

OWNERSHIP REPORT 2015



CONTENTS

Working with ownership generates value for Första AP-fonden	4
The six principles of the PRI	6
An array of possibilities for influencing companies	15
Collaborations, guidelines and initiatives endorsed by Första AP-fonden	21
The Ethical Council of the AP funds.....	23



FÖRSTA AP-FONDEN IN BRIEF

- Första AP-fonden is one of five funds that manage buffer capital in the Swedish national income pension system (the AP funds). When disbursements from the income pension system exceed contributions into it, the AP funds contribute the difference. The funds shall **manage net assets in the long term** to maximise return, while at the same time maintaining low risk in pension disbursements.
- Första AP-fonden has assets under management of **SEK 290 billion** in a global portfolio consisting of equities, fixed income securities, real estate, infrastructure, private equity funds and hedge funds.
- A clear-cut **investment philosophy** forms the basis of the Fund's investment activities. Concentrated portfolios enable dedicating more time to each investment. It is important for the Fund to exercise sound control of investments.
- An important element of the Fund's investment philosophy is its conviction that a focus on **sustainable value creation** can enable increasing return in the long term, while reducing financial risk.
- Real return after expenses for the past ten-year period is 4.4 per cent annually. **Första AP-fonden's target was thus overshot.** The target is real return of 4.0 per cent after expenses over rolling ten-year periods. Since 2001 Första AP-fonden has contributed total net investment income of **SEK 165 billion** to the pension system.

WORKING WITH OWNERSHIP GENERATES VALUE FOR FÖRSTA AP-FONDEN

Första AP-fonden has been commissioned by Swedish Parliament to manage a part of the pension capital in the Swedish income pension system in the long term, such that as high a return as possible is achieved at well-balanced risk. It shall do this while taking account of ethical and environmental aspects at the same time, which may not compromise the target of attaining a high return. In our view, however, there is no contradiction between creating high return in the long term, and consideration for sustainability aspects in asset management. Quite the contrary; taking account of sustainability aspects in investment decisions and engaging with companies enables generating greater returns.

The general public, media and employees have great expectations about the Fund and how we should work with sustainability and corporate governance issues. We cannot meet everybody's expectations, but focus on the areas where our work has the greatest impact. In so doing, sustainability and corporate governance work will contribute to Fund's mandate.

"Första AP-fonden works with a long-term approach, makes sustainable investments and influences companies"

Selecting companies and influencing companies

How does Första AP-fonden fulfil its long-term mandate as a pension manager, while ensuring at the same time that the sustainability profile of the Fund's investment portfolio is good?

- First, we integrate sustainability issues into the investment process, and in this respect there have been considerable developments for us and others in the past few years. We describe in more detail our approach for all our asset classes on pages 7–12.

- Second, we can influence the companies we already own – known as corporate governance. We vote at AGMs to exert influence in the matters decided at the meetings. Selecting the right board is one of the most important decisions at an AGM. For this reason, Första AP-fonden always participates in nomination committees wherever possible. We also conduct dialogues with the companies to influence them in various matters.
- In certain situations, we do not achieve the desired results, and in certain cases we might lodge legal proceedings against the company. This is a path often chosen in the US, where owners are otherwise in a weak position.
- A last resort is to exclude the company from future investments – a measure that also exerts influence, although the influence is greater if we remain owners. If several institutional investors exclude a company, an improvement is usually achieved in the end.

Concentrated portfolios

In our view, possessing solid knowledge about the companies in which the Fund invests is fundamental to generating healthy return over time. The Fund has therefore selected an investment model in which the internal management is based on concentrated portfolios with few holdings – just shy of 30 Swedish companies in the equity portfolio and around 80 for remaining developed countries (Europe, the US and parts of Asia). Also, the majority of the externally managed equity portfolio – around 60 per cent – contains relatively few companies. This affords better possibilities of analysing each portfolio company, and better opportunities to influence the companies.

In 2015, Första AP-fonden established a long-term focus for its work with sustainable value creation – our sustainability strategy. We did so in order to focus on the areas within sustainability that we find most important and profitable. The purpose of the sustainability strategy is for it to help attain or overshoot the Fund's return target.

SUSTAINABILITY VISION

Första AP-fonden is a responsible investor and engaged owner which, through sustainable investment and active ownership, is part of the solution to global challenges.



Resource-efficient operations

The focus area we have selected is resource efficiency, meaning the responsible use of financial capital, natural resources and human capital. An important part of the resource efficiency of companies is that their environmental impact is as low as possible. Naturally, this also applies to emissions of gases that are harmful to the environment. We are therefore pleased to say that all of the Fund's investments in listed equities are substantially below average emissions on various markets. In the 2015 annual report, we describe comprehensive comparative figures showing that our companies emit about half (between 46 and 54 per cent lower depending on the measure used) as much carbon dioxide as the average. In this ownership report (pages 9–10) we present more information about how the study was conducted, and our findings.

Compared with the climate impact of Första AP-fonden through its investments, the Fund's impact from its own office activities, including travel, is minimal. The contract we have with our landlord Vasakronan is a "green rental contract" with low energy consumption and electricity based on water, wind and biopower.

Otherwise, the carbon footprint mainly consists of business travel. We have provided climate compensation for the carbon footprint caused by the Fund's operations using UN-approved climate compensation, known as Gold Standard CER, from renewable energy production projects.

Our resource efficiency demands on the companies we invest in mean that they must fulfil stringent requirements in terms of anti-corruption efforts. We also have strict demands on being economical in our own and the companies' operations. This was also one of the reasons why we, in cooperation with other institutions, engaged in and pushed through changes in SCA and, ultimately, the entire Industrivärden sphere (see page 14). Senior executive remuneration is also an important issue when we vote at Swedish and foreign AGMs. In Sweden, for many years the Fund has been one of the institutional investors which, through dialogue and demands on the companies' remuneration programmes, have helped make remuneration in Sweden lower and better devised than in many other countries. At foreign AGMs, Första AP-fonden often votes against board proposals to approve remuneration for senior executives.

"Our companies emit around half as much carbon dioxide as the average."

THE SIX PRINCIPLES OF THE PRI

Första AP-fonden endorsed the six principles for responsible investment of the PRI at an early stage. The purpose of PRI is to increase the responsible actions of investors, and provide a framework for integrating sustainability into the asset management and own organisation. The PRI fuel developments in sustainability and help increase the interface and exchange of knowledge about sustainability between responsible investors across the globe.

