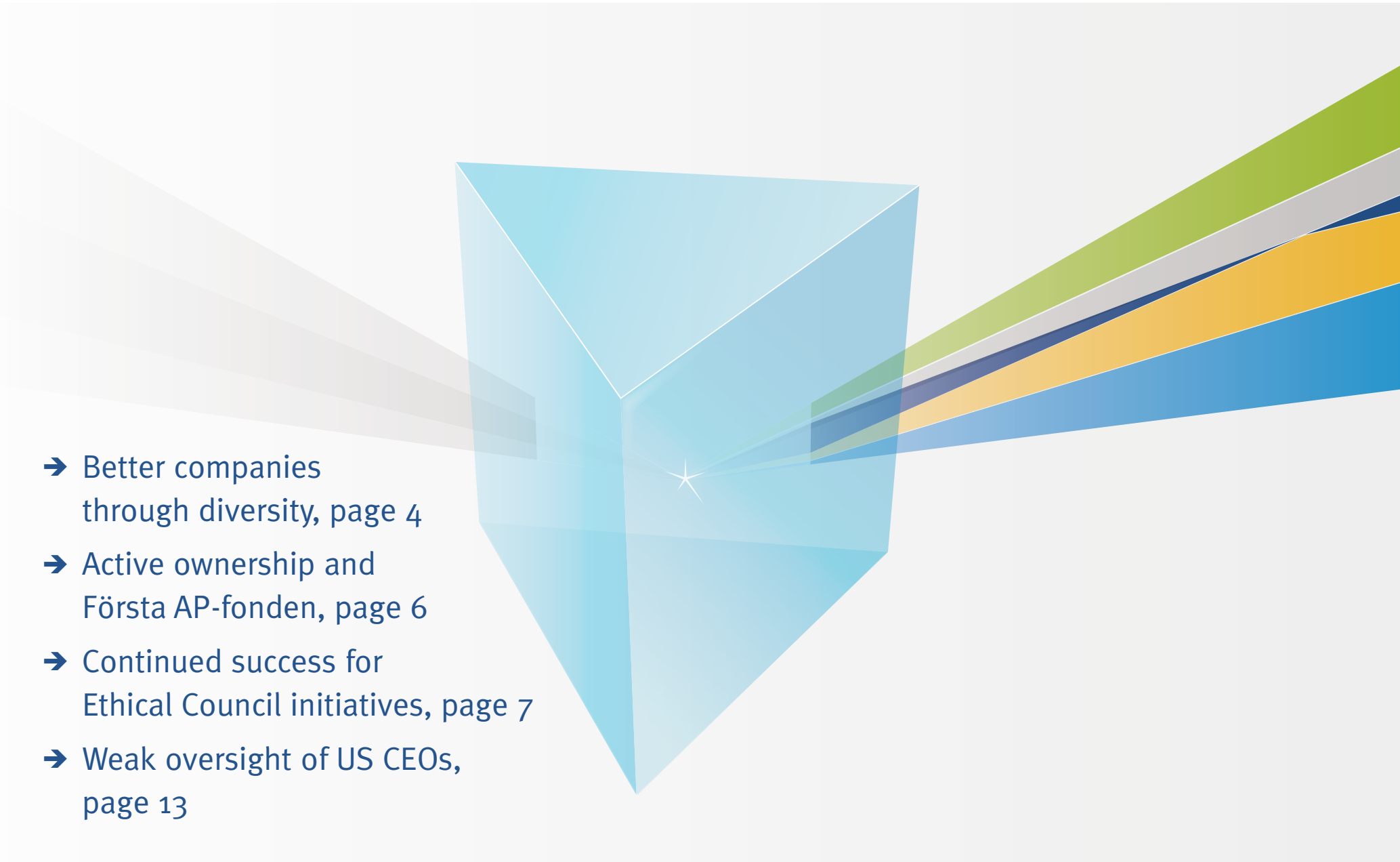


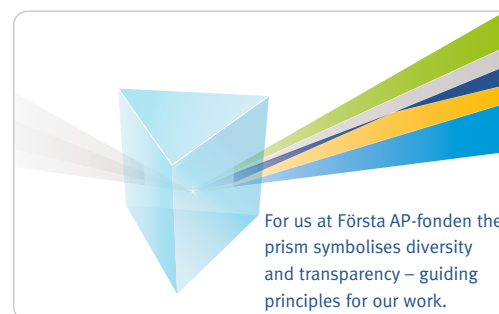
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AP₁ in brief

- Första AP-fonden manages assets worth SEK 181.4 billion in the Swedish pension system. Its mission is to invest capital to maximize long-term return at a low level of risk, without being influenced by prevailing government policies, whether industrial or economic.
- We are firmly convinced that in the long term, investments in well-managed companies will provide higher returns and lower risks. The Fund therefore chooses to pursue active ownership – including social, environmental and corporate governance issues – as a means for promoting asset management with better value creation.
- We exercise our ownership role based on what is best for long-term shareholder value for the companies – which is also best for the Fund's return and therefore best for current and future pensioners.



Active shareholders gain influence

Ownership issues have been the subject of lively discussions in recent years, especially since the financial crisis. This discussion is important. Companies with strong, long-term, committed and especially demanding owners will achieve better growth over time than companies in which owners cannot or do not want to be involved. It is therefore positive if shareholders can accept clear responsibility for how companies are managed. It is also probable that enterprises that are clearly accountable for their actions in relation to their many stakeholders perform better over the long term.

