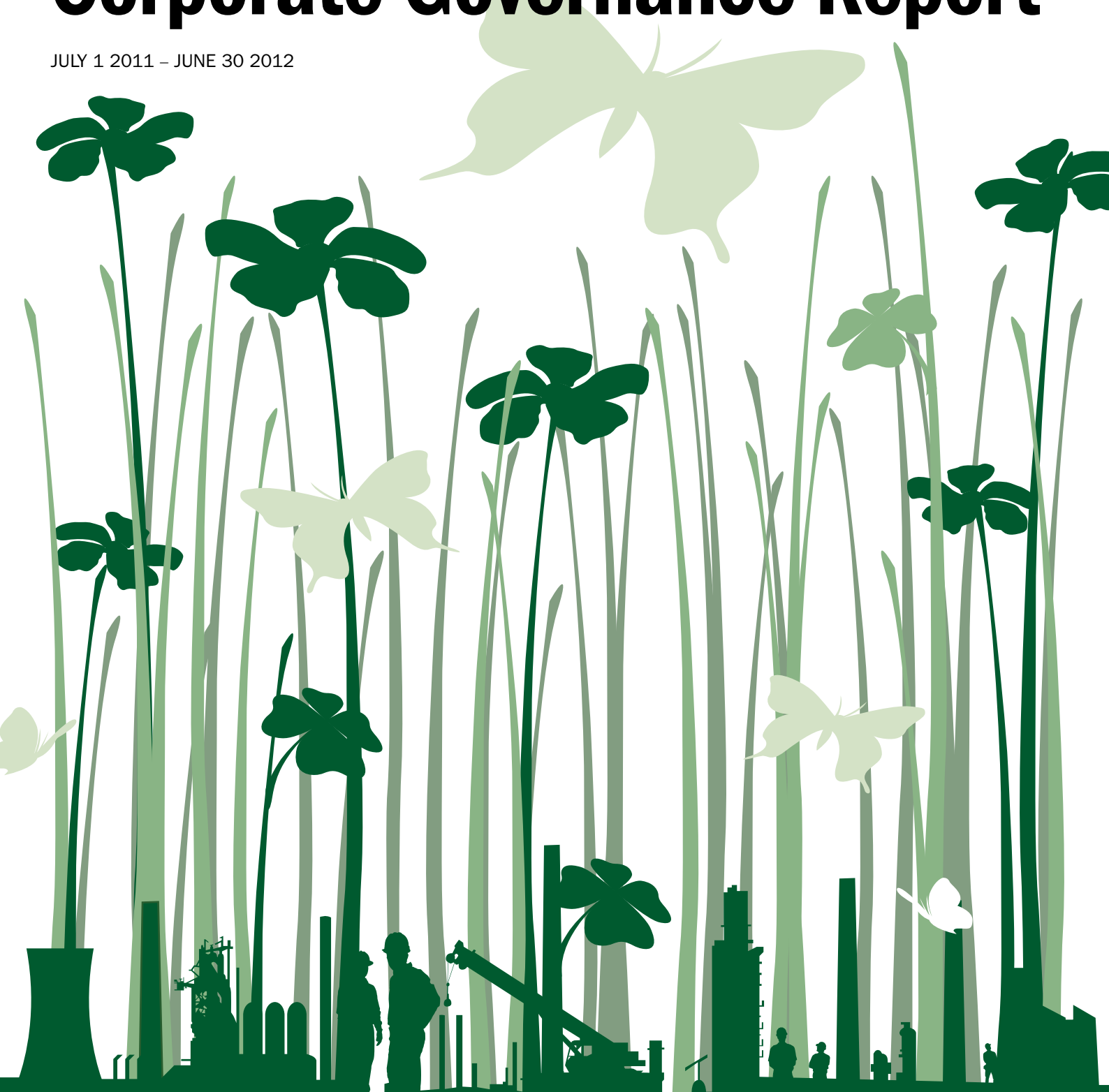




Andra AP-fonden
Second Swedish National Pension Fund - AP2

Corporate Governance Report

JULY 1 2011 – JUNE 30 2012



We help give international pension assets a face

In addressing corporate governance issues, the Second AP Fund has always adopted an active and responsible approach – both in Sweden and abroad. The accelerating pace of globalization has increased the need for cooperation between institutional investors. The Fund wishes, and is, an active part in this cooperative process. This is how we can help give a face to international pension assets.

Claiming that the economy and business are becoming increasingly globalized is hardly going to raise any eyebrows. It's been said many times before and will be said many times again. Even so, with the benefit of a certain perspective, it is always fascinating to examine the individual phenomena that either drive or derive from such globalization.

Increasingly international

Within the Second AP Fund, the effect of this internationalization process is demonstrated particularly clearly by the way in which the composition of our strategic portfolio has changed. Ten years ago, Swedish equities and fixed-income securities accounted for 60 percent of the portfolio. Today, the Fund's combined Swedish investments account for no more than 38 percent of the same portfolio, and this trend continues.

In all this time, corporate governance issues have been central in our approach to value creation. We long ago established a platform and principles governing our policy on such issues. This is something that has become a natural part when investing in new markets.

Growing cooperation

The Second AP Fund has always sought to establish partnerships when engaged on international issues. In cooperation with the other Swedish buffer funds, we seek to promote progress via our joint Ethical Council, while also seeking collaboration on our own account with foreign players.

Over time, it has become easier to establish this type of cooperation. This is because the internationalisation of organisations has now reached a level at which even major players with substantial domestic markets have become increasingly international in their operations. This means that their relative size is diminished,

limiting their ability to act independently. One example where the Second AP Fund has been a major participant is in connection with the establishment of principles governing responsible investment in agriculture. The aim is to improve sustainability, transparency and responsibility for investments in agricultural real estate. The principles were established in 2011 and 2012 is the first year in which a report will be submitted. It is pleasing that growing numbers of major players have signed up to these principles.

Focus on Asia

Much of this international cooperation is implemented under the auspices of established organisations. We were among the first members of ICGN (International Corporate Governance Network), an international coordinating organization for institutional investors that is devoted to corporate governance issues. During 2012, we became member of ACGA (Asian Corporate Governance Association), registered in Hong Kong. The reason for seeking membership of ACGA is a consequence of the global economy's shift in emphasis towards the Asian market. The Fund has itself invested 13 percent of its strategic portfolio in Asia's emerging markets. The Fund has recently also applied for a licence to enable direct investment in China's domestic equities market. Another sector where a lot has been happening on the international front is the private equity sector, where demands for transparency are growing increasingly.

The Second AP Fund also collaborates directly with foreign investors on individual projects. One example is our investment in agricultural real estate in association with the US pension fund TIAA-CREF. We also pursue an ongoing dialogue with numerous non-profit organizations that are engaged in environmental and business-ethics issues at an international level.



Photo: Nils-Olof Sjöden

A watching brief

This growing focus on sustainability and other corporate governance issues is not limited to the international sphere alone. During the year, the Fund has itself continued the process of integrating sustainability as a natural element in its financial analyses. I am personally convinced, as is the Fund in general, that this is a better way to manage Sweden's pension assets, according to the principle that "he who has the most information is also best equipped to provide the most accurate analysis".

We ourselves also strive to achieve greater transparency for example about how we vote at AGMs. Here again, there is a clear tendency towards increased involvement in foreign companies and their AGMs.

Participating in AGMs is an important way in which we can exert influence. Greater transparency also makes it clearer how we do this. We prefer to maintain a watching brief rather than to sell off our investments. If we just sell, who will continue the work of improving things?

I see no conflict between a commitment to responsible governance and the need to seek a maximum return on the invested assets of Sweden's pensioners. Quite the contrary, in fact. I believe it forms a crucial element in the value-creation process. And this encourages us to continue to work at it – both here in Sweden and elsewhere in the world.

Eva Halvarsson
CEO

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AP2 adopts a long-term approach in creating a capital buffer for the Swedish national pension system

The Second AP Fund is one of northern Europe's largest pension funds, managing assets totalling almost SEK 230 billion of Sweden's national pension assets, which are invested worldwide. The Fund is the largest of the Swedish National Pension (AP) Funds.