Principle		Första AP-fonden's standpoints
Principle 1	Första AP-fonden integrates sustainability into investment analyses and decision-making processes	<ul style="list-style-type: none"> • Includes sustainability data in the analysis of investment objects • Focus on resource efficiency (page 5) • Trains staff in sustainability issues • Follows academic studies on sustainability
Principle 2	Första AP-fonden is an engaged owner and integrates sustainability factors into the ownership policy and in corporate governance work	<ul style="list-style-type: none"> • Sustainability is an important component of the ownership policy • Votes at all Swedish AGMs (page 14) • Participates in nomination committees • Contacts with companies ahead of AGMs • Votes at around 80% of foreign AGMs (page 15) • Participates actively in legal proceedings • Participates actively in Swedish self-regulation and in the development thereof
Principle 3	Encouragement of better disclosure of sustainability factors in the portfolio companies	<ul style="list-style-type: none"> • Supports initiatives for better transparency (for example CDP, GRI, EITI, Global Compact and Sustainable value creation) • Sustainability is part of the evaluation of new and existing external managers
Principle 4	Promoting acceptance and implementation of the PRI in the financial industry	<ul style="list-style-type: none"> • Urges external managers to meet the PRI • Participates in conferences on sustainability in order to share Första AP-fonden's knowledge and experience, and to learn of others' knowledge and experience • The Secretary General of the Ethical Council of the AP Funds is the chair of the PRI Collaboration Platform
Principle 5	Working together to enhance effectiveness in implementing the PRI	<ul style="list-style-type: none"> • Cooperation in the Ethical Council of the AP Funds (page 19) • Första AP-fonden and the Ethical Council cooperate with foreign investors in several cases • Första AP-fonden is an active participant in the Institutional Owners Association, the Remuneration Academy, etc. in Sweden
Principle 6	Reporting on progress made in the implementation of the PRI	<ul style="list-style-type: none"> • Annually publishes the annual report, ownership report and the annual report of the Ethical Council • Regularly publishes on sustainability matters on www.ap1.se • Publishes Första AP-fonden's ownership policy and other relevant documents • Reports the carbon footprint of the portfolio • Responds to the PRI's survey and discloses the responses on www.pri.org

SUSTAINABLE STRATEGY WITH A FOCUS ON RESOURCE EFFICIENCY

By sustainable value creation, we mean that companies or other operations in which the Fund invests must be profitable in the long term, and they can achieve this through managing areas such as environmental and climate impact, social issues and corporate governance diligently. We are convinced that, over time, this gives more profitable companies and ultimately higher return for us.

Sustainability is a broad concept that comprises many areas. In 2015 the Fund formulated an overarching sustainability strategy. The strategy clarifies which sustainability issues are most important to the Fund. Focus

shall be on resource efficiency. By that we mean the responsible usage of natural resources, human capital and financial capital.

The Fund's investment philosophy rests on its view of six fundamental areas:

Diversification	Successful diversification between asset classes, risk, investment horizon and strategies increases risk-adjusted return. It requires allocation with sound insight into the underlying drivers and risk factors of assets.
Horizon	A long-term approach enables higher return over time. When market pricing is set with a short investment horizon, lucrative opportunities for the long-term investor emerge.
Efficient markets	Financial markets are not entirely efficient. Therefore, well-devised management with active selection can bear fruit.
Risk premiums	Risk-taking on financial markets generates a positive return over time. Risk premiums vary over time and are obtained by investing in specific asset classes or strategies or in risks that other investors are unable or unwilling to take.
Costs	Cost efficiency is key because it is return after expenses that makes up the Fund's contribution to the pension system.
Sustainable value creation	Focus on sustainable value creation can provide possibilities to increase return in the long term and reduce financial risk because the markets are not always efficient in pricing risk and opportunity in the area of sustainability.

“We focus on resource efficiency: the responsible use of financial capital, natural resources and human capital.”

Resource efficiency – the responsible use of financial capital

The responsible use of shareholders’ and creditors’ capital means a well-balanced use of funds, with due consideration for both the risks in a broader perspective and expected return. Investors, companies and individuals shall comply with financial legislation, including tax legislation, and practice. Corruption in any form may not occur.

Resource efficiency – the responsible use of natural resources

The basis when devising the Fund’s sustainability strategy has been the global macro trends that affect the investing activities. It’s a case of globalisation, a growing population and middle class, urbanisation, resource shortage and climate change, all of which clearly point in the same direction – heightened demand for the world’s finite resources. This is the case whether it is a matter of clean air, water, minerals, fossil fuels, arable and inhabitable land or ecosystems.

Resource efficiency is not only good from a sustainability perspective, it often leads to reduced production costs, increased productivity and new business opportunities. With an investment strategy that is based

on identifying operations that clearly focus on resource efficiency, not only do we create healthy return – the Fund can, at the same time, help provide the solution to many of the world’s global challenges.

Resource efficiency – the responsible use of human capital

In the same way, a company’s ability to attract, motivate and engage employees, and its way of managing the individuals, organisations and communities affected by its activities, are core aspects that affect a company’s chances of success. These factors can even be crucial to the ability of the company to continue conducting its operations at all. The Fund’s minimum requirement is that the businesses in which we invest shall respect the UN’s ten principles for responsible enterprise. If we find a company we own does not fulfil the UN principles for responsible enterprise, we engage to achieve necessary change.

Conditions for the responsible use of the aforementioned resources are sound corporate governance and well-functioning markets. We therefore seek to promote sound corporate governance in the companies we own, and well-functioning financial markets.

“With tight resources, using them efficiently is key to taking on the global challenges.”

SUSTAINABILITY ASPECTS ARE INTEGRATED INTO THE INVESTMENT PROCESS

Sustainability factors can be strategically important success factors, both for the Fund as an investor, and for the operations in which we invest. They must therefore be included in the investment analysis. That applies at all levels to both overall allocation and selection of individual securities.

Below is a description of how sustainability aspects were integrated into the investment process for each asset class in 2015. In 2016 a systematic review of investment processes is being performed to identify how resource efficiency can be integrated even better.

Companies excluded from investment

For all listed equities and fixed-income securities – both internally and externally managed – there is list of excluded companies in whose securities the manager may not invest. The list, which is updated as needed, is based on two different analyses. First, we receive recommendations regarding the exclusion of companies due to breaching an international convention, where dialogue has not led to the desired change of the company's behaviour, from the Ethical Council (read more on page 21). Second, the list contains companies for which Första AP-fonden considers that special grounds exist that make them unsuitable investment objects. At the end of 2015, it was not permitted to invest in around 20 issuers. The list is on page 18 and is updated continually on www.ap1.se.

