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From the CEO:
Parisagreement's
impact



2016 is a milestone year in terms of sustainability for AP7. The prelude was COP21 in Paris, where the world's leaders finally managed to agree on a global climate agreement. With the climate meeting in Copenhagen in our minds, there were probably many who dared not to hope. The moment the agreement was signed we started an intensive internal discussion on the potential effects of the agreement in the next few year.

On the 3rd of September 2016, it is announced to the world that both China and the USA have ratified the agreement. The news triggers a chain reaction, with one country after another joining. This results in the agreement entering into force on the 4th of November, less than a year after signing the agreement.

Nobody had counted on this extraordinary show of support for the agreement in such a short time, and for us this was a game-changer. The discussion was no longer about what effect the agreement would have after 2020, but rather what would happen next year.

We concluded that we were going to step up and participate in the development and implementation of the Paris Agreement. It fits well with our norms-based approach to corporate governance where we, in collaboration with other investors, try to define and implement corporate responsibility standards for the whole market.

We carried out a first screening of our portfolio based on the Paris Agreement in 2016. In the coming year we will see what the consequences are in the form of voting, impact dialogue and blacklisting. We have also initiated dialogue with other investors and organisations on how to best contribute to the implementation of the agreement.

With time the Climate Agreement will likely have more far-reaching consequences with regard to the valuation of companies and industries. In coming years the global agreement will be concretised in the form of national legislation and voluntary initiatives, which in turn will change the conditions for the market's price setting.

This development will also be taken into consideration in the framework for our active management by establishing a green mandate for listed companies. For some time we have already had a clean-tech mandate in the private equity portfolio, and in 2016 we participated in Kommuninvest's emission of Green Bonds. With these investments AP7 helps finance solutions to climate problems without sacrificing performance targets.

Richard Gröttheim



Our mission

Since the premium-based pension system was established in year 2000, AP7 has been appointed with managing pension funds in the state default alternative, AP7 Såfa. AP7 Såfa is a fund portfolio comprising the building block funds, AP7 Equity Fund and AP7 Fixed Income Fund.

AP7 Såfa suits those who don't want to spend their time monitoring the financial market. If you do not actively choose who should manage your pension savings, you are automatically placed in AP7 Såfa. "The goal is that our savers shall receive as good as or better return on their pension savings as if they had made an active choice." Since the start AP7 on average has given savers a higher return at lower fees when compared with the average of the private premium funds.

In 2016 returns for AP7 Såfa was 15.5 per cent. Private premium funds for the same period yielded 8.8 per cent in returns on average. The management fee for 2016 was 0.11 - 0.07 per cent. You can read more about our results in the annual report for 2016.

By combining the building block funds with an allocation based on the saver's age AP7 gets a life-cycle profile that adapts the risk according to the saver's age.

In practice this means that all capital is allocated to the equity fund up until the age of 55. The allocation is then annually shifted with 3-4 per cent per year to the fixed income fund. At age 75 two thirds of the saver's pension will be placed in the fixed income fund and one third in the equity fund and this is the final allocation.

AP7 also has three other fund portfolios, AP7 Offensiv, AP7 Balanserad and AP7 Försiktig, as a supplement to AP7 Såfa. The fund portfolios have different combinations of the building block funds to suit those savers that want to choose the risk level themselves, but still have AP7 managing their premium pension.

AP7 Equity Fund is basically a pure global fund. It has leverage which increases the risk, measured as standard deviation, thus making higher returns possible.

AP7 Fixed Income Fund is a low-risk fund that primarily invests in Swedish government and mortgage bonds.

AP7's core values

AP7 is a Swedish government agency with democracy as the fundamental way in which it views the world. Our

role is to realize the decisions taken in the Swedish parliament and by the government.

Business shall be conducted in a legal and impartial manner, based on laws and directives. "The principle of public access to official records offers great transparency, however, the rights to privacy of our stakeholders must also be upheld." Decisions shall be made on and based on merit and implemented in a resource-efficient manner with equal treatment as the guiding principle.

AP7's assignment is to manage the capital of savers that have not opted for any of the private fund alternatives in the premium pensions system. We shall do this in a manner that makes savers feel safe, while providing a good return without having to be active in the fund marketplace. The assignment requires a high level of competence as well as active communication, clear professional ethics, and moderate employee compensations.

AP7 has a responsibility to the world at large and to future generations. This is why AP7 acts responsibly towards people and the environment in both fund management and corporate governance.

The basis of our work in responsible investments are

the global norms as expressed in the international conventions signed by Sweden regarding the environment, human rights, labour law and corruption. We perceive the norms as universal, and superior to various social, religious and economic interests. It also fits in with the role of being a government agency, and can be expected to reflect the word of the law in the eyes of the broad population.

In putting the core values into operation, the guidelines of international agencies such as the OECD, ILO and other UN bodies play a central role, both in terms of defining limits and in verifying assessments of corporate conduct.

AP7 works to influence companies to take responsibility for the consequences of their activities and its impact on the world. Our tools to influence companies are through voting, dialogue, exclusion and legal processes. The aim is for companies to keep not only within the limits of the law, but also within the limits of decency. They shall also be responsible toward people and the environment in their activities.

"Those that don't want to or cannot choose shall get at least as good a pension as others – that is what we work for."

Our investments

AP7 invests in equities all over the world. Internally we workprimarily with active management in the Swedish market. For other markets the ambition is to engage the most skilled asset managers in the world.

Internal management means that investment decisions are made and implemented by our own fund managers.

External management means that investment decisions are made by managers specially contracted in accordance with AP7's guidelines and criteria. In deciding between internal and external management the expected quality and costs are considered.

AP7 Såfa consists of the building block funds, AP7 Equity Fund and AP7 Fixed Income Fund.

AP7 Fixed Income Fund

A minor portion of AP7's managed capital is invested in fixed income securities. AP7 Fixed Income Fund is a low-risk fund that primarily invests in Swedish government and mortgage bonds. In December 2016 the value of the Fixed Income Fund increased to SEK 28.1 billion in AUM.

AP7 Equity Fund

AP7 Equity Fund makes up the majority of AP7's managed capital. By the end of 2016 the Equity Fund increased to SEK 314.9 billion in AUM.

The strategy for AP7 Equity fund is to invest in a broad range of listed equity securities, globally and across industries. A large portion of the investment portfolio is passively managed and follows the composition of an index as close as possible, with the exclusion of companies on AP7's blacklist. AP7 Equity Fund uses leverage through derivatives to increase the portfolio's risk profile and enables the possibility of higher returns.

The passive allocation shall give asset exposure corresponding to the MSCI All Country World Index, excluding blacklisted companies. Passive beta management accounts for the majority of assets under management. Aside from this AP7 also has active management, including unfunded alpha mandates in selected markets.

In 2016 a thorough review of AP7's default alternative and management model was completed, resulting in the Board deciding to further develop the default alternative by way of a new strategic portfolio for AP7 Equity Fund. The adopted change will increase the diversification of risk in the state alternative in the future, while at the same time decreasing the risk level for the average saver through a reduced exposure to the stock market.

By reducing the risk it is also expected that the spread between individual savers pensions will reduced. By reducing the level of leverage there will be room for a redistribution of market risk through:

- exposure to more market segments and asset classes,
- exposure to factor risks and
- dynamic risk taking

The change of the strategic portfolio will be undertaken in several stages over a three-year period.

Initiatives were also taken to increase the share of sustainability investments through green bonds in AP7 Fixed Income Fund, and by starting procurement of a green mandate.

AP7's corporate governance and sustainability approach

During the year significant steps have been taken to further develop AP7's work on matters concerning sustainability. The reason for this development work is directly attributed to the UN's climate meeting, COP21 in Paris 2015, which resulted in a global climate agreement. The Paris Agreement, which came into force in November 2016, has thus far been signed by 122

AP7 takes action against opponents of the climate agreement and climate change deniers

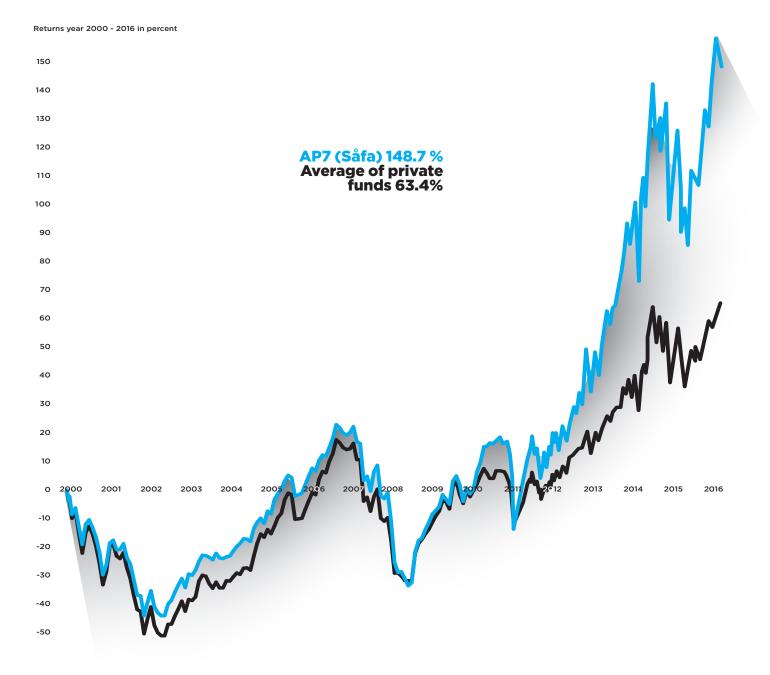
governments, including Sweden. As a universal owner the Seventh AP Fund has resolved to drive integration of the Paris Agreement into the norms framework that form the basis for AP7's corporate governance. The idea is that companies who, in various ways, act in breach of the Paris Agreement can be split into two main groups.

- One group is composed of those that oppose the climate agreement. These are companies that openly oppose, illegally circumvent or otherwise obstruct national legislation that aims to implement the goals stipulated by the Paris Agreement.
- The other group is made up of climate change deniers. These companies continue to extract fossil fuels under conditions that lead to unjustifiably high environmental risks or develop large-scale carbon intensive projects in violation of the goals of the Paris Agreement.

AP7's methods for influencing companies include voting, impact dialogue, filing shareholder resolutions and blacklisting. In cases where the problem is so serious that there are grounds for exclusion, AP7 will sell its shares and blacklist the company.

Corporate governance is one way for AP7 to contribute to supporting the implementation of the Paris Agreement. The other is through investments. In the transition to a low-carbon society, companies that provide solutions to the climate problems will have better business conditions, at the same time as they create significant climate benefits. These companies are probably the industry's largest contribution to society reaching the 2-degrees target.