You could say the mission is to achieve the best of both worlds. The Fund is tasked with generating a solid return on investment, while implementing a consistent policy of responsible and sustainable investment.

The Fund enjoys a solid return and a high degree of cost efficiency compared to similar funds in Sweden and elsewhere. Key factors are the Fund's long-term asset management strategy and a consistent focus on efficiency in all its activities.

The Second AP Fund is an attractive employer, numbering almost 60 members of staff, all of whom work in Gothenburg. The Fund employs some of the foremost in their respective fields, including portfolio managers, analysts and other specialists.

Agricultural investment makes demands

In September 2011, the Second AP Fund launched the Principles for Responsible Investment in Farmland, in collaboration with a group of international investors. These Principles aim to establish a framework for ESG (Environmental, Social and Governance) for institutional investors who invest in agriculture. The Principles cover the environment, labour rights, human rights, land rights and business ethics. All investors who have signed up to the Principles are pledged to report annually on progress with their implementation. The Second AP Fund has elected to include this report as an integral part of the Funds annual Corporate Governance Report.

The investors involved in developing the Principles, apart from the Second AP Fund, are ABP (Netherlands), APG (Netherlands), ATP (Denmark), BT Pension Scheme/Hermes EOS (Great Britain), PGGM (Netherlands) and TIAA-CREF (USA). This group is now responsible for administering these Principles. By the end of June 2012, a further seven investors had signed up to the Principles. To be able to sign up to the Farmland Principles, the organisation must already be a signatory to the UN's Principles for Responsible Investment (PRI).

Investments in agricultural real estate

The decision to invest in agricultural real estate forms part of the Second AP Fund's strategy for diversifying the overall portfolio. Agricultural real estate is expected to generate a stable return and has low covariance with the Second AP Fund's other investments,

such as those in equities and bonds. This will help spread risk in the Fund's portfolio. The Second AP Fund expects these investments will help contribute to increased food production and promote efficient and environmentally-smart technology.

The Second AP Fund plans to invest approximately one percent of Fund capital in agricultural real estate. When this level can be achieved will be determined by the nature of the investment opportunities that arise. As of December 31 2011, 0.24 percent of the Second AP Fund's assets under management were invested in agricultural real estate.

AP2's agricultural holdings

The Second AP Fund invests in high-quality agricultural real estate, at prime locations in well developed markets that feature efficient agricultural production, and that are not dependent on government subsidies or other

forms of support. The Second AP Fund's strategy is to invest in large-scale agricultural real estate in countries that possess clearly-defined legal structures. This disqualifies many geographical regions for investment. At present, the Second AP Fund invests in Australia, Brazil and the USA.

The Second AP Fund has elected to invest in agricultural real estate by establishing joint ventures with other investors, being a form well suited to the Fund's long-term investment approach. The companies in which the Fund has invested are TIAA-CREF Global Agriculture and Teays River Investments. Teays River invests exclusively in the USA, while TIAA-CREF Global Agriculture invests in the USA, Australia and Brazil.

These companies had June 30 2012 invested in agricultural real estate totaling 87,000 hectares. The Second AP Fund's ownership in TIAA-CREF

Global Agriculture is 24 percent and 10 percent in Teays River. The Second AP Fund cultivates no land. The land is leased either to local farmers/companies or administered by external managers for the joint-venture companies.

Where farmland is leased to a tenant farmer, the farmer decides which crop is to be cultivated and is responsible for both its production and sale. If the farmland features a more permanent form of cultivation, such as an orchard, it is looked after by an operator, appointed by the external manager. When the land is leased, the tenant farmer pays a rental for the right to cultivate the land. In those cases where the external manager appoints an operator to cultivate the land, the profit generated from that land reverts to the joint-venture company. The majority of the acreage owned by the joint-venture companies is leased out to tenant farmers. Most of the investments made

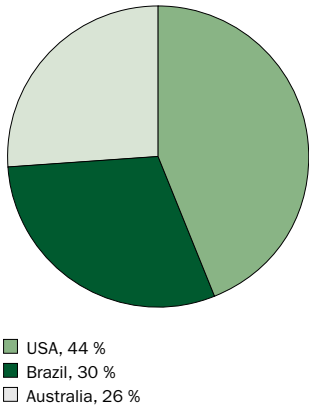
in Teays River, however, are managed directly by the operators. One of these companies is engaged in ecological milk production in the USA.

Implementation of Principles for Responsible Investment in Farmland

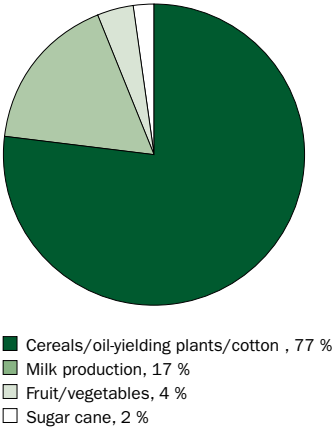
The Principles provide parameters for evaluating presumptive managers as well as for the monitoring of the Fund’s current managers. At present, the Second AP Fund has two external managers of agricultural real estate, Teays River Management and TIAA-CREF. Both are engaged in implementing the Principles in their operations. TIAA-CREF will publish a report in 2012 which will detail how they have been implemented.

The Fund’s staff maintains regular contact with external managers on ESG (Environmental, Social and Governance) issues. An ESG review is conducted annually to determine how well the Principles are being implemented.

Geographic distribution



Type of crop



All figures is at June 30 2012.



Soya beans in Brazil

Photo: Christina Olivecrona

Sustainability review

The Second AP Fund considers it important that the managers it selects subscribe to the Fund's values in terms of its long-term approach and the significance of responsible and sustainable investments. This means that the Fund in its due diligence process assess the manager's investment strategy from a sustainable approach. It is essential that managers employ structures and processes that enable them to review, report and monitor the areas addressed by the Principles.

In addition to evaluating the structures and processes employed, the Second AP Fund's sustainability analysis of presumptive managers also includes an analysis of specific sustainability issues. The focus of this analysis depends on the manager's investment strategy, with reference to region, crop and so on.

Clear insight into the joint-owned companies

The Second AP Fund has elected to invest in agricultural real estate through

joint-owned companies. This is a more direct form of investment than investing in funds. The advantage of this corporate form is that it offers greater opportunity for acting on a long-term basis. As a major joint-owner in these companies, the Second AP Fund is assured of a clear insight into how they are managed. The Second AP Fund is represented on the boards of these companies. During the year, the Second AP Fund has conducted several discussions with managers concerning the Principles, especially issues relating to reporting procedures.

Annual review

In addition to the Second AP Fund's ongoing dialogue with its managers, they have been asked to respond to a number of questions as to how they are implementing the Principles. A summary of these responses is provided below.

The first principle

The first principle concerns the need to support environmental sustainability by

promoting measures that, for example, reduce the risk of soil erosion and ensure improved water management. One requirement linked to this principle is to conduct an environmental assessment before acquiring a agriculture real estate.

All agricultural real estate acquired by the Second AP Fund's managers has been subject to an environmental assessment to identify environmental risks and any environmental impact. These assessments are conducted by an external party. The greatest potential risks are thought to be those associated with the use and storage of fertilizer and insecticides. If required, the consultant commissioned to conduct the assessment also recommends measures for reducing risks and impact on the environment.

No significant changes in environmental quality have been identified. The farm managers are committed to maintaining soil quality and reducing the negative impact of surface runoff containing fertilizer and agricultural chemicals.

The second principle

The second principle addresses respect for labour and human rights. In precisely the same way as for the environment, an assessment is conducted by the Fund's managers to determine any risks or impact associated with the operations. This forms an integral part of the evaluation process prior to the acquisition of agricultural real estate. Areas of interest identified by these assessments include the employment conditions of migrant workers and/or seasonal workers. The Fund's managers require that all operators observe national legislation and the managers' own policies. To ensure that the working conditions in Brazil are compatible with current legislation and "best practice", all agricultural investments are subject to a third-party audit.

The third principle

The third principle addresses the use of, and rights of ownership to, land and other natural resources. Such issues are often especially important in developing countries, where systems that determine who is formally entitled to farm and/or own the land may not exist.

