



UNIVERSITY OF GOTHENBURG
SCHOOL OF BUSINESS, ECONOMICS AND LAW

Pension funds as active and socially responsible owners

- A study of the First to Fourth Swedish National Pension funds

Bachelor Thesis in Industrial and Financial Management

University of Gothenburg

School of Business, economics and law

Tutor: Gabriela Schaad

Authors:

Year of birth:

Carl Monberg

1986

Jonas Zetterberg

1983

Acknowledgements

We would like to thank our tutor Gabriela Schaad for her guidance and feedback throughout the process of this research which has helped us a lot in moving forward with our work.

We also would like to extend our gratitude to the respondents of our interviews; Christina Kusoffsky Hillesöy, Christina Olivecrona and Richard Torgerson for their time and help in making this thesis possible.

Bachelor thesis in Industrial and Financial Management

School of Business, Economics and Law at Gothenburg University

Title: Pension funds as active and socially responsible owners - A study of the First to Fourth Swedish National Pension funds

Authors: Carl Monberg and Jonas Zetterberg

Tutor: Gabriela Schaad

Date: January 2011

Abstract

Background:

There are a number of problems surrounding social responsible investing (SRI). The ways in which it is most often conducted has met heavy critique since it is often found completely toothless in making a difference. The practices common in many *ethical funds*, of a passive ownership where stocks are sold and bought based on if they are found to be ethical or not, has also been criticized. Many agree that the best way of making a difference is by being an active owner. This however, requires a lot of engagement and large holdings to work well. Researchers find that pension funds could be ideal investors for engaging in active ownership.

Problem:

Can the Swedish National Pension Funds make a difference in their investments abroad by the means of active ownership and what are the reasons for the pension funds to do this?

Purpose:

The purpose of this study is to give an insight into how the First to Fourth National Pension funds invest and to show if, how and why an active ownership could have the effects on social responsibility issues where other methods are said to have no effect.

Limitations:

The Study is limited to investments abroad of the First to Fourth Swedish National Pension funds.

Methodology:

An explorative study is undertaken to investigate this topic of research. Data was collected through semi-structured interviews with relevant individuals from the Third and Second Swedish National Pension funds and Folksam as well as from analyzing information given out in reports.

Empirical results and conclusion:

The AP funds try to be active owners, increasing their power to influence companies to act socially responsible. This is mainly done through voting at general meetings, through face to face meetings and through other means of dialog with the company in question. Active ownership can be beneficial to the AP-funds if they manage to minimize negative externalities and capture positive externalities since they can be regarded as *global owners*.

Table of Contents

1 Introduction	1
1.1 Background	1
1.2 Problem discussion	1
1.2.1 Definition of the terms.....	1
1.2.2 Earlier research	2
1.2.3 Include, exclude or actively operate	2
1.2.4 The pension funds and social responsibility	3
1.2.5 The research question and its limitations	4
1.3 Definitions	4
2 Methodology	5
2.1 Initial research	5
2.2 Research framework	5
2.3 Research approach	6
2.3.1 The interviews	6
2.4 Credibility	8
2.4.1 Reliability	8
2.4.2 Validity	8
2.4.3 Generalization	9
3 Theoretical framework	9
3.1 SRI initiatives	10
3.1.1 The United Nations Principles for Responsible Investing (PRI)	10
3.1.2 PRI - progress of implementation.....	11
3.1.2.1 Small owners versus large owners.....	12
3.1.2.2 Principle 1.....	12
3.1.2.3 Principle 2.....	13
3.1.2.4 Principle 3.....	13
3.1.2.5 Principle 4.....	13
3.1.2.6 Principle 5.....	13
3.1.2.7 Principle 6.....	14
3.1.3 The Carbon Disclosure Project (CDP)	14
3.1.4 Extractive Industries Transparency Initiative (EITI)	14
3.1.5 International Corporate Governance Network (ICGN)	14
3.2 How pension funds may act as active and responsible owners	15
3.2.1 Corporate Governance	15
3.2.2 Ownership versus control	15
3.2.3 Differences in corporate governance systems	15
3.2.4 Transparency and corporate governance	16
3.2.5 Affecting management	16
3.2.6 The board	17
3.2.7 The board-management relationship	17
3.2.8 Large shareholders	17
3.2.9 Owner versus manager controlled	17
3.3 Why pension funds would act as active and responsible owners	18
3.3.1 Universal owner	18
3.3.2 The costs of negative external effects	19

4 Empirical findings	20
4.1 Background analysis	20
4.1.1 The First to Fourth National State Pension funds	20
4.1.2 The Ethical Council (Etikrådet)	22
4.3 Interviews	24
4.3.1 Christina Kusoffsky Hillesöy (2010-12-06)	24
4.3.2 Christina Olivecrona (2010-12-10)	25
4.3.3 Richard Torgerson (2010-12-13)	26
5 Analysis	28
5.1 SRI initiatives	28
5.2 How pension funds may act as active and responsible owners	28
5.3 Why pension funds would act as active and responsible owners	30
6 Conclusion	31
6.1 Questions for further research	32
References	33
Appendix A	36

1 Introduction

This chapter's purpose is to display the problem of our research; starting wide and narrowing the problem down. First, a historical background is given to the field of ethical investing. Thereafter the problems surrounding socially responsible investing are presented, followed by an explanation of what makes pension funds interesting as owners and is concluded with a description of this thesis main problem of research.

1.1 Background

According to Sparkes (2001) church investors have run portfolios with ethical constraints for many years; in the UK since at least 1948 and in the US since 1926. These investments however did not achieve much public attention. During the 1970's and 1980's campaigns against the South African apartheid the churches adopted a more social concern not to let their funds support such a regime. In the UK, the term ethical investment did not become widespread until the introduction of funds and services designed for the private individual in the late 1970's and early 1980's. In 1983 EIRIS; a screening service for social responsible investments was founded and in 1984 the first "ethical unit trust", Friends Provident Stewardship was founded (Sparkes, 2001).

Schwartz (2003) describes how ethical investment has moved from being centered on religious definitions of sinful activities such as alcohol, tobacco and gambling to also focusing on social issues such as child labor, animal rights, gay and lesbian rights, diversity and feminism.

Bengtsson (2008) sums this up in that the development of socially responsible investing (SRI) have followed the developments in society, such as increasing concern for environmental and social issues as well as changes in regulations. As the church has changed its role in society and other public perceptions have changed, SRI has changed as well.

AktieAnsvar Aktiefond was the first Swedish ethical investment fund and was established as early as 1965. It is claimed to be the first ethical fund open to the public. According to Bengtsson (2008) the Scandinavian SRI was "built on a foundation of institutional elements, rather than a pursuit of economic gains". In the 1980's and 1990's private funds took over the lead in SRI development from the religious organizations that started the movement. At this time a number of environment responsibility funds emerged which in turn lead to a wider definition of SRI (Bengtsson, 2008).