A pension fund like Första AP-fonden has more opportunities to invest with a long-term horizon than many other investors. It is therefore natural for us to be engaged in various ownership issues. We have worked with these issues since Första AP-fonden was formed in 2001 and are now for the first time publishing a separate ownership report.

For us, responsible investing means being engaged in how our companies are managed with respect to three areas which all contribute to long-term value growth. First, companies must be managed to achieve maximum shareholder value, which increases market confidence in the company. That is what good corporate governance is all about. Second, companies must also be accountable to the local community by not destroying the environment. Companies must comply with environmental laws and regulations.

Third, companies must respect laws and regulations relating to social issues. Read more about these issues in this report.

As Första AP-fonden is among the larger shareholders of Swedish companies, we have greater opportunity to exert influence over them. We vote at general meetings, participate in nomination committees and maintain an active dialogue with Swedish firms. We also try to influence foreign companies by voting at their AGMs. We are actively engaged in various networks to join forces with other shareholders in order to influence both companies and regulations. Read more about this topic on page 12 and on our website www.ap1.se.

Our commitment to being an active long-term shareholder contributes to sustainable development in the companies we own and thus also for pensions in Sweden.

Johan Magnusson



Responsible investment means that we are engaged in how our companies are managed with respect to environmental concerns, social responsibility and corporate governance – three areas that all contribute to long-term corporate growth. ”

SRI – Socially Responsible Investment

Socially responsible investment is a collective term for responsible investment strategies that integrate investors' financial objectives with their concerns for the environment and their social responsibility.

CG – Corporate Governance

Corporate governance refers to ensuring that companies are managed in a way that provides maximum shareholder value, raising confidence in the companies and the market while improving opportunities to raise capital.

CR – Corporate Responsibility

CR and CSR deal with the same issue – companies must conduct business responsibly with respect to shareholder interests as well as in a broader perspective.

RI – Responsible Investment

Responsible investment refers to investment strategies in which shareholders focus investments on companies' practices relating to environmental, social and governance issues in addition to their financial objectives.

PRI – Principles for Responsible Investment

Six principles formulated by the UN in cooperation with a group of investors to guide organisations that want to promote responsible investment.

CSR – Corporate Social Responsibility

The premise that an enterprise must not only accept responsibility for its economic impact on society, but also from a social, ethical and environmental perspective.

Responsible investment and corporate social responsibility are two sides of the same coin. Both integrate consideration of environmental, social and governance issues in their activities. Over the years a number of abbreviations have been used to refer this approach.

Ever since the UN principles for responsible investment (PRI) were launched, ESG factors have been a universally recognized concept for the type of issues that responsible investors should consider in their analysis and investment decisions. For example, environmental (E) factors refer to companies taking relevant measures to reduce their environmental impact. Social (S) factors mainly involve ensuring that companies respect human rights. Governance (G) refers to managing companies with shareholders' best interests in mind. Shareholders should have an influence on the election of directors, as well as on the structure and disclosure of executive compensation. We describe these three factors in greater detail on page 6.

In our endeavour to be a responsible investor, Första AP-fonden will therefore conduct an ESG analysis.



ESG – Environmental, Social and Governance issues

“ESG factors” are the factors that responsible investors take into consideration during the investment process. These factors are associated with corporate responsibility for the environment, social issues and corporate governance.



UN principles for responsible investment – taking a stand

In 2005 the UN and a group of investors formulated six principles to guide organisations that want to promote sustainable investment. Today more than 600 asset owners, investment managers and other organisations worldwide are signatories to these principles. Första AP-fonden is one of them. We have taken a clear stand that we want to promote the adoption of these principles in our activities.



Principle 1. We will incorporate ESG issues into investment analysis and decision-making processes.

What is Första AP-fonden doing?

Första AP-fonden initiated an analysis to see how it can take a more structured approach to incorporating ESG issues into the investment process. For instance, the Fund is participating in an international project aimed at evaluating the potential effects of climate change on long-term portfolio composition and what measures can be taken (see p. 9).

Principle 2. We will be active owners and incorporate ESG issues into our ownership policies and practices.

What is Första AP-fonden doing?

Since 2001 Första AP-fonden incorporated ESG issues into both its ownership policy and its direct contacts with the companies in which it invests.

Principle 3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.

What is Första AP-fonden doing?

Första AP-fonden is discussing ESG issues on a regular basis with Swedish firms. The Fund also participates in both Swedish and international initiatives to promote increased transparency in these issues.

Principle 4. We will promote acceptance and implementation of the Principles within the investment industry.

What is Första AP-fonden doing?

Representatives from the Fund regularly participate as speakers at conferences with the purpose of sharing their knowledge about ESG issues.

Principle 5. We will work together to enhance our effectiveness in implementing the Principles.

What is Första AP-fonden doing?

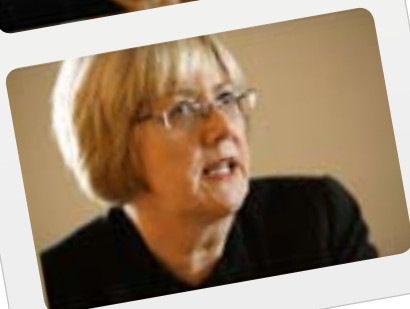
The AP Funds' Ethical Council (see p. 7) and the Fund's participation in the Sustainable Value Creation project (see p. 8) are two examples of collaborative efforts to promote implementation of these principles.

Principle 6. We will report on our activities and progress towards implementing the Principles.

What is Första AP-fonden doing?