AP7 will, within the framework for active management, develop a mandate that invests in companies that contribute to solving climate problems. An ambition expressed with regard to the green mandate is to contribute to the development of methods to measure the impact of these investments. In the short-term, methods that are developed for measuring impact, could make it easier to evaluate sustainability strategies based on the climate benefits derived.



AP7's role in sustainable development

AP7 is a universal and perpetual owner. The strategy is to buy the entire market, and hold the shares for as long as they are part of our index. For savers this combination gives high diversification at low costs, which makes a major difference to savers in the 40 - 50 year term. This asset management strategy is the starting point of our corporate governance approach. With over 2,600 companies throughout the world in our portfolio we can as owners act on a broad front, with a long-term perspective and with the interests of the entire market in mind.

To us sustainability means that we have an equal responsibility to those that are retiring today as to those that are starting to work today, or in 20 years. If we maximise today's pensions at the cost of the pensions of future savers, we have not acted responsibly. A sustainable society is promoted by an effective and well-functioning market that can set the right price for the existing risks related to, for example,

carbon dioxide emissions and shortage of fresh water.

As a universal owner we get a share of the entire market's value growth, but we also get a share of the entire market's problems, which in itself can be an opportunity. This is why we are trying to make an general analysis and mainly influence from a system perspective. Together with other owners we set the rules that strengthen the entire market and then work on making companies follow the rules. Our governance of companies is done both through voting and engagement dialogue with companies and industries in pressing matters. Blacklisting is an additional influencing tool where we exclude companies from our portfolio that violate international environmental and human rights conventions, and thereafter publicly announce the name of the company and the reason for exclusion. With more investors following our model, the effect and pressure on these companies will increase.

Another way to contribute to sustainable development is to build and disseminate knowledge in the industry about sustainability and sustainable investment. This is one of the reasons why we have introduced a thematic in-depth approach to our governance. We have no commercial interests or business secrets, and simply want to work in an *open-source spirit*.

From the beginning of autumn 2000 and until 30 December 2016 the return on the state-owned default alternative amounted to 148.7%. For the same time period the private premium pension funds saw a 63.4% return.

On the Såfa-savers terms

The sole task of AP7 is to manage the premium pension funds of the Swedish people. At the end of 2016, AP7 managed the pension of every other Swede to a total value of SEK 343 billion in AUM. Our communication work aims to strengthen the confidence in AP7's business and offerings and contribute to achieving the goals of the agency.

AP7 shall maintain a clear profile in matters of responsibility, which involves, that communication surrounding pensions shall be tailored to the requirements of savers and serve to inform the people. This also means that AP7 shall act responsibly in terms of where pension capital is invested and participate in the debate surrounding responsible investments.

How AP7 communicates

Communication and contact with savers is, however, the task of the Swedish Pensions Agency. AP7 does not know who the individual savers are, but the division of responsibility does not mean that AP7 refrains entirely

from communicating with the broader public.
AP7's task is to manage the premium pension funds in the state default alternative. The Swedish Pension's Agency's task is to administer and inform on general and individual pension matters.

One of the reasons that AP7 communicates actively and above the minimum is due to the element of choice within the Swedish premium pension system. Savers are often bombarded with options and advertisements. If savers to have a reasonable opportunity to make informed choices, AP7 must also inform of its role and offerings in the system. For savers to be able to make a proper choice they must also be aware of what the state default alternative is and what it has to offer.

The default state alternative

AP7 Såfa is the state default option in the Swedish premium pension system. This is an option for those that do not want to put the time into choosing.

monitoring or changing funds within the premium pension system. Anyone that does not actively choose any of the private funds is awarded the state default alternative, AP7 Såfa. the default option.

These conditions bring about a number of challenges for AP7 regarding communication. The pension system is complex and difficult to communicate in a simple manner. Reaching the audience with information requires engagement from the them, at the the same time many savers view pensions as a very difficult area.

channels such as TV and daily newspapers. Instead we prioritise digital channels. In the past few years we have successively increased our efforts to reach our savers via our own channels, such as the blog Förvalt, our website, and social media channels such as Twitter, Facebook, Instagram and YouTube.

By spreading information and common knowledge about private finances, the pension system and AP7 Såfa in an easily accessible way, we work towards savers having a good basis on which to make decisions. Nobody should feel forced to choose.

AP7's target groups and channels

AP7's main target group for external communication is our three and a half million savers. In our communications strategy we target our Såfa-savers in the 20 - 40 age group.

In external communications, journalists and the finance industry are important target groups. Some of the key stakeholders to keep an ongoing dialogue with are the Ministry of Finance, Finansinpektionen (Sweden's financial supervisory authority), Pensionsgruppen (the pension advisory board) and the Swedish Pension Agency.

AP7's savers tend to fall within a lower income and educational bracket than the average in the premium pension system, making communication all the more challenging. They have at least as much need for information as the more engaged group that is interested in asset management.

The sheer number of savers is a challenge. Due to resources AP7 is not able to advertise in the broader

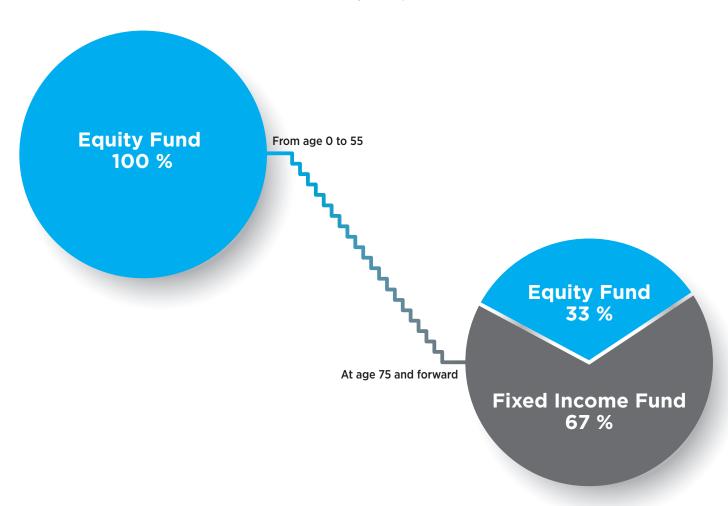
Transparency

Accessibility and transparency are the general beacons in AP7's communication work. We strive as far as possible to actively inform about the business, decisions and motives and make ourselves available to comment on this when requested. If some information cannot be made public the reasons must be clear and able to be presented in an unambiguous manner by the agency.

There are, however, a number of laws that set the bounderies for communication, such as the Copyright Act, Freedom of Information Act, Personal Data Act, and the Public Access to Information and Secrecy Act.

On the basis of AP7's mission the agency shall keep a clear profile in matters of responsibility both in word and action. As a universal owner AP7 shall transparently utilise all relevant tools to influence the market in a sustainable direction and continuously develop new skills and methods. This also means that AP7 shall act responsibly when making investment decisions, and participate in the debate surrounding sustainability and responsible investments.

When you are young your money is invested in our equity fund that gives the greatest possibilities of growth. When you get older your money is automatically secured in our fixed income fund at lower risk.



lmpact through engagement

The Annual General Meeting is the company's highest decision making body and a way for shareholders to interact with company executives. Through voting at general meetings AP7 reaches out to all companies we are invested in throughout the world. Making our voice heard at the annual general meetings is therefore our main way of exercising our corporate governance.

As shareholders we have the possibility to file proposals at meetings. In 2016, for the first time, we co-filed our own proposals called shareholder resolutions together with other owners.

AP7's voting policy stresses environmental responsibility, social matters and issues of corporate governance. We have high ambitions to work toward taking responsibility, high transparency in matters of sustainability, well-balanced compensation and a well-composed board of directors comprising the relevant competence and a good representation of women.

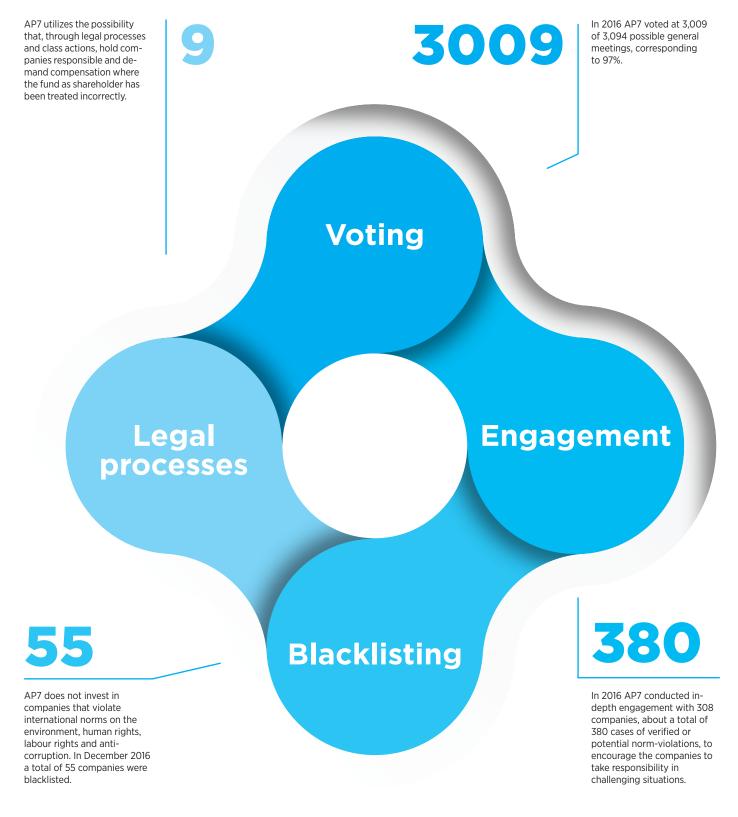
According to Swedish law concerning AP funds, AP7 is not allowed to vote at Swedish general meetings, however, since 99 per cent of AP7's portfolio is outside Sweden we can vote in almost all 2,600 companies we are invested in.

Vote at general meetings – it works

Corporate governance can be implemented by blacklisting and divesting, however, in order to influence it is often more effective to stay invested and as an active owner drive matters forward by, for example, putting forward your own shareholder proposals at general meetings.

- Then you are really making the money work for you. You can use different tools to get the attention of the company and attempt to influence them in the direction you want, says Charlotta Dawidowski Sydstrand, ESG Manager at AP7.

The fund is invested in companies throughout the world and votes every year at almost 3,000 general meetings. The number means that AP7 sets itself apart from the majority of other owners who focus on a smaller number of companies. The sheer volume, and the fact that that the voting season is held, from April to June, is a challenge in itself.



AP7 employs the firm Institutional Shareholder Services (ISS) to conduct the proxy voting on our behalf.

- We give ISS our voting instructions that describe exactly how we want to vote in all matters that could possibly arise. Sustainability might be an agenda item, but it is rarely brought up by the management of the company, but rather from other shareholders in the form of resolutions or shareholder proposals.

