



Council on Ethics
Swedish National Pension Funds

Annual report 2017

Sustainable ownership through dialogue and engagement



Contents

PAGE:

5–6 STATEMENT FROM THE CHAIR
AND SECRETARY-GENERAL

6–7 OUR OPERATIONS

8–22 COMPANY DIALOGUES

23–26 INDUSTRY DIALOGUES IN 2017

27 OVERVIEW OF 2017

28 DIALOGUES IN 2017

29 INTERNATIONAL COLLABORATION

30–31 TEN YEARS OF THE COUNCIL ON ETHICS

32 CORE VALUES FOR SUSTAINABILITY AND
CORPORATE GOVERNANCE

33 THE UN'S SUSTAINABLE DEVELOPMENT GOALS –
INTERVIEW

34 MEMBERS OF THE COUNCIL ON ETHICS

35 THE AP FUNDS IN BRIEF



21



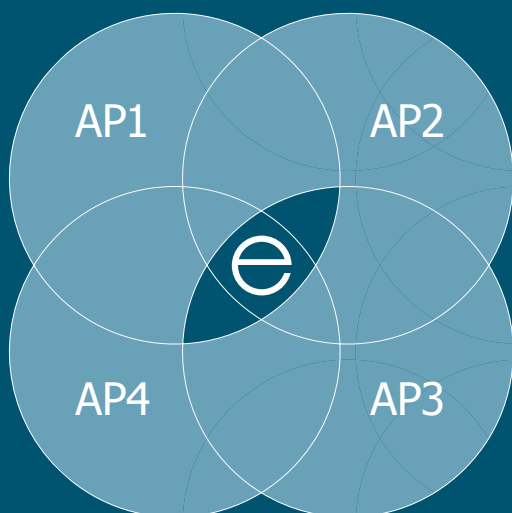
16



13



8



A collaboration for dialogue and engagement

The Council on Ethics is a collaboration between the First, Second, Third and Fourth AP Fund which conducts dialogue aimed at encouraging companies to pursue improvements and thereby better investments.

The AP Funds have a mandate from the Swedish Parliament to create a high return at a low risk for current and future pensioners, which contributes to the stability of the income pension system. The Council on Ethics works to contribute in a positive way to the AP Funds' long-term returns by encouraging corporate social responsibility in business regarding environmental and social issues.

Commitment – the key to development

The Four AP funds are long-term, responsible and committed owners, that want to encourage the companies to take responsibility. It is the AP Funds' view that, over time, well-managed companies provide higher returns at lower risk. The collaboration in the Council therefore aims to contribute in a positive way to long-term returns by exerting influence on companies and industries to pursue sustainable value creation. The Council on Ethics cooperates with regard to the companies in the Funds' portfolios of listed equities, especially the non-Swedish holdings. Commitment is the key to positive development.



We aspire to make a difference. We seek to exert influence on companies all over the world in regard to sustainability issues, human rights, ethics, the environment, issues of great importance to people and society. Issues which can destroy or create value for companies.

We use dialogue to get companies to adopt proactive measures and to deal with incidents. This is how we can mitigate and prevent problems and accidents in a range of companies and industries.

And this is how we perceive we can contribute to sustainable development and importantly, sustainable pensions for current and future pensioners.

Ten years exerting influence through dialogue

2017 was an eventful year for the Council on Ethics of the AP Funds, featuring its 10-year anniversary, a trip to Brazil for investors, new dialogues commenced and others completed. Peter Lundkvist, Chair of the Council on Ethics in 2017 and Head of Corporate Governance at the Third Swedish national Pension Fund, and John Howchin, Secretary-General of the Council on Ethics Swedish National Pension Funds, look back on the year gone by.

The primary aim of the Council on Ethics is to influence and contribute to the sustainability work of its portfolio companies. What have you focused on during 2017?

Peter Lundkvist: We've continued to focus on core activities, pursuing reactive company dialogues as well as proactive measures. Our proactive work has grown in importance. For example, in recent years we've become engaged in the mining industry and sectors such as palm oil, cocoa and tobacco.

John Howchin: Anti-corruption is another important area. While visiting Brazil in June, I met representatives of companies involved in the "Java Lato" car wash scandal, possibly the biggest corruption scandal in modern times (read more on page 6). It was disheartening to see how many leading politicians and officials were involved in the incident. There is actually enormous potential for growth and enterprise in Brazil, but if this is to be fully realised, the nation must get to grips with its deeply rooted corruption.

2017 marked the Council on Ethics' 10-year anniversary, with both Al Gore and Johan Rockström as speakers. Tell us more.

Peter: We arranged two seminars on very important issues, including one on the challenges faced by climate change and the potential solutions which the financial sector can provide. The speakers were the former Vice-President of the USA and 2007 Nobel Peace Prize winner Al Gore and Johan Rockström, Professor of environmental science at the University of Stockholm and director of the Stockholm Resilience Centre. The seminar was warmly received and really worthwhile, and both men spoke of their respect for the work of the Council on Ethics.

John: We held another event focusing on how best to take human rights into account in business activities. BHP Billiton, the world's largest mining company, and H&M, one of the world's largest clothing enterprises, were invited to take part in a joint discussion. The CEO of the Business & Human Rights Resource Centre was also in attendance. The Council on Ethics plays an important role in spreading knowledge and experience through seminars such as these.

Broadly speaking, there are high expectations for the AP Funds and the Council on Ethics to take a leading role on sustainability issues. How do you see your mission and the challenges you face?

John: 2017 marked ten years since the First, Second, Third and Fourth AP Fund founded the common Council on Ethics. The aim was, and remains, to encourage companies to operate more sustainably. The premise is that over time, well-managed companies provide higher returns at lower risk.

Peter: Today, sustainability is a basic pre-requisite for companies as well as long-term asset owners and asset managers. This being the case, asset managers have different missions, and it can be difficult to apply sustainability issues to the financial decisions which are taken. The long-term mission of the AP Funds is consistent with the achievement of long-term sustainable growth in value with regard to environmental, social and corporate governance factors.

New corporate events associated with various sustainability issues are constantly being reported. How does the Council on Ethics prioritise such events?

Peter: Our point of departure is always the mission of the AP Funds and our common core values on sustainability. Moreover, we try to choose companies for dialogue based on the Funds' holdings, focusing on the areas where we believe we can exert influence. Corruption is an example of an area which requires a broad consensus. During 2018, we hope to launch a large global project together with other investors through the United Nations Principles for Responsible Investments network (PRI).

John: As part of our ongoing work, we've also embarked on a long-standing collaboration with GES Investment Services in regard to monitoring, analysis and engagement.

What is the position of the Council on Ethics regarding the 17 UN Sustainable Development Goals (SDG), which have received such broad global support?

Peter: The UN's Sustainable Development Goals are orientated towards nations, and the AP Funds and Council on Ethics naturally supports development objectives which can offer guidance to companies, their owners and other stakeholders who are working to improve sustainable development.

John: Last year, we made a joint announcement alongside some of Europe's largest pension funds – Netherlands based PGGM, APG, ABP, bpfBOUW, SPW, MN, Actiam and Kempen Capital Management – about the importance of institutional investors investing in solutions which support the development goals. This cooperation actually received the Responsible Investor Award.

What's the global outlook with regard to child labour, another area in which the Council on Ethics is engaged?

Peter: We're currently seeing progress made around the world. Child labour also relates to one of the UN's global sustainability goals. As part of the implementation of the United Nations Guiding Principles on Business and Human Rights (the Ruggie principles), the Council on Ethics will continue to focus on child labour.

“The long-term mission of the AP Funds is consistent with the achievement of long-term sustainable growth in value with regard to sustainable development.”

Peter Lundkvist

“The procedure of the Council on Ethics leads to more sustainable companies, which is the aim of the AP Funds.”

John Howchin, Secretary General



John: Following reports of systematic child labour in tobacco cultivation, we became involved in the work of tobacco manufacturers in 2017. There is an initiative developed by the cocoa industry aimed at curbing child labour which is now being applied by tobacco farmers to a growing extent. It's a good start, but there's a long way to go.

A new legislative proposal on the AP Funds' operations is currently being drawn up, and may be presented in 2018. What's your view of the parts relating to sustainability?

Peter: The new proposal, which is not yet finalised, includes amended investment rules for the AP Funds as well as a requirement on exemplary management through responsible investment and ownership. The AP Funds have for quite some time worked actively on adopting methods to integrate environmental, social and corporate governance considerations into the management of buffer capital. We believe we already operate in an exemplary fashion, but look forward to making further improvements.