1.2 Problem discussion

A number of problems surrounding social responsible investing became clear at an early stage of research. This problem stems from a lack of consensus regarding the definitions of the terms used when talking about the subject. Therefore it could be appropriate to begin with an introduction of the terms and to show if there is any difference between them.

1.2.1 Definitions of the terms

The terms *ethical investing* and *socially responsible investing* have both become general terms for all investments involving ethical, social or environmental practices (Woods and Urwin, 2010). According to The Allen Consulting Group (2000) the language used when talking about these issues is important for how well spread the practice of responsible investing is. Their opinion is that the term *ethical investment* is likely to turn people off the message and the use of for example the term *socially responsible investing* will be more likely to assist in making this type of investing mainstream.

According to the Allen Consulting Group, the term ethical investment “enables fund managers to relegate the environment to a market niche and thereby sideline the issue”.

Both the terms ethical investment and socially responsible investment faces a problem of heterogeneity. According to Sandberg et al. (2009) there is no consensus on how socially responsible investment characteristics should be defined or even on what term to use. As a consequence of this, the SRI movement has been heavily criticized by a number of academic writers (Sandberg et al., 2009) At the same time Sethi (2005) writes “Notwithstanding, the frustration of SRI critics, this definitional ambiguity is quite understandable” and argues that while these concepts are maturing it is natural for the definitions to evolve.

To make this thesis clear to read we have consistently chosen to use the term socially responsible investment or SRI instead of *ethical investment* since this in all cases refer to the same practice and is more commonly used in recent contexts.

Another term that is commonly used is sustainability. Woods and Urwin (2010) note that while responsibility implies that you have a duty, sustainability just means ensuring that conditions for responsibility are intact.

1.2.2 Earlier research

In recent years there has been a lot of research done on how the private fund sector make ethical considerations when investing. Some examples of this research are in the question of whether ethical investing has lower return (Stenström and Thorell, 2007), whether private fund solutions really are *ethical* (Cajbrandt, Johansson and Järvsén, 2008) and how this ethical responsibility is met in practice (Bengtsson and Peterson, 2009). What you can tell from this research is that implementing this factor in investment decisions has not been successful.

Cajbrandt, Johansson and Järvsén (2008) states that many privately operated funds use *negative screening* where companies in certain industries such as weapons, tobacco, porn and alcohol are excluded. They also find that the industry is moving more towards *positive screening*, where companies that are morally praiseworthy and exemplary are included in a portfolio, and *active ownership* where shareholder influence is used to make companies incorporate SRI into their processes. Bengtsson and Peterson (2009) found in their research on how private mutual funds invest ethically (using negative screening), that there is no significant difference between ethical funds and other funds since so few ethically questionable companies are actually excluded. This research was however delimited to funds that invest in Swedish companies exclusively and social responsibility issues are likely to be more common in global investments.

1.2.3 Include, exclude or actively operate

Some of the first research we came across on the line of responsible investment was *The Ethics of Investing. Making Money or Making a Difference?* by Joakim Sandberg (2008). He has been heavily critical of the way ethical funds are constructed and this has led to a debate in the media. His critique has centered on the avoidance strategy where whole industries are excluded from a portfolio. To avoid investing in a company could seem like nonchalance with real-world problems when there is in fact a possibility to make an important difference to the company's SRI processes (Sandberg 2008).

The argument that a single investors exclusion would at all contribute to society in forms of ethical, environmental or social terms clear empirical evidence according to Sandberg (2008). Among investors as well as the general public this is however probably the most common idea of what an

ethical investment consists in. Cajbrandt, Johansson and Järvsén (2008) found, in their study of private Swedish funds, that negative screening was more generic practice that did not have closer reason behind it. This can be referred back to the earliest funds where the values of for example the church have affected how many categories of investors invest today (Bengtsson, 2008). The positive screening strategy faces some of the same problems as the exclusion strategy according to Sandberg (2008). Only in rare cases can individual investors including a stock make a difference.

As an active owner you are not just seen as an investor but as a (part) owner as well (Sandberg, 2008). According to Sandberg (2009) this strategy tends to be seen very optimistically, however when you look at for example how an annual general meeting work it would be hard to affect a company's policies as an individual investor.

In a study by the Swedish Environmental Research Institute (IVL) (2003) it is found that there are two types of active ownership; by using some form of direct or indirect threat or by a dialog where a mutual trust is built up. The first type is found to be more common in the US than it is in Sweden. This might be explained by the fact that Swedish owners generally are smaller and therefore a threat would not be effective.

IVL (2003) also find that building up a dialog seem to affect a company more than what for example voting does. They also state that it could be more effective to work in owner networks to increase the investors influence. They further write that "If this is an important driving force, maybe the largest potential increase in active ownership in Sweden lies with the pension funds" IVL (2003) which leads us up to our question of research.

1.2.4 The pension funds and social responsibility

In a lecture attended by the writers at the School of Business, Economics and Law on October 25th 2010, Al Gore presented his view of financial sustainability. The presentation was moderated by Eva Halvarsson who is the CEO of the Second Swedish National Pension Fund (AP-fund) and she shortly mentioned the National Pension Funds work with sustainability issues. Since these funds are the largest of all Swedish funds in terms of money invested and are said to act as *active owners* they differ from many of the private ethical funds. This in combination with the writing presented earlier pointing to the fact that smaller and passive owner's are unable to have any influence in social responsibility issues, leads up to our question of research.

Monks and Minnow (2001) point out that pension funds have grown into a financial force that affects much of today's corporate governance. Pension funds own 28 percent of the equity in the USA and this fraction is growing. Due to their size and long term investments, pension funds have a clear incentive to incorporate the interests of employees, suppliers and as well as the companies they invest in (Monks and Minnow, 2001). Richardson (2007) confirms this by saying that pension funds are ideal for SRI investments and Comejo et al. (2002) argue that taking social responsibility also reduces risk and increases financial return which is crucial for the pension funds long term-ism.

In recent years the term *sustainability* has been used more frequently in pension funds approach to their investments. Woods and Urwin (2010) write that this, amongst other things, might be related to intergenerational problems such as a resource constraint, an ageing population in the western countries, the climate change and to an increasing awareness of the connection between environmental impact and economic performance.

1.2.5 Research question and its limitations

The purpose of this study is to give an insight into how the First to Fourth National Pension funds invest and to show if, how and why an active ownership could have the effects on social responsibility issues where other methods are said to have no effect. Would these methods of ownership, and the pension funds larger portfolios have made any difference to Bengtsson and Petersons (2009) findings presented earlier, that ethical funds are "a lot of bark but no bite"?

We have imposed the limitation that we will research the First to Fourth Swedish National Pension funds and their investments abroad.