AP7 has approximately 300 issues on the list of potential agenda items that might arise, and what the fund's standpoint is on the matter: for, against or abstain. In this way we reach a great number of companies with our principle viewpoint on different matters.

AP7 started voting at general meetings in 2012, and a few of years later the fund also started to co-file shareholder resolutions on urgent issues.

– We have far-reaching policies on sustainability issues and consistently vote for proposals that impose climate change requirements on companies, e.g. to adapt their operations to the 2 °C target. One important proposal that we felt we could support in 2015 was the request that oil giants Exxon and Chevron adopt and report emission reduction targets. Behind the proposal was a number of organisations led by a group of Catholic nuns. AP7 had quite a big shareholding in the company and went out in support of the motion before the meeting.

- In the USA there is a long tradition of shareholder activism, where, for example, trade unions and the church invests in the company in order to be able to influence issues. We contacted the churches and explained that we would like to help build support for the resolution.

In 2016, for the first time, AP7 co-filed its own resolutions together with other owners at general meetings. Partly as a way of deepening engagement at general meetings, partly due to the debate surrounding the climate agreement that was negotiated in Paris in autumn 2015.

Prior to the meeting in Paris there was major activity to mobilise. There were also powers within the industry that wanted to prevent and delay a climate agreement.

This year we voted at 97 per cent of all general meetings, more than 3,000 of them

- AP7 identified climate change as an important issue for corporate governance and for the long-term development of our investments. Being a universal owner, it is important to us that the entire market decarbonizes. To us it is not enough that some companies take the lead while others try to counteract climate change agreements and steer the agenda to their own benefit. We must make sure that the entire market mitigates its climate risks, and for that we require strong climate policy, says Charlotta Dawidowski Sydstrand.

AP7 made its standpoint clear along with a number of other investors, with the fund stating that it expects companies to support the transition to a low-carbon economy, or at the very least not to counteract it. Also it is important you are transparent and report what political contacts you have and how you directly or indirectly through your industry organisations try to influence legislation.

Together with other investors AP7 decided to co-file shareholder proposals at a number of general meetings in the USA and Great Britain.

- We chose the three largest oil companies in the USA. We know that there is a great deal of political activity going on there and we believe that some of it is not adequately reported. Aside from Exxon and Chevron this also applies to ConocoPhillips. AP7 also plans to file the same resolution at the general meetings in 2017.
- We identify issues that suit us and what we want to achieve, and we join together with other types of organisations, which can create a number of interesting alliances. The shareholder proposal at Exxon's general meeting was submitted for example by the trade union United Steelworkers Association, who owns a tiny share. We come with in with a much larger amount of invested capital and supported the proposal, despite the fact that we might have different underlying motives.

In 2016 AP7 co-filed a total of six different share-holder proposals. In addition to the oil companies it was at the general meetings of three mining companies in Great Britain: Anglo American, Glencore and Rio Tinto. While resolutions are a well-known tool and a relatively simple process in the USA, in Europe it is highly unusual for shareholders to submit a proposal. Traditionally in Europe there is more dialogue between the owners and the corporate management, while share-

holders in the USA more often file resolutions, opposing the company management.

- In Great Britain, for example, it is unusual for shareholders to file shareholder resolutions. There it is more common to try to influence using dialogue and seek consensus.

AP7's climate resolutions received very different responses on the two sides of the Atlantic.

- In the USA, Exxon, Chevron and ConocoPhillips did not support our proposal and called for shareholders to vote against it at the annual general meeting.

Since most shareholders traditionally vote according to the management's recommendations the proposal did not receive enough votes to pass. In Great Britain however, the proposal filed by AP7 together with other owners to three British mining companies, got an overwhelming majority of the votes. In all cases the company management supported the proposal and recommended their shareholders to vote for it, which was crucial to the outcome.

However, even if shareholders can get the support of company management in Europe, it can be a protracted process to bring the proposal to reality.

- The British mining companies have, at least on paper, accepted that they need to adapt their operations and therefore presented plans and have taken action.

When a resolution has been made the companies must implement what they have agreed to. However, as a shareholder it can be relevant to follow up and check that it is realised. As a shareholder AP7 may demand that the company reports on a number of facts, such as climate strategies, which industry organisations they belong to and how much money they spend on lobbyists in Washington DC and Brussels.

AP7 is also dependent on the companies reporting their greenhouse gas emissions in order for the fund to be able to account for its own carbon footprint. Of the approximately 2,600 companies that AP7 has in its portfolio, only two-thirds report their emissions.

 There we see a large information gap which makes it impossible to assess the environmental impact of these companies. It makes it difficult for the market to price the companies correctly.

In 2017 AP7 incorporated the Paris Agreement into the norms based framework used to screen the portfolio, which is the basis for AP7's blacklist. Companies that by AP7's analysis are opponents to climate mitigation will hence be publicly blacklisted.

However, the fund also keeps a dialogue going with blacklisted companies in the hope that they will make the changes necessary for us to invest in them again.

- "We prefer to be owners and drive positive change through voting and involvement," says Charlotta Dawidowski Sydstrand.

Voting season 2016

In 2016 AP7 voted at 3,009 of 3,094 possible general meetings, corresponding to 97 per cent. At 44 per cent of the general meetings at which the fund voted, AP7 has voted against the recommendations of the management on one or more items. This was either by voting against the management's proposal or for a shareholder resolution that did not get the support of the management.

Voting on sustainability issues

Almost all matters put to the vote at a general meeting are submitted by the company management, and a great deal of them concerns formal and administrative matters. Only a small portion of the agenda are proposals from shareholders. In the 2016

voting season there was less than three per cent of all voting items that were put forward by shareholders. When sustainability issues are voted on at a general meeting, it is almost always in the form of a shareholder proposal.

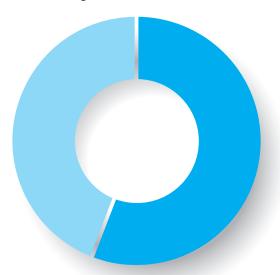
In 2016 a total of 242 shareholder resolutions on

various matters of sustainability were filed at general meetings, showing an increase from the 235 filed in 2015. Of these, AP7 supported most of them, totalling 66 per cent, abstained in 18 per cent of cases, and voted against 16 per cent of the proposals.

The trend of more and more climate proposals being

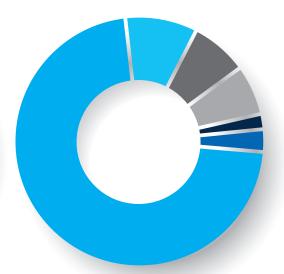
AP7's support of management recommendations in the 2016 voting season

The most common issues addressed in shareholder proposals filed in 2016.



General meetings where we voted in agreement with management recommendations on all agenda items, 56%

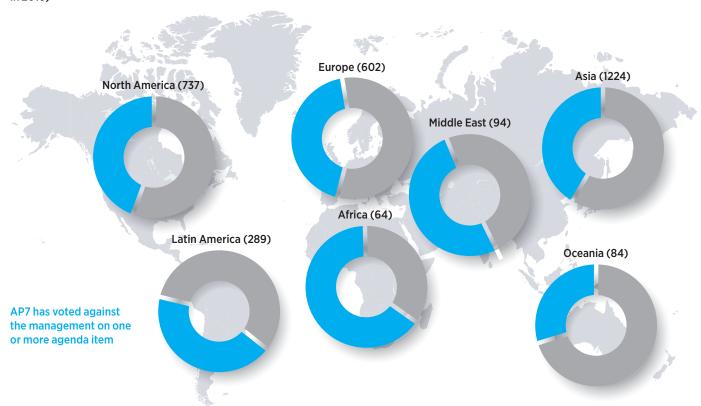
General meetings where we voted against management recommendations on at least one agenda item, 44%



Climate/environment Lobbying/political donations Compensation

Human rights
Diversity/anti-discrimination
Other proposals

Votes per region (total number of general meetings in 2016)



filed by the shareholders continued in 2016. A total of 48 climate-related proposals were submitted and AP7 voted in favour of 46 of them. During the year there were also 44 proposals concerning corporate lobbying and political donations. In all cases AP7 voted for the proposals. The majority of these put forward demands on improved reporting by companies on their lobbying activities.

Other shareholder proposals supported by AP7 were transparent sustainability reporting, increased sustainability competence at board level, and the requirement to conduct risk assessments on human rights.

Voting per region

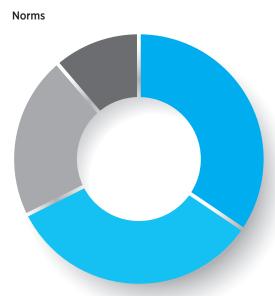
In the 2016 voting season, AP7 voted at general meetings in 56 different countries, with the majority being in USA and Japan, accounting for 35 percent of all general meetings. The number of meetings is not equal to the number of companies since companies may hold more than one general meeting per year. This is more common on some markets such as in China.

Engagement

Engagement is a direct way for shareholders to participate in driving change in companies. AP7 currently has a great number of information-gathering dialogues regarding reported incidents of norms violations. In 2016 AP7 conducted in-depth engagement with 308 companies, about a total of 380 cases of verified or potential violations, to encourage the companies to act responsibly in challenging situations. Of these companies, 55 were blacklisted at the end of the year.

Apart from norms-based impact dialogue concerning company actions in reported incidents, AP7 in cooperation with other investors has had a dialogue with or contacted another 80 companies within the framework of the climate theme.

Ongoing engagement by the end of 2016

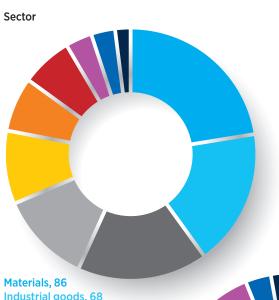


Human rights, 133 Environment, 122 Labour rights, 84 Corruption, 41

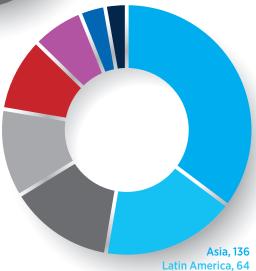
Why blacklist?

AP7's norms-based model means that we do not invest in companies that fail to respect international norms regarding the environment, human rights, labour rights and anti-corruption. Once a failure to respect norms is identified and the subsequent engagement with the company has not resulted in a satisfactory improvement, then a tool is needed to highlight and stress the importance of the norms violation. That is why we twice a year publish the names of the companies we blacklist, together with the reason for exclusion. This has been our approach for 15 years and we know that many other investors keep an eye on AP7's blacklist and compare it to their own portfolios. This creates pressure. The principle is simple, there are companies we would like to invest in if it wasn't for...