John: The common core values developed by the AP Funds through the Council on Ethics are a case in point. They ensure the Funds operate in line with the principles of commitment,

action and demand for change in order to make a difference. Above all, this involves identifying companies associated with violations of the international conventions ratified by Sweden, and pursuing dialogue and other means in order to exert influence on companies to take issue with violations. We also work with proactive measures.

And finally, what's in the pipeline for the Council on Ethics in 2018?

John: We'll continue working to ensure the companies in which the AP Funds invest operate on long-term, sustainable lines. Among other things, we hope to continue working together with other investors on combatting corruption, working conditions and child labour alongside leading companies in a range of sectors. There's considerable momentum behind this issue.

Peter: It'll also be intriguing to follow the progress of the new legislation on the AP Funds.

Finally, I'd like to thank John and my colleagues from the other AP Funds for their fantastic contributions during the Council's first 10 years. I'd also like to wish the best of luck to Pia Axelsson, of the Fourth AP Fund, who is taking over as Chair of the Council on Ethics in 2018.

Sustainable ownership through active company dialogues

The four AP Funds invest globally in diversified portfolios comprising several thousand companies. The AP Funds often have very small shareholdings in these companies. The Council on Ethics of the AP Funds applies a systematic process in order to focus dialogues on the companies where they will have the greatest benefit. This process also helps ensure an even spread across various holdings and sustainability issues.

The Council on Ethics' work process

The Council on Ethics contributes to reducing risk and increasing the long-term returns from the AP Funds' investments. The work of the Council on Ethics is based on the principles of commitment, action and change, where the objective is to be long-term, responsible, committed owners. It is through our commitment as owners that the AP Funds can influence companies to run their operations in a long-term sustainable way.

The mission of the AP Funds

The mission of the First, Second, Third and Fourth AP Fund is to create high long-term returns at low risk, thereby contributing to secure the pensions for current and future Swedish pensioners. It is the view of the AP Funds that long-term high returns at low risk can be achieved when there is an inherent commitment to sustainability in the business, both within the organisation and in the investment process.

The framework of the Council on Ethics and AP Funds is key:

- The Swedish constitution.
- UN international conventions which Sweden has ratified.
- International guidelines that Sweden supports, for example, the UN Global Compact, ILO and OECD guidelines for multinational companies.
- Sweden's position on international legal issues.

Objectives

The Council on Ethics works to contribute to the AP Funds' long-term returns by encouraging corporate social responsibility in business as regards environmental and social issues. This is done through systematic, structured and transparent work sustainability.

Ongoing screening of the AP Funds' corporate holdings

Systematic business intelligence of around 3,400 companies. Other investors, trade associations, media and UN bodies are among the sources of ongoing screening.

Inclusion of companies

The Council on Ethics recommends the AP funds to reinclude the companies in their investments portfolios if the funds wish to do so.

Dialogue has the desired effect. The company is under observation for four years.

Recommendation on exclusion

Where dialogue does not have the desired effect, the individual Fund determines whether the holding is to be excluded after recommendation from the Council.

Reminder letter

Reminder issued to excluded companies. A letter is sent, opening the door to further dialogue.

Different types of dialogue



Positive dialogues

A proactive dialogue that the Council on Ethics has conducted with a company during the year or a dialogue relating to an incident that the company addressed adequately during the year.



Unresolved issues

A dialogue the Council on Ethics has conducted during the year due to an incident that occurred, or where the company is part of a proactive project and where the Council believes the company has steps yet to take. As a result, dialogue with these companies will continue.



Time-limited dialogue

A dialogue with a company where violations of a convention are verified. This company dialogue is time-limited and should last a maximum of four years. If the dialogue has not led to improvement after this period, the Council on Ethics recommends the AP Funds to divest the company. There were two such companies at the end of 2017. ✖

In-depth review

Around 300 companies are audited in-depth annually for alleged violations of international conventions.

Selection of companies for initial dialogue

Where the issues are significant and well-documented, dialogue is planned with around 40 companies annually. The Council on Ethics prioritises and allocates resources.

Dialogue commences

Description of how dialogue is progressing. Dialogue may continue for several years in cases where the Council on Ethics believes the company must adopt further measures.

Further steps to exert pressure

Further steps are taken to exert pressure, often in cooperation with other investors, by submitting shareholder proposals at AGMs and voting at AGMs.

The AP Funds' company holdings around

3,400

The AP Funds invest both domestically and globally.

Outcome – developed companies

“The point of departure and conviction of the AP Funds and Council on Ethics is that dialogues are the best way of influencing and effecting change in companies. This course of action will give better investments in the long term.”

*John Howchin, Secretary-General,
Council on Ethics of the Swedish
National Pension Fund*



The fight against corrupt

In 2017, several new corruption scandals around the world were revealed. The Council on Ethics went on a trip to Brazil. During the visit, the Council followed up on the anti-corruption work with companies involved in one of the worst corruption scandals the world has ever witnessed – the ‘java lato’, the car wash scandal, which was exposed in 2014 and involved large parts of the private business sector as well as the political elite of the country.

Facts

Region: Brazil
Topic: Corruption
Agenda 2030:



In 2014, a former executive of Petrobras, a Brazil company specializing in the oil, natural gas and energy industry, admitted in a Brazilian court the existence of a kickback scheme between 2004 and 2012, commonly referred to as “Operation Car Wash”. A large number of Petrobras’ suppliers and contractors were found to use funds received in contracts for the supply of goods and services to make illegal payments to political parties, political agents, former Petrobras employees, and others involved in the scheme.

In April 2015, the first people were convicted and many more verdicts have been reached since then, related to former executives of, among other companies, Petrobras, Odebrecht,

Braskem and a subsidiary of Eletrobras. Several top Brazilian politicians have also been convicted and investigations have spread to include parts of the economic and political elite in other Latin American countries.

In late 2016, Braskem together with Odebrecht agreed, in a US federal court, to pay at least USD 3.5 billion in fines, the largest penalty ever in a foreign bribery case, to resolve international charges involving payoffs to Petrobras and government officials around the world. Braskem and Odebrecht pleaded guilty of conspiring to violate a US foreign bribery law. The two companies used a hidden, but fully functioning, Odebrecht business unit to systematically pay hundreds of millions of dollars in bribes.



ion continues

Both Odebrecht and Braskem have agreed to continue to cooperate with authorities, implement compliance improvements and become subject to oversight by external monitors. The external monitors have now been appointed. Braskem, Odebrecht, Petrobras and Eletrobras have all made substantial improvements of their ethics and compliance systems. This was evident when the Council on Ethics met with these companies in Brazil in June 2017.

JBS - corruption and poor working conditions

During this trip, a meeting was also held with the meatpacking company JBS, which is associated with a separate widespread corruption scheme in Brazil. JBS' then-chairman and then-CEO, have under the course of several years allegedly authorised payments to some 1,900 agricultural inspectors and politicians – including the Brazilian president – to gain different favours. With five other executives, they entered into a plea bargain agreement in May 2017,

receiving a fine of USD 69 million and agreeing to pay an additional USD 3.2 billion over the next 25 years as part of a separate leniency deal with the Brazilian prosecutors.

The Council on Ethics also endorsed a collaborative letter to the company with some 30 other investors, underlining the international concern over its weak board and management oversight of a number of material issues.

Further dialogue is needed to improve corporate governance at all these companies, as well as strengthened work environment due-diligence in production, disclosure and third-party verifications of the ethics and compliance measures taken.

The companies also need to join forces with industry peers to enhance the anti-corruption agenda in Brazil and find a new way of doing business, free from corruption. This is a challenge for the whole of Brazil, including the political system and will take a long time to address.

Advancing health and safety in meat processing industry

JBS, the world's largest meat producer and Pilgrim's Pride (Pilgrim), the second-largest chicken producer in the world, have been repeatedly fined by the authorities for health and safety breaches and accused of poor working conditions by NGOs. At the same time, their related disclosure has been minimal. Given the elevated risk profile of the meat processing industry and the companies poor track record, the Council on Ethics has been calling on the companies to demonstrate how they assess and manage health and safety issues.

Facts

Dialogue: Time-limited →
Region: USA, Brazil
Topic: Working environment, corruption
Agenda 2030:



The Council on Ethics' engagement efforts continued in 2017, and has resulted in a positive momentum as Pilgrim opened up to constructive dialogue and issued its first sustainability report. The company provided the Council with detailed and practical information about its health and safety policies and processes, and indeed its approach appears to be more advanced than the lack of public disclosure thus far might imply. The Council is also encouraged

by the fact that Pilgrim has clearly acknowledged the need to improve health and safety and other employee-related issues in its facilities, and made an action plan to prevent accidents and occupational disabilities.