Allocation

In 2015 the Fund participated, as the only Nordic pension fund, in an international study to gain a better idea and knowledge of the long-term climate risks, and the potential implications of global warming for the Fund's long-term return. The analysis was performed for four different climate scenarios on a 10- and 35-year horizon. Irrespective of the horizon and scenarios studied, the effect on future return is negative, yet nevertheless relatively limited. In a longer-term perspective, the negative effects risk being more significant if climate change and the physical consequences are substantial. In order to reduce the negative effects on long-term return, more detailed knowledge at regional and sector level is needed. One conclusion that can be drawn already today is that many investments in infrastructure are good from a return point of view in the scenarios in which powerful political measures against climate change are taken. This can benefit the efforts made by Första AP-fonden in the area lately. In 2016 the conclusions of the study will be further integrated into the Fund's continuing analysis of asset allocation for the Fund and in scenario analyses.



Equities

All equity portfolios are screened twice a year to identify whether the companies can be linked to breaches of international conventions. The results of the analysis are discussed in the Ethical Council, where decisions are made about how to best proceed to obtain more information and to influence the company.

The Fund has commissioned a measurement of the carbon footprint of the Fund's equity investments at the end of 2015.

The analysis showed that, on the whole, the Fund's footprint was 46 to 54 per cent lower than for comparable equity markets (see the next two pages). A portfolio analysis of the quality of sustainability work for the Fund's equity portfolio has also been performed. The quality was considered good.

Internally actively managed equities – developed countries

To support the manager's analysis of sustainability risks when investing, there is a database listing companies with high sustainability risks. The database is based on analysis and information about the companies' sustainability work and serious violations of conventions which Sweden has committed to follow. It is possible to invest in companies in the database, but prior to investment, the responsible manager must assess the sustainability risks. If an investment is made in a company with particularly high sustainability risk, an action plan shall be prepared setting out what the Fund should do to monitor or reduce the sustainability risk.

In 2015 the equities team continued to develop the investment process in order to incorporate more systematically sustainability aspects into its decision-making process. The goal is to possess knowledge about how well all companies in which the Fund invests are equipped for the material sustainability risks and opportunities presented by their operations. Companies with deficient sustainability contingency require a separate analysis.

Internally managed systematic strategies – developed countries

The list of excluded companies is applied and the portfolio is screened for convention breaches. No other analysis of sustainability aspects is currently performed in the investment decisions. At the end of 2015 a project was initiated to evaluate how sustainability aspects can be integrated into the Fund's systematic strategies.

Externally managed equities

The list of excluded companies is applied by all managers and the portfolios are screened for convention breaches in the same way as for internally managed equities.

The Fund has also identified the degree of sustainability maturity of the external equity managers, partly by having them respond to a survey, and partly by analysing sustainability quality in their portfolios. This analysis is followed-up with dialogue with the managers on individual investments with high sustainability risk.

The Fund's active managers integrate sustainability aspects into the investment analysis to varying degrees. We consider one third of the active equity managers to be at the forefront. Many of the managers have increased their focus on sustainability aspects in the investment process following discussions we have held with them.

Just over one third of the Fund's net assets is passively managed.

In that part, there is by definition no integration of sustainability aspects into investment decisions. However, both of the Fund's passive managers attempt to influence the companies in which they invest through dialogue.

CLIMATE CHANGE – A QUESTION OF RESOURCE EFFICIENCY

As part of its focus on resource efficiency, the Fund has, for the second consecutive year, measured the carbon footprint of its investments in listed equities. The carbon footprint of an equity portfolio describes the extent of emissions of greenhouse gases released by the portfolio companies, in relation to Första AP-fonden's share of ownership. The AP funds AP1, AP2, AP3, AP4, AP6 and AP7 agreed in 2015 on a common standard for reporting the funds' carbon footprints. (see www.apfonderna.se).

The carbon footprint of the AP funds is calculated for holdings as at 31 December 2015 using the latest available CO2 data for direct emissions (Scope 1) and indirect emissions from energy (Scope 2).

The carbon footprints are reported using the following three indicators:

1. Absolute carbon footprint for the listed equity portfolio equalling the owned share of the companies' aggregate emissions (tCO₂e).
2. Carbon dioxide intensity, in which the absolute carbon footprint is related to the share of ownership of the companies' market value (tCO₂e/MSEK).
3. Carbon dioxide intensity, in which the absolute carbon footprint is related to the share of ownership of the companies' turnover (tCO₂e/MSEK).

Considerably smaller carbon footprint

The carbon footprint of the Fund's listed equity holding, equalling 39 per cent of the total market value of the portfolio, was 1,088,556 tCO₂e at the end of 2015¹. As shown in the diagrams below, it is a much lower carbon footprint for all subportfolios – Sweden, developed countries ex. Sweden, emerging markets – irrespective of the CO₂ measure used. The smallest footprint, both in absolute and relative terms, is in the Swedish equity portfolio, whose carbon footprint is over 80 per cent lower than for the Swedish equity market. For the total portfolio, the Fund's footprint is between 46 and 54 per cent lower than that of benchmark market.

Carbon footprint – opportunities

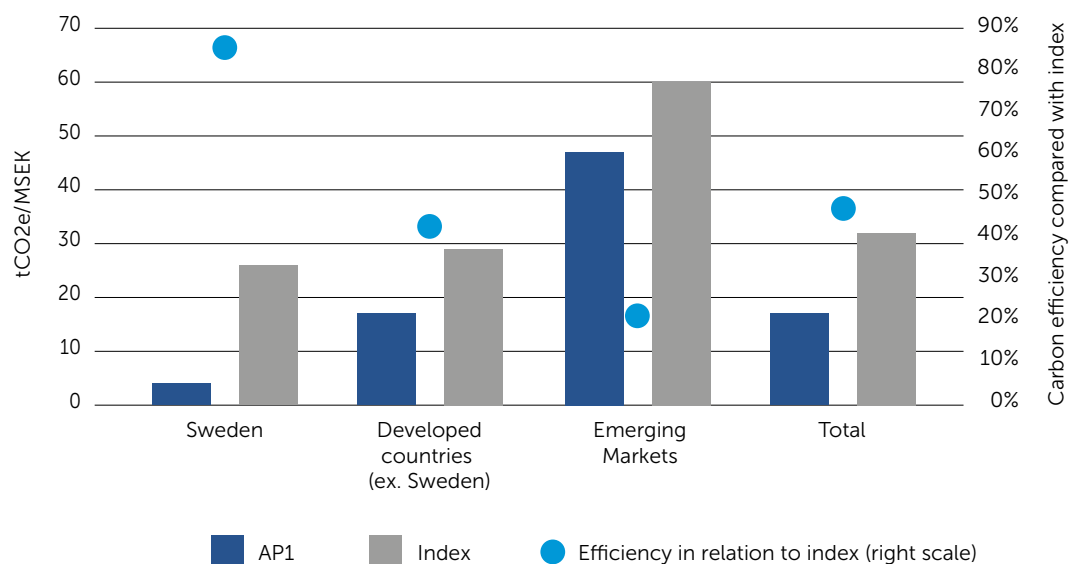
Measuring the carbon footprint of the equity portfolio according to the methods on which the AP funds have agreed provides the Fund with a picture of how high the financial risks linked to a potential price for carbon dioxide might be. The analysis also increases the Fund's knowledge about the quality of the contingency of various companies for climate change – and is useful both as a basis for investment decisions, and in dialogues with companies.