In those countries where the Second AP Fund has become involved in agricultural investment (Australia, Brazil and the USA), Brazil is the only one where it can be difficult to determine who is the rightful owner of an agricultural property. For this reason, TIAA-CREF's operators in Brazil conduct thorough research to establish the rightful owners of the land from the present day all the way back to its

original sale by the government. Any uncertainties concerning the ownership of a property shall be resolved prior to its acquisition. Since 2000, Brazil has instituted a requirement that, in the case of a transfer of ownership, all properties shall be registered using GPS coordinates.

The fourth principle

The fourth principle addresses business ethics. Managers and operators shall respect and implement processes that involve counteracting all forms of corruption. Laws shall be respected even when weakly implemented. Employees have received training in these issues with view to combating corruption. Managers shall require employees to observe the legislation and regulations devoted to good business ethics.

The fifth principle

The fifth principle concerns reporting on activities and implementation of the Principles. This principle is relevant for managers who have signed the Principles. TIAA-CREF reports on its implementation of the Principles may be downloaded from www.tiaa-cref.org

Over the past year, the Second AP Fund has chaired the PRI's farmland working group. The group is engaged in facilitating the integration of ESG factors in agricultural investment. During the year, the group has focused on a case study report. This will be published on the PRI website at www.unpri.org



Sugar cane in Brasil

Photo: Christina Olivecrona

Principles for Responsible Investment in Farmland



Principle one – Promoting environmental sustainability

We will promote measures aimed at protecting the environment and contributing to the sustainability of specific crops and locations, for example by reducing soil erosion, protecting biodiversity, reducing chemical emissions, effectively managing water, and mitigating climate impacts.

We will require investment managers and operators acting on our behalf to conduct an environmental assessment identifying the relevant environmental impacts and risks of a planned investment.

Based on this environmental assessment, investment managers and operators will be expected to implement mitigation and management measures relevant and appropriate to the nature and scale of the proposed investment.

Principle two – Respecting labour and human rights

We will respect labour and human rights in our farmland investments. We will require investment managers and operators acting on our behalf to do the same and to avoid complicity in human rights abuses.

We will require investment managers and operators to identify relevant labour and human rights risks and impacts of a planned investment and to implement mitigation and management measures to address them appropriately.

Depending on the location and the nature of the investment we expect investment managers and operators to explicitly implement policies to respect rights such as those relating to indigenous peoples, vulnerable groups, unique cultural systems and values, local food security, labour and any other relevant rights in the scope of their risk assessment and mitigation measures.

Principle three – Respecting existing land and resource rights

We will respect the existing use of and ownership rights to land and other resources and we will require investment managers and operators acting on our behalf to do the same.

Investment managers and operators acting on our behalf will be required to implement processes for land acquisitions and related investments that are culturally appropriate and transparent, are monitored, ensure accountability and the engagement with relevant stakeholders.

For investments with potential significant adverse impacts on affected communities, the investment managers are expected to implement processes to ensure their free, prior and informed consultation and facilitate their informed participation as a means to establish whether a project has adequately incorporated affected communities' concerns.

Principle four – Upholding high business and ethical standards

We will promote high business and ethical standards in our farmland investments.

We will require that investment managers and operators acting on our behalf respect the rule of law even where it is poorly enforced. We will also require them to implement processes aimed at avoiding corruption in all its forms, including extortion and bribery, and to reflect an informed view of industry best-practice in their operations.

Principle five – Reporting on activities and progress towards implementing the Principles and promoting the Principles

We will report publicly on our activities and progress towards implementing the Farmland Principles, taking into account appropriate confidentiality considerations.

We will encourage other institutional investors to endorse and implement the Farmland Principles.

Agriculture in Brazil

Agriculture is a vital part of the economy and accounts for more than five percent of Brazil's GDP. The country enjoys a climate that favours the cultivation of many different crops and, in many areas, it is possible to raise two crops a year.

Brazil features both large-scale industrial agriculture and small-scale family-based agriculture. The country's large-scale agriculture is focused primarily on export markets, while most crops produced by its family-owned small-holdings are for the domestic market. Brazil is a major exporter of agricultural products, the most significant being soya, coffee and sugar. Brazil has several publicly-quoted agricultural companies that operate substantial portions of agricultural real estate, that can comprise more than a thousand hectares of land (a Swedish farm may total about 36 hectares).

In terms of surface area, Brazil is the world's fifth largest country. Seven percent (60 million hectares) is used for forestry and agriculture, while 23 percent (198 million hectares) is used for grazing. There is considerable potential for utilizing grazing land more efficiently and increasing the number of animals per hectare. For this reason, there has been a transformation of pasture into forest and arable land in recent years. The Brazilian Department of Agriculture predicts that an additional 30 million hectares of grazing land will be transformed within the next 15 years. (To give some idea of the scale of this project, the whole of Sweden covers an area of some 45 million hectares).

The main challenge facing the agricultural sector is the inadequate infrastructure within the country's interior.

Environmental legislation

Brazil's environmental legislation regulates which areas of privately-owned rural real estate may be cultivated and which should be conserved. Private land selected for conservation is classified as a 'legal reserve' or 'permanent protection area'. These 'legal reserves' are intended to conserve biological diversity by protecting the natural local vegetation. The relative area of agricultural real estate that is conserved varies from 20 to 80 percent. The idea of these 'permanent protection areas' is to protect access to fresh water. Among other things, this means a ban on cultivation adjacent to watercourses or steep banks. New environmental legislation has been formulated and approved by Brazil's parliament, but has yet to be approved by the President. As part of this new legislation, sectors of the 'permanent protection areas' will be classified as 'legal reserves'.

Labour conditions

One of the challenges in the agricultural sector, in Brazil and globally, is ensuring respect for employees' rights. In Brazil, the organisation that culti-

vates the land is responsible for labour conditions. Within the agricultural sector, people are still exploited and forced to work under slave-like conditions. In 2003, the Brazilian government launched a plan to eliminate this. One aspect of this plan was to compile a register – a black list – of companies caught operating a system of slave labour. The list, which is updated on a six-monthly basis, is public. The companies remain on the list for two years and inclusion results in the imposition of severe economic sanctions. Within commercial-scale agriculture, the worst labour conditions are found on the sugar cane plantations, which are less mechanised than the grain producers. When sugar cane is harvested by machines, the risk of slave-like conditions arising is significantly reduced, since fewer people are required and the work is more qualified. Brazil has adopted legislation to ensure that all sugar cane will be harvested mechanically from 2016.

The Second AP Fund's agricultural real estate

The Second AP Fund has invested in Brazilian agricultural real estate through TIAA-CREF Global Agriculture (TCGA). TCGA has acquired three sugar cane plantations in Sao Paulo and four grain farms (one in Mato Grosso, one in Piaui



Harvesting sugar cane in Brazil

Photo: Anders Strömblad

and two in Maranhão). These investments are managed by Radar Propriedades Agrícolas SA (Radar), which identifies, acquires and is responsible for TCGA's agricultural real estate in Brazil.

All agricultural real estate is leased to tenant farmers. These leasing agreements state that lessees shall respect the Brazilian authorities' environmental regulations. Radar employs satellite imaging to ensure that lessees observe the restrictions that apply to 'legal reserves' and 'permanent protection areas'. These agreements also feature requirements concerning soil quality, waste management and labour rights. Should the lessee use child labour and/or have slave-like labour conditions, the agreement can be revoked with immediate effect. To ensure employees' rights were being respected, two independent audits were conducted in 2010 of all sugar cane plantations for which Radar was responsible. Furthermore, a review of all the grain-producing farms was conducted in 2011. No incidents were noted. Labour conditions are checked prior to any acquisition. Radar confirms compliance by visiting these agricultural properties several times a year.

The sugar cane plantations acquired by the Global Agricultural Fund are all mechanized. The soya farms are mechanized and employ a crop rotation system (maize and cotton) to reduce the risk of disease and insect predation, and to maintain soil quality. The tenant farmers largely practise till-free cultivation, reducing the risk of erosion and carbon emissions, and maintaining soil quality. In cases where these agricultural estates are situated far from larger towns, agricultural workers (and sometimes even their families) live on the farm.