Nevertheless, the company now needs to systematically follow through with these plans and implement a safety culture that proactively and consistently protects the employees. The Council on Ethics will carry on with the dialogue to ensure that Pilgrim's health and safety performance, as well as the related reporting, will continue on a trajectory of improvements.

Call for enforcement of sustainability standards across the JBS Group

The related engagement with Pilgrim's mother company JBS will also continue. Apart from the reported problems at Pilgrim, other subsidiaries of JBS have also been found by the authorities to have breached labour standards both in the USA and Brazil. The Council on Ethics is concerned about the lack of oversight at the group level that this might indicate, and has been in dialogue with JBS to seek reassurances about appropriate risk management and enforcement of standards across the business.

In a meeting in São Paulo, Brazil, in June 2017, JBS' various ESG problems were discussed and among other things the company outlined its approach to health and safety issues as regards its Brazilian operations. JBS has separately elaborated further on its health and safety measures both on the group and unit level, but partly due to JBS's aggressive expansion strategy it appears that significant gaps remain.

The Council on Ethics expects JBS and Pilgrim's Pride to implement and secure a well-functioning anti-corruption system and a functioning health and safety approach, which is in line with relevant ILO conventions regarding workplace safety.





Combating corruption in the oil industry

Based on serious allegations of corruption, the Council on Ethics continued its dialogue with the oil and gas companies Royal Dutch Shell (UK) and Eni Spa (Italy) in 2017, two of the global 'oil majors'. The engagement aims at ensuring that the companies' code of conduct, due diligence and risk management processes in the areas of acquisitions and divestments are robust and universally applied.

Facts

Dialogue: Unresolved issues →

Region: Great Britain, Italy

Topic: Corruption

Agenda 2030:



Based on a report from the NGO Global Witness the central issue is Royal Dutch Shell's and Eni Spa's involvement in a USD 1.1 billion transaction in 2011 to secure access to an oil block offshore of Nigeria, OPL 245. The two companies made the payment to the Nigerian government, but it is alleged that the companies had known at the time that the money would be transferred to another company - Malabu Oil & Gas, a company controlled by a former Petroleum Minister of the country. Italian prosecutors investigating Eni's involvement in the deal have since alleged that at least half of the USD 1.1 billion was used to bribe local politicians, intermediaries and others. In February,

Italian prosecutors charged both Shell and Eni corporations with international corruption.

The Council on Ethics met with Eni in Rome in a meeting that focused on its anti-corruption compliance system, due diligence and joint initiatives with oil and gas companies and other stakeholders. The engagement with Shell also continued in 2017, seeking out details of the company's own internal investigation and its contingency planning – in case legal proceedings go against it. Looking ahead the Council will keep a close eye on the litigation affecting the two companies in Italy, and continue engaging with them to strengthen their anti-corruption framework.



Engagement to build a sustainable corporate culture

The engagement with Samsung Electronics (Samsung) was initiated already in 2015 due to allegations on corruption, and reports on improper labour conditions in the supply chain. During the course of the dialogue, several improvement measures have been taken by the company but many issues still remain to be solved to ensure a more sustainable corporate culture.

Facts

Dialogue: Unresolved issues →
 Region: South Korea
 Topic: Corruption, working conditions
 Agenda 2030:



In February 2017, the vice chairman of Samsung was arrested and charged with corruption involving the later impeached president of South Korea. It was alleged that donations were made to win government support for a restructuring of Samsung and strengthening of control over the company. Allegations were denied by the vice chairman as well as the company, but in August 2017 the vice chairman was found guilty and sentenced to five years in prison.

The Council on Ethics has previously raised questions with Samsung about the company's handling of corruption. Samsung has answered some of these concerns, and introduced more stringent and transparent procedures for reviewing and approving donations in February 2017. While these introduced measures are positive, the ensuring of proper implementation and monitoring of anti-corruption policies

will be key going forward. Given the gravity of the recent bribery scandal, the company has a long way to go to ensure that a new corporate culture is established.

Another focus of the dialogue with Samsung has been the handling of working conditions in Samsung's factories in China. Samsung has strengthened its monitoring and systematic auditing in both its own operations and its supply chain, which was one of the main issues at the outset of the dialogue. Samsung also has enhanced its reporting over the years as well as published more detailed policies on the most important ESG issues. However, whilst the Council on Ethics has seen improvements in Chinese operations, new allegations have arisen of improper labour practices in other countries, such as Malaysia and Vietnam.

The Council on Ethics will continue to engage with Samsung on all of these issues.



Fatal accidents and corruption behind dialogue with Chinese railway company

The Council on Ethics has engaged with China Railway Group (CRG) since 2013, following reports of recurring fatal workplace accidents and regarding allegations of corrupt practices in public tenders in China. Two new workplace accidents occurred in 2017, of which one involved fatalities. In addition, two former employees were sentenced for corruption and one prosecuted, altogether driving the Council to continue its engagement with CRG.

Facts

Dialogue: Time-limited →

Region: China

Topic: Corruption, working conditions

Agenda 2030:



CRG has been subject to public attention for several years due to the company's involvement in serious sustainability incidents. Two workplace accidents, in the provinces of Gansu and Shanxi, occurred in 2011 and 2012, caused by inadequate safety measures and resulting in 20 fatalities. During the engagement, CRG stated that it learnt from experience and updated its procedures. A 'zero accidents, zero deaths' policy was implemented as well as safety training programs, although differing from subsidiary to subsidiary.

Another accident occurred in May 2017, this time on a construction site in Jinan City, Shandong, operated by a CRG subsidiary, China Railway No.10 Engineering Group. In this accident six people died. In addition, in June 2017, the Sigiri Bridge in Kenya, constructed by CRG's subsidiary COVEC, collapsed and injured over 20 people.

Due to these recurring workplace accidents, the Council expects CRG to implement and

secure a health and safety policy in line with relevant ILO conventions regarding workplace safety. As part of the dialogue, the Council also encourages implementation of a well-functioning anti-corruption system.


In 2014 there were press reports about CRG's senior employees having paid bribes to officials from the railway ministry and administration in the years 2005-2011. There were no official verdicts as trials were classified. CRG denied any involvement in corruption. While CRG has dedicated department and anti-corruption policies, it refuses to share them because of state regulations. In 2017, two now former senior managers at CRG subsidiaries in China, were sentenced to prison for bribery, and one person has been prosecuted. This indicates that the company should improve its internal control mechanisms and implement its "zero tolerance" policy across its operations. The engagement with CRG continues.



The Council follows up on Fundão

The Fundão dam collapse in November 2015 is by far Brazil's largest environmental disaster through time. The catastrophe had extensive environmental and social impacts along the 600 km length of the Rio Doce. Since then, the local operator Samarco Mineração (Samarco) and its two joint venture owners BHP and Vale have undertaken many notable improvements, which were observed first-hand during an investor trip in June 2017.

Facts

Dialogue: Commenced 
 Region: Brazil
 Topic: Human rights and environmental issues
 Agenda 2030:



The Renova Foundation was set up in August 2016 to take over the management and execution of the socio-economic and environmental remedial programmes. This is part of the March 2016 Foundation Agreement signed between the three companies and the Federal Government, the Minas Gerais and Espírito Santo state governments and the Attorney General. Up to now, 40 of the 41 socioeconomic and environmental programmes in the Agreement have started.

The Renova foundation has carried out extensive work along the Rio Doce River, especially the first 50 kilometers where the tide did the most damage. Through detailed maps, the river banks can be returned to its original condition thus improving water quality in the river.

The foundation is also working on a regular basis with locals along the river for their everyday life return to what it was before the accident.

Initiatives to prevent future disasters

Samarco, a Brazilian mining company founded in 1977, has completed the construction of two dams to retain the remaining deposited tailings, and two further dams to act as sediment traps. The first three structures are within the Santarem valley, with the fourth immediately downriver of the former settlement of Bento Rodrigues. Samarco has also developed a monitoring system, which includes full-time (24/7) visual and instrument monitoring.

BHP is headquartered in Australia and has more than 60 000 employees and contractors



dam collapse remedial activities

worldwide. The company has completed its own internal dam review with all the outstanding actions completed during 2017. It has also centralised its tailings management expertise. In addition, all of BHP's non-operated joint ventures are managed together under a new division based in Santiago, Chile.

Vale, a Brazilian corporation and one of the world's largest mining companies, has completed two dam reviews – one by Vale's Iron Ore Division, and one by Vale's Base Metals Division following the 2014 Imperial Mines Mt Polley collapse in British Columbia. Although, Vale has no centralised tailings management body, the geotechnical departments are now in regular contact in order to share best practice. Vale has also stated its goal of reducing the amounts of wet tailings at their operations from 60 percent in 2016 to 30 percent by 2025 through the use of dry stacking.