Carbon footprint – limitations

Although it is positive that the carbon footprint is relatively small, the measure has its limitations – if the aim is to find out how well the portfolio is positioned for

¹ For more information, see the Fund's 2015 annual report, page 19

Carbon footprint share of ownership with reference to return



a transition to a low-fossil society, which is ultimately what interests a long-term pension manager like Första AP-Fonden.

For example, the measures do not capture

- The extent of CO2 emissions caused by all stages of production and use of the goods and services over the entire lifecycle of the product/service.
- The total climate risk of the portfolio, for example how the assets in the portfolio are affected by extreme weather, floods, drought, etc.
- Consequences of tightened legislation regarding energy efficiency

- How well the portfolio is positioned to reach the 1.5-degree target
- The exact carbon footprint for around a quarter of the listed companies in the portfolio which do not report, mainly in emerging markets.

Several of the areas above have been captured by the international climate study in which the Fund participated in 2015 (read more on page 7).

Together with the other AP Funds, we continue to support the enhancement and standardisation of methods to measure and report investments' climate impact and contribution to sustainable development.

Fixed-income securities

The same exclusion list used in the equities management is applied to the Fund's fixed-income investments – both the internally and externally managed ones.

Internally managed fixed-income

In support of the manager's analysis of sustainability risks in investments, the fixed-income management has access to the same database as the equities management of companies with high sustainability risks, and follows the same procedures before and when investing. The fixed-income managers also have access to a sustainability database in the analysis of securities for issuers they are not familiar with – both companies and sovereigns.

Work is in progress to develop the investment process in order to incorporate more systematically and automatically sustainability aspects into the decision-making process.

Externally managed fixed-income

The list of excluded companies is applied by all managers.

In the same way as for equities, the Fund has identified the degree of sustainability maturity of the external fixed-income managers, partly by having them respond to a survey, and partly by analysing sustainability quality in their portfolios. Follow-up was then performed with

dialogue about topics including individual investments with high sustainability risk. The degree of sustainability maturity varies between the managers, but all of them are taking steps towards greater integration of sustainability aspects into investment decisions and conduct dialogues with the companies in which they invest.

Real estate

Sustainability aspects are part of the analysis that forms the basis of investments in real estate, but this will be done in a more structured manner. The Fund has sound knowledge about current investments thanks to the industry survey that the managers are requested to respond to (GRESB²). In 2015 everybody responded to the survey (with the exception of one company which was undergoing major restructuring). Half of the managers were classed as "Green Stars", the highest score, meaning that both guidelines and their implementation are in place. A dialogue on the results of the survey is held directly with several managers. The dialogues indicate that the GRESB survey serves as a source of inspiration for improvement, and that the sustainability discussions held with many of the Fund's real estate companies are bearing fruit.

The Fund's wholly owned real estate company Wilhelm is for example conducting a number of projects with the purpose of instilling a sense of participation

² Global Real Estate Sustainability Benchmark <https://www.gresb.com/>



and pride among tenants in the community where they live, hence making them want to stay there. (I) The Help with Homework project in Linköping, (II) The Live Well process at Biskopsgården in Gothenburg, (III) Innovation Platform Malmö South-east and (IV) arranging summer jobs for youths in the area. Read more about the projects at www.willhem.se.

Private equity funds

In the past, sustainability factors have not been part of the evaluation process of new private equity funds. The Fund has therefore chosen, in the same way as for its external managers of listed securities, to commence finding out the degree of sustainability maturity of its most important general partners (GPs).

The survey for the evaluation of new investments includes sustainability issues, and the investment analysis is being developed to incorporate sustainability aspects more systematically. The Fund is also examining the possibility of reviewing wording regarding sustainability in the Fund's agreements with GPs.

Agriculture

The challenges in agricultural investments are considerable – it is an industry confronted by many types of sustainability risk. Analysis of how sustainability factors are managed is therefore central to the Fund's evaluation of investments in agriculture. The focus is on ensuring that the agricultural activities are conducted in a responsible and long-term sustainable manner, thereby minimising operational risks. As a basis for the analysis, the Fund uses the UN's Principles for Responsible Investment in Farmland³. The principles cover the following areas: environment, labour rights, human rights, land and

resource rights and business ethics. The Fund's two managers have also signed the Principles. On an annual basis, structured follow-up is performed of how they live up to the Principles. Both managers live up to the Principles well.

Hedge funds

The Fund's hedge fund managers are informed of the Fund's list of excluded companies. Because investments are often made by funds in which other investors also own units, it is difficult to entirely avoid investments of such companies. The investment horizon is, however, very short in most cases. Hedge funds with a longer investment horizon are requested to disclose if investments would be made in companies on the exclusion list.

Infrastructure

Infrastructure is a new asset class for the Fund – one in which sustainability factors are key in investments. So as to accumulate knowledge in the area and develop an evaluation and investment process in which sustainability factors play a key role, the Fund has commenced building up knowledge in the area by using its established contacts with other responsible European and North American pension funds, which have had this type of investment for a long time.

Electricity distribution company Ellevio, which Första AP-fonden owns together with Omers, AP3 and Folksam is now making major investments in renewing the electricity network to ensure that, in the future too, it works as it should so that customers always have a secure electricity supply, around the clock, 365 days a year.

³ The Principles for Responsible Investment in Farmland, <http://www.unpri.org/areas-of-work/implementation-support/the-principles-for-responsible-investment-in-farmland/>

AN ARRAY OF POSSIBILITIES FOR INFLUENCING COMPANIES

Because Första AP-fonden is a long-term investor and an engaged owner, it has high ambitions in corporate governance and sustainable value creation.