This report, like the Ethical Council's annual report and reporting on the Fund and Ethical Council websites (www.ap1.se and www.ethical-council.se) is part of the effort to comply with this principle.

The principles are guidelines that are aspirational, not prescriptive.
→ Read more about the principles online at www.unpri.org.



It is not about gender equality, it is about dynamics and innovation!

Increasing the percentage of women in the boardrooms of Swedish companies has been discussed for years – without any results. To understand the importance of this issue and how Första AP-fonden can help to increase diversity on Swedish boards of directors we spoke to Marit Hoel at CCD in Norway about what happened when the Norwegian government introduced legislation that imposed a quota for women on boards.

AP1: Why is it important to have more women in the boardrooms?

Marit Hoel (MH): The point is not about bringing in more women – the issue is much broader than that.

The point is to achieve a broad base of knowledge and experience.

AP1: Why is this broad base necessary?

MH: It provides the innovation that our Nordic enterprises need to be competitive. Sweden and Norway have the great advantage that as many women have graduated from our colleges and universities as men since the 1970s. Taking advantage of these resources is a simple way to increase diversity and innovation on the boards of directors.

AP1: Is diversity important for any other reason?

MH: Better transparency. As shareholders it is important to know that all issues addressed at board meetings are discussed completely without bias and that prior decisions are openly discussed. The risk is great that this will not happen if directors at different companies come from the same network.

AP1: The fact that few women have been managing directors is often brought up as an argument explaining why female representation is so low. What do you think about that?

MH: In my opinion, there is no lack of experience as managing director on Swedish boards of directors today. In fact, the innovative force that drives

FACTS

In 2006 Norway implemented a law requiring large companies listed on the Oslo Stock Exchange to have at least 40 percent of each gender on their boards of directors. Marit Hoel at the Center for Corporate Diversity (CCD) monitored developments at companies between 2003 and 2008 on behalf of several Norwegian governments. CCD has also analyzed board composition at the 500 largest Nordic companies. CCD is supported by the Norwegian government, Nordic Innovation Center, Oslo Stock Exchange, asset managers and companies (see www.corporatediversity.no).

“Diversity in the boardrooms is important – not to increase gender equality, but as a requirement for competitive enterprises.”

companies would only benefit from having a few directors whose expertise and experience do not include that of managing director.

AP1: What has happened in Norway since discussions began about quotas for women on Norwegian boards of directors?

MH: The percentage of female corporate directors at some of Norway’s hundred largest companies increased from 21.6 to 31.3 percent between 2004 and 2008. This trend applies not only to the approximately fifty listed companies, but also to just as many that are not targeted by the quota law. In addition, the level of education on the board of directors has increased and the average age has dropped – all attributable to “the female effect”.

AP1: Was the law necessary or could the same results have been achieved in some other way?

MH: Although I am no advocate of the quota, I can conclude that implementation of the law has had a beneficial effect on diversity in Norwegian boards and that is important.

AP1: So you would not advocate a quota requirement in Sweden?

MH: As soon as the topic of the percentage of women on boards of directors arises in Sweden, all focus appears to be on opposing the quota requirement rather than discussing why increased diversity is needed and how it could be achieved. That concerns me.

AP1: Do you have any advice on how to increase diversity in Swedish boardrooms?

MH: Very few women belong to the networks where people look for directors today. One way to expand the selection is to follow the model of the NHO (the Confederation of Norwegian Enterprise) and help to create a database of potential directors. Another route that all of us in the Nordic countries could improve at is to search for candidates for directors across national boundaries – and not just for women.

What does Första AP-fonden think about quotas?

[Read more on page 10.](#)

Diversity is important for an innovative climate – but requires goal-oriented efforts to succeed

According to Marit Hoel, diversity is important because it leads to innovation. Is there evidence for this correlation, and does it have a positive effect on financial performance?

A Danish study of 1,700 Danish companies shows that there is a significant positive correlation between diversity and innovation potential. This finding applies to diversity regarding gender, education and ethnicity.

For example, the study shows that if a company increases diversity regarding gender it also increases the chance that the company is innovative by a factor of 2.1; in other words, by 110 percent. The corresponding figure for ethnicity is 30 percent.

The study was published in a report from 2007 commissioned by organisations such as the Danish Agency for Science, Technology

and Innovation and the Nordic Council of Ministers.

The same report also summarizes the results from about 35 other international studies in the field.

The summary shows that the majority of studies support a positive correlation between diversity and financial performance for the business.

However, the findings are somewhat ambiguous. About one third of the studies cannot show any correlation and some even show a negative correlation for diversity. One explanation mentioned is the importance of companies working with a goal-oriented approach to be able to take advantage of diversity.

Source: “Resumé – Innovation og mangfoldighed”, Danish Agency for Science, Technology and Innovation (www.fi.dk, Publikationer 2007).



ESG – important elements of the board's responsibility

Första AP-fonden is engaged in ownership issues because we are convinced that in the long run, investments in well-managed companies will provide higher returns and lower risks. We have therefore chosen to be active shareholders by focusing on social, environmental and governance issues. We actively encourage firms to develop strategies and openly report on all of these areas.

Enterprises that actively analyse their activities, not only from a financial viewpoint, but also from an environmental, social, and governance perspective, and formulate strategies accordingly, can reduce both risks and expenses. They can also often find and take advantage of business opportunities.

Such an approach promotes long-term sustainable value creation and the Fund as a long-term owner can be assured that important conditions for future financial returns are set for Sweden's current and future pensioners. We are active shareholders because we believe this strategy is essential for long-term sustainable financial returns.