Status of settlements

The settlements of claims between BHP and Vale and Brazilian authorities are still ongoing. Since the Council's June 2017 visit, the situation with the three settlements of towns to be relocated is as follows:

- Bento Rodrigues – although the community agreed on a settlement plan, the local authority has requested amendments. Once completed and following community consultation, a second vote will be held in. Then licenses and approvals will be sought before construction can commence.
- Paracatu – the community is voting on their settlement plan in the last quarter of 2017. Once again licenses and approvals will need to be obtained before construction starts.
- Gerais – the process had stalled however, and the land-owner has recommenced negotiations with the Foundation to secure land for the eight affected families.

Lastly, the companies have been negotiating with the Public Prosecutors office since January 2017, in order to seek an agreement on the remedial actions to be undertaken and to settle their ongoing compensation claims. The Council on Ethics will continue to monitor the implementation of the socioeconomic and environmental programmes.






Continued improvements of labour rights in Thai fishing industry

The multiannual engagements with Nestlé and Thai Union Group (TUG) continued in 2017, focusing on the companies' efforts in addressing labour and human rights issues in their supply chains in Thailand. During the year, Nestlé initiated several activities to enhance the traceability in its supply chain. TUG launched a new strategy for sustainably sourced tuna.

Facts

Dialogue: Positive 
 Region: Thailand
 Topic: Working condition, human rights
 Agenda 2030:



Nestlé, the world's largest food and beverage company, informed about the ongoing cooperation with its main suppliers with regard to traceability enhancement. Nestlé had also engaged Verité and Issara Institute to continue their education programme among migrant workers with the assistance of a demonstration vessel where best practice on numerous issues is described.

Nestlé aims at reducing or eliminating the use of seafood that has been moved by fishing companies from one vessel to another, a practice that enables ships to stay at sea longer but also makes traceability more difficult. The process provides an opportunity for vessels to unload illegally caught seafood into supply chains, and allows ships to conceal abuses against crew members away from the port. Nestlé bans its suppliers from resorting to transshipment at sea. In 2018, Nestlé plans, together

with the Forest Trust, to deploy a responsible recruitment programme.


Progress was also seen with TUG. During 2017, the company, regarded as the world's largest producer of shelf-stable tuna products, launched 'Sea Change', a microsite focused on four pillars: safe and legal labour, marine conservation, responsible sourcing and caring for people & communities. TUG also started implementing a strategy to ensure that 100 per cent of its branded tuna is sustainably sourced, with the commitment to achieving a minimum of 75 per cent by 2020. As part of the new tuna strategy, TUG is investing USD 90 million in initiatives that will increase the supply of sustainable tuna. This includes establishing 11 new fishery improvement projects around the world. The Council intends to continue engagement with Nestlé and TUG during 2018.



Dialogue regarding the Dakota Access Pipeline

Following the UN Special Rapporteur's reports on the rights of the indigenous people, the Council on Ethics has engaged in dialogue with Phillips 66 and Enbridge Corporation - main partners of the Dakota Access Pipeline (DAPL), which transports crude oil from North Dakota to Illinois.

Facts

Dialogue: Unsolved 
 Region: USA
 Topic: Human rights
 Agenda 2030:



The ownership of a larger area around the tribe reserve is historically disputed. It was defined as tribal land in an 1851 treaty between indigenous tribes and the US government, but afterwards expropriated by the latter.

DAPL began commercial service on 1 June 2017. The pipeline is developed and run by Energy Transfer Partners LP, a subsidiary of Energy Transfer Equity LP. None of the AP Funds holds shares in that company. The main other partners include Phillips 66 and Enbridge Energy Partners LP, an affiliate of Enbridge Corporation.

Already in September 2016, the UN Special Rapporteur on the rights of indigenous peoples called on the US to halt the construction of DAPL. The Special Rapporteur indicated that the construction posed a significant risk to the drinking water of the tribe and threatened burial grounds and sacred sites.

DAPL has been approved by regulatory agencies in all four states where the pipeline

is operating, as well as by the US Army Corps of Engineers (Army Corps), the US authority which issues permits for the part of the pipeline crossing federal land. However, there have been several controversies and criticism related to the federal permit process for the project.

In an ongoing US court case, where Standing Rock is challenging the Army Corps to conduct an environmental review of DAPL, the court expressed a willingness to consider restrictions or measures to protect the tribe while pipeline operations continue, and invited further briefing on the matter. This might open up for a reconciliation dialogue between the parties.

The Council on Ethics is also pleased to see that both Phillips 66 and Enbridge Corporation are reviewing their processes to better incorporate a respectful consideration for indigenous people affected by company operations or investments. The Council will continue its dialogues in 2018.



Constructive actions conclude dialogue with French construction company

In 2017, the Council on Ethics decided to end its engagement with Vinci, a French construction company, as a result of the sustainability measures taken by the company. The dialogue was initiated in 2015 based on allegations of improper labour conditions in QDVC, a Qatari joint venture.

Facts

Dialogue form: Resolved →
 Region: Qatar
 Topic: Human rights
 Agenda 2030:



Vinci employs 183,000 people in around 100 countries, and has been operating in Qatar for a number of years. The company owns 49 per cent of QDVC, which has won numerous infrastructure projects in Qatar. In 2015, Sherpa, a French NGO, accused QDVC of committing several labour rights violations in Qatar, including poor working and living conditions, bonded labour, confiscation of workers' passports and threats to workers who were demanding better working conditions. To follow up on allegations, Vinci appointed BSR in October 2015 to audit its operations in Qatar. BSR is a global nonprofit organization focusing on sustainability strategies and solutions. The outcome of the audit results were shared in December 2015.

BSR's audit outcome showed that despite a challenging context, QDVC had good systems in place but identified gaps in the company's systems relating to workers' payment of ille-

gal recruitment fees and a number of subcontractors' practices. The company remedied the gaps. In addition, following Vinci's collaboration with NGOs and the Bangladeshi government, the company was able to recruit 900 Bangladeshi workers without the workers having to incur unnecessary recruitment fees.

Vinci has adopted a human rights policy in line with the UN Global Compact and the basic ILO conventions on labour rights that is applicable to its operations worldwide and throughout its supply chain. In addition, the company has put appropriate systems in place to ensure that the policy is implemented in all of its operations.

As a result of the company's initiatives, the Council on Ethics has decided to end its engagement with Vinci. Monitoring of further developments in relation to the human rights policy implementation will however continue.

Dialogue to preserve the local ecosystem of Mundra, India

Facts

Dialogue form: Resolved →

Region: India

Topic: Environmental

Agenda 2030:



Adani Ports and Special Economic Zone Limited (APSEZ) has been associated with the destruction of the ecosystem in Mundra, India, including the destruction of 75 hectares of mangroves and associated loss of livelihood of the fishing community. The dialogue with APSEZ was initiated in 2015. In 2017, APSEZ shifted its attitude towards the engagement efforts, and agreed to discuss the issues related to the Mundra project.

In 2017, the company started to elaborate on its commitment to responsible operations, and recognised the fact that its activities have

an impact on the environment and the communities around it. APSEZ provided updates regarding the creation of a grievance channel and also provided information on the number of mangroves replanted in the area. In terms of community relations, APSEZ initiated a number of activities aiming to improve the local people's livelihood and preserve the ecosystem.

Given the positive trend, the Council on Ethics is pleased with this and hopes to be able to finalize the dialogue during 2018.



Continued commitment from leading Japanese clothing company

Facts

Dialogue form: Unsolved →

Region: Japan

Topic: Working conditions

Agenda 2030:



Following serious allegations of substandard working conditions at suppliers of Uniqlo, a leading Japanese clothing company with over 1,000 stores around the world, several sustainability initiatives have been taken by the holding company, Fast Retailing. In 2017, the Uniqlo Core Partner Factory List was released - an important step towards a transparent and sustainable supply chain.

During the past years, Fast Retailing has taken several initiatives to improve working conditions in the supply chain of its subsidiary Uniqlo, among other things related to working hours and working conditions in the factories. Furthermore, the CEO commitment of its annual report expressed responsible supply chain management as one of four priority areas.

However, although improvements have been made by reducing overtime, payment of statutory overtime pay as well as improved working conditions, Fast Retailing has failed to respond to follow up questions regarding how freedom of association is respected as well as clarification on some specific measures, including workplace monitoring of Uniqlo's suppliers and training on labour rights.


After emphasising the seriousness of the allegations to management, the Council on Ethics has continued its dialogue. The focus on how Fast Retailing will implement measures to mitigate labour rights-related risks across its supply chain will continue during 2018.