This commitment is based on the conviction that companies and other operations that are diligent in sustainability improve their possibilities of attaining profit that is higher in the long term through better growth, lower risk and cost savings. The Fund's actions in corporate governance matters are based on a professional approach and on knowledge about the individual company, always proceeding on the basis of the best interests of the companies and shareholders, and hence of beneficiaries of the pension system.

The ownership policy provides the foundation

Första AP-fonden's ownership policy contains the demands placed by the Fund on the operations in which it invests – besides their obligation to comply with national legislation, international conventions and relevant corporate governance codes. Companies in which Första AP-fonden has a significant share of votes shall be good role models in ESG and follow specific ownership directives. The ownership policy is divided into eight principles and is published in full on www.ap1.se.

Principle		Första AP-fonden's standpoints
1.	Voting right	An important shareholder influence tool at companies is the owners' right to vote at AGMs, and the Fund seeks to promote that right being unrestricted.
2.	Equal treatment	Shares with the same financial rights in the company shall be treated equally in financial respects. The interests of minority shareholders shall be safeguarded.
3.	Capital structure	The companies shall have an appropriate capital structure with reference to their ability to generate future profit. Capital that is not used efficiently to secure or develop the company's operations should be distributed to shareholders. Respect for the right of ownership requires that any changes to voting rights be made voluntarily.
4.	Boards of companies	The Board of Directors shall represent the shareholders in the governance of the company, and it is the owners that shall appoint the Board. Expertise and integrity are important qualities for Board members. Efficient board work requires diversity in board composition. Fees for board members shall be on market terms and reasonable, and reflect the demands imposed on them.
5.	Senior executive remuneration	Remuneration for senior executives shall benefit the company and be reasonable, on market terms and so reasonable that it can be openly justified to the company's stakeholders.
6.	Auditing and internal control	Stringent demands shall be placed on the independence of external auditors from the company and its management.
7.	ESG – Environmental, social and governance	If a business can be associated with the violation of any convention that Sweden has committed to follow, the Fund shall primarily influence the company so that future violation can be avoided. The companies shall also, wherever possible, compensate injured parties or restore damage to the environment. It is only when other means do not prove effective that the Fund shall exclude the business from its investment universe.
8.	Disclosure	The businesses shall seek an open and ongoing dialogue with shareholders and provide accurate, clear, factual and credible information.

Voting – the main way of exerting influence

One of the most important shareholder influence tools is the right to vote at AGMs. At Swedish companies, it stands to reason that shareholders have both the right to vote and to submit proposals to the AGM. This is not the case in other countries, however. In many instances, it is not possible to submit proposals to the AGM if the proposal is not supported by sufficient votes. Sometimes, it is not evident either that shareholders can vote on important matters. In Första AP-fonden's opinion, shareholders' right to vote and submit proposals shall be unrestricted. It shall be possible for owners to submit proposals for decisions to the AGM agenda, and have these matters addressed. If the proposals gain a majority of the votes, the company shall be obliged to implement the decision. The Fund's ambition is to exercise that right as far as possible. Our ambition is to vote at all the AGMs of Swedish companies and, where practically feasible, of foreign companies. By proceeding on the basis of the principles of our ownership policy in each individual issue when we vote, we promote sound corporate governance.

"Första AP-fonden is an engaged owner that wants to influence companies and decision-makers into taking steps in a more sustainable direction."

Corporate governance at Swedish companies

In Swedish companies, Första AP-fonden participates in and votes at all AGMs. In the 2015 AGM season, the Fund owned shares in 29 companies. Most Swedish companies inform their major shareholders of the proposals that the boards intend to submit at the forthcoming AGM. At these meetings, Första AP-fonden has the opportunity to express views to the companies. Because of the support gained in this process, major shareholders very seldom vote against board proposals at Swedish

AGMs. With one important exception, Första AP-fonden voted in favour of all proposals submitted by the companies' boards and nomination committees in 2015.

Industrivärden and the SCA AGM

In the winter of 2014/2015, media reports emerged about senior executives in the Industrivärden sphere, and people closely associated with the sphere, having used services and the company's property in a way that cannot be considered consistent with sound corporate governance. For example, there was excessive use of SCA's private jet, and ostentatious hunting expeditions in the name of hospitality. Also, the sphere's rules about who approved hospitality expenditure, etc. were inappropriate. The company's auditors had not made any remarks or comments on this; indeed, the auditors themselves took part in some of the events.

For SCA, the outcome of the events of the spring was that both the CEO and chairman left the company. At the AGM on 15 April, besides the nomination committee's proposal for a board, a counter-proposal was submitted from a number of major shareholders – a move that is unusual in Sweden. Besides Första AP-fonden, AMF, AP4 and Robur supported the proposal (the arguments expressed by the four owners are published on www.ap1.se). According to the institutions' proposal, the board would be reduced by one person, and the CEO of Industrivärden, Anders Nyrén, would not be on the board. Besides the proposers themselves, a great number of other shareholders – large and small – supported the proposal.



The outcome of the vote, however, was that the proposal of the nomination committee went through, largely thanks to the high share of votes of the principal owner, Industrivärden. However, a couple of weeks after the AGM, two board members, including Anders Nyrén, chose to leave the board of SCA. Afterwards, a number of positive changes occurred in the Industrivärden sphere. In particular, cross-ownership between the companies in the Industrivärden sphere, and the overlapping representation on boards, decreased.

The criticism expressed by Första AP-fonden was directed at certain phenomena in areas of the company's top management, and parts of the board. Otherwise, SCA has been exemplary in sustainability matters in many respects. SCA's sustainability report is worth reading.

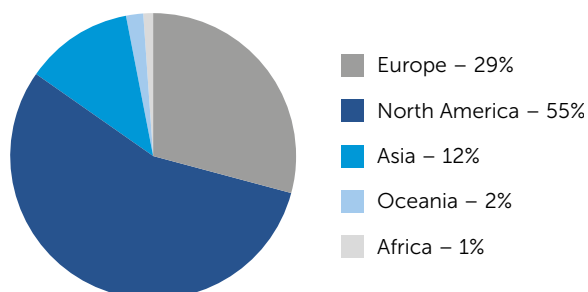
Första AP-fonden's standpoint on individual voting

At an AGM, each shareholder has the right to demand that the election of board members shall be individual, with votes counted for each candidate. However, such voting cannot be requested in advance; rather, the shareholder must do this in person at the AGM, which has made it difficult for foreign owners to do because they vote by proxy. Some of these shareholders have, however, expressed a desire to change this. Första AP-fonden has taken the position that companies should, if possible, conduct individual voting. The main reason for such voting is that the responsibility borne by a board member is individual. It is therefore natural to vote for board members individually, even though the board operates collectively as a team in its work. Because this requires a great deal of practical preparation for the companies, for example electronic voting devices must be used, we do not require this to occur until the 2017 AGMs.