Our corporate governance activities are always based on the best interests of both corporation and shareholder, and thus of current and future pensioners in the long run. The Fund will always cooperate with shareholders and other stakeholders to promote the best interests of the companies so that the Fund is – and is perceived as – a responsible, long-term owner.

E Environmental concerns

We expect companies to take environmental aspects of their operations into account. Companies must be aware of and take relevant measures to reduce the direct and indirect environmental impact of the operation throughout the product life cycle. Examples include emissions (into air, water and soil), efficient resource utilization in production, energy efficient products/services and recycling.

S Social concerns

We expect companies to respect human rights and the ILO's core conventions. For example, discrimination/special treatment, forced labor, child labor or the prohibition of freedom of association are all unacceptable.

We also expect that companies view their employees as an important resource and that working conditions are safe in both their own production units and in those of their subcontractors.

G Governance

In Swedish companies where the Fund has a relatively good opportunity to exert influence, the Fund is promoting increased diversity on the boards of directors. We are also encouraging companies to evaluate compensation systems and present the results at general meetings before decisions are taken about continuing incentive schemes. In foreign companies the top priority issue at the moment is that the positions of CEO (managing director) and chairman of the board of directors should not be held by the same person. In many countries corruption and bribes are also important issues.

Continued success for Ethical Council initiatives



”By cooperating with other investors we increase the potential for exerting influence in the right direction.

Nadine Viel Lamare, senior ESG analyst and Första AP-fonden's representative on the Ethical Council.

The AP Funds' Ethical Council, which was formed in 2007, is a good example of how collaboration by several asset owners makes it easier to exert an influence on companies.

The Ethical Council, which consists of one representative each from the First, Second, Third and Fourth Swedish National Pension funds, pursues an active dialogue with enterprises that violated international conventions that the Swedish government signed. The aim is to encourage companies to take measures to prevent similar incidents from occurring. Should dialogue fail to produce the desired measures, the Ethical Council can recommend that the respective fund exclude such companies from their investment universe, which happened in the fall of 2008 when several corporations that produced cluster munitions were excluded (see adjacent list).

Meetings at companies – key to success

During the spring of 2009 three companies on the Ethical Council dialogue list met the objectives that the Ethical Council set when the dialogues were initiated and therefore had taken satisfactory corrective measures. In all cases a representative from the Ethical Council met with the management in person at corporate headquarters, demonstrating just how seriously the Ethical Council views these problems. The Ethical Council's direct dialogue with corporate management has had a positive influence on the direction of the dialogue. The companies took appropriate measures, demonstrating that investors can influence companies through dialogue.



FACTS

Första AP-fonden has decided to prohibit investments in the following companies (information per 30 September 2009):

- Alliant Techsystems (USA)
- GenCorp (USA)
- General Dynamics Corporation (USA)
- Hanwha Corporation (South Korea)
- L-3 Communications Holding (USA)
- Lockheed Martin Corporation (USA)
- Poongsan Corporation (South Korea)
- Raytheon Corporation (USA)
- Singapore Technologies Engineering (Singapore)
- Textron (USA)

→ Read more about the Ethical Council's work at www.ethicalcouncil.se

Sustainable value creation



Our core values

As part of the Swedish pension system and in its capacity as a Swedish government enterprise, it is natural that Första AP-fonden adheres to the same core values as those expressed by the Swedish government by supporting international conventions and agreements.

The goal is that none of the companies the Fund invests in will violate any of the international conventions (e.g. relating to human rights, use of special weapons, the environment, etc.) to which Sweden is a signatory.

To detect any cases of violation of conventions the Fund engages an external consultant to review its holdings twice a year. Foreign corporations that are identified then become the object of the Ethical Council's efforts (see p. 7). By tying the Fund's requirements to international conventions and by cooperating with others for the same purpose, the Fund can contribute to international efforts to ensure that action is taken against violation of conventions in the global financial market, thereby giving the conventions greater weight. In addition the Fund pursues dialogue on a regular basis with Swedish companies to influence them to have adequate environmental and social preparedness in the fields that are relevant to them.

← cont'd. from preceding page

In September 2009 Första AP-fonden combined forces with twelve other Swedish institutional investors to jointly influence Swedish listed companies to promote responsible and sustainable value creation over the long-term.

Since each company is unique it is not possible to define in advance which environmental and social issues the individual company should take into account. However, what is important for us is for each company to actively identify and manage the environmental and social aspects of their operations that are relevant for them. Such an analysis can contribute to reducing risks and even expenses, while taking advantage of business opportunities and promoting a long-term sustainable return on our investments.

We are also participating in this initiative to highlight the importance of open reporting on these issues in order that we as investors will gain a better foundation on which to base our investment decisions.

→ For more information please see the project's website www.svcinitiative.com

FACTS

The following institutional investors comprise Sustainable Value Creation:

- Andra AP-fonden (AP2)
- DnB Nor
- Fjärde AP-fonden (AP4)
- Folksam
- Första AP-fonden (AP1)
- Nordea
- Meta Asset Management
- SEB
- Skandia Liv
- SPP
- Swedbank Robur
- Church of Sweden
- Tredje AP-fonden (AP3)

The investor group sent a survey to the 100 largest companies listed on the Stockholm Stock Exchange asking whether they have guidelines covering central elements of responsible and sustainable business practices, who is covered by the guidelines, how they are supported and how they are enforced. Corporate reporting and boardroom responsibilities are also important elements of the survey.

The survey results will be published in a report in January 2010.

