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”The Swedish Model” for active ownership

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Sweden in a Nut shell

- Population: 9 m
- Market cap: 425 bn US
- Number of Companies: ~ 300

Top ten

H&M

Eriksson

Atlas Copco

Nordea

Volvo

ABB

SKF

Astra Zeneca

Telia Sonera

Handelsbanken

- Self regulation
- Evolution rather than Revolution
- 90 % of all companies has a majority owner (10 % +)

Families like:

Wallenberg

Persson

Schörling

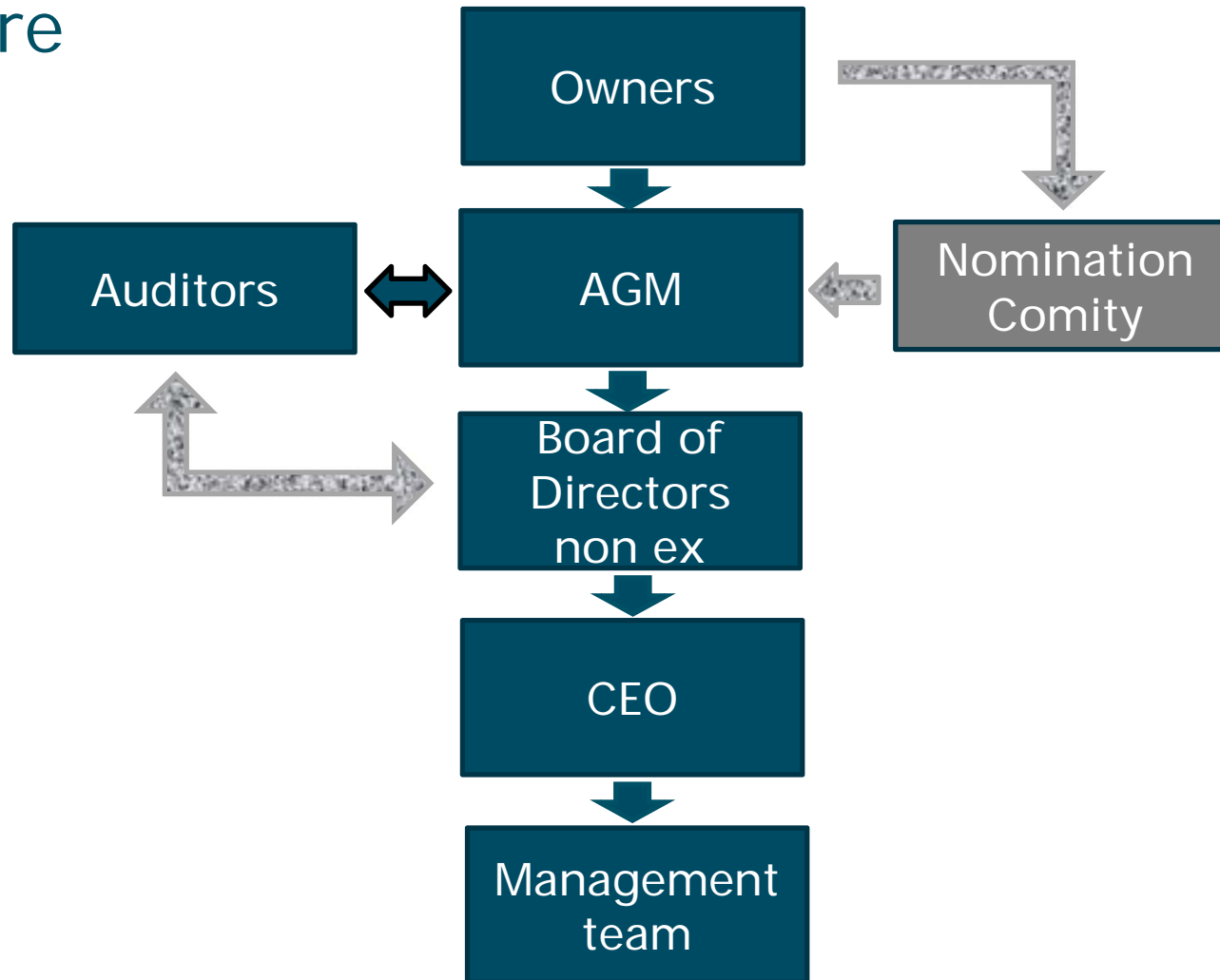
Douglas

Lundbergs

Bennet

Johnson

Structure



Nomination Committees

- 4-5 largest owner
- Chair/CEO gives input to NC
- Annual review
- Proposes new Board of Directors (announced one month ahead)