Corporate governance at foreign companies

For developed countries, the Fund voted at 327 AGMs (312 companies), which is practically all of the internally managed companies. The Fund therefore votes at just over 80 per cent of all listed companies, 100 per cent of the Swedish companies and just over 60 per cent of the companies in developed countries. For non-Swedish companies, the Fund uses external analysis of AGM items as a basis for decisions. The Fund often votes against the board's recommendations in individual matters (17 per cent of all matters). In around 50 cases, the Fund sends a follow-up letter to the companies to explain why the Fund voted against the board's proposals. In many cases, it's a matter of the CEO and chairman being the same person, which makes for poorer role allocation and accountability in the companies. In remuneration matters too, the Fund has a different – and stricter – view of appropriate senior executive remuneration.

The Fund has not previously voted at AGMs in emerging markets. In 2015 a pilot project commenced with one of the Fund's managers in emerging markets to investigate whether the Fund could let the manager vote on the Fund's behalf. We do not find the prospect of the Fund itself voting to be feasible given current resources, because making informed decisions requires too much knowledge about each company and each country's specific circumstances – knowledge that is difficult to obtain remotely.



Dialogue with companies, other investors and decision-makers – a way to exert influence

Dialogue with companies

Because well-run companies often exhibit better profitability and lower risk, it is in Första AP-fonden's interest to influence the companies we own. We do this through the nomination committees in which we participate, and through dialogue (individually or alongside other shareholders) regarding the companies' guidelines and activities. Contacts with companies occur at many different levels – board, management and investor relations. Our actions are based on a professional approach and on knowledge about the individual company, always proceeding on the basis of the best interests of the companies and shareholders over time, and hence of the beneficiaries of the pension system.

Ahead of the 2015 AGM season, the Fund had representatives in the nomination committees of two Swedish companies – Elektro and Vasakronan, and in the 2016 season the Fund is participating in five nomination committees – Arcam, Getinge, Recipharm, Trelleborg and Vasakronan. In Arcam, the Fund is the largest Swedish owner, and its representative was therefore elected to chair the nomination committee. In the past few years, the proportion of women on the boards of Swedish listed companies has been discussed in nomination committees and in the public debate. The proportion of women is important because the companies benefit greatly from heterogeneous boards. Besides working to increase the proportion of women in the companies on whose nomination committee the Fund is a member, we have also focused on the justifications and descriptions of other nomination committees on how they have worked with the issue. In many cases, the descriptions have been deficient.

During the year, the Fund has also followed up on whether the companies whose anti-corruption work, or reporting thereof, was not satisfactory in the Fund's

evaluation in 2013 have taken the requisite measures. In both cases, we can ascertain that the companies, besides addressing a number of deficiencies and increasing disclosure about their anti-corruption work, have also increased their focus on sustainability in purely general terms.

The Fund also conducts dialogue with foreign companies. Dialogue with foreign companies is often conducted in collaboration in the Ethical Council of the AP funds (see page 21). Besides dialogues in the Ethical Council, the Fund is also in dialogue with some foreign companies where we have called attention to particularly high sustainability risks.

Dialogue with other investors and decision-makers

An example of how we engage to improve the functioning of the market is our membership in IIGCC – Institutional Investors Group on Climate Change – an organisation that seeks to attain clearer signals from world decision-makers indicating their will to switch to a low-fossil economy. For example, in May the Fund endorsed a letter sent to the finance ministers of the G7, urging them to work towards establishing targets for the reduction of CO2 emissions.

The issue of which tax companies should pay has become increasingly topical, one reason being the OECD BEPS project (Base Erosion and Profit Shifting), which concerns how much and where multinational companies should pay tax. In order to exchange knowledge and discuss this complex issue, in 2015 Första AP-fonden organised a round table between the Swedish Tax Agency and a number of institutional investors.

Första AP-fonden's standpoint on the matter is published on www.ap1.se.

Legal proceedings – a third way of exerting influence

If needed, the Fund lodges legal proceedings against companies to recover losses incurred to the Fund, often due to poor corporate governance. This procedure helps maintain sound corporate governance and a well-functioning capital market. This type of procedure is particularly common in the US. In 2015 the Fund participated in legal proceedings against a great number of companies. Out of these, 29 cases were concluded during the year, bringing a total of SEK 31 million to the Fund.

Information abuse in high-frequency trading

One example is the class action lawsuit in which the Fund was lead plaintiff regarding high-frequency trading, or robot trading. The class action lawsuit, which was lodged in a US court, is directed at around forty stock exchanges, high-frequency traders and brokerages (the Firms). The Fund is of the opinion that the Firms have, erroneously and illegally, exploited, or allowed others to exploit, information about the Fund's submitted purchase and sale orders of equities. The reason for bringing this action is that the Fund has probably lost a considerable amount of money due to their actions. The price the Fund has had to pay when submitting a purchase order for US equities has been somewhat too high, while at the same time the sale price has been too low. Because the Firms have acted systematically over a long period of time, the Fund's total losses add up to large amounts.

Besides the financial implications for Första AP-fonden of a positive outcome in court, the case is also of principle importance. Practically all institutions and private investors that have traded in US equities have made losses due to the Firms' actions. Because the Fund is a