Radar is engaged in implementing the Principles for Responsible Investment in Farmland. More details of this work will be published in the TIAA-CREF sustainability report, which may be accessed at www.tiaa-cref.org

The debate about investment in agriculture

Over the past year, there has been a certain amount of debate about investment in agricultural land as a consequence of the growing interests shown by various types of investors. In this debate, the agricultural investments made by pension funds have often been highlighted by NGOs as examples

of how financial players are investing in the land of other countries.

Quite often, the term 'land grabbing' is used in the debate, regardless of how, where or why such investments are made. Examples of transactions that could be considered 'land grabbing' include situations where an investor acquires/leases land in another country, with a view to securing food supplies to cater for its domestic needs, or when 'weak' governments sell off/lease land without those who currently earn their living from the land in question having any opportunity of affecting the decision.

The Second AP Fund does not consider the acquisition of agricultural real estate from equal parties in countries with clearly defined ownership rights to be 'land grabbing'.

The development and implementation of the Principles for Responsible Investment in Agriculture are a way of communicating the fact that the Second AP Fund's investments are conducted in a responsible manner. Read more on page 4.

At the present rate, it'll take 27 years to achieve gender equality on corporate boards

Publication of the Second AP Fund's tenth annual Female Representation Index has demonstrated that the percentage of female board members in Swedish publicly-quoted companies has declined somewhat, to 22.7 percent, as compared to last year. Conversely, the number of women represented on executive managements has continued to rise, to 16.3 percent, the highest level since the study was started in 2003.



The rapid rise in the proportion of women on the boards of publicly-quoted Swedish companies noted between 2002 and 2007 slowed again, after increasing since 2009. Compared to the preceding year, the proportion of women on the boards of quoted companies has declined from 22.9 percent to 22.7 percent. This said, the proportion of women represented on the executive managements of quoted companies rose from 15.3 to 16.3 percent, the highest level recorded since the Index was inaugurated in 2003.

“Ten years have passed since we launched the Female Representation Index, a period in which we have seen overall positive growth in the proportion of women represented both on the boards and executive managements of quoted companies, even if those proportions have noted temporary declines in specific years. This positive trend is still very slow, however. At the present rate, it will take another 27 years before the proportion of women on the boards of quoted companies reaches 50 percent, and no less than 52 years, not until 2064, before women comprise 50 percent in executive

management. We believe it is important that as many as possible make an effort to achieve a faster change. If not, there is a risk that we shall continue to see a great deal of competence ‘lost’ along the way. This would have an unfortunate effect, both in terms of corporate competitiveness and for society at large,” states Second AP Fund CEO Eva Halvarsson.

Bigger companies are better

The proportion of women in key positions is highest in the major companies quoted on the Stockholm Stock Exchange and in industries with a high percentage of female employees. The service and finance industries feature the highest proportion of women on their boards, while the highest percentage of women in executive managements is found in the media and healthcare sectors. The lowest proportion of women, both on boards and in executive positions, is found in the commodities sector. A change has been noted with regard to executive managements, however, and the proportion of women has now risen to more than ten percent.

The proportion of women qualifying in disciplines that have traditionally provided the natural recruiting base for corporate executives and board directorships has risen in the past 30 years from less than 20 percent to more than 40 percent today. Even so, the female drop-

out rate is considerable: between graduation and the first job (almost a third), between the first job and promotion to a managerial position (one in four) and between a managerial post and promotion to executive management (one in seven).

Attention grabber

The Second AP Fund has compiled its Female Representation Index every year over the past ten years. The survey had already made an impact in Sweden, but has now even attracted attention abroad. This year, for the first time, the study was translated into English which, among other things, has led to articles in the foreign media.

Contributes to a balanced debate

The data provided by the Female Representation Index is utilized in the Fund’s corporate governance activities. The Index aims to contribute to a balanced debate about ways to increase the proportion of women serving on the boards of Swedish publicly-quoted companies, as well as to increase diversity in terms of age, background, experience and competence. The thinking is simple: a broader recruitment base increases the likelihood of creating better boards and executive managements, which in turn leads to better companies.

Background data

The Female Representation Index has been compiled jointly by the Second AP Fund and Nordic Investor Services since 2003. The Index is intended to contribute to an objective debate about ways of increasing the percentage of women serving on the boards and executive managements of publicly-quoted Swedish companies. The aim is to broaden the recruiting base and the diversity of boards and executive managements, which will create better companies and enhance their share value.

The study measures the percentage of women serving on the boards and executive managements of publicly-quoted Swedish companies, as well as the total number of employees, and is conducted following the conclusion of the Swedish AGM season, between April and June each year.

In all, the 2012 Female Representation Index comprises 255 companies quoted on the Stockholm Stock Exchange, involving the corresponding number of chairs and CEOs, and 1 666 seats on boards. This adds up to a total of 1 705 senior executives.



Top women

Kinnevik's top management is unique, in that both its Chair and CEO are women. The question is whether this has a specific impact on the company. The following interview with Kinnevik CEO Mia Brunell Livfors addresses this topic

By: Annika Andersson

How does the fact that Kinnevik is led by two women affect the company's development?

I don't think it makes any particular difference to Kinnevik's development. It's just that it continues to attract more attention in certain contexts, due to the fact that female heads of companies are still far too rare in the business world.

Can you define any aspect of operations where female leadership has exerted a clear influence?

Difficult for me to say, but I'm more inclined to the idea that individuals differ and have an individual impact in their own way, rather than believing that the way people act is determined only by their gender.

In the wake of the financial crisis and in light of the general belief that women are more risk averse, has the idea been aired that the severity of the crisis might have been avoided if there had been more women in executive positions. Might the level of risk accepted at Kinnevik been different if it had been led by two men?

No, I don't think so. Our board of directors and executive management, which determine company strategy, are a mix of men and women with varied back-

grounds. We operate in growth sectors and emerging countries, that involves a relatively high degree of risk. However, this has long been Kinnevik's business strategy and has been fundamental to our success.

The company has occasionally been criticized for engaging in too few corporate deals. Can you see any link between the number and type of corporate deals and the fact that Kinnevik has a female Chair and CEO?

Kinnevik has always invested early and built companies right from start, adopting a long-term focus with a view to developing them, rather than buying and selling companies based on a shorter horizon. Our strategy is not about doing deals for their own sake: we are interested in operating companies as a means of generating long-term value. This means that we do a deal when convinced that it offers the best way to generate value, as in the case of the merger between Korsnäs and Billerud (announced in June) or the sale of our Groupon shares, which was also conducted during the summer. I don't think the fact that the company's Chair and CEO are women has any effect on the number of deals made.

Kinnevik is highly ambitious in terms of sustainability and demonstrates considerable social commitment through programmes such as 'Playing for Change'. Can Kinnevik's commitment on these issues be attributed to you and Cristina Stenbeck as individuals, or is it simply because you're women?

I believe everyone in our company is committed to sustainability and projects such as 'Playing For Change', regardless of their gender. It's about the importance of accepting responsibility, something that is increasingly demanded of companies today. In this area again, I believe it is more about the individual than gender.

This interview with Mia Brunell Livfors about female leadership in Kinnevik illustrates what it takes to be a good leader, one who is both self-deprecating yet secure in her role. She plays down her own importance and the fact that she is a woman in this top position, choosing rather to highlight the importance of individuals and of a well constituted executive and board of directors. Could this be what female leadership is all about?



Mia Brunell Livfors

Photo: Kinnevik

The Fund's sustainability activities

2011/2012

The broad aim of the Second AP Fund's ESG (Environmental, Social and Governance) sustainability policy is to create value. The Fund is committed to sustainability both as an asset manager and investor. In its role of asset manager, the Fund's sustainability efforts focus on ESG factors, which either provide a more solid basis for analysis and subsequent investment decisions, or present opportunities for diversification. In its role of investor, the Fund aims to establish its credibility with its beneficiaries by promoting good business ethics and an environmentally responsible attitude, as well as contributing to the development of good practice in the management of assets.