Our ambition is to be able to invest in these companies again as soon as the violations have ceased or substantial progress in the right direction has been made. We believe that this creates motivation for change. To identify and verify norm violations, AP7 gathers information from a large number of sources, including the UN and other intergovernmental



Industrial goods, 68
Energy, 60
Finance and real estate, 44
Consumer durables, 38
Groceries, 28
Electricity supply, 25
Healthcare, 13
Information technology, 11
Telecommunication
operators, 7



Africa, 50 North America, 45

Middle East, 38

Europe, 25 Oceania, 12

Region

Globally, 10

organisations, authorities, courts, the mass media and non-governmental organizations. The information is quality assured and the company's responsibility for the situation is investigated prior to judging whether or not they have failed to uphold respect for the norms. In this process AP7 is supported by several external experts.

In December 2016 a total of 55 companies were blacklisted.

Blacklisted companies 2016

During the year twelve companies were added to AP7's blacklist. These included Aecom Technology, Brookfield Asset Management, Harris Corp, Serco Group, SGL Carbon and Leidos for involvement in nuclear weapons. Additionally, HP Enterprise was blacklisted for human rights violations in connection with activities in the occupied Palestinian territories, Olam International for human rights violations in connection with cotton production in Uzbekistan, AviChina for sales of weapons to Burma in violation of an EU-embargo; Cemig Companhia Energetica de Minas Gerais (Cemig) for human rights violations in connection with a dam building project in Brazil, and Repsol and SK Innovation for human rights violations in connection with a gas extraction project in Peru.

Removal of companies from the blacklist 2016

Four companies were removed from the blacklist during the year. These were the companies Doosan and Singapore Technologies that ceased production of cluster weapons and anti-personnel mines, Stora Enso that met the requirements for measures to prevent child labour in its supply chain in Pakistan, and Cemex

that no longer extracts minerals in the occupied Palestinian territories in violation of UN norms.

Securities class actions

AP7 utilizes legal processes and securities class actions against companies that have treated their investors wrongfully. This may for example be that the company attempts to avoid a fall in share price by not providing investors with correct information. Most lawsuits are settled

The purpose of the legal processes is both to be compensated for any wrongdoing but also to discourage companies from causing financial damage to their investors. To date, AP7's savers have received SEK 50 million in compensations through legal processes and class actions.

Together with other institutional investors, by the end of 2016 AP7 had nine ongoing class actions,

- Vivendi
- Owen Financial Group
- Green Mountain Coffee Roaster
- Petrobras
- Toshiba
- Volkswagen
- Allergan Inc
- Facebook
- Cobalt International Energy

During the year AP7 agreed to settle cases with Sino Forest, Merck & Co, Under Armour and RBS. All settlement amounts have not yet been decided. The suit against Zillow Group was dismissed in court.

Charlotta Dawidowski Sydstrand, ESG Manager at AP7



AP7 goes in-depth

- a thematic approach

Private Equity

Climate 2015-2017

Fresh water

Since 2014 AP7 has been working thematically to supplement the norms-based approach. Our thematic work adds depths and focus as well as creates synergies in AP7's corporate governance processes. Focusing on a few themes at a time gives the possibility for deeper knowledge and reflections in a complex area relevant to our investments. Every year a new theme is launched that runs over three years, meaning that three themes ran concurrently for the first time in 2016.

The themes steers AP7's priorities in several ways. This will have consequences for both our work in engagement and in voting efforts. It will also lead to increased cooperation with other stakeholders to influence standards and norms in the area in focus.

When choosing a theme, some of the key selection criteria are that it should be relevant to AP7's holdings and asset classes, that AP7 can have a reasonable impact in a resource efficient way, and that there are available interested partners to cooperate with.

Based on AP7's role, assignments and investment beliefs, we have identified three roles through which we can contribute the most to sustainable development: as active owner, facilitators and knowledge-builders.

AP7 as active owner

AP7's largest contribution to sustainable development is by being an active owner. Through active governance we endeavour, together with other likeminded investors, to formulate the ground rules for companies, which we then impel them to follow.

The starting point for AP7's corporate governance is that we are universal owners. This is built on the fact that we buy the entire market rather than pick specific stocks. As a pension fund manager, we are also a perpetual owner looking for broad impact on the entire market. Our ambition is to contribute to solutions to existing problems, rather than to avoid the problem by, for example, divesting certain industries and regions.

We work together with other investors to develop the standards, guidelines and viewpoints that represent responsible ownership. To this end we have a number of different tools to our disposal as an active owner.

We also use our voting rights in the companies we own and strive to vote at all general meetings. In 2016 we also started submitting our own shareholder proposals at general meetings. We enter into direct dialogue with companies on specific thematic issues or on reported incidents of potential norms violations. If we have verified information that a company has, for example, violated human rights and environmental standards, we blacklist the company as an extreme measure. The goal is to influence companies to improve, enabling us to invest in them again.

AP7 as facilitator

Another important contribution that investors can provide to promote sustainable development is to finance solu tions that assists the world meet the challenges we are facing. We believe that our invested capital can be of the most benefit to migitate climate change, for example, by financing activities that offer climate innovations and solutions for a low-carbon society.

AP7 will have green mandates in all asset classes we are allowed to invest in. These mandates are earmarked for investments that solve sustainability problems. Thus far we have invested in green bonds in our fixed income portfolio. For some time now, we have had a broad clean-tech mandate in our private equity portfolio and during the year we have initiated procurement of a green mandate for listed assets.

AP7 as knowledge-builder

In the role of knowledge-builder, AP7 can contribute to the development of new knowledge, spread existing knowledge and bring together different organizations in society in a public dialogue on matters of sustainability. We want to contribute to constructive discussions between decision-makers, business and investors. As far as we can we want to help close the gap between research and practice in the area of sustainable investments.

Read more about Framtidsforum on page 22, and the research project for a greener finance sector that we have initiated.

Private

The theme for 2014, which was also the very first, focused on deepening our corporate governance in the Private Equity asset class. The theme project ended in 2016 and resulted in a new process to evaluate and promote ESG considerations in our Private Equity investments.

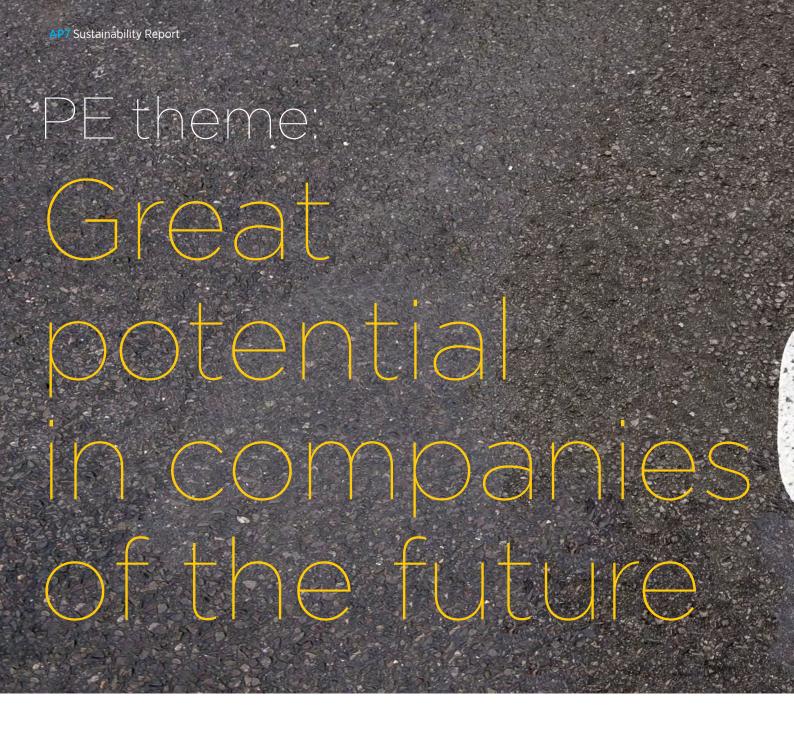
Climate Water

In 2015 we launched Climate as the theme, with the aim of investigating how we best can contribute to mitigate climate change and promote a transition to a low carbon economy. This theme ends in 2017 and will be reported on in next year's sustainability report.

In 2016 the theme Fresh Water was introduced, which aims to examine how we in our corporate governance and investments can contribute toward the UN's sustainability development goals on clean water and sanitation (SDG 6).







The theme for 2014, which was also the very first, focused on investments in the Private Equity (PE) asset class. The theme project ended in December 2016. The aim was to develop tools to more deeply integrate the sustainability perspective in our PE asset management and work toward developing a methodology in the industry. Once the theme is closed the tools and processes we have developed become part of the annual evaluation of our external PE managers.

Unlisted companies play an important role in the economy and sustainable development. Not least because they have many of the new business ideas that can provide the solutions to the challenges the society is facing. Since 2007 AP7 have a mandate within the PE portfolio dedicated to clean-tech investments.

Methods and guidelines for integrating sustainability in PE management

Our corporate governance is different for unlisted
 Private Equity companies and the listed public
 companies. We work in different ways and now we can
 deepen our corporate governance related to this asset

class, says Charlotta Dawidowski Sydstrand.

AP7 aims to be a dialogue partner and provide support, knowledge and guidance to its Private Equity managers and has developed tools to assess managers and drive their work forward. AP7 has also, together with a number of other investors, developed an assessment tool for the entire PE industry.

- We urge our managers to increase focus on ESG risks and opportunities, and push them to continuously improve. They should feel constructively challenged, says Charlotta Dawidowski Sydstrand.

To get a good baseline, AP7 asks its managers to answer a number of questions: What is their sustainability policy, do they have adequate knowledge and resources, what type of follow-up, reporting and other processes do they have?

– Based on the answers there is a discussion on what the next steps for them are. We propose annual targets that we then follow up on. Our ambition is that they not only assess financial performance but also material ESG risks and opportunities. For example, how do companies source their raw material, the climate-impact of the company, and the working conditions of employees.

Since 2007 AP7 has invested in clean-tech. The term cleantech encompasses a number of different activities with a positive environmental impact as the common denominator. Among our investments is electric car manufacturer Tesla which AP7 started to invest in back in 2008, when the company was still quite new. Today clean-tech accounts for 20 per cent of AP7's unlisted assets.



AP7 does not micromanage its fund managers, but strives for them to view the ESG perspective as a value-creating, natural part of the company analysis.

 We see that during the year we have managed to bring matters of sustainability onto the agenda, and have also gotten our partners to improve their reporting. Transparency is important to us and we also need to encourage our managers to develop a systematic way of measuring and assessing the sustainability aspects of their investments.

Charlotta Dawidowski Sydstrand points out that some PE managers have come a long way and view sustainability as a benefit to business. She also sees that managers in Europe in general have come further than the average in the USA.

 Wise asset managers know that a good understanding of material sustainability issus provides a competitive advantage. At the same time it is important that we as asset owners keep going and show that we expect continued positive development.

