

AP3

Corporate Governance

Experiences from a Swedish pension fund

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The Third Swedish National Pension Fund

Reykjavik, November 15, 2013

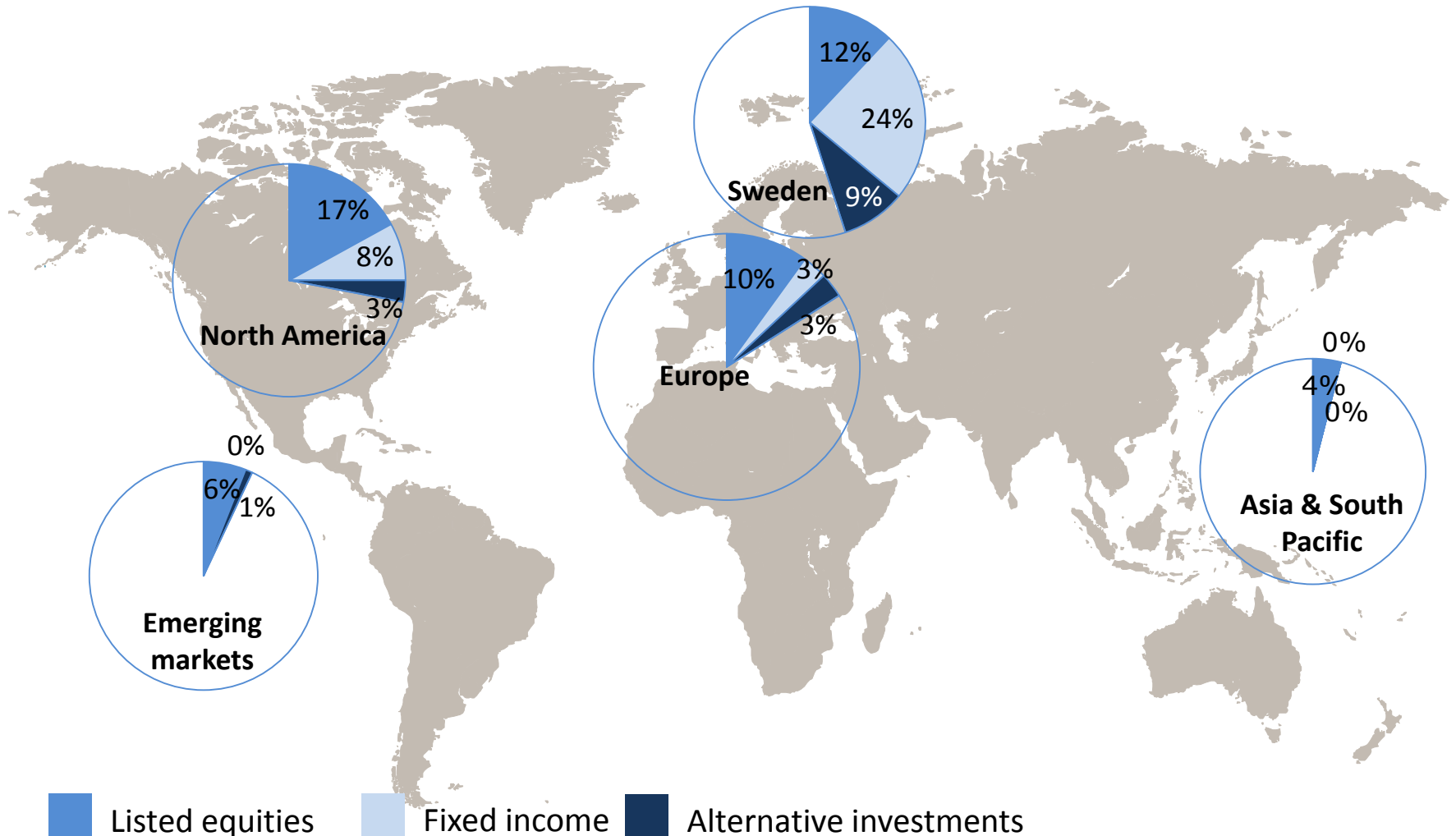
Today's agenda

- How AP3 works with regards to corporate governance
 - Stewardship Policy
 - Corporate Governance Report
- How AP3 exercises its shareholder rights
- Board member nomination processes
- Q/A