Problems

- Free rider
- Competence

Key words

- Transparency
- Accountability
- Engagement
- Stability
- Long term horizon

The proof is in the pudding

- Returns
- Remuneration

Governance is not about charity

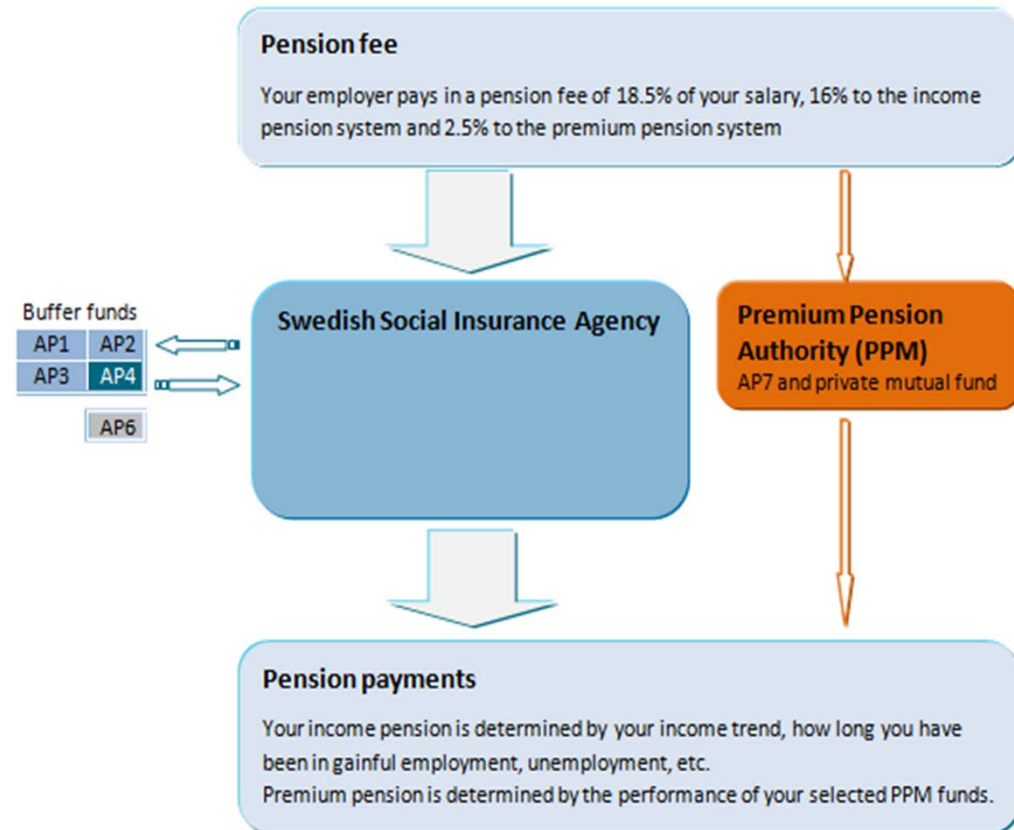


Picture shows Swedish equities vs MSCI world, during 10 years

Pension system

The national pension system consists of the income pension and the premium pension. The income and premium pensions are completely independent of the national budget, and financing is linked to the contributions paid in by employers each month as part of the pension income of employees.

There is a safety net for people who are entitled to a pension but who do not have sufficient income – the guarantee pension. This is financed through the national budget and is independent of the income and premium pension system.



NOMINATING CYCLE

SPRING

Companies usually hold their AGMs in the spring. That's when the meeting elects the company's board of directors. The procedure for appointing the nominating committee is also decided then. The main task of the committee is to submit proposals to the board at the next AGM. All shareholders can submit proposals to the nominating committee regarding suitable candidates for the company's board.

Usually the meeting decides that the committee will consist of the shareholders with the largest holdings at the end of August or September. Sometimes the AGM elects the members of the committee directly. AP4 considers both models workable. The choice of model may depend on shareholder structure or whether the committee has initiated comprehensive change.

SUMMER

The new boards usually hold their first meetings during early summer. The individual members of the board should have become well-oriented in the company's operations so as to make the best contribution from their own expertise and experience.

AUTUMN

At the end of August or September, the three to five largest shareholders are usually asked whether they wish to be represented on the nominating committee. AP4 largely always participates in the nominating committees to which it is invited.

Then the work of the committee takes off. The committee meets with the chairman of the board, who explains how the board works and the key strategic issues the company will be facing. As a rule, the nominating committee also meets with the company's CEO, who presents the company's future strategy, for example. This makes it easier for the committee to find suitable board candidates with the expertise that will be needed by the company's board. The committee performs or receives the assessment of the board and its work. The assessment is sometimes done by outside consultants.

The committee then discusses the composition of the board. Questions that the committee explores include, "How many directors do we need", "What experience and expertise do we already have - and what do we lack", "How smoothly does the board function as a group", "How is diversity on this board".

WINTER

The nominating committee's search for appropriate board candidates begins. A long list of suitable candidates is produced with suggestions from the committee and perhaps from an executive search firm. The shortlist is then drawn up. Potential candidates are interviewed. The nominating committee decides on proposals to the AGM for new members of the board and whether any directors will resign. The proposal is submitted to the AGM for approval.