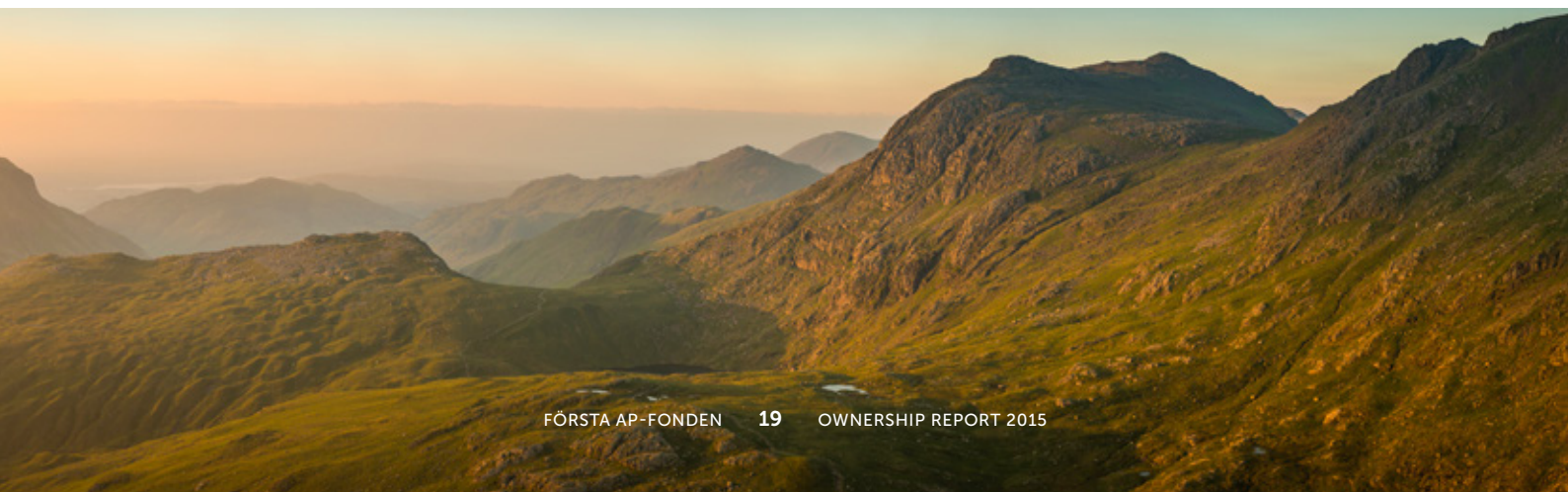
major participant on many stock exchanges globally, it is important to seek the promotion of sound and fair functioning of stock-exchange trade. No participants should be able to line their pockets at the expense of others.

Following lengthy consideration, the court rejected the case at the beginning of December 2015, the main reason being that the court did not consider itself to be the correct venue for settling the issue. It was not said that the claims of Första AP-fonden and other plaintiffs were misplaced. The court finds instead that it is primarily a question for authorities that regulate financial markets, rather than the courts. The verdict has now been appealed.

Första AP-fonden will, in its capacity of major participant on many stock exchanges globally, continue in different ways to seek to promote stock-exchange trade always occurring in a way that is not to the detriment of any owner group.

Extensive corruption in Petrobras

Another case that has generated a lot of attention is the legal proceedings against Petrobras. The company, which is one of the largest in the world, had a market capitalisation of around USD 250 billion in 2011. The company and senior managers there are suspected of several different cases of making and accepting bribes. The market capitalisation has plummeted, due to the drop in the oil price but also due to the accusations and the potential financial implications for the company, to the current level of USD 23 billion today – a drop exceeding 90 per cent. For a long time, Första AP-fonden has had holdings in Petrobras through external managers. The Fund's compensation claim due to these events is to the tune of SEK 200 million.



Exclusion – a final resort when influence in any other way is not possible

In cases where companies in which the Fund has invested conduct their business in a way that is inconsistent with the ten principles for responsible enterprise as defined by the UN Global Compact, or other conventions that Sweden has committed to follow, the Fund initiates a dialogue with the company. In many cases, this is done jointly with other investors, chiefly through the Ethical Council of the AP funds. Influence through dialogue is, in the opinion of the Fund, preferable to divesting the holding. The problems do not disappear

because the Fund sells its shares. However, successful dialogue with the company can lead to rectification of the problems. In turn, this means that the value of the company can increase.

In certain cases, however, the dialogue held by the Fund and other investors with the company does not lead to any improvement in a reasonable amount of time. In such cases, the Fund excludes the company from future investment.

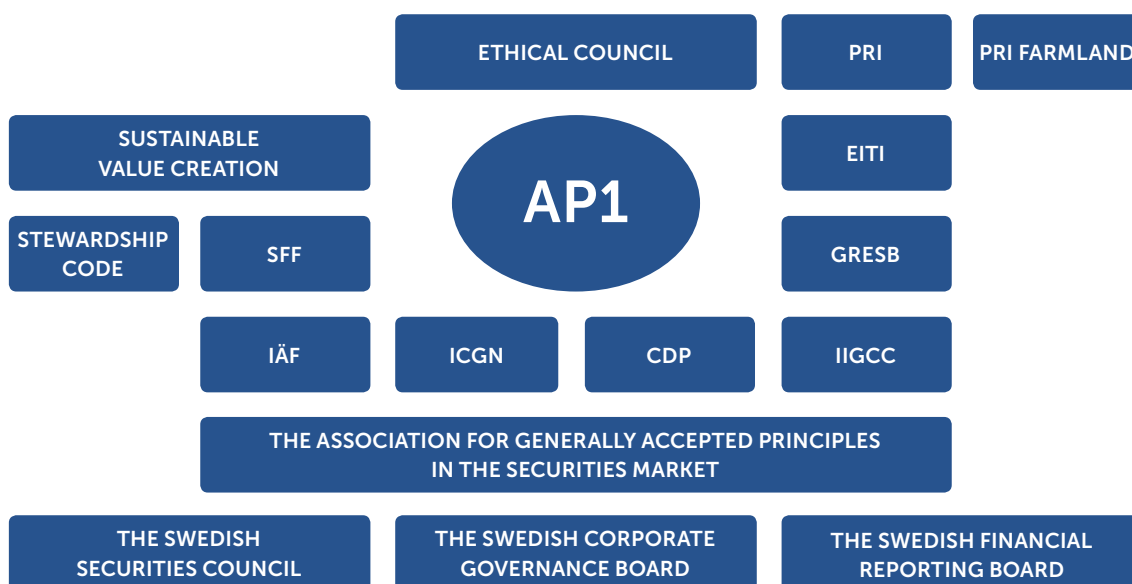
Companies excluded by Första AP-fonden at 31/12/2015 ⁴