AP3 in 3 minutes

- AP3 is a state-owned pension fund
- A buffer funds within the Swedish National Pension System
 - Formed in 2001 in connection with the reformation of the pension system
 - Five buffer funds (AP1-4 and AP6)
- Mandate from Parliament to generate maximum possible benefit for the pension system by managing our fund capital so as to deliver strong investment returns at **low level of risk**
- Target
 - Real return of 4% per year over the long term
 - Achieve cost-effectiveness in our asset management

AP3 has a global diversified portfolio

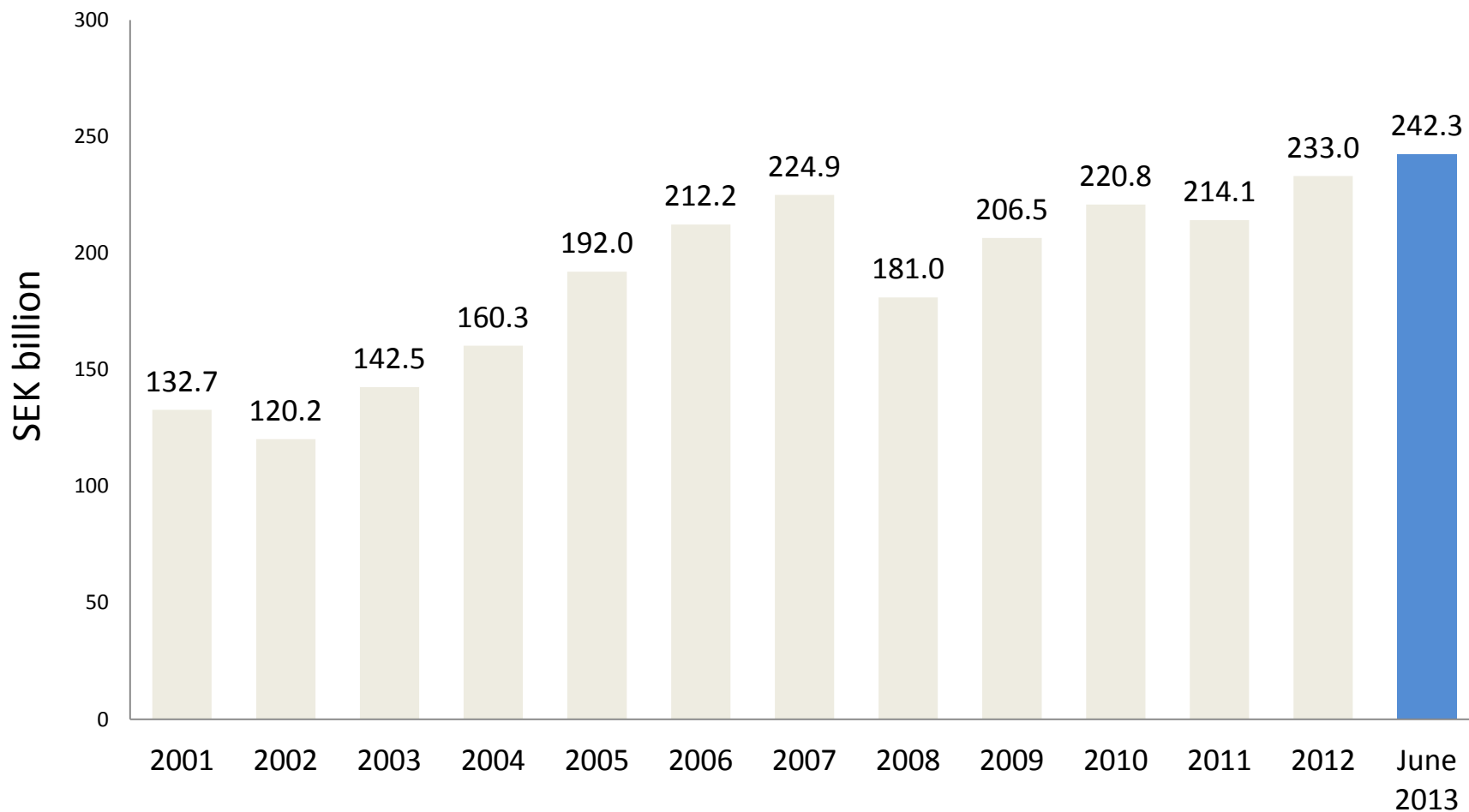


Note that all numbers are per 30 June 2013

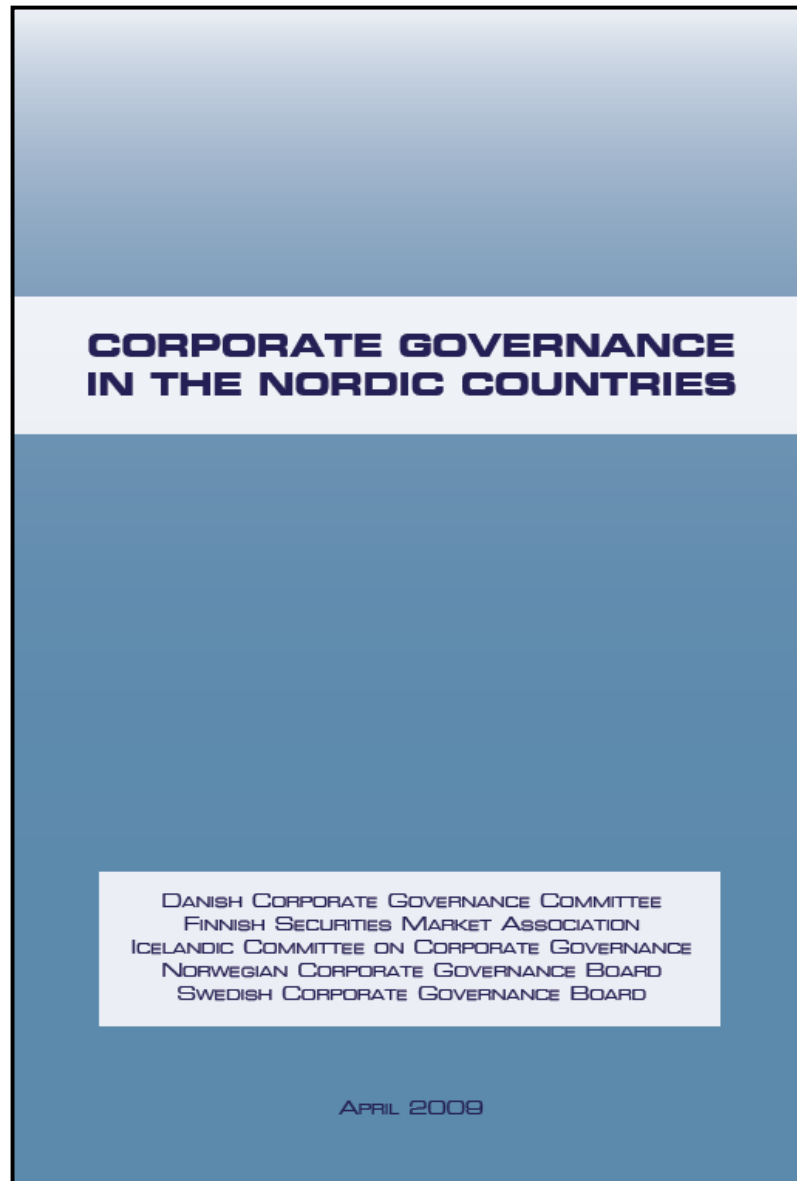
Alternative investments include private equity, real estate and other strategies