AP4 at a glance

AP4's brief is to contribute to the stability of the national pension system through managing Fund capital with the aim of generating the best possible return over time.

Goals 2011

Based on its brief, AP4 has formulated two overall goals.

- Total return in real terms – that is, adjusted for inflation – shall average 4.5% per year over a 10-year period.
In real terms 4.5% is, in the opinion of the Fund, the average return required over a 40-year period for the pension system's assets and liabilities to balance in the long run.
- The active return, that is the return in excess of the benchmark index, is to average 0.5 percentage points over a three-year period.

Operations

The Fund is a governmental authority whose operations are regulated in the Swedish National Pension Funds Act (2000:192). The Government appoints all nine of the Fund's Board members. The Ministry of Finance continually supervises and evaluates the Fund's operations. The Fund shall independently formulate its targets and strategies, and by law the Fund's Board of Directors and operations are not to be controlled by Government directives or by national business or other

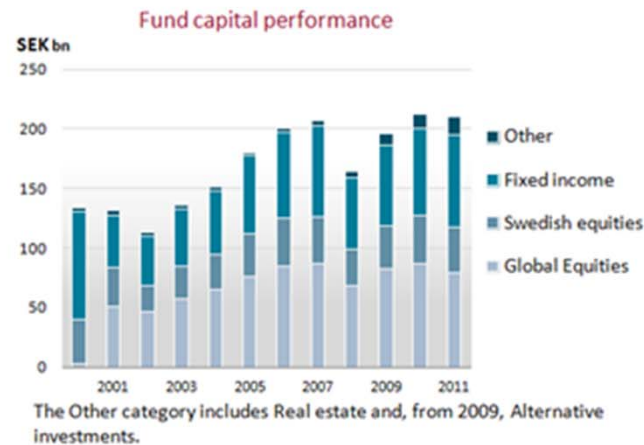
economic policy interests. Environmental and ethical issues must be taken into account without compromising the goal of best possible return

Fund capital

At year-end 2011, Fund capital totalled SEK 210 billion.

The Board has decided that the Fund will best fulfil its long-term asset management brief by holding a large proportion of publicly quoted equities, Swedish and foreign.

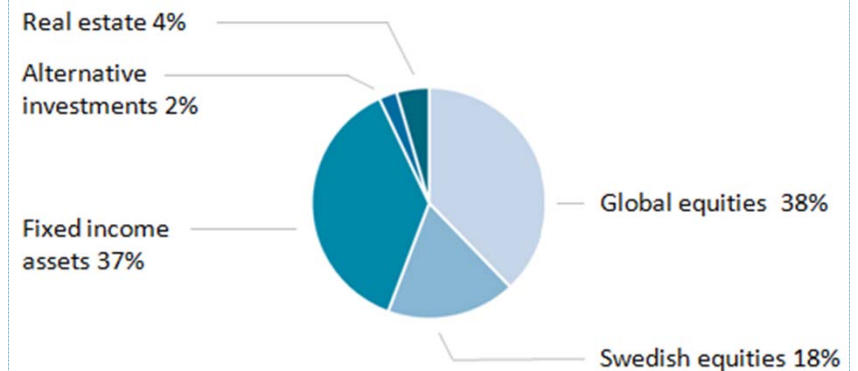
At year-end, equities accounted for 56% of assets. Fixed income securities accounted for 37% of assets. The remaining 7% was invested in other assets such as real estate, private equity funds and other alternative investments.



Key points of 2011

- Fund capital amounted to SEK 210 billion
- Fund capital amounted to SEK 210.0 billion (212.8), a decrease of SEK 2.8 billion (+17.1).
- Total return was -0.7%
Total return was -0.7% (11.0) before expenses Total return after expenses was -0.7% (10.9). The total negative return for the year is mainly due to the weak performance of global stock markets.
- Positive active return for the third consecutive year
The active return outperformed the benchmark index by 0.2 percentage points (0.8) before expenses. This corresponds to earnings through active management of just over SEK 0.4 billion (1.4). It is the third consecutive year in which earnings through active management, following the Fund's reorganisation three years ago, have outperformed the benchmark index, thus making a positive contribution to earnings.
- Management expenses remain competitive
The Fund's management expenses were SEK 179 million (176), which equates to an operating expense ratio of 0.084% (0.087). Including commission expenses, the corresponding figure is 0.095% (0.102).
- The Fund's foreign exchange exposure was 25.7% (19.8) at the close of the year
- The Fund's net outcome for the year totalled SEK -1.6 billion (21.2)
- The Fund paid out a net amount of SEK 1.2 billion (4.0) to the pension system in 2011

The Fund's investment assets, 31 Dec 2011



AP4's investment assets predominantly consist of listed equities and fixed income corporate bonds. The allocation includes underlying values for various derivatives, which are used to continually maintain the desired asset allocation. The figures above are correctly rounded, and hence do not sum up to 100%.