Private Equity theme

- Since 2002, AP7 has invested 3 per cent of its managed capital in unlisted companies. AP7 outsources its fund management to specialised PE managers.
- During the period of the theme, AP7 developed and tested tools for assessing how well our managers integrate significant matters of sustainability into their management of unlisted companies.
- One impact method that worked well in driving development in the industry was to set clear, measurable goals for the managers. In dialogue with the manager every year AP7 drafts new goals to develop the guidelines, organisation, reporting, tools and processes for ESG analysis. At the following year's assessment we follow up how well the targets were met. In this way we drive continuous improvement of our fund managers' efforts in sustainability.
- In 2015 AP7 joined a number of other investors within PRI and developed an industry standard for assessment of PE managers. The guideline entitled "PRI's Limited Partners Due Diligence Questionnaire" was launched in November 2015, and can be downloaded from PRI's website.

Climate theme: Paris Agreement Opens new Opportunities for active owners

The climate theme was launched in 2015 and will run until the end of 2017. The aim is to investigate how we can best contribute to mitigate climate change and promote the transition to climate-smart technologies and renewable energy.

Exit climate mitigation obstructers, enter climate solutions

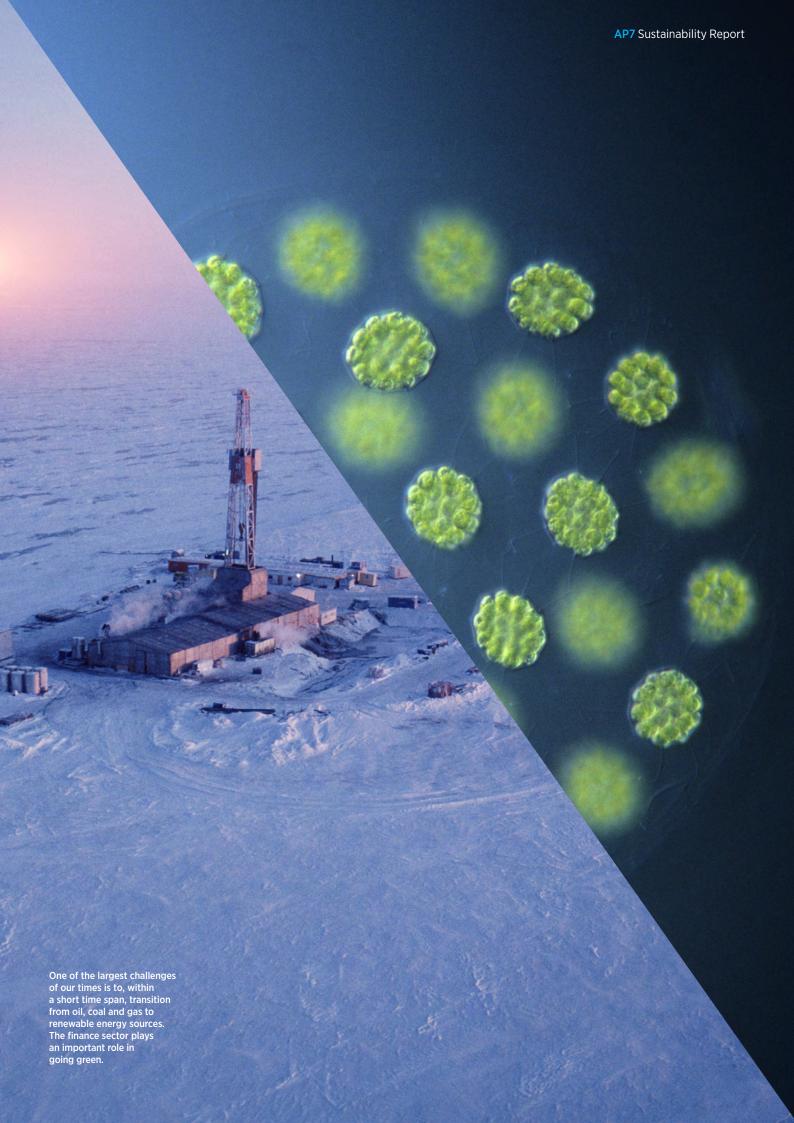
AP7 has decided to start blacklisting companies that do not live up to the UN's new climate agreement, and to invest in companies with activities that contribute to solutions to climate problems.

AP7's view on corporate governance is built on the values expressed in the international conventions that Sweden has signed regarding human rights, the environment, corruption and labour rights. With the signing of UN's climate agreement in Paris in autumn 2016, for the first time there is an international agreement to lean on and use as a norms framework for the convention on climate change.

AP7 decided to make use of it and in 2016 started to integrate the agreement in the ongoing norms-based screening of the portfolio to identify companies counteracting the climate agreement in the same way as for companies that violate, for example, human rights.

As a universal owner that is invested in the entire market, AP7 is firstly interested in working with matters of sustainability at a systemic level, which will then lead to activities toward individual companies. This is all pervasive in the form of norms-based corporate governance in practice at AP7 since the fund's inception in 2000.

With the decision to integrate the Paris Agreement in the norms framework, a key challenge is to take a governance perspective on systemic climate issues. AP7 conducted an initial test screening of the equities portfolio in December 2016, based on two grounds for



exclusion: companies that directly oppose the agreement's implementation in the form of laws and regulations, and companies that develop new operations that is not in line with the goals of the agreement.

AP7 exercises corporate governance by voting at general meetings and in some cases even by filing its own shareholder resolutions. The fund votes in the great majority of companies within the portfolio, and also influences how companies are run in several hundred cases. In cases where the company acts in direct violation of the norms the fund blacklists the company and sells its shares. In extreme cases it may even lead to legal processes. All these methods can be relevant in cases relating to the climate.

AP7 contributes with a case study to a research of the impact of dialogue with companies

AP7's core values are based on the values in the Swedish democratic society, with broad public and political support. Many of AP7's values are shared with other investor, hence making possible to work together in engaging with companies we are invested in. However, the fund does not, for example, take into account religious or other ethical values when making investment decisions.

AP7 does not believe that general sector or region divestment have any influence on the marketplace and the companies in it. The strength of blacklisting, as oppose to divestment, is that individual companies are then screen against clear norms shares by the Swedish people. The public disclosure of the blacklist as well as the reasons for company exclusions further strengthen the impact of the blacklisting. It is certainly a more complicated process than to exclude the entire industry, but necessary if the goal is to influence the actions of the company.

For AP7 the idea is not for blacklisted companies to remain on the blacklist forever. On the contrary, the hope is that they will make the improvements that will make it possible to invest in them again. AP7 welcomes cooperation with others on blacklisting, but always makes sure it is based on our own assessments.

Corporate governance, including blacklisting, is one way for AP7 to contribute to climate mitigation. The other contribution comprises investing in companies whose business focuses on solving climateproblems. In that regard the fund has decided to procure a green investment mandate for listed companies with this focus.

The climate agreement is likely to generate new investment opportunities. In the affected sectors there are many small and medium sized companies that can benefit from the climate agreement and its consequences. This may be anything from renewable energy to energy efficiency and water issues. Some will grow significantly and some may even be tomorrow's real success stories.

Framtidsforum – Research on the financial sector's role in the green transition

With Framtidsforum AP7 has decided to create an arena for discussion across sectors in society. Dialogue has the potential to bridge the silos that easily arise and creates barriers between theory and practice, business and politics. At Framtidsforum stakeholders meet to identify the current issues and to agree on joint initiatives. The overarching theme has been the finance industry's contribution to a sustainable society.

The first event was held in spring 2015 and was based on the Stockholm Environmental Institute (SEI) report New Climate Economy and document Investors in a new climate economy that AP7 and SEI developed together.

Framtidsforum 2016 saw around a hundred participants gather at a workshop with the aim of identifying relevant research topics on the finance sector's contribution to sustainable development. Themes discussed were, among others, ground rules, innovation and infrastructure investments. A recurring discussion was also the definition of sustainable valuecreation and the need for a common understanding of what it entails.

The themes discussed were later supplemented by interviews with the participants at Framtidsforum. This resulted in three research topics,

- Actual effects of investors' climate strategies
- Promoting the long-term perspective
- Financing of sustainable infrastructure

What unites these three research topics is that they lie at the intersection of theory and practice and are regarded as relevant by academia, the finance industry, business and politics.

AP7 has decided to contribute in the research of the of the first theme, Acctual effects of investors' Climate Strategies.

Actual effects of investors' climate strategies

Many studies have been made of the effect of sustainable investments on financial results in the last decade. Significantly fewer studies have been made of the impact of investment on sustainable societal development. As a sustainable investor you ask yourself if you are making a real difference.

The issue of the impact of sustainability was identified as an important research topic at Framtidsforum 2016. There is still a lack of scientific methods to measure the societal impact of investors' climate strategies.

– Based on this AP7 together with MISUM have initiated the Vinnova-funded project Greening of the Finance Sector, How research can inform financial

decision-making processes. Together with Storebrand, AP7 is a partner in the sub-project Investing for impact - Investor Strategies for Phasing out coal. MISUM coordinates the project and is also the academic partner that can impartially assess and compare investment strategies.

The sub-project, which runs from 2017 to 2019 shall attempt to answer questions such as: What are the concrete effects of investors' sustainability strategies? Are any strategies more or less effective? Are there any activities that are absolutely ineffective? Knowledge is important to AP7 and also to other stakeholders in the finance industry that want to maximise the impact of their strategies and measures the results of their involvement.

In the project Storebrand will contribute by providing data for a study of the impact of divestment from coal companies. AP7 will contribute with the basis for an assessment on engagement with utility companies that base part of their production on coal.

Focusing on utility companies that produce electricity

When, in 2015, AP7 started working on the climate theme we conducted a mapping and analysis of our assets. It soon became clear that the utility sector emits the most greenhouse gases of all sectors on the stock market.

We also saw that utilities will play a key role in the transition to a greener society. These companies are facing a major transformation where they must meet society's increasing need for electricity, heating and cooling while still reducing their carbon emissions. If we are to achieve the 2° C target, companies in this industry will need to phase out coal as an energy source and transform their production to climatesmart, renewable fuel. By focusing our corporate governance on this sector, which accounts for the largest users of fossil fuels, we can contribute to driving a reduction in demand for coal, gas and oil.

AP7 is part of the Institutional Investors Group on Climate Change (IIGCC), where we drafted clear expectations for electricity companies in 2016. The Investor Expectations of Electric Utilities Companies report can be downloaded from IIGCC's website and can form the basis for investors that want to use their influence to impact companies.

In 2016 we continued our engagement with 20 electricity producing companies, which we initiated with our analysisprovider, GES, in 2015. Through dialogue AP7 wants to influence these companies to make strategic decisions to minimise their carbon emissions in line with investor's long-term interests and expectations. We are clear about our expectations and call for more transparency around emission levels, goals and means of control to transform the core business.