1.3 Definitions

This section is provided to give a definition of terms often used in this thesis.

Fund

A fund is a portfolio holder with many owners who own a share of the total portfolio. The portfolio is a collection of securities; this could be stock, state or corporate bonds. The fund is administered by a fund administration who takes a fee from the fund for their services. A common figure is around 0.5 to 2 percent of the capital placed annually. Funds usually offer investors two types of return, the increase in value of the individual shares in the fund as well as payouts on shares held by the fund. Pension funds are a type of fund with long-term assets aimed at supporting an investor thought her years as a pensioner. (Aktiespararna, 2010-12-25)

Corporate social responsibility (CSR)

CSR together with the stakeholder theory are the two most popular concepts in the field of business ethics (Matten *et al.*, 2003). CSR is a vague concept used in a wide range of contexts but mainly in connection with social and ethical issues stemming from business.

The European commission defines CSR as a concept whereby companies integrate social and environmental concerns in their business operations on a voluntary basis (European Commission, 2007).

Socially responsible investing (SRI)

SRI is a complex notion containing many strategies that could be applied for social good (Cochran, 2007). Generally speaking SRI entails the implementation of three main strategies to invest responsibly; engagement, preference and screening. Engagement entails actively encouraging companies to make improvements to areas of their business found lacking in terms of social responsibility. Preference is a strategy that involves fund managers choosing companies that excel in terms of guidelines set up by the fund management. How closely a company follows the guidelines becomes a second dimension to the financial dimension when managers select investments. Of two investments otherwise alike the one that follows the guidelines the best is preferred. When it comes to screening, the fund manager is limited to invest in companies that have had the ethical dimension of their business screened and fulfills the demands (Hellsten and mallin, 2006).

2 Methodology

With the methodology chapter the authors hope to give validity to the analysis by clarifying the research approach in a chronological order followed by a description of the limitations and outlines for what this thesis will contain. The chapter is concluded with a description of the credibility of the

research methodology.

2.1 Initial research

The ambition to investigate the area of socially responsible investing in funds and to get an understanding of the area proved harder than expected. The debate of whether ethical investing really is ethical and what is to be defined as ethical proved to be an ungraspable area to investigate fully without an intensive literature study of earlier research. The first step of the research process therefore became aligning ourselves with the media debate and analyzing some of the critique against the term *ethical investment*.

In the research process we found a trend that ethical investing is often seen as toothless and not achieving the desired goals of social uplifting. The field of ethical investing is however fast moving and houses many different players with different motivation and abilities to effect corporate policies. We found pension funds to be of special interest due to the many differences between them and many other smaller funds, see introductory discussion.

We initially researched all the larger pension funds in Sweden with the intention of interviewing a collection of both private and state pension funds. The private pension funds however proved hard to get in contact with as relevant contact information was not often available, and even when contact was made they were reluctant to be interviewed either in person, by phone or even by mail correspondence. Therefore this research is based mostly on the interviews with the Swedish National Pension funds backed up by an interview with Folksam.

2.2 Research framework

The next step of work was to specify the framework for the research and to deepen the knowledge related to active ownership, the work of the Swedish pension funds as well as the Swedish pension system. The aim with this was to create a framework to view the problem through and to have a broad basis for the interviews.

At the beginning of the theoretical framework the pension system is briefly explained to give a background to what money the First to Fourth AP-fund invests. Thereafter we define a number of theories to shed a light on how and why pension funds might act as active socially responsible owners. The framework is based on the theoretical motivation for behaving in a certain manner and it is presumed that if the motivation for behaving in a certain way is strong enough then rational pension funds will attempt to behave in this way.

In the *how* section of our theoretical framework the weight is put on co-operations between institutional investors and on the corporate governance power struggle. The pension fund might be motivated to act as an active owner but not be able to due to a lack of shareholder power on the company's management. The mechanisms of active ownership are examined as well as the mechanism for co-operations.

2.3 Research approach

For this study we employed mainly a qualitative approach when researching the data. Qualitative interviews will provide the deeper knowledge we need and this data could not easily be quantified. Jan Trost (2005) compares the qualitative approach to the quantitative one with a comparison to a

field of flowers. The qualitative approach could be compared with finding what flowers are on the field and their way of life while the quantitative approach could be compared with for example counting the flowers of a certain color. The purpose of the empirical study is to get the Swedish pension funds own *interpretation* of active ownership and on their ability to provide social and environmental sustainability in their investments. We used an inductive method which means that we develop our theory on analysis of the collected data in an explorative way (Trost, 2005).

2.3.1 The interviews

Thanks to the help of KPA pension we got in contact with Richard Torgerson at Folksam who provided us with an angel from a privately owned investor. Folksam is the parent company of KPA-pension and we should make clear that Richard Torgerson works at Folksam and therefore not in a pension fund.

Lundahl and Skärvad (1999) describe some of the difficulties with the interview preparations as identifying persons who are interesting to interview, contacting these people and making them partake. We started out by looking at the employees of the pension funds in question to find interviewees that work with social responsibility questions with the widest possible experience with these questions. We also tried to find persons from somewhat different positions to get some angels at the answers we receive. Jan Trost (2005) writes that few deeper interviews are better than many shallow ones. We interviewed high position employees that can be deemed authority's in their field, and interviewed them in depth. We also contacted them again at a later point to help increase the reliability of data gathered.

Three interviews were conducted with representatives from Tredje AP-fonden, Andra AP-fonden and Folksam Insurance to provide a wider understanding of the situation being explored. The two interviews with the Second and Third National Pension funds will represent our main area of research. The interview with Folksam was done to get an angel from the private investment sector and to supplement some of the earlier research. Even though Richard does not work for a pension fund Folksams work shares many similarities with the ownership patterns of the AP-funds in this case.

Maybe due to the fact that the interviews were to be conducted just before Christmas we found that some of the people we contacted were too busy to answer our questions. We however found this to be well compensated by that the persons interviewed were very knowledgeable and helpful, to the fact that there are so much earlier research to rely on and that the Swedish National Pension funds have their work on this area well described and aligned between the four funds.

The interviews were conducted in a free and semi-standardized fashion as described by Lundahl and Skärvad (1999) which means we changed the order of the questions as we felt necessary and adapted the questions to the situation. Some characteristics of a semi-structured interview according to Lundahl and Skärvad (1999) are that the purpose of the interview is not precisely specified and that the interviewer aims to elicit the opinions, attitudes and values of the interviewee.

The law of declining information can be applied as suggested by Trost (2005), as we in our first interview received much new information that helped orientating ourselves in this field. Subsequent interviews gave less new information, more confirming information already gathered and allowing deeper questioning. Therefore we revised and widened our interview guide for every subsequent interview to more precisely center our scope on the most interesting targets. With the help of the interview guide we centered more on topics and evolved these topics into questions of interest.