Continued efforts to help mitigate the environmental pollution of Norilsk, Russia

Facts

Dialogue: Unsolved 
 Region: Russia
 Topic: Environmental
 Agenda 2030:



To help address the high pollution of Norilsk city, Russia, and surrounding areas, the Council on Ethics is engaged in a dialogue with Norilsk Nickel (Norilsk), owner and operator of a large mining and metal production complex centred around the city of Norilsk in Krasnoyarsk Krai. In 2017, several initiatives were taken by the company, such as the evaluation of new sulphur catching technologies.

The mining and processing operations in Norilsk city has been going on since the 1930s, causing high pollution of the local area. Norilsk Nickel's operations include several mines, ore concentrator plants, and metal production


workshops. The main products are nickel, copper, platinum, palladium, cobalt and gold.

In recent years, many of the mining and metal processing facilities of Norilsk have undergone substantial upgrades. The old nickel plant in central Norilsk city has been closed since August 2016. A new and less polluting concentrator plant has been set up at a distance from central Norilsk city. The company has secured dedicated funding for this project.

The Council on Ethics intends to continue its engagement on this environmental issue.

Progress in dialogue to respect international law

Facts

Dialogue: Resolved 
 Region: Western Sahara
 Topic: Human Rights
 Agenda 2030:



In May 2017, Glencore, one of the world's largest commodity producers, processors and traders, confirmed that the company had withdrawn from the oil exploration block offshore of Fom Ognit, Western Sahara, and that it had been taken over by the existing operator New Age. In December the company informed that they had also withdrawn from the second block, Boujdour Offshore Shallow. Exploration of natural resources in Western Sahara has long been seen as a controversial issue and in violation of public international law in the light of a territorial dispute in the area.

Glencore PLC, held an oil exploration licence in the Boujdour Offshore Shallow block, Western Sahara, through its subsidiary

Glencore Exploration & Production (Morocco) Ltd with a 38.25 per cent ownership. Glencore had considered its activities in Western Sahara as compliant with international norms, since no exploitation activities have taken place. Still, in 2016, Glencore informed that the company was in discussions with the Moroccan state oil company, Office National des Hydrocarbures et des Mines, regarding exit from both the Boujdour Offshore Shallow block and the oil exploration block offshore of Fom Ognit, Western Sahara.

The dialogue with Glencore regarding its activities in Western Sahara was initiated in 2015 and has now ended.

Improving labour and human rights conditions in the palm oil industry

Following the reports in 2015 indicating improper labour practices at Felda Global Ventures' palm oil plantations in Malaysia, several improvement measures have been taken by the company, including a new Code of Ethics and Conduct for employees. The alleged problems included withholding workers' wages and documents, poor housing conditions, compensation below the minimum wage, as well as health and safety breaches.

Facts

Dialogue: Unsolved →

Region: Malaysia

Topic: Working conditions

Agenda 2030:



Felda is the world's largest palm oil producer and oil palm plantation operator, based on planted hectares. The Felda Code of Ethics and Conduct sets out the principles to guide employees in carrying out their duties and responsibilities. The Code is available to all employees via the company's internal portal. This document, together with the sustainability policy, is also available on Felda's website.

In addition to launching a Code of Ethics and Conduct for employees, Felda conducts awareness training sessions with farmers, contractors and vendors to communicate its policies. Stakeholders are regularly informed about processes and requirements the company must comply with. The company will also conduct training sessions with managers and contractors to follow Felda's procedures and the Roundtable on Sustainable Palm Oil (RSPO) certification-related topics. RSPO is a global, multi-stakeholder initiative on sustain-

able palm oil with the vision to "transform the markets by making sustainable palm oil the norm". Among the RSPO topics included in the training sessions are monitoring of attendance, hiring workers through a contract agreement, the use of proper payslips, minimum wage, housing standards, and basic amenities.

In 2017, Felda also engaged the Forest Trust (TFT) to assist the company in addressing human rights issues at its palm oil plantations. TFT prepared an action plan that covers, among others, labour and social topics and stakeholder engagement. The company plans to establish a Social and Human Rights Steering Committee and Social and Human Rights Task Force with the participation of external stakeholders such as Malaysia's Human Rights Institution or workers' representatives to execute the action plan. The Council on Ethics intends to follow up how Felda implements these programs.





Development of safety measures at the world's largest shipyard

In mid-2017, Hyundai Heavy Industries (HHI) informed the Council on Ethics that several measures had been taken to strengthen the safety practices in the company, including forming a new safety management department. The background was the alarming number of accidents HHI had experienced since 2014, resulting in over 20 fatalities and several injured subcontractors across the company's operations.

Facts

Dialogue form: Unsolved →
 Region: South Korea
 Topic: Working conditions
 Agenda 2030:



The Council on Ethics met with HHI already in December 2015 to raise these safety issues. Apart from fatalities and injuries, HHI had allegedly attempted to cover up and not report a number of workplace injuries to the Ministry of Employment and Labour. According to the HHI Subcontractor Workers Local union, the increase in deaths is linked to the rising number of subcontractors used by HHI. The new measures are seen as a sign that the company now has focus on health and safety and that this is a priority of the top management.

In addition to forming a safety management department, headed by the CEO of the company, HHI has taken actions directed speci-

fically at subcontractors, including forming a safety team for subcontractors, which trains the subcontractors' safety managers and helps to implement safety systems. Furthermore, it has strengthened safety training for all employees, including subcontractors.

The company, which has started to report on the accident rate, also stated that it will consider the Council's recommendation for extended reporting on other performance data, such as the fatality rate and the Lost Time Injury Frequency Rate. The Council on Ethics will continue to encourage the company to increase its disclosure of performance data related to accidents and fatalities.

The Council on Ethics engages on child labour

Facts

Dialogue form: Unsolved →
 Region: Bangladesh
 Topic: Working conditions, Human Rights
 Agenda 2030:



Following reports alleging improper labour practices in British American Tobacco's (BAT) supply chain in Bangladesh, the Council on Ethics is in active dialogue with BAT. The issues include the use of child labour, discrimination of migrant workers, as well as health and safety breaches. BAT's own internal investigation did not find evidence supporting the allegations.

BAT is a member of the Sustainable Tobacco Programme, an industry-wide initiative developed in collaboration with other manufacturers. The programme sets expectations of working conditions and labour standards for

farmers, their families and hired workers, with a specific focus on child labour. It also provides a framework for improvement through annual self-assessments and on-site reviews.

To ensure proper implementation of the Sustainable Tobacco Programme and enforce the ban on child labour in practice the company should provide regular training to key staff and improve monitoring in the supply chain for child labour and other human rights risks, including unannounced inspections. The Council will continue the discussion with BAT during 2018.



PROACTIVE PROJECT – THE TOBACCO INDUSTRY

Sustainability challenges across the board

The Council on Ethics has long been engaged with issues relating to human rights and child labour across various industries, tobacco and cocoa included. The Council has adopted proactive measures in the tobacco sector during a number of periods. In 2017, The Council on Ethics followed up its corporate engagements carried out in 2011 and 2014.

As was the case previously, this approach has been based on a company-specific sustainability profile carried out by an independent third party. In its 2017 review, the Council on Ethics focused in particular on child labour, which is a recurring issue for tobacco manufacturers in their substantial supply chains.

Tobacco companies currently face opposition on a number of fronts, which affects them in various ways. Not only are they losing out on vital influences from multi-sectoral cooperation, they also lack access to knowledge and expertise from various global bodies which could help them to manage their global supply chains. It is the view of the Council on Ethics that this lack of external influence and collaboration gives rise to a kind of uniform groupthink in the industry, which was clearly evident when the Council got involved during 2017.

Focus on the tobacco sector is key

For example, the Council's follow-up revealed that the tobacco industry generally does a poor job of reporting its work on biodiversity, water issues, environmentally friendly transport solutions, renewable energy solutions and organic tobacco cultivation. The sector's reporting was also inadequate in regard to tax, diversity and whistleblowing, as part of the anti-corruption programme, which is another priority area for the Council on Ethics. These areas of sustainability have been under the spotlight for many other industries in the last few years. The Council on Ethics' follow-up showed that the tobacco industry has work to do, a subject taken up during its discussions with companies.

The tobacco industry is subject to tight restrictions on marketing. There is currently an underlying concern on the part of the World Health Organization (WHO) and other operators that the work of companies on CSR or sustainability could be exploited to circumvent these restrictions and enable them to present themselves, and tobacco, in a positive light. This is a delicate issue for tobacco manufacturers, with companies often treading carefully when talking about their work on sustainability.