Climate change – important for investors

With rising temperatures and discussions about carbon dioxide emissions as their cause, along with a cohesive political establishment that takes climate change seriously, many governments will take action. These measures combined with the actual effects of global warming on our society will probably impact long-term relative pricing, return and risk not only for various energy sources, but also among companies, industries, regions and asset classes.

Första AP-fonden is therefore engaged in several international environmental initiatives.

Initiatives in the run-up to COP15

As an example, the Fund is one of 177 investors that signed the “Investor Statement on a global agreement on climate change” challenging participants at the UN’s climate conference in Copenhagen in December 2009 to take forceful action on climate change.

Effects on long-term returns

Environmental issues are now so fundamental that various climate change scenarios should be analysed to assess their effect on the Fund’s long-term returns. We therefore decided to participate in Mercer’s Innovative Climate Change Project in which a large number of international pension funds, leading climate researchers and others joined forces to carry out such an analysis.

- For more information please see www.iigcc.org
- For more information please see www.cdproject.net
- For more information please see www.eitransparency.org

CARBON DISCLOSURE PROJECT

Carbon Disclosure Project

For many years, Första AP-fonden has also supported the Carbon Disclosure Project (CDP), an international collaborative project to increase corporate awareness about climate change. As a result of this project, which is driven by 475 institutional investors, the 3,700 largest companies in the world have reported more about their climate strategies and document important key indicators. The CDP is intended to increase the efficiency of the data collection process by a large number of investors collectively signing a joint request for data and reports on emissions of greenhouse gases.



Transparency in the extractive industry

Första AP-fonden also supports the Extractive Industries Transparency Initiative (EITI) to increase transparency in the extractive industries, especially oil companies. Together with some 80 other investors the Fund has given its formal support to the EITI, which sends a signal to countries and companies with extractive operations that shareholders value clear and transparent reporting of revenue. The need for transparency and governance is particularly great in countries with rich natural resources but weak governments. Clearer reporting of revenue in host countries and reports on payments made by the companies increase transparency in society and contribute to better conditions for financial control.

Nomination committees and shareholders' meetings in Sweden

The global financial crisis during the autumn of 2008 and spring of 2009 left its mark on the 2009 AGM season. Most companies reported losses or plunging profits, with order intake at an extremely low level. Many companies turned to shareholders to raise capital through share issues.

In such situations even the owners are tested. Of course Första AP-fonden wants to inject new capital in companies that we believe can use it to enhance long-term value. Before the Fund can contribute capital in a rights issue it must first reallocate the portfolio and sell other assets. A balance must always be achieved to maximize the long-term value of fund assets. The Fund chose to contribute capital in most rights issues since we believed that the companies would be

better equipped to ride out the crisis with stronger balance sheets. We have also worked to limit dividends and stock buybacks – including in the case of SSAB in the autumn of 2008.

During the spring of 2009 Första AP-fonden participated at 33 Swedish general meetings, including three extraordinary meetings (see table online at www.ap1.se). The Fund was also represented at Lundin Petroleum's nomination committee prior to the general meeting in May 2009. With the help of the biggest shareholder – the Lundin family – the nomination committee succeeded in bringing Dambisa Moyo onto the board of directors. She provides the board with extensive knowledge of environmental and social issues, which is extremely important in a company like Lundin Petroleum.

For many years the low percentage of women in the boardroom has been the subject of lively discussion. Since little has happened in recent years we must consider what should have been done and how to improve the situation in the future.

Diversity in the boardroom has always been an important issue for Första AP-fonden. The percentage of women is just one aspect – albeit an important one – of diversity. When taking decisions in complicated matters such as a company's future strategy it is important to step off the beaten path. Old truths must be questioned and not taken for granted. Discussions among people who possess varied knowledge and experience – especially women – could result in totally different perspectives than would arise from a more homogeneous board composition. Similarly, it is important that the composition of the boards change over time, in part because the world in which the companies are active is changing and in part because change provides new perspectives. We are convinced

that both diversity and change in the board of directors will provide companies with greater innovative capacity, which has always been important, but may be even more so today.

What can nomination committees do to change the fact that we have too little diversity and too few women in the boardrooms? First, we need to change the way we view expertise. Second, nomination committees need to engage recruitment firms and be extremely clear about their requirements. It is essential to search outside the usual networks to be able to recruit individuals with other experience to the boards. As shareholders we should also promote increased turnover of directors.

At the same time, the demand for quotas is understandable, so it would be best for the companies and for the shareholders if director appointments could continue to be a shareholder issue. Nevertheless, it is important that change take place quickly, mainly because it would benefit companies and their profitability, but also to avoid a quota law.

Focus on compensation issues



“ We will not approve incentive schemes if we have not seen a thorough assessment before new decisions are taken.

Ossian Ekdahl, Head of Communications and ESG

Executive compensation has been a hot topic at general meetings and other venues in Sweden.

In the middle of the AGM season the Swedish government issued guidelines for how the National Pension funds should vote moving forward with respect to variable pay at companies. The guidelines were not consistent with the Fund's ownership policy and therefore the Fund decided not to vote on this issue at certain AGMs. The Fund later concluded that we will continue to vote for more generous compensation packages than government guidelines permit, as long as they are influenced in the right direction by constructive dialogue with the company.

In an effort to improve incentive schemes at Swedish firms, for the past few years Första AP-fonden has encouraged companies to evaluate the incentive schemes and present this evaluation as documentation to the AGM if continued incentive schemes are proposed. We can conclude that far too few companies responded to our request, though several carried out good evaluations. Moving forward we will therefore drive the question one step further and vote against any incentive scheme that is not preceded by an evaluation.