Corporate governance

A large part of the Second AP Fund's capital assets are placed in equities in Swedish and foreign companies, making the Fund a significant investor. The engagement and involvement of shareholders is crucial to the long-term development of companies in which they invest. For this reason, the Fund is therefore an active investor, with a view to promoting good corporate governance, thereby also contributing to better value growth.

As a major investor, the Second AP Fund actively participates in the run-up to and during Swedish and foreign AGMs, while maintaining a dialogue with the boards and executive managements of its portfolio companies.

The Second AP Fund's operational approach to corporate governance issues is based on its nine investor principles. These principles comprise structural matters, corporate governance, the environment and ethics.

In Sweden, the Second AP Fund focuses first and foremost on governance issues in companies where it is one of the largest shareholders, and in companies where it has most capital invested. In the case of companies outside Sweden, the Fund concentrates on ethical and environmental issues, operating through the joint Ethical Council of

the AP Funds. Work concerning other governance issues at foreign portfolio companies involves cooperation with selected partners in addressing items of key importance to the Fund.

The Fund shall further promote good corporate governance by collaborating with other investors on matters of principle and through active participation in the drafting of policies, regulations and standards.

The Fund's corporate governance tools

The Second AP Fund's engagement in corporate governance issues is founded on regulations and conventions such as the OECD's Guidelines for Multinational Enterprises and Principles of Corporate Governance, the United Nations Global Compact and Principles for Responsible Investment (PRI), the Swedish Companies Act and the Swedish Code for Corporate Governance. Since their establishment, the Fund has supported the UN's Principles for Responsible Investment (PRI). The environment, ethics and corporate governance are considered in conjunction with every investment decision made by the Fund.

The environment, ethics and asset management

A positive long-term approach to the environment and ethics enhances a

company's value. The companies in which the Fund invests shall operate in compliance with regulations, conventions and legislation and shall also work proactively to achieve a healthy relationship with society at large. The Second AP Fund favours companies that are members of the United Nations Global Compact and that actively implement its principles, incorporating them as a natural part of their everyday operations. Portfolio companies shall also observe the OECD's Guidelines for Multinational Enterprises and Principles of Corporate Governance. Even if the Fund divests its holdings in the company, this does not eliminate the problem, and the unsatisfactory state of affairs continues. This is why divestment of any Fund holding is considered only as a last option, when any hope of making a difference is deemed hopeless.

Second AP Fund core values

When it comes to the environmental and ethical aspects of business activities, the Second AP Fund's core values are based on principles that highlight engagement, active ownership and change, with a view to making a difference. The Fund strives to make a difference by working proactively for sustainable development in areas that promote a high long-term return on investment, while at the same

time becoming actively involved in companies where problems have been identified, been deemed as significant and are well substantiated. This is a responsible and ethical approach.

As part of the Swedish national pension system, the Second AP Fund's principles of engagement, active ownership and change are based on the same core values as those espoused by the Swedish State. Democracy, the belief that all men and women are equal, the individual's right to freedom and respect and the importance of sustainable development are all central principles. And all in compliance with the terms of the Swedish Constitution Act. The core values of the Swedish State are also given expression through the international conventions to which Sweden has been a signatory, including conventions concerning the environment, human rights, labour rights, corruption and inhuman weapons. These values are further reflected in the support Sweden provides to initiatives such as the United Nations Global Compact and the OECD's Guidelines for Multinational Enterprises, as well as Sweden's stated position on human rights issues. In conjunction with the core values espoused by the Swedish State, these international conventions provide the Fund with powerful instruments in its task of ensuring that the necessary attention is paid to the environmental aspects and ethical considerations of business operations.

In its work, the Second AP Fund operates on the assumption that all conventions to which Sweden is a signatory shall be observed and afforded equal importance. This position is also supported by the decisions made and statements issued by various UN agencies, which note that human rights are universal, indivisible, mutually dependent and

interrelated and may not be assigned different orders of importance. The Fund believes that the companies must themselves be responsible for ensuring that international conventions are not contravened, irrespective of whether these are directed at sovereign States, individuals, companies or organisations. Furthermore, this responsibility shall apply even when countries in which the companies operate are signatories to conventions or feature less stringent legislation.

If companies in which the Fund has invested can be linked to the violation of a convention, the Fund shall first and foremost use its influence as an investor to ensure that such violation ceases, see that preventive measures are implemented and that appropriate action is taken to prevent future violations. Through engagement and by using its influence as an investor to respond when conventions are contravened, as well as making demands for change, the Fund can make a difference. Only if this proves impossible to achieve will the Fund consider divestment of its holding in the company.

Organisation and responsibilities

The Second AP Fund's board of directors determines guidelines and policies pertaining to governance issues, entrusting day-to-day management of these issues to the Fund's CEO. The CEO is backed by an investor group featuring members of the Fund's executive management, the head of equities and the sustainability analyst. This group is responsible for the strategic and operational aspects of the Fund's corporate governance activities. The investor group targets and drafts action plans and monitors progress on an ongoing basis. At least once a year, a report on the Fund's gover-

nance activities is submitted to the board of directors.

The AGM season – 2011/2012

The AGM is the primary forum in which shareholders are able to exercise their influence. Being able to exercise your voting right at the AGM as a shareholder is one of the most important opportunities available for influencing a company. This is why the Second AP Fund is active at both Swedish and foreign AGMs.

Swedish AGMs

The Fund has holdings in some 250 Swedish companies. It has decided that it is impractical to attempt to attend and vote at the AGMs of all the companies represented in its portfolio of Swedish equities. In determining which AGMs to attend, the Fund employs the following criteria:

- Companies that are among the Fund's 25 largest holdings.
- Companies in which the Fund's voting rights exceed one percent of capital.
- Companies in which the Fund is among the ten largest shareholders.
- Companies with controversial issues on the agenda.





The Second AP Fund exercised its voting rights at a total of 47 AGMs of Swedish publicly-quoted companies during the period 2011/2012. The Second AP Fund and other institutional investors have for many years enjoyed a positive and constructive dialogue with Swedish publicly-quoted companies, which have included discussions about many of the issues raised at AGMs. During the 2011/2012 AGM season, the Second AP Fund only voted against the board's proposals in one company: Lundin Petroleum.

Lundin Petroleum

At Lundin Petroleum's AGM in May, the Second AP Fund elected to support the shareholder proposal tabled by Folksam, which challenged the board to initiate and fund an independent audit of the company's operations in Sudan and Ethiopia. This was because the Fund believes it is important that Lundin Petroleum demonstrate that it takes the charges concerning the alleged infringement of human rights in Sudan seriously. The Fund also considers it an urgent requirement that Lundin Petroleum respond to the extremely serious allegations made against the company and that merely waiting for the conclusions of the enquiry conducted by the general prosecutor is simply not enough. The Folksam proposal received the support of more than 20 percent of the AGM.

Both prior to and after the AGM, the Second AP Fund had meetings and exchanged letters with the company. In this dialogue, among other things, the Fund has expressed its anxiety over the failure of the company's board and management to respond to the allegations. The Fund intends to maintain this dialogue.

Remuneration issues still in focus

During the period, the Second AP Fund engaged in a number of dialogues with company boards concerning the formulation of incentive programmes, with a view to promoting improvements. Among other things, a dialogue was conducted on the topic of 'matching shares'. The Fund feels that the right to acquire such shares must be performance-linked.

Increased diversity

For several years now, the Second AP Fund has stressed the importance of increasing the number of women on the boards of publicly-quoted companies and duly observes this principle when participating in the nomination process. The Fund also feels that nomination committees should draft a concrete plan to attain the most appropriate board composition, with respect to gender, age, background, experience and competence.

During the spring, the Second AP Fund conducted its annual survey to determine the number of women on the boards and executive managements of publicly-quoted companies in Sweden. The survey revealed that female representation on corporate boards has declined somewhat, to 22.7 percent. Conversely, the proportion of women in executive management positions has risen to 16.3 percent – the highest level since the study started in 2003. Further details on page 12.

Foreign AGMs

Since 2008, to improve the governance of its foreign investments, and in cooperation with the First, Third and Fourth AP Funds, the Second AP Fund has opera-

ted a joint electronic voting platform, based on the AP funds' governance policies. Most issues are managed automatically via the voting platform, with the exception of matters such as remuneration issues, which are forwarded to the funds for individual assessment. Each fund decides individually as to how it will vote.