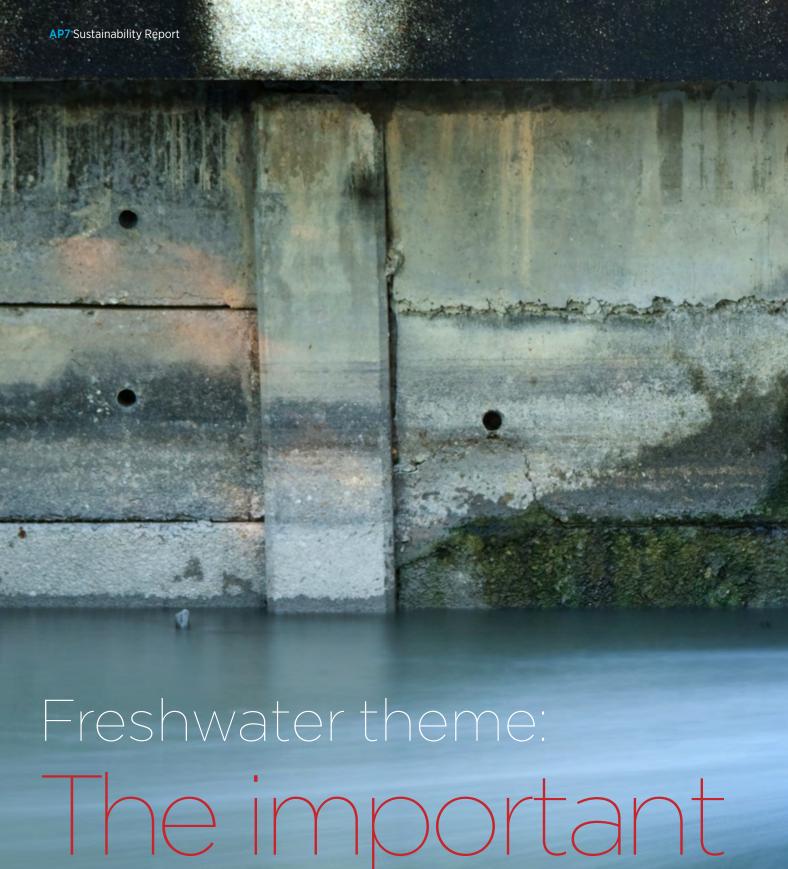
By allowing researchers from MISUM to study our engagement work with the electricity production sector, we hope to be able to contribute to developing methods in the market to measure the effect's of investor's corporate governance. We hope to also to get an assessment of how effective our own work has been. Results of the research study will be published in 2019.



Johan Florén, Head of Communications and ESG, AP7

AP7 measures our carbon footprint

- In 2016, for the third consecutive year, AP7 measure the total carbon footprint of AP7's Equity Fund. Unlisted assets account for three per cent of te Equity Fund, and are not included in the measurement. The Equity Fund managed SEK 315 billion as at December 2016 and accounted for 92 per cent of AP7's total managed capital.
- The analysis was performed by Your SRI/Southpole and includes emissions equivalent to scope 1 and 2 according to the GHG Protocol. Calculations have been made from 67 per cent reported and 33 per cent estimated data on emissions from companies that are within the portfolio.
- The utilities sector accounted for most of AP7's carbon footprint, equalling 37.5 per cent of the footprint. Mining, forestry and metal industries accounted for 25.7 per cent, while oil and gas accounted for 18.6 per cent.
- The absolute carbon footprint of AP7 Equity Fund, corresponding to the ownership share of the company's total emissions measured in CO2e was
 million tonnes. This is in line with our benchmark index MSCI ACWI, whose total carbon footprint at the same time was 5.6 million tonnes of CO2e.
- 2. The carbon intensity, where the absolute carbon footprint relates to the share of the company's market value for AP7 Equity Fund, was 17.2 tonne per million Swedish kronor. MSCI ACWI at the same time: 17.7 tonnes CO2e per million Swedish kronor.
- 3. The carbon intensity, where the absolute carbon footprint relates to the share of the company's turnover was 27.0 tonnes CO2 per million Swedish kronor, MSCI ACWI: 27.4 tonnes CO2e per million Swedish kronor.
- In 2015 the AP funds established a collaborative group to coordinate the reporting of carbon emissions. The group's recommendations for standardisation have been adopted both in Sweden and internationally.
- In 2016 the collaboration group investigated the possibility of also coordinating the reporting for other asset classes than just listed shares. The AP funds concluded there is still a lack of methodology and data to measure other asset classes. Since AP7's managed capital is largely made up of listed equities, we report a climate footprint as at December 2016 on approximately 89 per cent of our investments.



Water



The theme introduced in 2016 was fresh water. 2016 was thus the first year with three concurrent themes in progress. The fresh water theme aims to examine how we as universal, active owners can contribute to the UN's sustainable development goals concerning fresh water resources and access to clean water and sanitation for all (SDG 6).

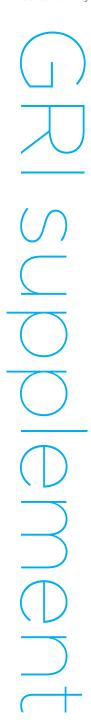
A global fresh water crisis is regarded as one of the biggest threats to the world economy. In 2016 AP7 started in-depth thematic work aimed at how we as universal, active owners can contribute to the UN's sustainable development goals concerning fresh water,

As part of this we initiated cooperation with Sida in 2016, where AP7 participates in a task group on how investors can contribute to SDG 6. The group focuses on impact, partly through corporate governance, and partly through investments.

AP7 will use its influence to drive this issue in the companies we are invested in, and has initiated impact work in three stages.

The first stage is to identify companies in sectors that have a high exposure to water related risks. We map the quality of policy and emergency preparedness to handle the fresh water problem. We also map what operations the company has in regions suffering shortage of water or other problems related to access to water. The results of the study was published at the beginning of 2017 and based on this impact dialogue will be initiated with the companies and stakeholders.

The overall aim is partly to push the companies to better assess, report and handle water-risks, and partly to build knowledge and cooperation. At the end of the project we will repeat the pre-study's mapping to see if there has been any development.



About the report

AP7's sustainability report is for the period 1 January to 31 December 2016. The report is released annually. The last sustainability report was published on www.ap7.se on 13 April 2016. The sustainability report for 2016 is prepared according to GRI's G4 Sustainability reporting guidelines. We report according to the Core option together with a sector supplement for companies in the finance industry. A complete GRI index is presented on page 30-31 of the Sustainability report for 2016.

In GRI's G4 Sustainability Reporting Guidelines, a systematic stakeholder engagement and materiality analysis is mandatory. The 2016 report builds on the analyses and interviews completed for the 2014 sustainability report.

AP7's report is grounded on our view of sustainable development and corporate responsibility. In focus are the investments where we have the biggest possibility to influence and contribute to sustainable development worldwide

In the texts we explain, among other things, AP7's role in sustainable development, how we as universal owners influence the companies we invest in and also about our thematic approach. In 2016 three themes have been in focus –private equity, the climate and water.

At the end of this report there is a GRI Index that provides a guide to the information on GRI's standards and information on how we work with matters of significance, and the indicators in the GRI Standard that we report on. The contact person for the report is Johan Florén, Head of Communications and ESG, +46 8-412 26 64.

Materiality analysis

The analysis began with an internal workshop where we together drew the picture of AP7 and our environment. The discussion was based on AP7's task and strategy - how the company is organised, what it depends on and where our most important stakeholders are. What are the critical questions for our stakeholders and for us? In which areas do we have the most impact and what are our risks and opportunities? What are the long-term trends and how are we affected by them? In this way we could identify the focus areas and trust issues listed above, and while also removing things neither us nor our stakeholders regard as significant in the broader perspective. For example we assessed it as less relevant to report on AP7's environmental efforts because we are a small organisation with limited environmental impact.

Then we reverted to various stakeholder groups for feedback on our conclusions. These were selected on the basis of their expertise, their influence in the public debate and their relevance to AP7. In some cases there

were depth interviews, others were based on surveys and letters. The stakeholders confirmed the areas identified by AP7, and also deepened and broadened the analysis. On our website you can read more about some of our stakeholders views.

Our stakeholders and how we collaborate

AP7's most important stakeholders are in part the official organs that regulate and monitor our business, and in part the three and a half million savers pension funds we manage. Another stakeholder group is the voluntary organisations that are interested in how the government pension funds are managed:

The Ministry of Finance is responsible for control and follow-up of AP7's business, and contact with them is both in the form of annual assessments and on a continuous basis.

The Swedish Pensions Agency collaborates with AP7 by administrating the capital flows and handling pension payments. AP7 has ongoing dialogue with the Swedish Pensions Agency.

The Swedish Parliament (pensions group) provides, through the Act on Swedish National Pension Funds, AP7's mission.

AP7 reports annually to Finansinspektionen who has supervisory responsibility over AP7's operations.

AP7 has ongoing contact with individual savers that have questions. AP7 also conducts annual surveys to check how the Swedish people feel about different pension-related matters.

AP7 works together with other parties in the finance sector to push the development in responsible investment. One of these forums is Swesif, Sweden's forum for sustainable investments, where AP7 in 2014, 2015 and 2016 has held the role of chairman.

AP7 is in continuous dialogue with voluntary organisations and media that are engaged in different issues and how AP7 generally works with responsible investment.

What do the stakeholders say? You can hear some of their voices on our website,

- Savers and the general public
- Independent pensions expert
- Ministry of Finance
- Swedish Society for Nature Conservation
- Swedish Pensions Agency
- PGGM, a Dutch pension fund manager and universal owner

Focus area

We have identified three overarching areas where AP7 can make a difference. In all three we have good conditions to take initiative and drive development in our industry.

Safe pension capital

AP7's mission is to manage the pension funds of the savers that have not opted for any of the private funds in the premium pension system. AP7 shall do this in such a way that the savers get a good return without being active on the fund market. An increase in fund value is crucial if the confidence in AP7 and the pension

Distribution by region according to our portfolio, listed companies (%)

North America, 50.2 Europe, 21.0

Asia excl. Japan, 8.20 % Japan, 7,5

Australia & New Zealand, 2.3 Africa & Middle East, 1.3 South & Central America, 1.2



system as a whole is to be maintained. Thus far AP7 has been successful in delivering a better return than the average of the private funds.

Responsible investments

AP7 as a government agency and fund manager has a responsibility to the world at large, as well as to future generations. We have to deal with the environmental, social and ethical risks that exist in the companies we are invested in, while also nurture new opportunities for sustainable wealth creation. Since the beginning of 2000, AP7 has been working actively with responsible investments and we view matters of sustainability as part of good corporate governance. We have four different means of influencing: public blacklisting, voting at general meetings, engagement and legal processes. From 2014 the norms-based model has been supplemented by an in-depth thematic approach.