We made sure that the topics of discussion were all well researched and that these went hand in hand with our theoretical framework, focusing on the topics of corporate responsibility, corporate governance, voting abroad, mechanisms for influencing companies and cooperation with other institutions in connection with social responsibility (See appendix A for the interview guide).

The interview with the Third AP-fund and Folksam were done over the phone and the interview with the Second AP-fund was made at their office in Gothenburg. The telephone interviews were conducted with speaker phone where one of the interviewers held the questioning and the other made notes of the answers. During the personal interview we both made notes and asked the questions. After each interview we thoroughly reviewed and discussed the information we received. The purpose of this is to build our next interview and/or possible follow up questions on the new knowledge. In this way we tried to view the research as a spiral as suggested by Blaxter, Hughes and Tight (2001) from whose perspective, research:

- is cyclical;
- can be entered at almost any point;
- is a never-ending process;
- will cause you to reconsider your practice;
- will return you to a different starting place.

This is shown in figure 1-2.

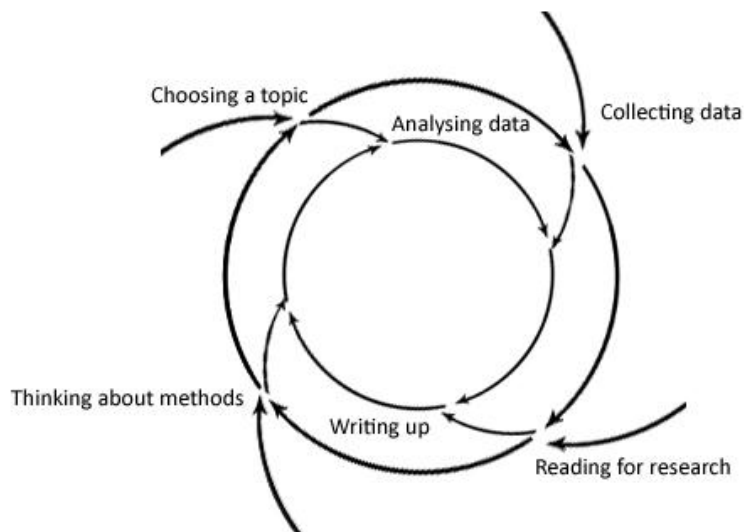


Figure 2-1 Spiral of research

Source: Blaxter, Hughes and Tight (2001)

2.4 Credibility

For the reader to fully understand the limitations of the research conducted we will here present some aspects of credibility surrounding the way the interviews were conducted and the interpretation of the material that is the base for this thesis.

2.4.1 Reliability

By Lundahl and Skärvad (1992) reliability is defined as the absence of random errors in measurement. So in this case, if the interviews are unreliable in some sense the result of the study will be unreliable. Trost (2005) points out that in a qualitative study the ethics and credibility of the authors is important for the reliability of the research.

To prevent low reliability the interviews have been conducted with very knowledgeable representatives from the Swedish National Pension funds as well as by an experienced representative from the private fund market. These persons are involved in the daily work with questions of social responsibility and Christina Kusoffsky Hillesöy is also a representative of Etikrådet. This makes us comfortable that the information presented to us is up to date as well as very reliable. The persons interviewed all have different positions in their jobs and therefore we see in somewhat different angles at the same problem.

The method of research is documented as accurately as possible and in a narrative way to describe as closely as possible how this research was conducted. We also include the interview guide used during the interviews and name all of our sources.

One problem of reliability could be that we have misinterpreted the information given to us wherefore we, as described earlier sent our transcript back to the interviewee for a review and for a few follow-up questions.

One element of uncertainty is given by the fact that two of the interviews were conducted over the phone instead of in person. With this method some elements could be missed that would otherwise show with the more personalized interview. In the personal interview it was easier to use silence as a tool for finding information and this aspect was lost in the phone interviews. The phone interviews also gave an element of stress and a sense of time pressure.

The research has been conducted during a short period of time in a fast moving area where ideas of what practice is the best changes very rapidly. Therefore what is the truth today might be outdated tomorrow. The interviews conducted and the study of ESG-documents will therefore inevitably be a snapshot of the current practice which quickly could make this thesis outdated. To prevent this we have tried to look forward in our research of where the future is headed.

The annual reports used in the study are deemed reliable sources as they are officially published.

2.4.2 Validity

Validity can be defined as the absence of systematic error in measurement. If, as in this case, an interview measure what is intend to, we have high *inner validity*. If the people interviewed always remember correctly, are perfectly informed and never lie we reach high *outer validity* (Lundahl & Skärvad 1999).

One of the things that first became clear in our research is that the variables of ethics and environmental responsibility are impossible to measure in any real terms. Therefore the comparison of effectiveness between the different methods of achieving a socially responsible investment is purely dependent on earlier research and argumentation.

Our questions stem from well established theories and were fitted to the field of SRI. All rapports that we have analyzed are official documents issued by the institutions being studied.

2.4.3 Generalization

Since the Swedish national pension funds AP 1, AP 2, AP 3 and AP 4 are very similar in their work and have coordinated all their work with social responsibility questions in Etikrådet we find that what we learn about the concerned area from one of the funds will be true for the other three as well. This is especially true when the interviewees are also involved in Etikrådet themselves. We also found that much of what we learned about the state pension funds can be applied to private pension funds as well since they share many similarities in structure and investment goals. Therefore these could be evaluated as well using many of the same theories even though we draw no conclusions regarding privately operated funds.

3 Theoretical framework

In this section we will go through the theoretical framework with which we will analyze our empirical findings. We start by mentioning some of the ways pension funds may co-operate on the concept of social responsibility and how the UN's Principles of Responsible Investment is structured. Thereafter the universal owner theory is presented to give a reason for why pension funds must act on social responsibility issues. To add strength to the universal owner theory we bring up the negative costs associated with socially irresponsible management. To finally answer the question of 'how' the pension funds can affect companies we present theories on the topic of corporate governance – the power of shareholders contra managers.

3.1 SRI initiatives

This section is a theoretical look into organized initiatives among institutional investors on the field of social responsible investing. The purpose is to give insight for analyzing how institutional investors could gain power by cooperating, as well as understand the mechanisms of cooperation.

Sandberg et al. (2009) suggests that a problem of standardizing the responsible investing practices is that the current market conditions support cultural and ideological differences. However standardization may very well be possible to do if different parties can be made to come together under the same umbrella. A standardization of these practices is something that is frequently requested in a number of articles on the subject. There are a number of initiatives for industry collaboration, including the United Nations Principles for Responsible Investing (PRI), Enhanced Analytics Initiative (EAI), the Carbon Disclosure Project (CDP) and the Social Investment Forum (SIF) (Sandberg et al., 2009). The PRI-principles for example has actually helped to standardize the SRI practices to some extent which is shown through an analysis of how some of the PRI signatories talk about SRI-issues made by Sandberg et al (2009).