Rules for making offers for companies

An important issue that the Fund addressed in 2008 and 2009 involved the proposed new takeover rules that were to be included in listing contracts for both Nasdaq OMX Stockholm and Nordic Growth Market. The discussions mainly focused on whether public offers will be permitted to give different prices for Class A and Class B shares.

The Fund and many other institutional investors, both Swedish and foreign, contended that this should not be permitted because allowing different prices would contravene the Swedish Companies Act. In addition, the risk is great that resistance to Class A and Class B shares in itself would increase if Class A shareholders had the opportunity to receive a higher price in an offer.

The Swedish Industry and Commerce Stock Exchange Committee (NBK) later submitted a proposal according to which the price of Class A and Class B shares in offers would be the same in almost all situations. It was incorporated into the listing contract later during the autumn of 2009.

Dialogue with directors crucial

Information from current directors is essential for the nomination committee to do a good job. Only with such information can the nomination committee form an opinion about how to complement the existing expertise and experience of the board of directors. Dialogue with individual directors enables the nomination committee to acquire such information. Expanding the nomination committee by adding more directors in addition to the chair is the wrong path to take. The American form of nomination committee in which the board of directors essentially appoints itself is to be avoided.

Financial institutions in cooperation

Corporate governance in Sweden is underpinned by a good clear Companies Act. Sweden also has an extensive tradition of self-regulation, in which companies and other market stakeholders agree on which rules – in addition to the Act – should apply for Swedish companies and market participants in Sweden. Self-regulation in Sweden is organised via the Association for Generally Accepted Principles in the Securities Market, which has four subdivisions with various duties.

The institutional owners (the Swedish National Pension funds, bank-related funds and insurance company-related funds) are important market participants. The fourteen largest institutional owners have formed the Institutional Owners

Association for Regulatory Issues in the Stock Market. The association is usually referred to as the Owners Association or the Institutional Owners Association. In 2008 and 2009 Första AP-fonden chaired the Owners Association. Cooperation with other shareholders provides better opportunities to exert influence in situations such as the development of the Swedish Code of Corporate Governance. It is especially important for the companies in which the Fund owns shares. It is also important for how the Swedish stock market operates and the confidence that Swedish and foreign investors have in the Swedish market. In the final analysis all of this impacts the return that current and future pensioners can receive on the Fund's investments.



ICGN

International Corporate Governance Network

International Corporate Governance Network (ICGN)

Just as the Fund cooperates with Swedish institutional owners in the Owners Association, we also cooperate with foreign investors. The ICGN, a global network for institutional investors, works to improve corporate governance standards in different countries. The network promotes increased rights for shareholders – large and small – to vote at general shareholder meetings and a stronger position in relation to corporate management. Some of the problems found in the United States in this area are described on pages 13–15. Första AP-fonden has been engaged in several issues, including working on the Shareholder Rights Committee.

→ Read more on the ICGN website www.icgn.org

→ Read more about self-regulation in Sweden at www.corporategovernanceboard.se/

“Cooperation in the owners association provides better opportunities to exert influence on the development of the Swedish Code of Corporate Governance.”

Weak oversight of US CEOs

Oversight and review of executive decisions and management are weak in US corporations. US law does little to regulate how companies manage or organise governance.

It is therefore common for the same person to serve as both CEO and chairman of the board. At large enterprises, almost half (48.6%) of the companies had the same person serving as CEO and chairman. At many other major corporations a former CEO is now chairman of the board of directors. In addition, many directors also come from senior management. As a result of these factors, and the fact that the board of directors decides who will be elected to the board (see sidebar), the CEO has substantial power on the board.

In Sweden, no more than one employee may sit on the board of directors, and the CEO (managing director) is often also a board member. However, the CEO cannot be the chairman of the board of directors. Swedish law also clearly states that the CEO is subordinate to the board (see figure). At Swedish AGMs shareholders also appoint an auditor who has two duties. First, the auditor reviews the annual accounts, which also takes place in US companies. Second, the auditor examines whether the board and the CEO have managed the company correctly, i.e., if they have complied with the relevant laws and with the directives from the shareholders' meeting. In the US, the company's auditor is appointed by the board of directors and does not carry out any management review.



In Sweden the division of roles is clear. The shareholders elect a Board of Directors at the annual general meeting after receiving proposals from the nomination committee, which consists of the biggest shareholders. The Board of Directors then appoints the CEO. The auditors check, on behalf of the shareholders, that the CEO and the Board of Directors performed their duties. In American companies the same person can have multiple roles. American auditors do not work on behalf of the shareholders.

US shareholders have little power

“The shareholders of US corporations do not have the right to submit proposals to the annual general meeting.”

It would be easy to believe that shareholders have great power in the country that is perhaps the strongest defender of capitalism and firmly maintains that government should not grow too strong. However, corporate management holds the real power in American corporate governance, not the shareholders.

In Sweden, the shareholders – large and small – are strong at the annual general meeting. Any owner can submit a proposal to the AGM, irrespective of whether the shareholder owns more than half of the voting rights or just a single share. Of course getting enough votes for the proposal can be difficult, but the right to submit the proposal is provided for by law.

The best way for shareholders to influence the company is to appoint a good Board of Directors that is responsible for the company and accountable to the shareholders. In most US corporations the nomination committee, which proposes new directors, consists of some of the directors from the current board. The shareholders attending the AGM do not get to propose other candidates and a majority vote is not needed. Frequently the chairman of the board also chairs the nomination committee. He (even in the US it is unusual for women to hold the chair) therefore has a great deal of power. Confronting such a powerful chairman is no easy matter.