Fund capital has grown SEK 108 billion since inception

Starting capital 1/1 2001 amounted to SEK 134 billion

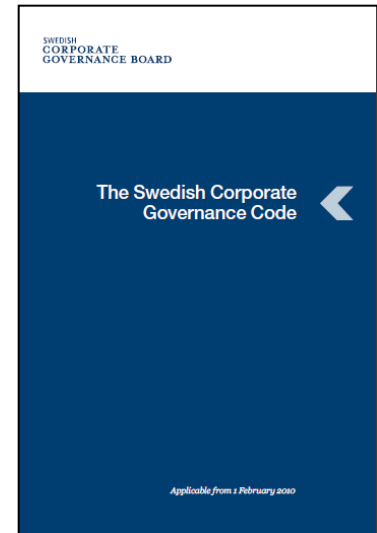


Corporate Governance in the Nordics



National Codes – a stable foundation

- Broad ownership can lead to conflicts of interest
- ...but good CG reduces this risk
- The Swedish Code reflects the essence of Sweden's Corporate Governance Model:
 1. The pre-eminence of the annual general meeting
 2. The separation of executive functions from board membership (with occasional exceptions for CEOs)
 3. And nomination committees that include representatives of the largest shareholders
- The Code is not mandatory, companies can comply or explain why they deviate