3.1.1 The United Nations Principles for Responsible Investing (PRI)

The United Nations have backed up a co-operation of international investors with the goal to put six principles for responsible investments into practice. These principles reflect the view that for an investor to fully fulfill their duty they must give appropriate consideration to environmental, social and corporate governance issues. With the voluntary framework that the principles provide, investors can better align their objectives with that of society as a whole. In January 2011 the principles had been signed by 872 investment companies, there among the First to Fourth AP-funds.

According to Woods and Urwin (2010) the PRI principles has made it more appealing for large institutional investors such as pension funds, much because of their “financially-oriented justification”. The association of SRI and poor financial performance has earlier been a hindering factor for involvement in these issues (The Allen Consulting Group, 2000). It is pointed out by Woods and Urwin (2010) that the principles need to be subject of much academic research if they are to become a standard in responsible investing. Woods and Urwin (2010) further notes that even though they point to the importance of active ownership and ESG integration, issues of short termism and intergenerational equity in investment are not fully addressed by the principles.

The following is a compilation of the PRI principles:

1. *We will incorporate environmental, social and corporate governance issues into investment analysis and decision-making processes.*

This principle is met when using some form of ESG research and analysis and/or screening of potential investments in the purpose of increasing the portfolio return.

2. *We will be active owners and incorporate environmental, social and corporate governance issues into our ownership policies and practices*

The signatories are encouraged with this principle to take an active approach and vote in an informed way at company meetings or on boards and to engage with the companies to improve their corporate ESG performance.

3. *We will seek appropriate disclosure on environmental, social and corporate governance issues by the entities in which we invest.*

Companies and other entities need to provide data on ESG performance for the investor to be able to implement the principles 1 and 2. Since disclosure of such data is not standard practice in global markets the investors need to drive transparency and disclosure from their investees.

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

This principle encourages investors to spread the word of responsible investment through the investment chain since the principles are designed as a framework for the whole investment industry.

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

Since the task of making a difference for one signatory alone often is a too complex, collaboration has become a key part in implementing responsible investing. This can be done through forums like PRI clearinghouse, PRI work streams and other industry initiatives. This can increase the influence and send unified signals to the company from more than one investor.

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

Principle 6 points to the importance of investors reporting of how the principles are put into action. The issue of transparency is of increasing importance and by 2012 greater transparency requirements will be introduced by the PRI initiative.

3.1.1.1 The progress of implementation

Report of Progress (2010) published by PRI present the process of implementation and signatory progress during 2010 based on responds from investor signatories implementing the six principles. Pension funds represent the largest group of respondents in the asset owning community as seen in figure 3-1.

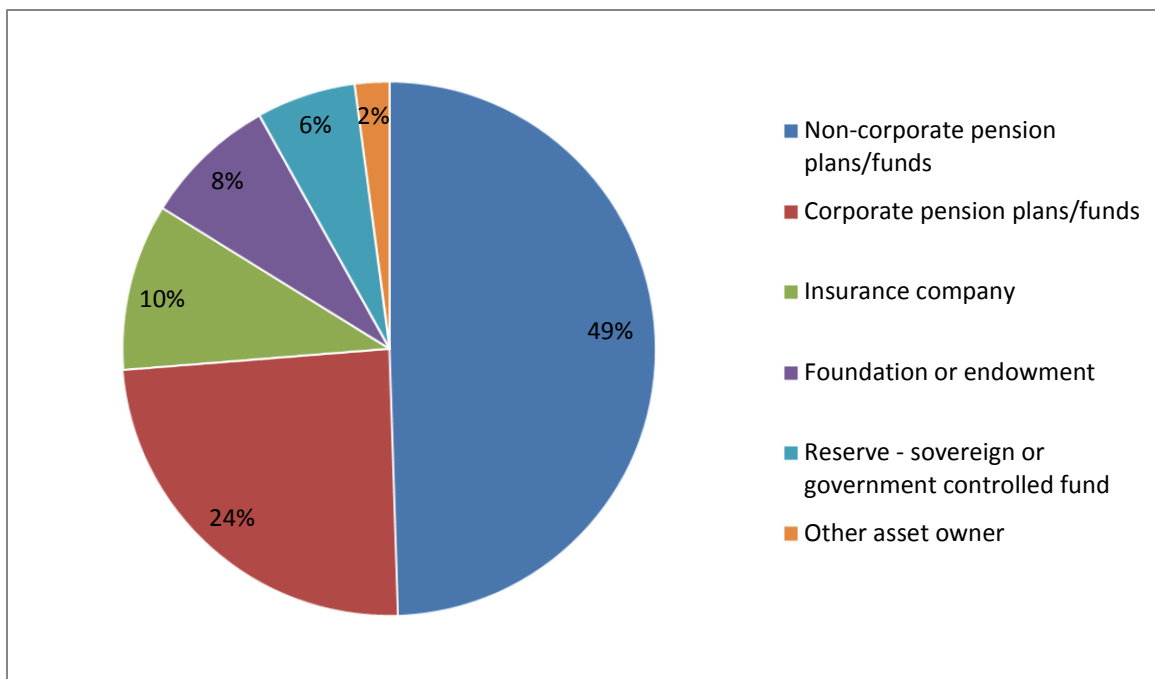


Figure 3-1 The percentage of different categories of signatory asset owners Source: PRI Rapport on Progress 2010

64 percent of the respondent asset owners manage their assets internally and over 95 percent now have an overall policy to manage ESG issues even though these differ widely in size and scale. Most signatories agree that this is the first step to implementing the principles. Even though having this policy in place is indeed a good first step the last survey by PRI shows that implementing this policy into the internal management process is more difficult. Of the signatories only a minority responded that they have the processes in place.

3.1.1.2 Small owners versus large owners

Small owners face different challenges than larger owners since they typically work under resource constraints. Furthermore these companies often have only one member of staff working with ESG issues, they have limited influence if they engage alone and they often pay a higher price for their ESG research and proxy voting services.

Larger funds where the AP-funds are found face different problems, where the main challenge appears to be in applying these processes to all asset classes. In listed equity in developed markets almost 50 percent of the signatories have implemented these processes to a large extent while this number is only 10 percent in hedge fund investments.

3.1.1.3 Principle 1

For both internally and externally managed assets the average percentage of signatories integrating ESG issues has grown. As noted earlier listed equity (in both developed and emerging markets) and infrastructure are the kind of assets with the highest percentage of signatories. Overall 54 percent of assets managed actively and internally have integrated the principles and a similar figure is found for the funds that are externally actively managed. The integration level on the global market is 7 percent across the asset classes.

