards a 40% share for the least represented gender on listed company boards by 2020. Larger corporations should achieve a level of 35% by 2017, while smaller companies should be approaching 30% by then.

In the board's recent report, one can see that the proportion of women on boards of listed companies' continues to increase after this year's AGMs. Since year end, the proportion of elected members in all Swedish listed companies' boards who are women has increased by 2.7 percentage points to 31.6%. Larger companies have already exceeded the board's goal of at least 35% representation for each gender following the 2017 AGMs. According to the European Commission's method of calculation women's share of board positions it has increased by 2.2 percentage points to 34.0%.

On the issue of gender balance, it is with great satisfaction AP3 notes that progress continues in a positive direction and that the proportion of women has increased this year. According to the Fund's view, it is most essential to monitor how the proportion of women among the newly elected members have developed. 2014 became the first year in which this figure exceeded 40%, and the proportion of women among newly elected board members has increased further since then. For the second year in a row it is almost equal gender balance among the newly elected board members, which shows that nomination committees continue to take this issue seriously. Despite the positive trend, it can be observed that there still is an imminent threat of legislation. AP3's view is that self-regulation is preferable.

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. Ahead of last year's AGMs, we extended our engagement in this area and nowadays the Fund aims to vote at the AGMs of 750 investees in the non-Swedish equity portfolio. During the 12-month period ended 30 June 2016, the Fund did not quite reach up to that level and we voted at 670 AGMs.

Pressure is growing steadily on institutional investors to take an active role in the stewardship of companies in which they own shares. Britain introduced a few years ago the UK Stewardship Code, in order to enhance the engagement of institutional investors. 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.

Extensive voting at global level

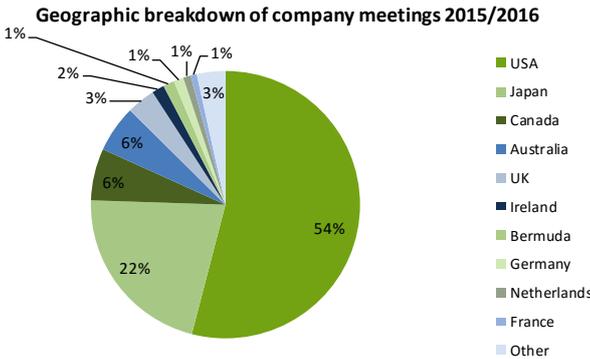
AP3 has a diversified equity portfolio with relatively small holdings in a wide range of companies, so the extent to which we vote at AGMs involves striking a balance between the costs involved and the value that our interventions can create. AP3 has investments in about 3,000 companies worldwide and 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.

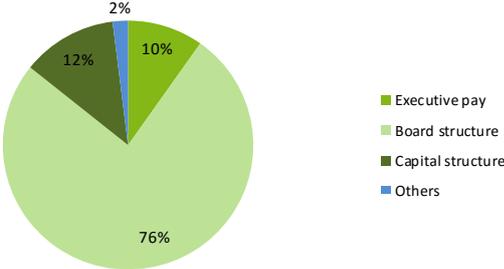
Outside Sweden, AP3 voted at investee company meetings in Australia, Canada, France, Germany, Ireland, Italy, Japan, the Netherlands, Spain, Switzerland, the UK and the United States, along with a handful of companies domiciled in Bermuda, Curacao, Hong Kong, Israel, Jersey, Luxembourg, Panama, Singapore 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 to a small number of large cap companies and a large number of small cap companies.

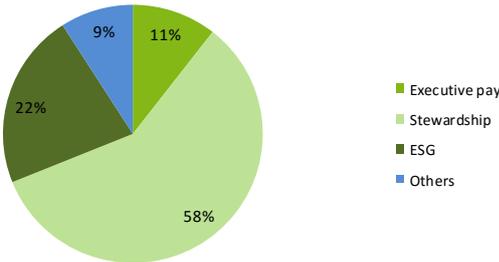
Data on AP3's global voting in 2015/2016



Breakdown of board resolutions 2015/2016



Breakdown of shareholder resolutions 2015/2016



Foreign investees struggle to meet AP3's requirements

In the 12 months ended 30 June 2016 AP3 voted on about 8,700 resolutions at 670 foreign company meetings. We abstained or voted against board proposals in around 25% of the cases. The ratio of “no” votes was considerably higher than the corresponding 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.

	2015/2015	2014/2015
No. of AGMs of non-Swedish companies at which AP3 voted	670	671
Ratio of foreign portfolio companies at which AP3 voted	22%	22%
No. of agenda items at foreign companies on which AP3 voted	8,657	9,191
Ratio of agenda items on which AP3 voted in favour of board resolutions	75%	77%
Ratio of agenda items on which AP3 voted against/abstained on board resolutions	25%	23%

	2015/2016	2014/2015
No. of board resolutions	8,239	8,707
No. of shareholder resolutions	418	484
Total no. of agenda items	8,657	9,191
No. of votes in favour	6,714	7,212
No. of votes against	972	1,075
No. of abstentions	971	904
Total no. of agenda items	8,657	9,191
No. of votes in favour of board's recommendation	6,580	7,092
No. of votes against board's recommendation	2,077	2,099
Total no. of agenda items	8,657	9,191
No. of votes in favour of shareholder resolutions	230	267
No. of votes against shareholder resolutions	185	214
No. of abstentions on shareholder resolutions	3	3
No. of shareholder resolutions	418	484

It is important to reconnect to the companies to explain the Fund's position in various corporate governance issues. As in previous years, AP3 contacted a group of 50 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 ESG

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.

Particularly important are the following agreements within ESG:

- OECD Principles of Corporate Governance and Guidelines for Multinational Enterprises
- ILO Core Conventions (refers to forced labor, child labor, working conditions, equal treatment and freedom of association)
- UN Guiding Principles on Business and Human Rights – the Ruggie Principles
- AP3 also appreciates that companies adhere to the principles of the UN Global Compact

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 the Council helps to reduce risks that might adversely affect the Funds' long-term investment returns.



The Ethical Council takes both a proactive and reactive approach. The Council applies a systematic process for screening the Funds' equity portfolios to determine whether any investees are acting in contravention of international conventions and also conducts dialogues with companies. 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. Examples of preventive initiatives in recent years can be found in the mining, pharmaceuticals, and food industries as well as work within the anti-corruption area.

The Ethical Council's objective is to drive change and the AP Funds believe this is best achieved through active engagement with investees. In 2015 the Ethical Council engaged with about 180 investees worldwide on issues including human rights, environmental protection and anti-corruption.

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 believe it is more responsible to engage with such investees as long as a dialogue is deemed effective and progressive rather than taking the exclusion route. As of 30 June 2016, AP3 had excluded a total of 18 investees from its investment universe.²

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.

² As of 30 June 2016 AP3 had excluded the following 18 companies from its investment universe (including three subsidiaries): Agrium, Barrick Gold, Freeport-McMoRan Copper and Gold Inc., Elbit Systems, Hanwha Corporation, Incitec Pivot Limited, Larsen & Toubro Ltd, 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.