The Fund exercises its voting rights mainly in companies active on eleven foreign markets: Australia, France, Italy, Japan, Canada, the Netherlands, Switzerland, Spain, Great Britain, Germany and the USA. The criteria for determining the companies in which the Fund should exercise its voting rights derive mainly from the MSCI global index. There are other criteria too, such as when the Fund is engaged in a dialogue on a specific issue with a company and/or when the Fund has submitted a shareholder proposal for consideration by the AGM.

During the 2011/2012 season, the Second AP Fund exercised its vote at 494 AGMs held by 480 different foreign companies, via proxy voting. Among other issues, the Fund voted against proposals concerning remuneration in 58 percent of these foreign companies.

Letters to companies

During 2012, with a view to further improving communication with its foreign portfolio companies, the Second AP Fund, in collaboration the First, Third and Fourth AP funds, has written letters to some 50 of these companies, clarifying the AP funds' views on active governance and the importance of exercising voting rights. In these letters, the Fund has also explained why it was unable to support the recommendations of certain boards on specific proposals. The primary focus

of these communications has been the Fund's contention that the chair and CEO should not be one and the same person, that board members should be elected for one year at a time, annual say-on-pay, that incentive programmes should be performance-linked and that equity dilution should be limited to a maximum of ten percent. In several cases, these letters have resulted in further contact with the companies in question, sometimes by letter but also by phone.

Further details of how the Second AP Fund voted on specific issues may be found at www.ap2.se

Nomination committees

The Second AP Fund favours having a representative on the nomination committees of portfolio companies, as this provides a valuable opportunity to exercise investor influence. The Fund practices a policy of accepting all invitations to participate in the nomination process. Its investor group decides who shall represent the Fund on the various nomination committees, based on whoever is best qualified for the task. Since nomination committees commonly consist of the three to five largest investors in a company, the Second AP Fund's nomination committee assignments vary, depending on the size of its holding in the portfolio company. Prior to the start of the 2012 AGM season, the Second AP Fund was represented on Opus Prodox' nomination committee, as chair, as well as on Lundin Petroleum's nomination committee.

Ethical Council

The Ethical Council is a joint council that was formed by the First, Second, Third and Fourth AP Funds in 2007. The Ethical

Council monitors and analyses the AP Funds' portfolios of foreign equities, to prevent companies from contravening international conventions to which Sweden is a signatory. The work of the Ethical Council is based on the principles of engagement, active ownership and change, with the aim of making a difference. The Ethical Council identifies companies that can be linked to the violation of a convention.

The principles of engagement, action and change find concrete expression in dialogues and the exercise of pressure, to persuade companies to deal with documented breaches of conventions and to implement systems and measures to prevent future violations. Dialogues are one of the Ethical Council's essential instruments in influencing companies. Even if the Funds sell their holdings, this fails to eliminate the violations. As a final resort, the Ethical Council can recommend that the Fund exclude a company from its investment universe.

The proactive work of the Ethical Council involves participation in various industry and investor initiatives with a view to persuading companies to increase transparency, act more responsibly and address key issues involving ethics and the environment. One such proactive initiative, focused on the mining industry, was launched in 2011. During 2011, the Ethical Council engaged in dialogues with 126 companies in every part of the world. The year before, in 2010, the Fund completed two such dialogues, with Duke Energy and Bridgestone, after these two companies had implemented the measures required by the Ethical Council.

In collaboration with the Ethical Council, the Second AP Fund has participated

Voting at foreign AGMs

Number of foreign AGMs at which the Fund exercised its voting rights	494
Agenda items	7 418
Proposals which the Fund voted against, %	17
Remuneration issues where the Fund voted against proposals submitted for approval by the AGM, %	58

in a number of investor initiatives, addressing topics such as corruption, climate issues, labour rights in the electronics industry and the environmental impact of the oil sector. The Ethical Council published its fifth annual report in the spring of 2012. During 2012, the Second AP Fund will chair the Ethical Council. Further details at www.ethicalcouncil.com

Collaboration with other investors

In addition to cooperating with the other AP funds through the Ethical Council, the Second AP Fund is both a member of and actively supports various Swedish and international initiatives focused on the environment, business ethics and corporate governance. The Fund also collaborates with other investors on influencing new legislation, mainly within the field of corporate governance. These forms of collaboration are becoming increasingly important as a means to influence and effect change and thereby improve share value over the long term. Further details of the Second AP Fund's memberships and initiatives at www.ap2.se/sv/ap2-som-agare/Medlemsskap-och-initiativ/



Implementing PRI principles

Implementation of the United Nations' Principles for Responsible Investment (PRI) is an ongoing process, one which requires that the Second AP Fund shall consistently address ESG (Environmental, Social and Governance) issues, both in its role as asset manager and as investor.

The Principles are about the following: integrating ESG issues as part of investment analyses and decision processes (First Principle); acting as active owners (Second Principle); encouraging better ESG reporting by companies (Third Principle), collaborating with other investors (Fourth and Fifth Principles) and reporting on progress (Sixth Principle). Integration, dialogue, collaboration and reporting are key words for these Principles and for the Second AP Fund's ESG efforts.

The overall objective of the Second AP Fund's ESG efforts is to create value. In its role as asset manager, the Fund strives to integrate ESG factors into its thinking, since this either provides more reliable data for analysis and investment decisions or offers the potential for diversification. In its role as investor, the Fund strives to establish credibility by promoting good business ethics and environmental responsibility, as well as contributing to the development of good practice in dealing with asset management issues.

Integration

Integration means that the Second AP Fund is committed to integrating ESG factors as a natural element in investment processes and the compilation of decision data. Over the past year, the Second AP Fund has developed a model for integrating ESG data into the active in-house management of Swedish equities. The Fund's sustainability analysts

carry out a company analysis that adopts a perspective based on sustainability, which is then passed on to the equity analysts. The idea is to provide them with a broader range of information, which results in better decision data. The sustainability analysis determines how the company has organized its commitment to sustainability, the policies that are in place and how they are implemented. It also charts how the company is dealing with the opportunities and risks it faces with regard to sustainability.

In 2008, the Second AP Fund started to invest in 'green bonds'. These bonds are used to finance various types of environmental projects. The Fund invests in these bonds when the potential return is deemed to be comparable with 'normal' bonds. The Second AP Fund's fixed-income-security team monitors developments in this area and, during the year, the Fund has increased its holdings in green bonds.

This integration of ESG factors is typically found in those parts of the Fund where in-house equity and fixed-income security analysts are engaged in fundamental analysis. In contrast, no specific ESG data is used in the analyses conducted by the portfolio managers who work with index-linked securities: they employ a range of quantitative models. Managers of index-linked assets strive to reflect various market indices. All the companies in the Second AP Fund's portfolio of equities (which comprises assets under both fundamental and index-linked

management) are reviewed biannually, with a view to identifying those that are in breach of international conventions and guidelines. This review is conducted by an external consultant.

Follow-up

ESG factors also form an integral part of the Second AP Fund's work with external asset managers. The extent to which ESG issues figure in the evaluation and follow-up process depends on the type of asset management involved. During the year, the Fund has assessed a number of managers of forest and agricultural real estate. ESG issues have played a central role in these assessments (further details of the Second AP Fund's investments in agricultural real estate on page 4-11). For the past few years, the Second AP Fund's annual review of external portfolio managers has featured a number of questions about ESG. During the procurement process for new fund managers, questions concerning ESG are posed in request for proposals.

The Second AP Fund's private-equity investments are also evaluated and monitored on a continual basis. The Fund is demanding with respect to the provision of information, and has championed the requirement that private-equity funds should exhibit greater transparency to other interested external parties. The Fund encourages private-equity funds to observe the PRI principles and that they work with their portfolio companies to implement Global Compact. The Fund

has also actively participated in drawing up the guidelines that have been developed under the aegis of the PRI, specifically for private-equity funds.