On the Såfa-savers terms

Pensions and the pension system is complex and difficult to communicate in a simple manner. Many of AP7's three million savers find it an area that is difficult to understand, while they also have limited interest. For savers to have a reasonable opportunity to make informed choices that they feel safe with, it is important that they are given the correct information on what happens if they do not actively make a choice at all.

Management

In 2016 the further strengthening of AP7's management and internal control have been given major priority. Recruitments a couple years ago in the areas of fund management, administration, communications and corporate governance has meant that the company now has a clearer way of owning and controlling its risks. Among other things, it has involved creating a clear division between the company and the independent control functions (risk and compliance) for the past two years.

As part of the operational plan the Board of Directors of AP7 establishes an ownership policy every year. It states how AP7 shall exercise its rights as owners through its shareholding. The ownership policy is based on three main areas: management based on environmental and ethical considerations, and corporate governance (ESG).

In 2016 AP7 continued to work on developing processes in the area of corporate governance. A new theme, "Fresh Water" was initiated, and improved guidelines and regulatory documents for corporate governance processes were developed.

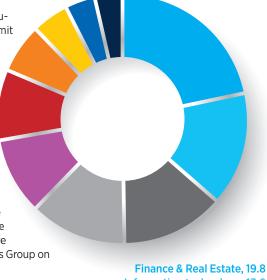
The guidelines for corporate governance describe how AP7 as shareholder, within the framework of its mission, influence companies to take responsibility for sustainability, ethics and good corporate governance. The guidelines for corporate governance are concretised in a number of CEO instructions for voting, public blacklisting, class actions and the in-depth thematic approach.

The Head of Communications and ESG has overall responsibility for AP7's work with responsible investments. An ESG Committee made up of the CEO, CIO, and Head of Communications and ESG monitor the work and make decisions in matters of significance. The Committee meets once per quarter or when necessary. The blacklist is determined and finalized by the Board's working committee, which may also be step in in matters of special importance.

All employees are required to follow AP7's ethical guidelines, which places major emphasis on the behaviour of employees and regulates matters such as representation and gifts, procurement, secondary employment and any conflict of interest. The guidelines aim to prevent employees or their close relatives from deriving any benefits from their connection to AP7, or from creating conflicts between the fund's interests and employees' private interests. All employees confirm annually that they are familiarised with the fund's ethical quidelines.

In AP7's internal control documents and core values we commit to following the UN Global Compact, OECD Guidelines for Multinational Enterprises and **OECD Guidelines on Corpo**rate Governance. AP7 has also signed and/or is a member of the UN Principles for Responsible Investments (UNPRI), Carbon Disclosure Project (CDP), International Corporate Governance Network (ICGN), Sweden's forum for sustainable investments (Swesif), Extractive **Industries Transparency Initative** (EITI) and Institutional Investors Group on Climate Change (IIGCC).

Distribution by industry according to benchmark index (%)



AP7 as an employer

AP7 is a government agency with 23 employees, of which ten are women and thirteen are men. All perma nent employees are covered by the collective bargaining agreement, BAO-JUSEK (SACO). The agency is located on Vasagatan in Stockholm and has no offices abroad.

The agency resides in Sweden although investments are made throughout the world. The CEO is Richard Gröttheim. The management team

consists of five people, one woman and four men.

During the year one person has resigned and one person has been hired.

It is important to AP7 that employees have a sense of well-being and that there are the right competences at the agency. All employees have had performance reviews during the year with their superiors.



Healthcare, 11.5 Groceries, 9.0

Industrial goods, 8.4

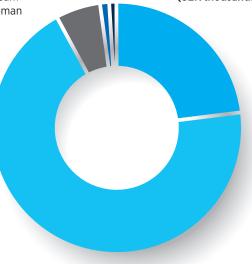
Energy, 5.8

Materials, 4.4

Telecommunication operators, 3.5

Electric utilities, 3.2

AP7's value-creation per stakeholder category (SEK thousands)



Payroll (Employees), 39 319 Operating expenses (Suppliers), 116 004 Payroll taxes (Government), 9 956 Interest (Creditors), 1611 Other, 94



AP7's mission

AP7 shall offer a cost-efficient state alternative that provide it's savers a good long-term return on their premium pension. The asset management in state default alternative shall take age into consideration when assessing the risk level for individual savers. The premium pension should be seen as a supplement to the state income pension, and this should also be reflected in the risk-profile.

The long-term expectation for pension funds under management by AP7 is a return of 2-3 per cent higher than the state income fund. AP7 has developed and follows a guideline within the premium pension system: "Those who cannot or don't want to choose shall get as good a pension as everyone else".

Fund management shall be solely in the interests of the savers. There shall be no considerations take to business or political factors. The asset management shall however take environmental and ethic factors into consideration, without sidestepping the overarching goal of high investment returns."

Distinguishing features of AP7 in the premium pension system.

- Manages only premium pension
- No demands on profit
- Benefits from economies of scale
- State pension fund

Practical consequence of the mission and AP7's features

Unique mission based on a long-term and holistic view

- investment beliefs as guidance
- within a legislated framework

Of great public interest

- striving for clarity and transparency in all parts of the business
- patency surrounding long-term goals, over which time-frame these shall be achieved and how they should be assessed.

Asset owner perspective

- AP7 shall consider the impact of investments for current and future generations
- AP7 shall use its influence as owner to impact the companies in which capital is invested

Organisation

- The organisation's ability incorporate different experiences, knowledge and perspective through well-developed teamwork is vital to the fund's long-term success.
- AP7 shall have an organisational culture of continuous improvement.

Investment beliefs

There are two sources to returns on investments: 1) systematic exposure to risk premiums and 2) active value-creating management.

AP7's mission is to, over time, combine these two sources into a way where the state default alternative and the other AP-funds together satisfies their roles in the Swedish pension system. In this work AP7 is guided by the following investment beliefs that are split into five categories: risk-taking, diversification,

active management and dynamic allocation, costefficiency, corporate governance and sustainability.

Risk-taking

1. AP7's risk is multifaceted. This means that:

- The risks are not fully caught by any single risk measurement such as volatility or tracking-error.
- The long-term nature of the fund's mission should be reflected in the measurements and methods for measurement that are used.
- The fund's results should be assessed from a holistic perspective and through a broad spectrum of indicators.

2. There is no return on investments without risk. This means that:

- The main source of long-term return is to participate in economic growth, primarily through the stock market.
- A relatively high risk shoud be strived for for the majority of the savers life, in order to give a acceptable return for the total state pension.
- AP7 shall expose assets to risk factors that over time can meet target return ambitions, including the use of leveraged products.

Diversification

- 3. Diversification increases the protection of our savers against unexpected events, and provides them with better risk-adjusted returns in the long term. This means that:
- AP7 invests the majority of savers' money in the global stock market.

The absolute majority of the state pension is made up of income pension, which can be regarded as a Swedish fixed income investment. Therefore, the premium pension should largely be placed in the international stock market, without an overexposure to certain industries or countries, including Sweden, in relation to the world index.

- AP7 invests in a large number of companies in a large number of different industries and countries to reduce the saver's exposure to specific risks.
- AP7 does not normally hedge investments in other currencies.
- Foreign investments without currency hedging increases diversification in relation to the income pension.

Active management and dynamic allocation

4. Active management and dynamic allocation adds risk-adjusted value for savers over time.

This means that:

- AP7 strives to identify deviances in asset prices and benefit from long-term ownership.
- Changes in market conditions and future outlook should influence the portpolio's long-term composition.

- AP7 attaches great importance to how strategies are implemented in order to meet the expected value.
- 5. The expected returns on different asset classes are somewhat predictable and over time the valuations tend to move towards their fundamental value.

 This means that:
- AP7 shall actively work with choice of risk level
- and strategic asset allocation.
- AP7 encourages counter-cyclic action and a holistic view.

Cost efficiency

6. Costs matter and is an important factor for good long-term results for the saver.

This means that:

- The saver shall share the benefits of economies of scale that AP7 enjoys.
- AP7 shall strive to minimise the leakage of costs from the first krona invested to the last pensionpayment he draws.
- AP7 strives to get the highest possible net-return with retained quality.

Corporate governance and sustainability

- 7. By being a universal owner AP7 manages the financial interests of both current and future savers. This means that:
- AP7 develops a norms-based approach for the global stock market in cooperation with likeminded investors.
- As a universal owner we can cooperate with likeminded investors to make corporate governance and market price-setting more efficient.
- AP7 uses all relevant tools to encourage the companies we own to follow the norms and framework.
- The tools available for AP7's corporate governance are voting, engagement, blacklisting and legal processes.
- AP7's corporate governance aims, first and foremost, for a positive effect on long-term returns for the entire market, rather than individual companies.
- Excess returns (alpha) are not a core driving force in the sustainability work for universal owners. The startingpoint is that the market prices all risks based on the available relevant information, including ESG risks.
- 8. Investing in solutions for climate problems can give good returns while at the same time contributing to more sustainable development.

This means that:

 AP7 in its active fund management exploits opportunities to invest in companies that solve climate problems.



The Seventh Swedish National Pension Fund GRI-G4

Standard information

Page reference and comments

Investment philosophy

	Strategy and analysis	
G4-1	Comments from the CEO	Page 3
	Organisation profile	
G4-3	Organisation name	Seventh AP Fund (AP7)
G4-4	Mainly brands, products and services	Page 4-7
G4-5	Headquarters location	Stockholm
G4-6	Countries where the organisation operates	Sverige
G4-7	Ownership structure and company form	Page 4,28
G4-8	Markets	Page 4,28
G4-9	Company size	Page 28
G4-10	Employee data	Page 28
G4-11	Percentage of personnel covered by collective agreements	Page 28
G4-12	Organisation's supply chain	Seventh AP Fund has a small
	3	number of suppliers which mainly
		supply management and analysis
		services. These suppliers come
		mainly from the UK and USA.
		Risks in the supplier chain are
		thus assessed as low.
G4-13	Significant changes in the reporting period	No significant changes
		3
G4-14	Application of precautionary principle	AP7 has signed the UN Global
		Compact, whose commitment to the environment is composed of
C 4 1E		the precautionary principle.
G4-15	External standards, principles and initiatives that	D 07.00
C 4 1C	the organisation complies with	Page 27-28
G4-16	Membership in organisations	Page 28
	Identified Material Aspects and Boundaries	
G4-17	Units included in the report	All
G4-18	Process to define the contents of the report	Page 28
G4-19	Identified material aspects	Page 27
G4-20	Impact within the organisation	Page GRI Index
G4-21	Impact outside the organisation	Page GRI Index
G4-22	Effect of changes in previously reported information	No changes
G4-23	Significant changes in scope, limitations	140 changes
O+ 25	or measuring methods	No changes
G4-24	Stakeholder engagement Stakeholder groups	Page 27
G4-25	Identification and selection of stakeholders	Page 27
G4-25	Methods for cooperating with stakeholders	Page 27
G4-27	Matters arising from stakeholder dialogue	Sustainability report 2014
		Sustainability report 2014
	Report's profile	
G4-28	Reporting period	Page 26
G4-29	Last report	Page 26
G4-30	Reporting cycle	Page 26
G4-31	Contact person for report	Page 26
G4-32	GRI Index, reporting level and assurance for the report	Page 26
G4-33	Policy and procedure for external assurance for the report	Page 26
	Governance	
G4-34	Corporate governance structure	Page 6-7, 27-28
	Ethics and integrity	
34-56	Code of conduct	Page 4-5, Page 28 and
J- 70	Code of Colluct	raye + J, raye 20 dilu