More industries with similar problems

When it comes to scrutiny from the media and civil society on how tobacco is produced, the sector has to some extent crept under the radar. That said, Human Rights Watch has been scrutinising the industry, and cases of hazardous child labour in tobacco cultivation, for some time. In 2016, Swedwatch published a report on child labour in Bangladesh, focusing specifically on British American Tobacco's contracted tobacco cultivation (this dialogue is reported separately on page 22).

The Council on Ethics has enjoyed productive dialogue during the follow-up project with practically all of the major tobacco manufacturers. Philip Morris International (PMI) is the only manufacturer to have signed the UN Global Compact (GC) Framework and works continuously with GC reporting. This is evident in its work on sustainability. The company's work on child labour, involving collaboration with Verité, a third party organisation, is worthy of particular praise. PMI purchases all its tobacco from third parties – primarily Alliance One and

Universal – and these companies are responsible for applying PMI’s sustainable practices on site. This is a requirement for companies wishing to continue supplying tobacco to PMI.

Japan Tobacco, another company followed up by the Council on Ethics, has high ambitions on social responsibility in regard to its work on child labour in the supply chain. The company has deliberately acquired a couple of its subcontractors with the aim of building an integrated business model and exerting more control over production. Japan Tobacco has a number of projects under way involving clear-cut environmental objectives as well as the UN’s Guiding Principles on Business and Human Rights.

Long-term focus on child labour

The tobacco industry faces the same challenges as many other sectors using agricultural products as input goods. One issue is generational. In many of the approximately 100,000 small-scale family farms which form part of the tobacco supply chain, the children are opting to move to the city to find work rather than take over the family business. The tobacco manufacturers are therefore working to gain more insight into the challenges in their supply chains and how they can ensure production of input goods in the long term.

Since the year 2000, the tobacco industry has been collaborating with the ECLT (Eliminate Child Labour in Tobacco) Foundation in order to prevent child labour, hazardous child labour in particular. This collaboration had a discernible impact

on the companies’ work on sustainability. The industry is also cooperating on a Sustainable Tobacco Programme (STP), which provides a clear framework and action plan to combat child labour. Nevertheless, both the companies and the ECLT Foundation have underlined the challenges existing in the area, making clear that they cannot resolve these issues alone. For example, the lack of schools and poor level of education among the majority of the approximately 100,000 small-scale family farmers which supply tobacco is a major problem. This is one of the reasons for the occurrence of hazardous child labour. The package provided by the major tobacco companies to the farmers they collaborate with usually includes extensive training on, for example, the best method of growing tobacco as well as pest control measures, etc.

The tobacco manufacturers often have a tobacco specialist on site who can help farmers achieve their main objective of providing high standards and returns. The work of leading companies on sustainability in relation to child labour also includes educating families on hazardous child labour. The companies monitor farms in order to identify and prevent violations relating to child labour, as well as overseeing action plans for children subjected to hazardous child labour where required. The biggest challenge is posed by the fact that a lot of tobacco is purchased through auctions, where the companies are unable to carry out checks at origin. This makes it difficult to inspect and monitor cases of child labour.

PROACTIVE PROJECT – COMMODITIES

Is cobalt the new oil?

Access to lithium batteries is a major factor in the transition to a low fossil-fuel society, and demand is rising rapidly. Lithium batteries have already been used in mobile phones, computers and other household products for a number of years, and as the world’s automotive suppliers prepare for more widespread use of e-vehicles, demand for lithium batteries is set to soar.

A very important material in these batteries is cobalt. Demand for the element has tripled over a five-year period and is forecast to double again by 2020. DR Congo, which produces more than one-half of the world’s cobalt, is a nation which faces major challenges in the form of widespread poverty and corruption, for example, making it even more susceptible to various sustainability risks. It is estimated that around 50% of DR Congo’s cobalt is extracted through regulated mining operations. Mining companies operating such facilities, and companies using cobalt in their products, can apply systematic sustainability measures in order to ensure better working conditions for their workers and prevent child labour. Extraction of the other half of the cobalt mined in DR Congo is deemed to be unregulated, that is, in small facilities – known as artisanal mines – through very simple means and featuring poor working conditions. Hazardous child labour occurs frequently in such mines.

There is widespread awareness of these issues, with several organisations documenting and following up developments, yet a number of challenges remain, especially with global demand rising so quickly. Companies using cobalt in their products are now subject to tighter legislation and growing demands from various stakeholders. Among other things, firms must be able to account for where their cobalt comes from and how it is mined. The companies affected include global technology firms which use cobalt in their products, among them Apple, Dell, HP, Huawei and Microsoft. Since 2016, the Council on Ethics has



been engaged with many of these firms on a regular basis, together with a large group of global investors, in order to build a better understanding of, and exert influence on the way these companies approach such issues and satisfy the ever increasing demands.

Progress is being made in this area through more transparent provision of information by companies and a number of other initiatives. The Responsible Minerals Initiative (RMI), for example, provides recommendations and assistance which enable companies to more easily trace the origin of the cobalt they purchase. Nevertheless, a great deal of work remains. The Council on Ethics is planning to focus more on this issue in 2018.



PROACTIVE PROJECT – COLLABORATION

Proactive engagement in emerging markets

The Council on Ethics is taking part in a collaborative engagement programme for the emerging markets together with the service provider GES International. The programme is proactive and has a risk-driven approach, engaging on the most material ESG risks and opportunities.

The Council on Ethics is actively participating in 15 of the cases in the programme, including companies in Brazil, China, the Philippines, Russia, South Korea and Thailand. The response to the engagement differs from company to company, but it is broadly appreciated. There are face-to-face meetings used to build enough trust to ask the difficult questions and share input from a responsible investor perspective about where the Council would like the companies to change and develop better practices. Each meeting is followed up by a Minutes and Assessment report to the company, and the Council share observations and recommendations and make sure to build on the engagement over time.

The Brazilian-based clothing retailer Lojas Renner is an interesting case from the Council's focus list. The most material ESG risks for Lojas Renner are related to a challenging clothing supply chain, where there are significant risks related to sourcing of materials, such as cotton, and the production of the clothing, which often takes place in low-income countries. Lojas

Renner is taking these issues very seriously and it is gradually scaling up due diligence and monitoring systems for a very complex and fragmented supply chain. In 2016, the company conducted almost 4,000 in-person visits with suppliers, which is 29% more than the previous year. Lojas Renner has also started conducting life-cycle analysis of products with the purpose of identifying opportunities for improvement in environmental performance. Finally, the company is testing the Brazilian consumer market for its readiness to environmentally friendly clothing, something that the engagement has suggested for a couple of years.

The risk-driven approach of the Emerging Markets Engagement programme is well aligned with the expectations outlined in the OECD Guidelines for Institutional Investors. In 2018, the Council will continue engaging constructively with the emerging markets companies, pushing for continuous improvements in mitigating their ESG risks and opportunities.

Dialogues in progress

Working in tandem with GES Investment Services, the Council on Ethics of the AP Funds conducts dialogues with large numbers of companies around the world. Below are examples of the dialogues in progress as well as the areas of concern in question.

Company (selection)	Associated with	Country of incident
Altria Group/ Philip Morris	Sustainability in the tobacco industry	Global
Barry Callebaut AG	Child labour in the cocoa industry	Ghana
Deutsche Post	Anti-union practices	India
Hershey	Child labour in cocoa industry	Ivory Coast
Imperial Brands	Sustainability in the tobacco industry	Global
Japan Tobacco	Sustainability in the tobacco industry	Global
Leonardo - Finmeccanica	Corrupt practices	India
Lindt & Spruengli AG	Child labour in the cocoa industry	Ghana
Mondelez International	Child labour in the cocoa industry	Ghana
Nestle SA	Child labour in the cocoa industry	Ghana
Nintendo	Environmental and human rights impacts caused by purchasing tin	Indonesia
Olam International	Child labour in the cocoa industry and cotton supply chain	Uzbekistan
Pegatron	Poor working conditions	China
Posco	Child labour in the cocoa industry and cotton supply chain	Uzbekistan
Posco Daewoo	Child labour in the cocoa industry and cotton supply chain	Uzbekistan
Wilmar International	Child labour at palm oil plantations	Indonesia
Yahoo! Japan	Trade of endangered species	Japan
Sumitomo	Labour rights violations	Honduras



COUNCIL ON ETHICS
OVERVIEW 2017...➔

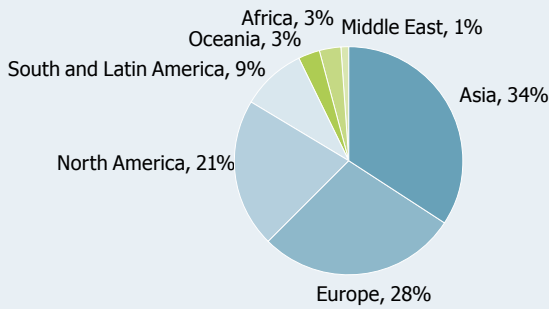
The Council on Ethics' dialogues during 2017

The Council on Ethics took part in 174 dialogues during 2017. This is slightly down on the previous year, which is due to that some projects were finalised during the year and the companies were taken off the dialogue list. Moreover, there were fewer broad investor engagements in 2017, with the Council on Ethics choosing to devote resources to fewer engagements and initiatives in a more in-depth way.