In 2010, the use of research in the ESG area where done to a large extent by 45 percent of the signatories that are managing their assets internally. The same research was done by only 30 percent of the ones managed externally however some of these ensure themselves that the external

managers undertake ESG research and analysis. Of the signatories 55 percent combine exclusion with integration of the principles.

3.1.1.4 Principle 2

Voting on company meetings in an informed way is an important way of being an active owner. Approximately 88 percent of the signatories use this way of executing their active ownership. There are however many difficulties to this approach such as cost associated with the distance to the market where the investment is done. Other difficulties could include national governance rules as well as cultural differences.

All signatories have a policy for voting in corporate governance issues but fewer of them have policies for environmental and social issues.

The most common way of voting is using a third party that conducts the voting on the basis of a predefined voting policy. Over 60 percent of the asset owners claim to use this way of voting but as much as 20 percent do not monitor the if these are done in accordance with the policy. In implementing voting decision the internal staff is used by 80 percent of the managers.

How the investors engage in active ownership entails a range of methods with varying intensity. These can be everything from writing letters to organizing meetings with the management of the company to filing resolutions or issuing public statements. In Sweden the number of engagements has dropped from 208 to 133 between 2009 and 2010 by the same number of signatories with extensive engagement.

The signatories that use specialist providers of engagement services show the most extensive engagements. Those who do not use this type of service have bigger difficulties in identifying objects for engagement and evaluating the success of their engagements.

3.1.1.5 Principle 3

A growing discussion among investors is how disclosures of ESG issues can be standardized. Should they for example be a part of the company's financial rapport or contained in a separate rapport of corporate responsibility? There are other ways of collecting this information as well such as through the Carbon Disclosure Project (CDP), the Communication on progress (COP) documents provided by participants in UN Global Compact and other tailored surveys.

3.1.1.6 Principle 4

A large number of signatories are putting principle 4 into practice by highlighting the importance of ESG issues with the third parties that they work with. Most often this is done with providers of voting and engagement providers and in a lesser extent with brokers, investment consultants and research providers. Principle 4 also involves working with regulators as well as other stake holders in ESG issues. 85 percent of the signatories say that they have been involved in discussions regarding government and industry regulations in 2010.

3.1.1.7 Principle 5

Approximately 90 percent of the signatories say they have been involved in collaborations with other investors in 2010. This is done both with the help of formal investor initiatives or informal networks aimed at responsibility issues. A total of 223 signatories were involved in collaborations that were promoted by the PRI Clearinghouse from July 2009 to July 2010. Many signatories are also involved in other sector specific and industry-wide initiatives aiming to promote responsible investment as seen in table 3-1.

Initiative	Number of signatories
<i>Carbon Disclosure Project (CDP)</i>	215
<i>Regional Social/Sustainable Investment Forums</i>	100
<i>International Corporate Governance Network (ICGN)</i>	80
<i>United Nations Environmental Program Finance Initiative (UNEP FI)</i>	80
<i>Extractive Industries Transparency Initiative (EITI)</i>	58
<i>Institutional Investors Group on Climate Change (IIGCC)</i>	52

Table 3-1

Source: PRI Rapport on Progress 2010

3.1.1.8 Principle 6

Most of the signatories disclose their responsible investment policies but to different degrees. 55 percent of the investors in listed equity publicly disclose their voting policy however 40 percent of the asset owners still don't disclose their voting policies at all.

3.1.2 The Carbon Disclosure Project (CDP)

The Carbon Disclosure Project was launched in 2000 with the purpose of contributing to an increased transparency and disclosure of climate change information. CDP is the largest holder of information on such areas as greenhouse gas emissions and strategies implemented to prevent climate change. All of the Swedish National Pension funds are a part of this project.

3.1.3 Extractive Industries Transparency Initiative (EITI)

The Extractive Industries Transparency Initiative is a coalition of governments, companies and investors with the aim to disclose information about company payments and government revenues from oil, gas and mining. The purpose of this is to minimize the negative effects from the poor governance, economical under-performance and higher incidence of conflicts that these countries often suffer from.

The EITI has twelve principles that provide the cornerstone of the initiative and six criteria that have to be fulfilled to be a candidate of the initiative. This is a way of showing how important the issue of transparency is when it comes to the environmental effects. All of the Swedish National Pension funds officially support this initiative.

3.1.4 International Corporate Governance Network (ICGN)

The purpose of the International Corporate Governance Network (ICGN) is to "raise the standards of corporate governance worldwide" (ICGN, 2010-12-25). The network provides best practice guidelines and encourages the development of new leadership practices as well as keeping their members updated on these issues. All of the Swedish National Pension funds officially are a part of this network.

3.2 How pension funds may act as active and responsible owners

Here we look at theories about how the owners may or may not be able to control the actions of the companies they own stock in. Just because pension funds want to have power to decide over certain issues of corporate behavior does not mean they automatically can. There might be a power struggle between the pension fund, other owners and management. We look to theories that might shed some light on whether pension funds are powerful enough to push issues of social responsibility and the mechanisms for doing so.

3.2.1 Corporate Governance

Corporate governance is defined in many different ways. What most of these definitions have in common is that corporate governance is seen to deal with the power division between stakeholders and those that represent the stakeholders.

The OECD's defines of corporate governance is: "The system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining these objectives and monitoring performance."

Keasey et al (1999) states that corporate governance deals with the way investors insure themselves of getting return on their investments.

3.2.2 Ownership versus control

The separation between ownership and control has long been a struggle and the central theme of corporate governance. It is argued by Keasey et al. (1999) that market forces alone should be enough to ensure that companies are managed in the best interests of investors. Others argue that corporate governance is instead an agency problem. Monks and Minow (2001) state that the shareholder owns the exclusive control of the stock itself but not the right to control the use of the company property. The right of property control is instead delegated to management. The shareholders are typically seen as having the right to sell their stock, the right vote etcetera.

In today's companies the same individual no longer has both ownership and control over economic rights. The stockholder is just a supplier of capital and receiver of return, and has surrender control over his capital (*Cubbin and D. Leach 1983*). As first noted by Berle and Means (1932) the large number of shareholders favor management into the manger/owner power struggle. Thus mangers have every incentive to increase their own power by increasing shareholder numbers further. Institutional investors in turn limit this potential by simply being large shareholders.

There is nothing saying that the division of ownership and control is beneficial to the workings of a company. There is no conscious thought behind this division; it is simply the result of what was thought to be progress. This progress aimed to make stock trade easier but also made classical ownership rights harder to excise. James Willard Hurst claims in the book *Corporate Governance* by Monks and Minow (2001) that shareholders *legendary function* of monitoring has been eroded.

3.2.3 Differences in corporate governance systems

There are different systems of corporate governance. According to Franks and Meyer (1992) there exist differences between the corporate governance structure in the UK, the USA, continental Europe

and Japan. The UK and the USA are described as outsider systems and Continental Europe and Japan as insider systems.