Specific standard information		Page reference and comments
DMA-a-c	Sustainability management of material aspects	Page 27-28, Investment philosophy, page 10-15,16-23
ECONOM	Y	
G4-EC1 G4-EC2	Financial results Created and delivered direct financial value Economic impact of climate changes	Page 27 Page 20-23
SOCIAL		
	Employment and working conditions	
G4-LA11	Training and education Percentage of employees that undergo regular performance appraisals and follow-up, and career development	Within the organisation
		Page 28
G4-LA12	Diversity and equality Composition of Board of Directors, management and employees based on diversity indicators	Within the organisation
		Page 28, Annual Report 2016 AP7 does not register any diversity indicators other than
	Society	gender and age.
	Corruption	Outside the organisation
G4-SO4	Percentage of employees that are trained in the organisation's policies and procedures regarding anti-corruption	Page 27-28
G4-S05	Confirmed incidents of corruption and action taken	No incidents of corruption reported
FS14	Local community	Outside the organisation
	Initiatives to improve accessibility to financial services for dissatisfied groups in society	Page 8-9
	Product liablity	
FS6 FS8	The product portfolio Product portfolio's distribution per region, size and sector Economic value of products and services with special environmental objectives	within and outside the organisation Page 27
		Page 6-7, 16-23
G4-DMA	Audit Scope and frequency of audits to assess the implementation of environmental/social policies and risk assessments	Within and outside the organisation
		Page 6-7, 10-15, (16-23)
FS10	Active ownership Portion and number of companies in the portfolio that the	Outside the organisation
FS11	reporting organisation has integrated with regard to environmental/social matters Share of managed capital covered by positive or	Page 11-15
1 311	negative environmental or social screening	Page 15, 16-23



Frequently asked questions about AP7's work with responsible investment

What is AP7's strategy for responsible investment?

AP7's strategy for responsible investment is derived from the two main ways in which we can contribute to sustainable development. One way is to be an active owner and the other is to invest in sustainable solutions. AP7's most important contribution to sustainable development is to be a responsible owner of the companies we are invested in. Since we invest in the entire market rather than in selected companies, we are a universal owner. Our core values encompass the internationally adopted norms for human rights, labour rights, the environment and anti-corruption. As universal owners we want to first and foremost influence the norms and standards for corporate responsibility that contribute to a more sustainable market. Starting with the norms we can then engage with the individual companies we own. The tools we use are voting at general meetings, engagement with companies, public blacklisting of companies and through legal processes. The other principal way in which AP7 can contribute to sustainable development is to invest in companies that focus on sustainable solutions. AP7 invests in green bonds, unlisted clean-tech companies, and in 2016 we started to outline a solution-oriented investment mandate for listed companies.

What laws impact AP7's work with responsible investment?

AP7 is subject to the EU UCITS directive, which limits the asset classes we can invest in. AP7 can therefore not invest directly in real estate, forestry, infrastructure projects or other alternative investments, but may invest in equities and fixed income. According to the law regulating the AP funds, AP7's capital management shall be solely in the interests of the savers. There shall be no consideration of business interests or other political considerations. AP7, unlike other AP funds, is not permitted to vote at the general meetings of Swedish companies. Consideration of the environment and ethics shall be taken in the management of the fund, without sacrificing the goal of high returns. Since we do not see any general conflict between investment returns and sustainability, the law gives us good opportunities to be a responsible asset manager.

How does AP7 work with external asset management?

Internal management means that investment decisions are made and implemented by our own fund managers. External fund management means that investments are made by asset managers specially contracted,

often larger specialised companies. AP7 uses external management for around 90 per cent of our managed capital. In deciding between external and internal management we consider the expected quality and cost of the different management forms. The contract with our external management suppliers stipulates that they shall meet AP7's requirements on sustainability, such as to forbid investments in companies that AP7 has blacklisted. We have continuous dialogue with our external managers and conduct annual follow up of their management. Unlike many other capital owners with external management, AP7 has opted not to hand over governance of the companies we own to the external managers. This means that AP7 itself votes at general meetings, engages with companies, screening and blacklisting of companies, as well as legal processes.

What portion of AP7's managed capital is subject to the requirement of responsible fund management?

All our capital is subject to the requirement of responsible asset management. AP7 invests in three asset classes: listed equities, unlisted equities, and fixed income. Equities account for nine tenths of the capital. Unlisted stocks make up only a fraction of the shareholding. Our entire listed portfolio is screened twice a year for norms violations and nuclear weapons and we update our "blacklist" twice a year. Our black list applies to all our holdings in all asset classes. AP7 requires that our managers of unlisted equities take account of sustainability in their asset management, and we evaluate them accordingly using a special process. AP7 has guidelines for our fixed income investments that prevent investment in bonds issued by authoritarian regimes, or in bonds issued by blacklisted companies. Currently AP7 invests only in Swedish mortage and government bonds, and Swedish green bonds.

Where can I find more information on AP7's work with responsible investment?

- On AP7's website you can read our blog and about our work with sustainability. Our previous sustainability reports and annual reports are also available on www.ap7.se
- You can download the sustainability profiles of AP7's Fixed Income Fund and Equity Fund from Swesif's website www.hallbarhetsprofilen.se
- AP7 reports annually to PRI. You can download the AP7 RI Transparency Report, here: www.unpri.org/signatory-directory



Hopefully we will soon be able to invest in some of the 55 companies below...

AP7 invests in companies included in MSCI ACWI that satisfactorily comply with the requirements of the international conventions signed by Sweden, and expressed in the UN Global Compact's ten principles, which describe the company's responsibilities regarding human rights, working conditions, the environment and corruption. AP7 does not invest in companies that are involved in the development and production of nuclear weapons. The following companies are excluded as of 12 December 2016:

AECOM Involvement in nuclear weapons. AES CORP Involvement in violations of human rights and environmental norms at a dam construction project in Panama. AGRIUM Involvement in denying the self-determination of Western Sahara through import of phosphate from occupied territory. AIRBUS GROUP NV Involvement in nuclear weapons. AVICHINA Involvement in violations of human rights through the sale of weapons to Burma/Myanmar. BABCOCK INTL GROUP PLC Involvement in nuclear weapons. BAE SYSTEMS PLC Involvement in nuclear weapons. BARRICK GOLD CORP Involvement in the violation of environmental norms in mining operations in Chile and Argentina. BOEING CO Involvment in nuclear weapons. BP PLC Violation of environmental standards in connection with oil extraction in the Gulf of Mexico, USA. BROOKFIELD ASSET MANAGEMENT Involvement in nuclear weapons. COMPANHIA ENERGETICA DE MINAS GERAIS SA (CEMIG) Violation of human righs in connection with a dam building project in Brazil. CENTRAIS ELETRICAS BRASILIERAS Involvement in the violation of human rights in a dam construction project in Brazil. CHINA RAILWAY GROUP Involvement in the violation of labor rights in China. CINTAS CORP Involvement in the violation of labor rights in the USA. DAEWOO INTERNATIONAL CORP Involvement in the violation of human rights in cotton production in Uzbekistan. DEUTSCHE TELEKOM Involvement in violation of labor rights in the USA. DONGFENG MOTOR CORP CORP Involvement in the violation of human rights through sale of military equipment to Belarus. FINMECCANICA SPA Involvement in nuclear weapons. FLUOR CORP Involvement in nuclear weapons. GENERAL DYNAMICS CORP Involvement in nuclear weapons and cluster munitions. GOLDCORP Involvement in the violation of human rights in mining operations in Guatemala. HANWHA CORPORATION Involvement in cluster munitions and anti-personnel mines. HARRIS CORP Involvement in nuclear weapons. HEIDELBERGCEMENT AG Involvement in denying the self-determination in Palestine through exploitation of natural resources on occupied territory. HONEYWELL INTERNATIONAL INC Involvement in nuclear weapons. HP ENTERPRISES Involvement in denying the selfdetermination in Palestine through supply of electronic identification systems on occupied territory. INCITEC PIVOT LTD Involvement in denying the self-determination of Western Sahara through import of phosphate from occupied territory. JACOBS ENGINEERING GROUP INC Involvement in nuclear weapons, L-3 COMMUNICATIONS HOLDINGS Involvement in nuclear weapons and munitions. LARSEN & TOUBRO LIMITED Involvement in nuclear weapons. LEIDOS Involvement in nuclear weapons. LOCKHEED MARTIN CORP Involvement in nuclear weapons, cluster munitions and anti-personnel mines. LUKOIL OAO Involvement in the violation of environmental norms in oil extraction operations Russia. MERLIN ENTERTAINMENTS Involvement in the violation of labor rights in Germany. NORTHROP GRUMMAN CORP Involvement in nuclear wepons. OLAM INTERNATIONAL LTD Involvement in the violation of human rights in cotton production in Uzbekistan. POSCO Violation of human rights through involvement in cotton production in Uzbekistan. POTASH CORP OF SASKATCHEWAN Involvement in denying the self-determination of Western Sahara through import of phosphate from occupied territory. RAYTHEON COMPANY Involvement in nuclear weapons. REPSOL Involvement in violation of human rights in a gas extraction project in Peru. ROLLS-ROYCE HOLDINGS PLC Involvement in nuclear weapons. ROYAL DUTCH SHELL PLC Involvement in the violation of environmental norms and human rights in oil extraction operations in Nigeria. SAFRAN SA Involvement in nuclear weapons. SERCO GROUP Involvement in nuclear weapons and human rights violations in refugee camp operations in Australia. SGL CARBON Involvement in nuclear weapons. SK INNOVATION Involvement in human rights in gas extraction project in Peru. TRANSOCEAN LTD Involvement in

violations of environmental norms in oil extraction in the USA. **T-MOBILE US INC**Involvement in violation of labor rights in USA. **TEXTRON INC** Involvement in clustermunitions. **THALES SA** Involvement in nuclear weapons. **UNITED TECHNOLOGIES CORP** Involvement in nuclear weapons. **VALE SA** Involvement in human rights violation in dam construction project in Brazil. **WAL-MART STORES INC** Involvement in violation of labor rights in USA. **WESFARMERS LTD-PPS** Involvement in denying the self-determination of Western Sahara through import of phosphate from occupied territory.



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