Agrium	2014	Can be linked to violations of the UN Covenant on Civil and Political Rights, and the UN Covenant on Economic, Social and Cultural Rights.
Barrick Gold	2014	Can be linked to violations of the UN Convention on Biological Diversity.
Betsson	2015	Can be linked to illegal business in Turkey.
Freeport-McMoRan Copper and Gold Inc.	2013	Can be linked to violations of the UN Convention on Biological Diversity.
Elbit Systems	2010	Can be linked to violations of international humanitarian rights, in breach of the Geneva Convention (IV).
Hanwha Corporation	2008	Can be linked to violations of the Convention on Cluster Munitions.
Incitec Pivot Limited	2013	Can be linked to violations of the UN Covenant on Civil and Political Rights, and the UN Covenant on Economic, Social and Cultural Rights.
L3 Communications Hldgs	2008	Can be linked to violations of the Convention on Cluster Munitions.
Motorola Solutions	2015	Can be linked to violations of the Geneva Convention (IV).
Orbital ATK	2008	Can be linked to violations of the Convention on Cluster Munitions.
Poongsan Corporation	2008	Can be linked to violations of the Convention on Cluster Munitions.
Poongsan Holdings Corporation	2008	Can be linked to violations of the Convention on Cluster Munitions.
Potash Corp of Saskatchewan	2013	Can be linked to violations of the UN Covenant on Civil and Political Rights, and the UN Covenant on Economic, Social and Cultural Rights.
Singapore Technologies Engineering	2001	Can be linked to violations of the Ottawa Anti-Personnel Mine Ban Convention.
Textron	2008	Can be linked to violations of the Convention on Cluster Munitions.
Wal-Mart Stores Inc	2013	Can be linked to violations of human rights.
Wal-Mart de Mexico	2013	Can be linked to violations of human rights.
Wal-Mart Chile	2013	Can be linked to violations of human rights.

⁴ For more information and regular updates of the list, see www.ap1.se.

COLLABORATIONS AND INITIATIVES ENDORSED BY FÖRSTA AP-FONDEN

In its shareholder activism, Första AP-fonden collaborates with other investors and is a member of a number of national and international networks and organisations. These collaborative efforts not only give the Fund greater leverage in crucial issues, they also increase the Fund's knowledge about developments in the financial industry and markets.



The most important cooperation takes place in the Ethical Council of the AP funds.

Through the Ethical Council, the First, Second, Third and Fourth AP funds work jointly with environmental and ethical matters in the companies in which they hold shares outside Sweden. The Ethical Council holds dialogues with a couple of hundred foreign companies annually. Read more about the Ethical Council of the AP funds on page 21, in the annual reports of the Ethical Council and at www.etikradet.se.

The UN's Principles for Responsible Investment – PRI

Första AP-fonden endorsed the six principles for responsible investment of the PRI at an early stage (see page 22). The purpose of PRI is to increase the responsible actions of investors, and provide a framework for integrating sustainability into the asset management and own organisation. The PRI fuel developments in sustainability, and increase the interface and exchange of knowledge about sustainability between responsible investors across the globe.

CDP (formerly Carbon Disclosure Project)

CDP is an international collaborative project to increase corporate awareness of climate change. The companies are urged report their carbon footprint to CDP.

ICGN

International Corporate Governance Network is a global member organisation promoting raising the standard of corporate governance worldwide.

Climate and carbon footprint, IIGCC

Första AP-fonden participates in a number of collaborative projects for climate. The Fund was the only Swedish fund to participate in a major climate research project along with other investors. The Fund is now participating in the follow-up project that will be presented in the first quarter of 2015. The Fund is also a member of the Institutional Investors Group on Climate Change, IIGCC and has endorsed both the CDP and the Montreal Carbon Pledge.

Anti-corruption and EITI

The Fund is a member of the Extractive Industries Transparency Initiative, EITI and has endorsed the Global Compact Call to Action: Anti-Corruption and the global development agenda.

Sustainable value creation

A collaborative project initiated by investors in Sweden. Its purpose is to highlight the importance of companies undertaking structured sustainability work and providing sound sustainability reporting so that investors may make investment decisions and have a solid foundation for influencing companies.

SFF

The Swedish Society of Financial Analysts is a member organisation for financial analysts active in the Swedish capital market. The association has a Corporate Responsibility as well as a risk analysis work group, in which the Fund actively participates.

The Institutional Owners Association for Regulatory Issues in the Stock Market (IÄF)

The aim of the Association is to promote sound development of self-regulation in the stock market and is one of the principals behind the Association for Generally Accepted Principles in the Securities Market.

The Association for Generally Accepted Principles in the Securities Market

The purpose of the association is to promote the observation and development of generally accepted practices on the securities market.

The association works for this purpose through the Swedish Securities Council, The Swedish Corporate Governance Board and the Swedish Financial Reporting Board.

The Swedish Securities Council

Through statements, advice and information, the Swedish Securities Council promotes sound practices on the Swedish stock market.

The Swedish Corporate Governance Board

The board has the overarching mission of overseeing and administering the Swedish Code of Corporate Governance and otherwise promoting sound corporate governance at listed Swedish companies.

The Swedish Financial Reporting Board

The board works to adapt and develop sound accounting practices and financial reporting for listed companies in Sweden. The board also promotes Swedish interests in accounting issues at the international level.

The Remuneration Academy

Devising senior executive remuneration is an important issue for owners, and is of great importance to public confidence in enterprise. By participating in the work of the Remuneration Academy, Första AP-fonden helps to add balance to the debate and increase confidence.

THE ETHICAL COUNCIL OF THE AP FUNDS

The Ethical Council of the AP funds is a collaborative initiative between the First, Second, Third and Fourth AP funds with the purpose of influencing foreign companies owned by the funds towards more sustainable business. The Ethical Council is guided by making a difference by being long-term in its approach, responsible and engaged in its work to influence companies into improving their work with environmental and social issues.

The Ethical Council works proactively and reactively. Problem areas and incidents are systematically identified and analysed by the Ethical Council, which then selects a number of focus areas and companies. In 2014 the funds conducted dialogues with just over 230 companies dispersed across the entire globe through the Ethical Council.

The companies with which the Ethical Council conducts a dialogue are primarily identified in the screening of all of the AP funds' equity holdings in order to find out whether any company is in violation of an international convention that Sweden has committed to follow. The work is based on the principles regarding engagement, action and change with the goal of making a difference. The Ethical Council identifies companies that can be linked to breaches of a convention and works with influencing companies into addressing transpired violations and implementing systems and measures to prevent future violations.

With the purpose of influencing the companies, dialogue is an important tool for the Ethical Council. If companies in which the funds have invested can be linked to breaches of a convention, the fundamental point of departure is that the funds shall use their ownership to put a stop to the breaches, and work to promote the implementation of systems and measures to prevent future violations.

By being engaged and using ownership to act against violations of conventions, and by imposing demands for change, the funds can make a difference. A recommendation from the Ethical Council to divest the funds' holding in the company is considered only if this cannot be achieved.

Read more at www.etikradet.se and in the Ethical Council's annual reports.



Första AP-fonden. Box 16294, 103 25 Stockholm, Sweden
Street address: Regeringsgatan 28, Stockholm, Sweden. Tel.: +46 8 566 202 00

ap1.se
apfonderna.se
etikradet.se

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