The outsider system is described as having dispersed ownership with owners not represented on the board. Owners are seen as passive investors and if they are displeased with company performance they will sell their stock rather than attempt to actively influence the company in question (Jones 2004).

The insider system is a “relationship-based” system, often with large banks and corporations as major shareholders. The insider system is described as concentrated ownership, with shares being infrequently traded, and takeover activity is largely absent. Owners and stakeholders are represented on the board and investors are active in control of the company. Large shareholders are often other companies. This tends to reinforce stability and long term thinking in the company (Chew, 1997).

3.2.4 Transparency and corporate governance

Corporate governance at its core involves monitoring the performance of the corporation and the actions of managers. For this monitoring to be meaningful they must have both the ability to observe and the ability to act. As most information regarding a corporation’s performance is uniquely available from the corporation itself it is vital that the management discloses this information.

Without effective disclosure performance, investors cannot evaluate management’s performance, and prospective investors cannot forecast the future of the corporation (Gilson, 2000).

On one hand management has incentive to disclose positive information but less of an incentive to disclose negative information. “Delivering information to investors is easy, but delivering credible information is hard.” (Black, 2000).

Without proper rules around corporate disclosure the market risks becoming a lemon market as described by Akerlof (1970) where an asymmetry of information causes market deterioration. In summary; investments require good corporate governance, and good corporate governance requires credible information from corporate management.

Gilson (2000) goes on to say that there is a second dimension to transparency – ownership transparency. Here it is important that the company discloses the identity of major stockholder. This is due to the risk that a controlling shareholder might diverge earning or opportunities to itself.

3.2.5 Affecting management

There are two types of stock owners, those who just buy and sell stock and those who actively tries to influence the management. Being an active owner may be done in a number of ways such as participating in the annual general meetings, seeking board representation, and through interactions with the management of the company or other shareholders (Keasey et al., 1999).

Active ownership may take many forms such as what Keasey et al. (1999) terms *voice*. Owners classified as *voice* participate in the company affairs and influence management to rectify what the owner is unhappy with. This active ownership is an attempt to change rather than sell up or exit, and has some advantages over exit. If the position is sold, there is no way to use the opportunity to better the company in question. But, on the other hand, if active ownership is practiced, one can hopefully influence the company to do better. Active ownership can also be looked upon as a way to postpone exit, and exit can be seen as a last resort after a failed attempt at influencing.

Passive owners, argue Enquist and Javefors (1996) are likely to see their possession as a capital

investment. These owners are likely to sell their shares if they are unhappy with the company in question. They are said to employ an exit/entry strategy. Buying stock if they believe in the company and selling stock if they are dissatisfied with the company.

3.2.6 The board

The board is the highest instance of internal monitoring. It's most important role is to scrutinize the decision makers within the company. This entails that any shareholder pursuing any form of active ownership should see to having members on the board or at least being in constant communication with the board (Fama ,1980).

3.2.7 The board-management relationship

Board exists to oversee management, selecting the best executives for the job and disabling those who fail in their undertakings. In reality the board is often uninformed and serves the management. The boards are often selected by management and receive compensation set by management. This is not in the interest of shareholders who the board is supposed to be working in the best interests of (Monks, Minow 2001).

The success of an active ownership hinges on the interpersonal interactions of the owners, the board and the company management. Meaningful correspondence is vital for the owner to gain influence (Brodin, Lundqvist, Sjöstrand and Östman, 2000).

3.2.8 Large shareholders

As monitoring and influencing is expensive, large shareholder have a greater opportunity to monitor and communicate with the management of the company. Owners of large possessions may also have enough voting control to put pressure on the management. The benefits of large owners are that they have both the interest of getting their money back and the power to demand it. Also, permanent large owners have the advantage of having the ability to influence the management of the company patiently. (Keasey et al 1999)

Due to the reasons mentioned and the free rider problem, as more shareholders may benefit than pay for managerial monitoring, small owners might find monitoring and enforcing voting unattractive. This will mean that they prefer a cheap exit to an expensive active engagement if they are unhappy with the management (Bhide, 1993).

Another reason for using active ownership according to Hawley and Williams (2000) is that some large positions are too large to sell. Such a large stake would typically be bought by another institution if sold. Add to this that most institutions hold very similar diversified portfolios and therefore a problem would be evident in trying to sell the stock in question. This would mean that if the stock was to be sold it would be sold into a declining market at a bad price.

3.2.9 Owner versus manager controlled

In outsider systems like the UK and the USA the largest owners typically own less than 5 percent of the shares. The firm is thus controlled by the management. In insider systems we find the opposite - company's controlled by large stock owners and stock holding board members (Jones, 2004).

A firm can be classified as owner controlled if one shareholder can outvote the other shareholders and thus control the company. If the shareholders do not vote or do not form a unified front an active shareholder with less than 50 percent can control the firm (Jones, 2004).

Radice (1971) defined a largest shareholding of 15 percent or more to define a company as owner controlled and a largest shareholding less than 5 percent to define managerially controlled.

Cubbin and Leach (1983) based their concept of control on the freedom with which a controlling group is free to pursue its own objectives with or without the support of other owners. They defined control as a 95 percent or higher chance of winning a vote. They studied 85 companies and assumed with a 10 percent voter turnout less than 10 percent of the shares were enough to control 73 of these companies. With a 5 percent voter turnout less than 5 percent share was enough to control 37 of the 85 companies.

3.3 Why pension funds would act as active and responsible owners

This section lists theories that provide motivation for the pension funds, here seen as a 'universal owners', to try and influence companies regarding social responsibility issues. Part of understanding if pension funds act as socially responsible owners is understanding what they may benefit by doing so.

3.3.1 Universal owner

A universal owner (UO) is defined by *Hawley and Williams (2000)* as large institutional investors that holds a portfolio that represent a broad segment of the economy. The holdings of this investor represent the economy as a whole. This investor has a long term holding perspective and seldom trades. The universal owners portfolio is similar in composition to the market as a whole which leads to the portfolio return depending on both the performance of the individual firms and the economy as a whole.

The logic behind this hypothesis leads to some important consequences. When the UO evaluates firm behavior, part of the focus is on the effect of firm behavior on the economy as a whole. In short when it comes to externalities the UO portfolio is affected much in the same way as the market as a whole. The UO is affected negatively by negative externalities of a given firm and affected positively by the positive externalities of a given firm (*Hawley and Williams, 2000*).