Shareholders of American corporations do not always have the right to submit proposals to the AGM. In order to submit a resolution a shareholder must have owned shares worth at least two thousand dollars over the past year.

The company can apply to avoid addressing the resolution at the AGM and the Security and Exchange Commission (SEC) then has final authority on whether or not the company must bring up the resolution for a vote.

Excessive executive pay

American boards of directors often have compensation committees with directors who are independent (in practice, not employees of the company). These committees decide about compensation for senior management, including their colleagues on the board of directors. Since the chairman/CEO of the nomination committee can determine which directors will be reelected next year it is not surprising that executive compensation in the US is higher than in most other countries.

In addition to the fact that the chairman of the board in Swedish companies does not have same power as in the US, other regulations also affect compensation. Swedish companies are prohibited from allowing employees (or directors) to receive or buy shares in the company or a subsidiary unless 90 percent of the shares at the AGM vote for the resolution (usually referred to as the

LEO Act). Thus it is incredibly difficult to pay senior management in such a way without it being noticed, which is a contributing factor for lower executive pay in Sweden than in the US.

There have been many regulatory attempts at imposing limits on executive pay. Such regulation frequently fails and sometimes even has the opposite effect. One known example is when the Clinton administration in the US implemented rules limiting executive pay. The ceiling on pay for senior executives was one million dollars. As a result, many CEOs had their salaries raised to the maximum limit and in addition free stock options were introduced as a bonus for senior management. An alternative to such regulations is to strengthen the ability of shareholders to influence compensation levels, as in the case of the LEO Act in Sweden.

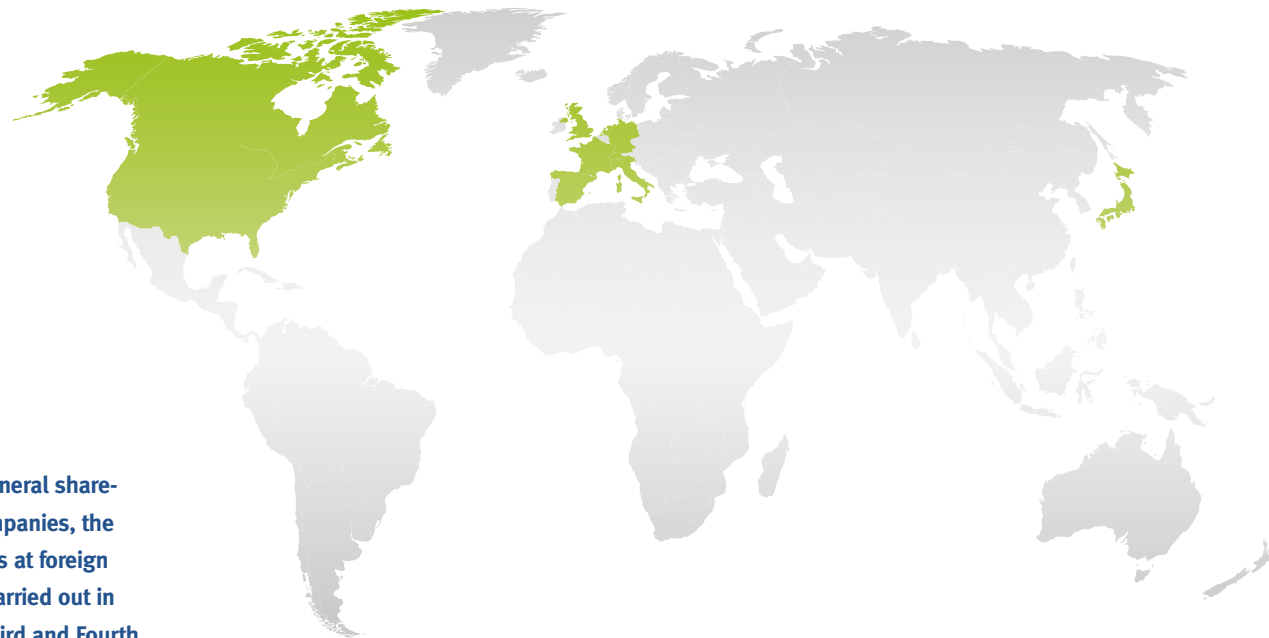
“Första AP-fonden will actively support campaigns to increase shareholder control over executive pay.”

What will Första AP-fonden do?

In 2009 Första AP-fonden carried out a pilot project (described in greater detail on page 16) to vote at general shareholder meetings for foreign companies. The Fund's votes thus become part of the movement in which a growing number of pension funds and other asset managers exert an influence on corporations by voting at AGMs all over the world. Next year we will vote against all cases where the position of CEO and chairman are held by the same person. We also intend to write letters to the chair of all nomination committees in such cases to increase our impact and to contribute to the corporate governance debate in the US.

In many countries, including the US, shareholders have no direct influence on compensation systems. Första AP-fonden will therefore actively support “say-on-pay” campaigns to increase shareholder control over executive pay.

Proxy voting



In addition to participating at general shareholder meetings at Swedish companies, the Fund has also voted at 231 AGMs at foreign companies. This initiative was carried out in cooperation with the Second, Third and Fourth Swedish National Pension funds in an effort to reduce costs. The collaborative effort involves implementation and advisory services related to voting. Each fund decides separately how it will vote on each individual issue. The project is currently under evaluation.