The Second AP Fund also invests in real estate. The Fund's involvement derives primarily from its position as a major shareholder in Vasakronan, Norrporten and Cityhold Property. Vasakronan and Norrporten are actively involved in reducing environmental impact, contributing to positive social development in the areas where they operate. Cityhold Property, which was formed in June 2011, cites a commitment to invest in properties featuring good environmental performance as part of its investment strategy. The Second AP Fund enjoys good insight into the workings of these companies, for example by being represented on their boards.

Dialogue

As a committed asset owner and asset manager, dialogue is an important tool, with regard both to companies and to society at large. The Second AP Fund conducts regular dialogues with Swedish and foreign companies on ESG-related issues. Dialogues with foreign companies are coordinated via the AP funds' joint Ethical Council. Further details on the work of the Ethical Council on www.ethicalcouncil.com

The Second AP Fund's discussions on sustainability issues are not restricted to companies alone. Fund staff participate in conferences and appear as guest speakers

1

PRI's principles

We will incorporate environmental, social and corporate governance (ESG) issues into investment analysis and decision-making processes.

Examples of what the Second AP Fund does

Includes ESG data in analyses and decision making processes in our active internal asset management.

Works on developing models and tools for ESG that are geared to different investment strategies.

Includes ESG in the analyses of new funds and portfolio managers. Questions about ESG form part of the yearly evaluation of external asset managers.

2

We will be active owners and incorporate ESG issues into our ownership policies and practices.

Incorporates ESG factors as part of its Corporate Governance Policy.

Conducts dialogues regarding ESG issues with Swedish and foreign companies.

Exercises its vote at Swedish and foreign AGMs.

Participates in nomination committees.

Monitors portfolios to detect violations of international conventions and guidelines.

3

We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Supports a range of initiatives geared to improving corporate reporting procedures, including the Carbon Disclosure Project, the Extractive Industries Transparency Initiative, the Global Compact and the Sustainable Value Creation Initiative.

Asks all external managers to respond to questions concerning ESG in its annual review.

4

We will promote acceptance and implementation of the Principles within the investment industry.

Encourages external fund managers to become signatories of the PRI.

Participates in conferences.

Includes questions pertaining to PRI in procurement tenders, where relevant.

5

We will work together to enhance our effectiveness in implementing the Principles.

Collaborates with the First, Third and Fourth AP Funds in the joint Ethical Council, which is responsible for conducting dialogues with foreign companies. The Ethical Council also collaborates with international investors in pursuing dialogues with companies and proactive initiatives.

6

We will each report on our activities and progress towards implementing the Principles.

Publishes an annual Corporate Governance Report and also reports on PRI in the annual report and on the website.

Reports on dialogues with foreign companies in the joint annual report of the Ethical Council.

Responds to the PRI's annual survey and makes it available public at the PRI web site.

PRI Facts

The Principles for Responsible Investment (PRI) were launched by the United Nations in 2006 and have now been signed by more than 900 institutional investors the world over. The initiative is designed to encourage investors to integrate ESG issues in investment processes and governance activities, with a view to creating a sustainable financial system. ESG are the initials for Environmental, Social and Governance issues.

PRI publishes a number of reports and arranges 'webinars' to disseminate ideas as to how investors can implement these principles. PRI also organizes a number of working committees, which provide implementation support within different asset classes. The PRI website also features a 'Clearing house', where members can publish information concerning activities in which they seek support from other signatories.

Further details on PRI at www.unpri.org

at universities. In 2011, in line with its wish to encourage students to develop an interest in finance and sustainability, the Fund established an award for the best essay on finance and sustainability submitted by students at the Gothenburg University. No prize was awarded in 2012, since no students elected to write on this subject. The Fund has therefore decided to become actively involved, with a view to heightening students' interest in sustainability issues.

The Second AP Fund is a member of or/and supports several organizations that are dedicated to achieving change within the ESG. To make it easier for asset managers to factor ESG concerns into their investment decisions, systemic change will be essential. This is why the Second AP Fund supports both EITI – which is committed to increased transparency (less corruption) in the extraction industries – and IIGCC, which works to establish clear guidelines that encourage investment that promotes the evolution of a 'low-carbon' society.

Collaboration

Collaboration with other investors is important, both for success in dialogues with companies but also to encourage development in the direction of respon-

sible investment. The Second AP Fund collaborate both with Swedish and foreign institutional investors.

The development of Principles for Responsible Investment in Farmland, launched in September 2011, provides one example of international collaboration by the Second AP Fund. The Principles were developed by a group of international investors which, in addition to the Second AP Fund, included ABP and PGGM from the Netherlands, ATP from Denmark, BT Pension Scheme and Hermes from Great Britain and TIAA-CREF from the USA, all of whom are PRI signatories. To support implementation of these principles, PRI established a farmland working group in September 2011. The Second AP Fund chaired the group this year. Further details of the Second AP Fund's implementation of the Principles on page 4.

The AP funds' Ethical Council constitutes an important platform for the Second AP Fund in its dialogues with foreign companies. In collaboration with 13 of Sweden's largest institutional investors, the Second AP Fund has participated in the joint Hållbart Värdeskapande (Sustainable Value Creation) project. The project was initiated in 2009 and is designed to highlight the need for com-

panies to adopt a structured approach to sustainability. In 2011, for the second time in succession, a questionnaire was distributed to the chairs of the 100 largest publicly-quoted companies on the Stockholm Exchange. The responses to this questionnaire have provided additional data for the Second AP Fund's sustainability analysis. Read more on www.svcinitiative.com

Reporting

For the Second AP Fund, it is important that the way it addresses ESG issues is reported in an open and comprehensible manner. As well as the Fund's own Corporate Governance Report, information about its dialogues with foreign companies is available in the Annual Report published by the Ethical Council. Information is also available in the Fund's own Annual Report and on the website. More details of how the Fund has implemented the PRI principles may be found in the responses to the annual questionnaire conducted by PRI. The Second AP Fund's answers to the questions posed by the questionnaire are available on the PRI website.

New corporate and human rights principles simplify investors' lives

It is a year since the framework 'Guiding Principles for Business and Human Rights' were completed by Professor John Ruggie and adopted by the UN. There is much to suggest that they could eliminate the lack of consensus surrounding the issue of corporate responsibility for human rights.

By: Emma Sjöström

The 31 principles are designed to provide guidance to companies on how to exercise respect for human rights. They apply to all companies, large and small, irrespective of industry, ownership structure or operational location.

The Principles should not be seen as a way of transferring responsibility from governments to companies. On the contrary, it is a central tenet that governments should bear ultimate responsibility concerning the protection of human rights. Nor do these Principles announce the establishment of new legal responsibilities. Rather, they should be seen as a clarification of the way companies should behave. It is precisely this – the fact that companies' responsibilities are now more clearly defined than before (especially in respect of their relationship to governments) – that has been highlighted as key aspect of these principles.

The principles are organized under the UN Framework's three pillars: Protect (the State's duty to protect against human rights abuses by third parties), Respect (corporate responsibility to respect human rights) and Remedy (the need for greater access to remedy for victims of business-related abuse).

The new Principles have been well received by companies, investors, voluntary associations and other players, and this consensus is in itself epoch-making. There has previously been extreme disagreement as to how corporate responsibility for human rights should be defined. Furthermore, this consensus is essential if companies are to risk relying on these Principles as the defining standard for

their efforts in this sphere. The Volvo Group is one of many companies to praise these principles.

"The benefit is in the way the framework provides guidance as to how we can approach these issues in a systematic manner," states Malin Ripa, Head of CSR, Volvo Group. She is also convinced, given the fact that special interest groups may have a somewhat different understanding of what corporate responsibility for human rights actually means, that these UN framework principles so clearly define what this responsibility involves.

Helps investors

The broad consensus about these Principles may well mean that they can be adopted as an appropriate starting point for governance policy within the sphere of human rights. It seems likely that investors will also be able to make common cause about issues of joint concern based on the framework provided by these Principles.

From a more operational perspective, they may simplify analyses of how companies manage both the potential and actual infringement of human rights. One of the key parts of these Principles addresses the issue of 'due diligence' with respect to human rights. This refers to the fact that companies should assess risks, act on the results of the assessment, monitor the response and communicate the effects. Some of these Principles list what this means for companies in greater detail.