This is reflected in the status of the dialogues, more of which are orange (which indicates a dialogue is in progress) compared to last year. Regarding the geographical spread of incidents which lead to dialogues, there was an increase in Central and South America, which is due to the Council on Ethics' involvement in events in Brazil, relating primarily to corruption and work environmental issues.

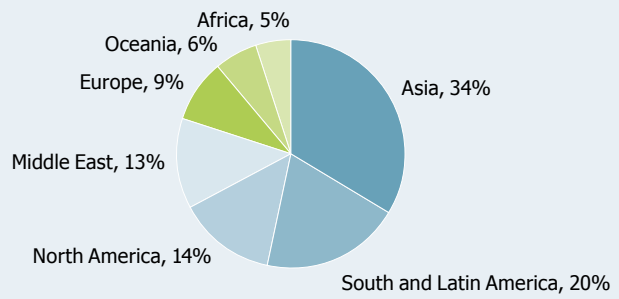
The company's domicile

Total of 174 companies



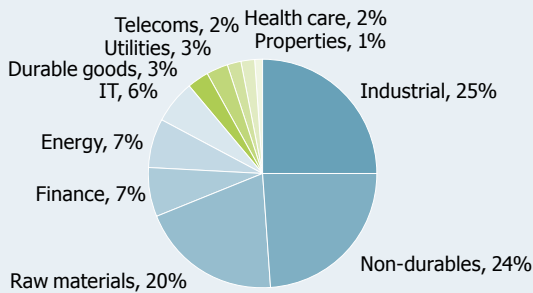
Location of event

Total of 174 companies



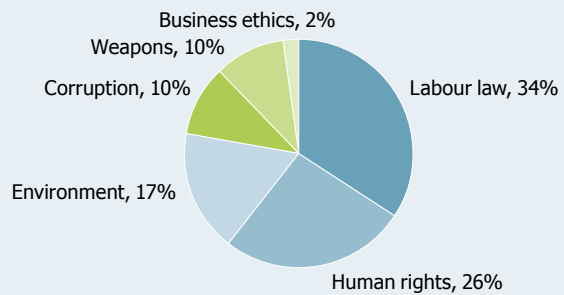
Sector

Total of 174 companies



Type of event

Total of 174 companies



International collaboration is key

The Council on Ethics was established in 2007 in order to cooperate on dialogues with listed, non-Swedish companies in the Funds' equity portfolios. Since the AP Funds have relatively small shareholdings in the global companies, there is a greater need for collaboration in these holdings. However, the collaboration of the AP Funds extends far beyond the Council on Ethics.

The AP Funds both support and are members of various organisations which work with issues they consider to be important. PRI is an organisation where one of their principles embraces collaboration. In addition to PRI, the AP Funds are members in and support, for example CDP, EITI and IIGCC.

PRI – the UN Principles for Responsible Investment is a global initiative for institutional investors that started in 2006. The aim of the PRI is to support investors to take into consideration ESG (Environmental, Social and Governance) issues in investment decisions and ownership activities, thereby creating value for beneficiaries. To find out more, visit www.unpri.org

CDP – an initiative where around one-hundred major asset managers demand that the world's largest listed companies report their greenhouse gas emissions and other information related to how they are dealing with climate challenge. The aim of the CDP is to streamline data collection processes through a large number of investors collectively requesting data and reporting on greenhouse gas emissions. To find out more, visit www.cdp.net

EITI (Extractive Industries Transparency Initiative) – an initiative within the extractive industries, especially oil companies.

The need for transparent reporting and governance is especially great in countries rich in natural resources, but where governments are weak. Clearer reporting from companies on what they pay and from federal governments on income derived from oil, gas and mining industries increases openness in society and contributes to better conditions for financial governance. To find out more, visit www.eiti.org

IIGCC (Institutional Investors Group on Climate Change) is a forum for collaboration on climate issues for European investors. The objective is to ensure investors' voices are heard on climate issues and to engage companies, authorities and other investors in order to draw attention to the long-term risks and opportunities that climate change presents. Climate change is an important issue for the AP Funds as long-term investors. There is currently a great deal of uncertainty surrounding future regulation and frameworks to reduce greenhouse gas emissions and to stimulate alternative energy sources. This makes it difficult for companies to make profitable investments and for investors to calculate risks and returns. IIGCC is an effective platform for advancing investors' concerns on climate change. It is also a good way for the Funds to obtain the latest information on various climate-related investments. To find out more, visit www.iigcc.org



A UN initiative for responsible investments.



An international collaboration project to reduce companies' environmental impact and increase awareness of climate change.



An initiative for open reporting in the extractive industries, primarily oil companies.



An investor's group that collaborates on climate issues for European investors.



A collaborative project between 17 of Sweden's largest institutional investors and Nasdaq OMX.



An initiative to encourage investors to measure and publish their carbon footprint annually.



A global cooperation to raise standards in active ownership globally. The ICGN works e.g. to give shareholders greater rights to vote at general meetings.

Ten years with the Council on Ethics of the AP Funds

Since the AP Funds were mandated to “exercise ethical and environmental consideration without compromising the overall objective of attaining a high return” in 2001, the Funds have engaged with sustainability issues individually and in different ways. In 2006, the idea of a more long-term collaboration began to crystallise, and this culminated in the launch of the Council on Ethics – a collaboration between the four AP Funds focused on pursuing positive change in non-Swedish companies linked to violations of international conventions – in 2007.

The accumulated capital of the four Funds – which has risen from 900 to 1,400 billion kronor – has enabled greater opportunities to influence companies compared with individual measures.

The Council on Ethics has become an attractive partner for other international investors with a similar agenda of pursuing sustainable development, increasing the opportunities to encourage companies to effect positive change.

The collaboration between the AP Funds in the Council on Ethics has also led to the Funds operating more efficiently, enabling, among other things, more reactive company dialogues and proactive initiatives to be carried out.



2007 The Council on Ethics is founded. The Council’s first report is published. Dialogue is conducted with 14 companies, with one company struck off the dialogue list as early as the first year because the objectives of the dialogue has been achieved. The Council on Ethics travels to China to learn more about companies’ approach to social responsibility and send a clear message: that there are foreign investors willing to take their responsibility as owners.



2008 The objectives of three dialogues are achieved. For example, the French company, Sodexo, adopts and implements a human rights policy following pressure from the Council on Ethics related to inhumane conditions at refugee accommodation centres in England. The UN adopts the Convention on Cluster Munitions, and the Council on Ethics recommends exclusion of nine companies, all of which are based in nations which have failed to ratify the convention and where there is little scope for the Council to exert influence.



2010 Together with a group of Canadian investors, the Council on Ethics prompts Goldcorp, the mining company, to carry out an independent evaluation of the extent to which human rights are taken into account at the Marlin Mine in Guatemala. This leads to the company adopting a large number of measures in order to improve the situation – a process which has a ripple effect, as a number of other mining companies turn to Goldcorp to learn from its experiences. John Howchin is appointed Secretary General.

2011 The Council on Ethics expands its operations. 2011 sees the Council complete its first proactive project, focused on the mining industry. The general aim is to increase the proactive measures taken by companies and encourage them to strive towards the best working methods in each area of the industry. When the project is reviewed in 2014, the Council on Ethics notes general improvement in all of the areas of sustainability discussed with the companies.



2012 The cocoa industry, tobacco industry and anti-corruption measures are the themes of a number of proactive projects the Council on Ethics runs or is involved in. Highlighting both the strengths and weaknesses of the companies' sustainability strategies has proven to be an effective way to ensure that they adopt measures.



2013 The Council on Ethics arranges a seminar about financing the transition to a low fossil-fuel society. Politicians, trade associations and investors are invited to listen to Michael Liebreich, from Bloomberg New Energy Finance. The telecommunications sector is in the spotlight as one of the Council on Ethics' proactive initiatives.

The Council on Ethics elects to adopt a four-year time limitation for reactive dialogues, as from 2014. The change is made in the light of certain dialogues continuing for many years without a time restriction, diverting resources from other important initiatives.