In many countries shareholders have less opportunity to influence companies than in Sweden. Första AP-fonden believes that shareholders who risk their capital to finance companies should also have an influence on them. Giving greater consideration to the opinions and requests of shareholders will enable corporations to take more informed decisions. Many of the problems that caused the financial crisis can be traced to the fact that many financial companies did not act in the best interest of the shareholders. Första AP-fon-

den therefore supports the movement that strives to achieve greater shareholder influence. One important way to support this movement is to apply shareholder influence by voting at general shareholder meetings in all countries.

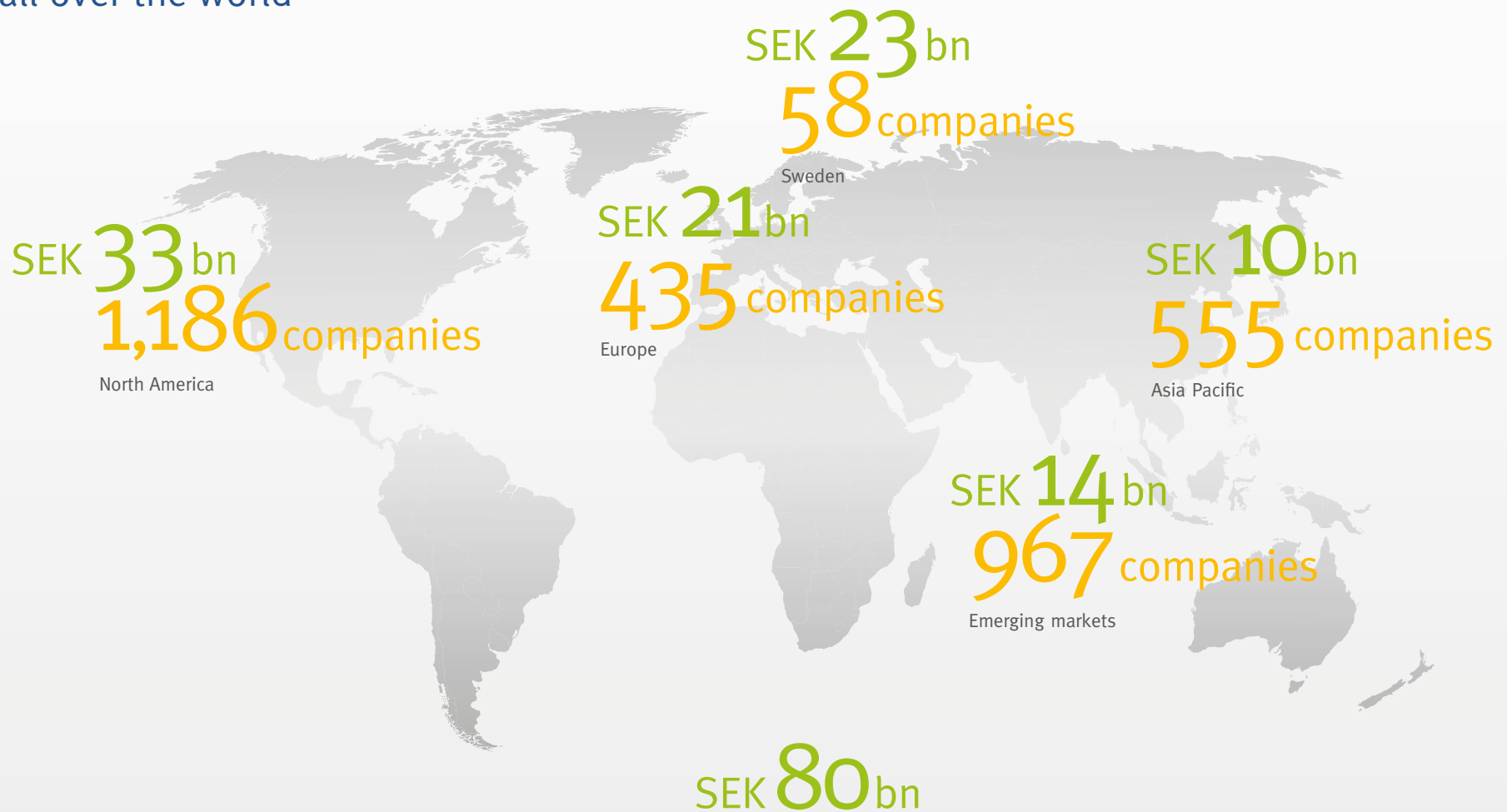
To truly use this influence correctly, it is important to understand how corporate governance works in the markets where the Fund votes. We have therefore chosen to limit the number of countries where we vote to the US, Canada, Japan, UK, Switzerland, France, Germany, Spain, Italy and the Netherlands.

The procedure is relatively complex in many countries and this year our voting has mainly served as an educational exercise to learn how to vote moving forward to benefit the long-term

value of the Fund's holdings. In order to vote cost effectively the voting instructions must be very clear, which is why we clarified our ownership policy (www.ap1.se) at the same time that the instructions were formulated. In addition to activities abroad under the auspices of the Ethical Council, we also participated in a campaign to empower shareholders of Swiss companies with respect to executive remuneration. The initiator of this campaign (Ethos Foundation) received a prize for its efforts from the International Corporate Governance Network (ICGN) in July 2009.

Next year the four Swedish National Pension funds will purchase new services to be able to vote at even more foreign general shareholder meetings.

Första AP-fonden investments are all over the world



Other assets*

* Bonds, private equity and real estate.