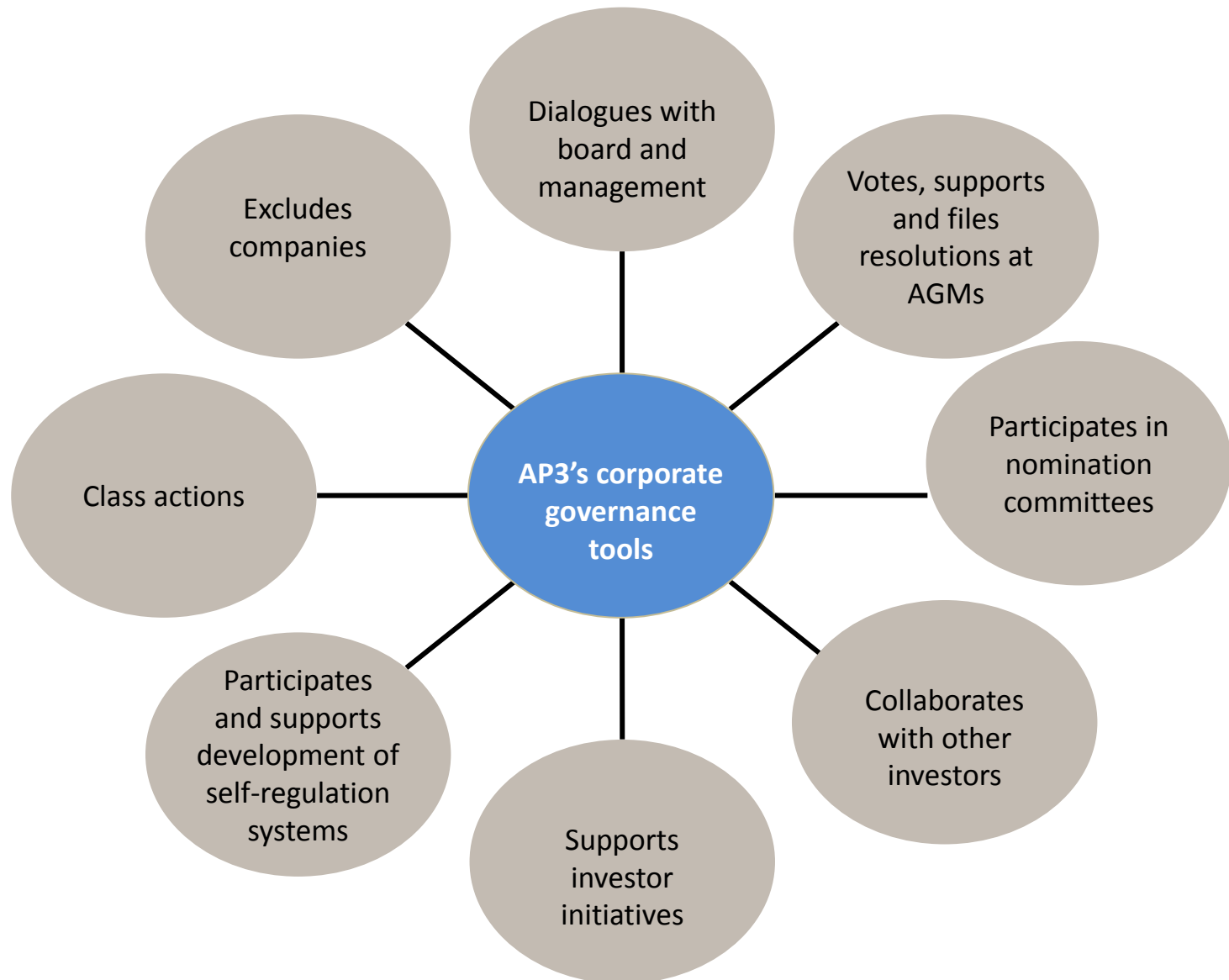
AP3 Stewardship Policy

- Based on the Swedish National Pension Funds Act of 2000
 - Tasks the AP Funds with generating high returns at a low level of risk
 - AP3 is required by statute to exercise stewardship with the aim of improving its ability to generate high investment returns on behalf of the pension system
 - May take no heed of political or macroeconomic policy considerations
- Responsibility
 - Approved by the board
 - The CEO has overall responsibility for implementing the policy
 - ...but can delegate internally
- Focuses on areas where we believe we can achieve maximum impact and exert the greatest influence

General principles that apply to all companies

1. Shareholder rights and responsibilities
 - Equality of shareholders
 - Entitlement to vote and submit AGM resolutions
 - Nomination committees
 - Dialogue and practice
2. Capital structure
 - Dividends, share issues and buybacks
3. Corporate boards
4. Audit and internal control
5. Executive remuneration
 - Share-based remuneration, pension plans and severance pay
6. Environmental and ethical considerations
 - Core values and working methods

Active ownership important part of AP3's role



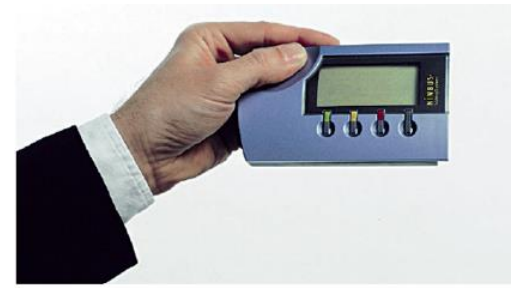
During 2013 AP3 voted at

574

AGMs

Swedish AGMs

- Voted at 65 AGMs
- Calm AGM season, with the exception of TeliaSonera, Scania and Lundin Petroleum



Televotersystemet består av en handenhet som laddas med varje enskild aktieägares unika röster, trådlösa mottagarenheter samt programvara.

Frequent subjects in Swedish AGMs

- Executive pay – time-consuming and resource-intensive
- ...but companies and their investors are beginning to focus more closely on what is important for the companies – operating environments, growth prospects and profit potential

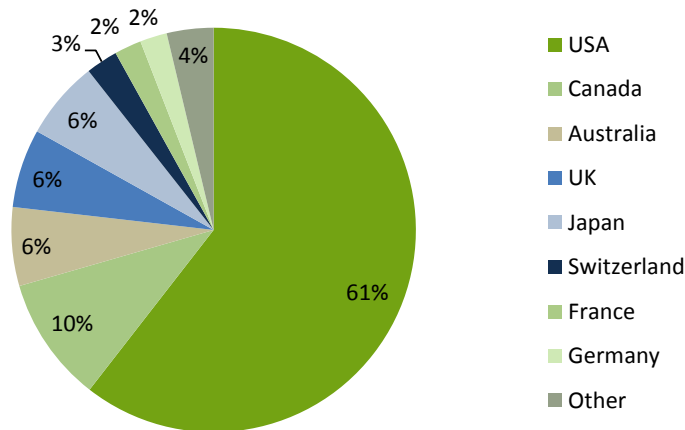
Nomination Committees – *To be or not to be...*

- AP3 served on six Nomination Committees
- We do not directly participate in company boards
 - We are primarily asset managers
 - Running different types of business is not what we do best
 - We think the two roles are difficult to reconcile
- Nomination Committee as a sub-committee of the board
 - Makes it harder to conduct an independent evaluation of the board
 - Board members will have to evaluate themselves and their own work
 - We think it becomes harder to nominate suitable external candidates