In other words, to the extent that companies observe these Principles, investors

are able to monitor companies' progress with respect to due diligence in this sphere, thereby gaining a picture of their performance.

The results of a specific company's own due diligence efforts may also serve as a basis for shareholder dialogues and the creation of other fora where investors can conduct discussions with companies about expectations and results.

Many investors have applauded the establishment of these Principles, not least because they may improve the operational environment at many companies, benefiting their long-term financial growth. This said, Professor John Ruggie, who has led the work resulting in the publication of these Principles, notes that we can't just roll our sleeves down again and say "Job done!" Rather, he feels we now have a solid platform on which we can base continued efforts in the field of human rights.



Professor John Ruggie

Swedish nomination committees – highly rated by international experts

The Swedish system of nominating committees, which give shareholders greater opportunities to influence the composition of the board, is unique and has great advantages – something that caught the attention of internationally prominent experts in corporate governance. Second AP Fund has addressed five questions to three of them.



Mr Jamie Allen



Mr Jamie Allen, Secretary General at Asian Corporate Governance Association, Hong Kong.

What are the main advantages of the Swedish system of nomination committees?

From our point of view, as a non-profit organisation, the question of independence when it comes to the boards of directors is very important. It is the board directors of the board who appoint the managing director of the company – a task that is crucial when it comes to how the company is managed. The nice thing with the Swedish system is that it involves institutional investors in the nomination process. This leads to a better outcome from our point of view, as you should end up with more independent and suitable directors.

What are the main differences compared to the system of nomination committees in Asia?

The Swedish system is fairly unique – you don't find a system like that in USA, UK or Australia – or in Asia, for that matter. The main difference is that in Asia the nomination committees are made up of directors – and these directors are elected by controlling shareholders. Minority shareholders, including institutional investors, are not represented, which leads to the underlying risk of independence.

In your opinion, is the Swedish system applicable to countries other than Sweden?

Yes, I think so, depending on the nature of a country's culture. In Sweden you have a fairly homogenous culture, with a common language and broad consensus on fundamental values. This creates a climate of trust, providing a firm foundation for a system like Sweden's. The situation is quite different in Asia, with societies that are more heterogeneous, where distrust often exists between different groups. This is something you have to take into account when considering this type of process. The one country in Asia where the Swedish model might just work is Japan.

Is there anything in the Swedish system that you think needs to be improved?

Generally speaking, we think it works fine.

What international developments can we expect in this area over the coming years?

It would be good if more countries adopted the Swedish model, or at least started to introduce adjustments along the same lines. In the short term, though,

say five to six years, I doubt we'll see any major changes. In specific markets and among a number of the more mature and transparent companies however, things might be different. As a matter of fact, we are already seeing a greater focus on the nomination process in legislative reforms being introduced in Asia, as the issue of independence and the debate on diversity become more and more important. This is a good basis for change in the long term – a trend we shall definitely encourage.

About the Asian Corporate Governance Association

The Asian Corporate Governance Association (ACGA) is an independent, non-profit membership organization dedicated to working with investors, companies and regulators in the implementation of effective corporate governance practices throughout Asia. ACGA was founded in 1999, based on the conviction that effective corporate governance is crucial to the long-term development of Asian economies and capital markets.

Mr Harlan Zimmerman

What are the main advantages of the Swedish system of nomination committees?

The most evident advantage of the Swedish system is that the process results in a board that truly feels a high sense of accountability to shareholders, and on average this results in much better governance than in most other countries. In addition, as the nomination process is normally quite transparent and fact-based, it creates a wider casting of the net for candidates and thus less old boys' network and greater diversity in board rooms.

A more subtle advantage is that the process has required Swedish shareholders to think and act not just like investors, but like true owners. More so than in other countries, Swedish institutions have met this challenge, to the great benefit of Swedish companies, society as a whole and certainly of the ultimate beneficiaries behind the institutions, such as pension funds and insurance companies.

What are the main differences compared to the systems used in the UK and the US?

In the UK and the US, boards effectively choose their own members, because the nomination committees are sub-committees of the boards and the vast majority of the nominees put forward are robotically rubber-stamped by shareholders. Huge power is concentrated in the hands of the chairmen, who normally head these nomination committees. Many chairmen avoid selecting directors who will ask too many questions, and many board members will feel uncomfortable challenging the chairmen who gave them their seats.

In your opinion, is the Swedish system applicable to countries other than Sweden?

The approach of involving shareholders directly in nomination committees is certainly applicable in other countries, even though the details should be adapted to reflect any distinct characteristics of the other countries. However there are many vested interests that make this a challenge – chairmen are happy with the status quo, and most investors don't really want the responsibility of being in nomination committees. It's possible that a crisis at a large company might require a response that could lead to change – as happened in Sweden, following the proposal to merge Volvo and Renault in the 1990s.

Is there anything in the Swedish system that you think needs to be improved?

It is a real pity when non-Swedish investors choose not to take up a nomination committee seat that is offered to them. While that is not the fault of Swedish investors, they perhaps accept it too easily. Where possible, Swedish investors should do their utmost to get

foreigners to take up their seats, as these foreign investors essentially then become ambassadors for the Swedish system in their own countries.

What international developments can we expect in this area over the coming years?

In the past few years, the Swedish system has become better known and appreciated in the UK and the US, thanks to the efforts of some Swedish governance leaders and a few foreign "fans" of the Swedish system. I am hopeful that these efforts will continue and lead to the adoption of some variant of the Swedish approach, which would improve the governance climate in the UK and the US. This would also help entrench the Swedish system against any attempts by the EU to "harmonize" governance, which could actually mean trying to bring the very high standard of governance in Sweden down to a lower common denominator across EU members.

About Mr Harlan Zimmerman

Harlan Zimmerman is the London-based senior partner of Cevian Capital, an investment firm (with approx. € 6 billion assets under management). Started in Stockholm in 2003, Cevian today invests 2/3 of its capital outside the Nordics. Mr Zimmerman has nearly 20 years' experience in listed and private equity. He holds an MBA in Finance from Wharton, an MA in International Relations from the University of Pennsylvania and a BA in International Relations and Russian from the University of California, Davis.



Mr Harlan Zimmerman, Senior Partner at Cevian Capital, United Kingdom.

Mr George W. Dent

What are the main advantages of the Swedish system of nomination committees?

In Sweden, the shareholders determine the composition and compensation of the board, so directors serve the interests of the shareholders.

What are the main differences compared to the system used in the US?

In the US, the CEO usually dominates or heavily influences the composition and compensation of the board of directors. Accordingly, directors generally dance to the tune of the CEO, which is often very different from what shareholders want. CEOs who dominate not only pay themselves too much but also often obtain compensation packages that reward the wrong kind of performance, such as maximizing current sales rather than long-term profit. Many CEOs also like to engage in empire-building, seeking personal prestige by making the company bigger rather than more profitable. The shareholders' interest is in maximizing the value of the equity. This is consistent with efficiency and is a better goal for society as a whole.

In your opinion, is the Swedish system applicable to countries other than Sweden?

From my remote perspective it seems that everyone is happy with the Swedish corporate governance system. I think the system would also work well in other industrialized democracies, including the US, although American CEOs would battle furiously against its adoption here.

Is there anything in the Swedish system that you think needs to be improved?

A possible concern with the Swedish system is that the largest shareholders might use their influence over the board to benefit themselves at the expense of the other shareholders. I gather that that has not been a problem in Sweden both because most large shareholders do not have operations that would facilitate corrupt dealing with the corporation and because law and custom in Sweden would not tolerate such behaviour. I believe that the same would be true if the Swedish system were adopted in other industrialized democracies, but in countries with different ethics and a weak rule of law such self-dealing might be a problem.

What international developments can we expect in this area over the coming years?

Some Swedes are rightly touting their corporate governance system as a lure to investment capital. Why should investors put their money in countries where their interests may be trampled on, if in Sweden their interests come first?

In addition to Sweden, many British Commonwealth nations and several others also treat investors better than the US does. However, shareholder power is slowly growing here too. I believe that the international mobility of capital will gradually force all countries either to adopt shareholder-friendly corporate governance or forego foreign equity investment.



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