2015 The Council on Ethics of the AP Funds hosts a Nordic seminar based on the UN Guiding Principles on Business and Human Rights, known as the Ruggie principles. The aim is to inspire Nordic companies to conduct implementation and reporting according to the principles, and encourage the 50 or so Nordic companies and asset managers in attendance to share their experiences with each other.



2017 The AP Funds' Council of Ethics holds anniversary seminars guested by Al Gore, Johan Rockström and representatives from the mining industry.



2007–2016

Thousands of corporate dialogues and 19 companies excluded

In its first ten years of operation, the Council on Ethics has conducted dialogue with several thousands of companies. Much of this dialogue has been constructive and led to tangible improvements. In a few cases – 19, to be exact – the Council on Ethics recommended the exclusion of the companies in question as the objectives of the dialogue had not been achieved. A number of the companies became investible once again after having adopted measures in line with the Council on Ethics' demands.



Core values

The core values of the AP Funds and the Council on Ethics of the AP Funds, as they relate to environmental factors and ethical dimensions in business, are based on the principles of commitment, action and change in order to make a positive difference.

The Council on Ethics of the AP Funds makes a positive difference by proactively working for sustainable development within areas that promote high long-term returns, and through involvement with companies where problems are identified, deemed to be substantial and well-documented. This is a responsible and ethical approach. The goal of the Council on Ethics' work on sustainability is to create and protect value for the benefit of the pension system.

As part of the Swedish pension system, the core values of the First, Second, Third and Fourth AP Fund build on the core values of the Swedish state, where democracy and sustainable development are key tenets in accordance with the wording of the constitution. The AP Funds' core values also build on the international conventions ratified by Sweden.

It is the opinion of the AP Funds that those companies in which the AP Funds invest are themselves responsible for ensuring they do not contribute to violations of international conventions, whether these target nation states, individuals, companies or organisations. This responsibility also applies even if countries where companies are active have not ratified conventions, or where regulation is weak.

The Council on Ethics is involved in industries and companies where:

- Serious and systematic problems in the industry have been identified.
- Violations of international conventions have been identified, are deemed to be substantial and well-documented.
- A company's circumstances are of such a serious and systematic nature that a dialogue is justified.

In those cases where Sweden supports a new convention or a revision to an existing convention, but where formal ratification has not yet occurred, the AP Funds will act as though ratification is already in place. The AP Funds will continuously monitor the progress of the ratification process of the new or revised convention. If Sweden has not ratified a convention within a three-year period from the point when the nation originally supported it, the AP Funds can review the basis for their guidelines in those issues relating to the new or modified convention.

The AP Funds' work on sustainability and corporate governance is conducted in such a way as to create and protect value for current and future Swedish pensioners. The AP Funds make a difference by working proactively towards sustainable development, taking action and making demands for transparency and positive change. This contributes to the AP Funds' ability to fulfil their mandate.

Sustainable development is a key component of the AP Funds' framework.

The framework consists of:

- The Swedish constitution, which is built on democracy, fundamental rights and freedoms, the equal value of all human beings and the right of all individuals to be free and live with dignity.
- UN international conventions which Sweden has ratified, regarding the environment, human rights, labour law, corruption and inhumane weapons, etc.
- International guidelines that Sweden supports, for example, the UN Global Compact, ILO and OECD guidelines for multinational companies.
- Sweden's position on international legal issues.



CHRISTINA OLIVECRONA, AP2:

“UN Sustainable Development Goals has definitely arrived in the financial industry”

The UN’s Sustainable Development Goals continue to influence trade and industry. Christina Olivecrona, a sustainability analyst at the Second AP Fund and member of the Council on Ethics, belongs to the PRI steering committee working with the UN’s global development objectives, which is focused on how operators in the financial industry can work towards these goals.

The UN’s 17 goals on sustainable development have achieved a broad reach and acceptance among companies and investors alike. For example, they are used as a framework for sustainability in dialogues with companies and in the development of financial products.

What has worked well up to now?

The goals have made it easy to discuss sustainability in broader and more tangible terms. They show that sustainability is fundamental to the development of society.

In your view, what are the challenges faced by the financial industry in regard to UN Sustainable Development Goals?

To devise methods for reviewing and measuring the effects of different projects, dialogues or investments. The various

indicators devised for the 169 sub-targets are intended to be followed-up and reported on a national basis, and need to be reworked in order to be used by companies and investors. Work on compiling metrics and indicators is ongoing. The companies operate in various sectors and are therefore faced with a range of challenges, which makes things more difficult.

And finally, which goal do you think is most important personally?

All of the goals are important of course, but if I had to choose I’d say number 13, Climate Action. The climate is an issue which influences many of the other goals, including Zero Hunger, Clean Water and Sanitation, Affordable and Clean Energy, Industry, Innovation and Infrastructure, Life Below Water and Life on Land.



“All 17 of the UN’s Global Sustainable Development Goals are important, but if I had to choose I’d say number 13 – Climate Action,” says Christina Olivecrona.

Members of the Council on Ethics

The AP Funds are represented on the Council on Ethics by two members from each Fund. The Chairmanship, which alternates between the AP Funds, was held in 2016 by Peter Lundqvist at the Third Swedish National Pension Fund and handed over to Pia Axelsson of the Fourth Swedish National Pension Fund in 2018.



FROM LEFT TO RIGHT: Christina Olivecrona, Lil Larås Lindgren, Arne Löw, Peter Lundqvist, Ossian Ekdahl, Nadine Viel Lamare, John Howchin (Secretary-General), Ulrika Danielson, Pia Axelsson (Chair 2018).

First Swedish National Pension Fund

www.ap1.se
Ossian Ekdahl
Nadine Viel Lamare

Second Swedish National Pension Fund

www.ap2.se
Ulrika Danielson
Christina Olivecrona

Third Swedish National Pension Fund

www.ap3.se
Peter Lundqvist
Lil Larås Lindgren

Fourth Swedish National Pension Fund

www.ap4.se
Pia Axelsson, Chair 2018
Arne Löw

Council on Ethics

www.etikrådet.se
John Howchin,
Secretary General

GES Services Overview

GES is a corporate engagement company serving the financial industry. GES has over 60 employees globally dedicated to corporate engagement. GES has offices in the UK, Sweden, Denmark, Poland and Switzerland with engagement professionals based in a number of other European countries, as well as a strategic business partnership with oekom research in Germany. GES is a provider of responsible investment and engagement services to institutional investors. They support asset owners and asset managers in developing and implementing integrated investment strategies with regard for environmental, social and governance (ESG) considerations.

The AP Funds fact-file

The Council on Ethics was founded in 2007 on the initiative of the First–Fourth AP Funds. The mandate of the AP Funds is to manage buffer capital for the greatest possible benefit of the national income pension system. Since their formation in 2001, the AP Funds have contributed to the long-term stability of the system through effective management of fund capital. The role of the Council on Ethics is to use dialogue to encourage non-Swedish listed companies to improve their work on sustainability.

The role of the AP funds in the Swedish public pension system is an important piece of puzzle for the stability of the system by managing and ensuring safe buffer capital. By creating stability and securing pension payments, the AP funds contribute to a stronger pension system.

Buffering capital today accounts for just over 15 percent of the pension system assets and used when the annual payments to the system are less than the payments. It requires a good long-term return, as the buffer capital will be needed over a long period of time. It is the ultimate responsibility of the AP funds to strengthen and secure pension payments - for this and next generation.

The Ethical Council's role is to contribute to sustainability work through dialogue with foreign listed companies. The guiding principle is making a difference by influencing companies around the world to take into account ethics, environment and

good corporate governance. We mean that Long-term values are created in sustainable companies and therefore good investments that benefit the pension system and pensioners.

Pensioners and retirees: Those who work and pay taxes make an automatic provision of 18.5 percent in pension contribution. 16 per cent goes to the income pension system and 2.5 percent to the premium pension.

The income retirement scheme is a distribution system which implies that pension contributions are paid used to pay the same year's pensions to the present retired.

Pension system: Today's pension system has worked as intended since the beginning of 2001. Deficits occur in times of large retirement benefits (as has been the case since 2009) and forecasts shows deficits until 2040. Read more about the system Pension Authority's website www.pensionsmyndigheten.se



Production: The Council on Ethics of the AP Funds in association with Intellecta Corporate.

Photos: Peter Phillips, Anders Deros, Etikrådets members, Scanpix, Getty Images and Shutterstock.

Printed by: BrandFactory, 2018.





Council on Ethics
Swedish National Pension Funds

Sustainable ownership through dialogue and influence

For more information, visit:

www.etikradet.se

www.ap1.se, www.ap2.se,

www.ap3.se, www.ap4.se

Contact details:

Telephone: +46 (0) 8-555 17 100

E-mail: info@etikradetapfonderna.se