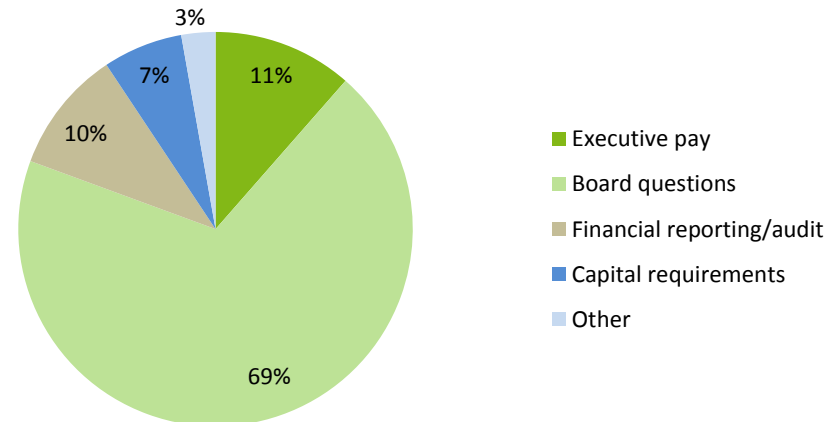
Foreign AGMs

- Proxy voting at 500+ AGMs in 15 countries
- 6 800 resolutions >> You need help!!

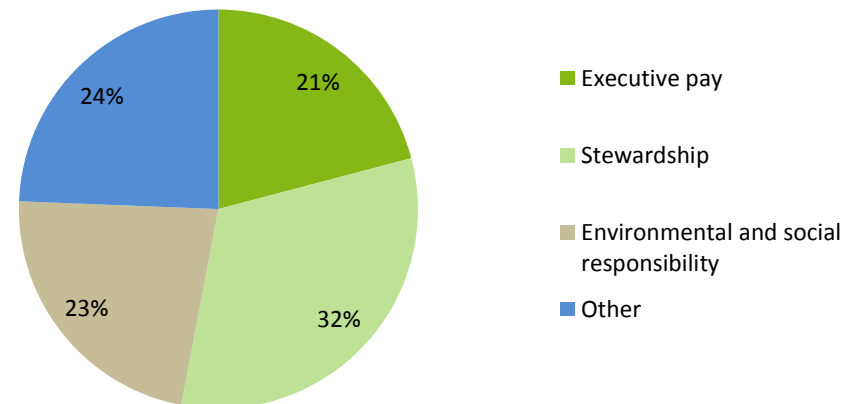
Geographic breakdown of company meetings 2012/20



Breakdown of board resolutions 2012/2013



Breakdown of shareholder resolutions 2012/2013



Issues on foreign AGMs

- Voted *NO*/abstained in 20% of the proposals – significantly higher proportion votes against than for Swedish companies
- Voted *YES* to 6 out of 10 proposals by other shareholders
- Questions AP3 has focused on:
 - "Say on Pay" - Compensation issues. Voted NO in approx. 2/3 of the cases
 - CEO and chairman should not be the same person
 - Issue mandate is too broad
 - Shareholder Proposal on environmental/ethical issues
- Feedback to companies

Transparency is important

- Report our stewardship engagement as openly as possible
- Stewardship Policy is public
- Stewardship Report published once a year
- Global Voting Report published once a year
- The Ethical Council also publishes an annual report

Conclusions and lessons learned

- Key challenges in Swedish corporate governance?
 - To handle the tsunami of new regulations from the EU
 - To defend the Swedish (Nordic) Corporate Governance Model
 - ...while we strive to develop the model further
- Key elements for Icelandic Pension Funds?
 - Changing the Nomination Process? – If it is not broke, why fix it?
 - ...but maybe one should at least open up the possibility
 - You should put pressure on company boards to adapt to guidelines on corporate governance – regardless of their size and activities
 - Increased transparency
 - Is the information flow from BoD sufficient? Investors should have access to as much information as possible
 - Is the information from investors sufficient?
 - Do you publish information about your corporate governance work?
 - Active co-operation between pension funds and other shareholders