Hawley and Williams (2000) go on to say that individual firms may tend to under-invest in projects that are of benefit to the market as a whole but not to the firm. This is due to the fact that the firm is unable to capture positive externalities. The UO on the other hand can capture this benefit and would want to go ahead with the project. Thus to maximize the total portfolio return the UO may be willing to accept lower returns from some portfolio companies if these companies internalize a negative externality. The cost to the firm internalizing this externality may be outweighed by the positive effect that this internalization has on other portfolio companies. This can at times lead to a conflict of interest between the UO, the management of the firm and other owners.

In short, Universal Owners are at times positioned in such a way that they are inclined, in their own best interest, to put pressure on a firm to maximize social benefit (*Hawley and Williams, 2000*).

The large institutional shareholders have both stockholder and stakeholder interests in the sense that they care both about the UO's return and the quality of life they can enjoy with this return. This means that UO have to weigh up both traditional financial factors as well as social factors when making decisions. The unusual position of UO makes them financially interested in the long term health and well-being of society as a whole (*Hawley and Williams, 2000*).

3.3.2 The costs of negative external effects

The unsustainable use of natural resources has been found to cause huge costs to all of society including for business. Companies often don't pay the full costs of the environmental damage caused by their business activities. This cost then becomes an external cost burdening society. In the past, without adequate information about these externalities markets have failed to accurately account for businesses effects on the environment. Capital can be ineffectively allocated to projects with huge negative external effects that outweigh the positive from a social point of view. Allocating capital to activities that damage the environment is inefficient in the medium to long run (Jaffe and Newell, 2005).

Externalities also affect shareholder value because they lead to a more uncertain economic environment fraught with greater systematic risks. The cost of reversing environmental damage is usually more expensive than what it would have cost to preventing them in the first place (Jaffe and Newell, 2005).

The global cost of negative externalities is high and rising. In 2008 human activity resulted in an externality cost of US\$ 6.6 trillion. To put this figure into context you can compare this with that it represents 11 percent of the global economy 2008. In 2050 at the current level of externalities this figure will be US\$ 28.6 trillion or 17.8 percent of GDP. It is however calculated that this figure could be 23 percent lower than estimated if resource efficient technologies were put in place as a part of an initiative focusing on social responsibility. This projection could however be worse if one took into account growing ecosystem sensitivity, natural capital scarcity and potential ecosystem collapse or climate shift. Certain sectors such as electricity, oil and gas producers, industrial metals, mining and construction are particularly prone to heavy negative externalities.

Today's governments try to apply a *polluter pays* principle but the price of polluter penalties is still usually lower than the cost of damages caused. If all external cost were internalized they would equal between 34 percent and >100 percent of the largest 3000 companies revenue.

Returns on institutional investors' portfolios are often closely related to capital market returns and value creation across economies. Externality's can render capital markets more vulnerable to sudden, low-probability, environmental catastrophes; thus undermining economic growth and return of the market. Given a large well diversified portfolio, the costs of negative externalities are generally larger than the short-term gains they might imply to individual companies. (UNPRI , 2010)

4 Empirical findings

Our empirical findings is built up around interviews with the Third and Second AP-fund and Folksam. First an analysis is given of the AP-funds home pages and annual reports as well as well as reports from UNPRI. The interviews were centered on the topic of pension funds active ownership from a social responsible stand point. The topics covered are among other things corporate governance, voting abroad and mechanisms of influence (see appendix A for interview guide). Cooperation around issues of social responsibility is also a central topic stemming from UN PRI and the AP funds own corporation – the ethics counsel (Etikrådet).

4.1 Background analysis

4.1.1 The First to Fourth National State Pension funds The Swedish national retirement pension can be seen as being made up of three parts, income pension, premium pension and guarantee pension. The First, Second, Third and Fourth as well as the Sixth AP-funds belong to the income pension system. The Sixth has different investment criteria and is not included in our study. The Investment activities of the First, Second, Third and Fourth fall under the Swedish law (2000:192) LAG OM ALLMÄNNA PENSIONS FONDER. This pension system is administered by the Swedish Social Insurance Agency (SSIA) and the Premium Pension Authority (PPM). The funds together employ around 200 people (*Första AP Fond, 2010*).

The income pension is financed by the 16 percent employers pay on an employee's gross annual income and taxable benefits. This pension system is of the contribution type, meaning that the size of future pension payout depends on both the amount of money paid by those working today and the return on invested capital. The pension system is also a so called pay-as-you-go system entailing that money paid in today is used to pay the pensions of those already retired (*Första AP Fond, 2010*).

The money paid into the funds and the payout are split equally between these four funds. There is a sixth buffer fund but it is different with different placement rules. All the buffer funds together comprise 10 percent of the assets of the public pension system. The remaining 90 percent are future payment into the public pension scheme (*Första AP Fond, 2010*).

The buffer funds help smooth out the year to year differences in state pension payout deficits. Pension money is paid by all working Swedes and money is paired out to members who no longer work. The mission of the buffer funds are given to them in the Swedish National Pension Funds Act. This mission entails acting as a buffer in the pension system, maximize long-term return at a low level of risk, acting independently and not be influenced by government policies and where possible consider ethics and the environmental issues (*Andra AP Fond, 2010*).

Although the AP funds have existed in some form for decades, their new form is the result of a 2001 reformation. The funds were reorganized to function as buffer funds in the new pension system under new investment rules. They individually will formulate their own investment policies and compete with each other on mutually competitive terms. By dividing the funds and allowing them to invest separately the hope is to spread and lower risk. A short description of each fund is given in figure 5-1. The funds act independently and may individually develop an investment strategy within the guidelines of law (2000:192) (*Swedish Riksdag, 2010*). The funds have included ethical and environmental concerns into its ownership model and pursue active ownership methods to influence companies. This is done without compromising the overall goal of return maximizing (*Fjärde AP Fond, 2010*). The Swedish Riksdag has also tried to limit the AP-funds economic-political power by imposing a number of placement rules. An example of this would be that the funds are not allowed to own

individually more the 10 percent of any listed company and 10 percent of the funds' assets are to be managed externally (*Swedish Riksdag, 2010*) .

The funds pursue active corporate governance as a means of maximizing the value of companies invested in. Various methods of active ownership are employed. Important methods are voting at general meetings and co-operating with other institutions to be able to add weight to principle issues. Companies found to be in violation of international conventions are dealt with via the ethical council(*Fjärde AP Fond, 2010*).

Voting abroad can be complicated and costly. The funds however see it as a necessity to vote and have collectively invested in a computer voting platform that facilitates voting and every fund vote separately based on their individual guidelines.

Questions that are weighed heavily regards shareholders right to influence, the independence of the board, capital structure, transparency, shareholder right in connection with new emissions, executive pay levels as well as ethical and environmental issues (*Etikrådet, 2010*).

The funds themselves also put forward resolutions such as when the funds demanded that Freeport-McMoran appoint an environmental expert to the board due to the environmental issue of the company dumping waste in an Indonesian river (*Tredje AP Fond, 2010*).

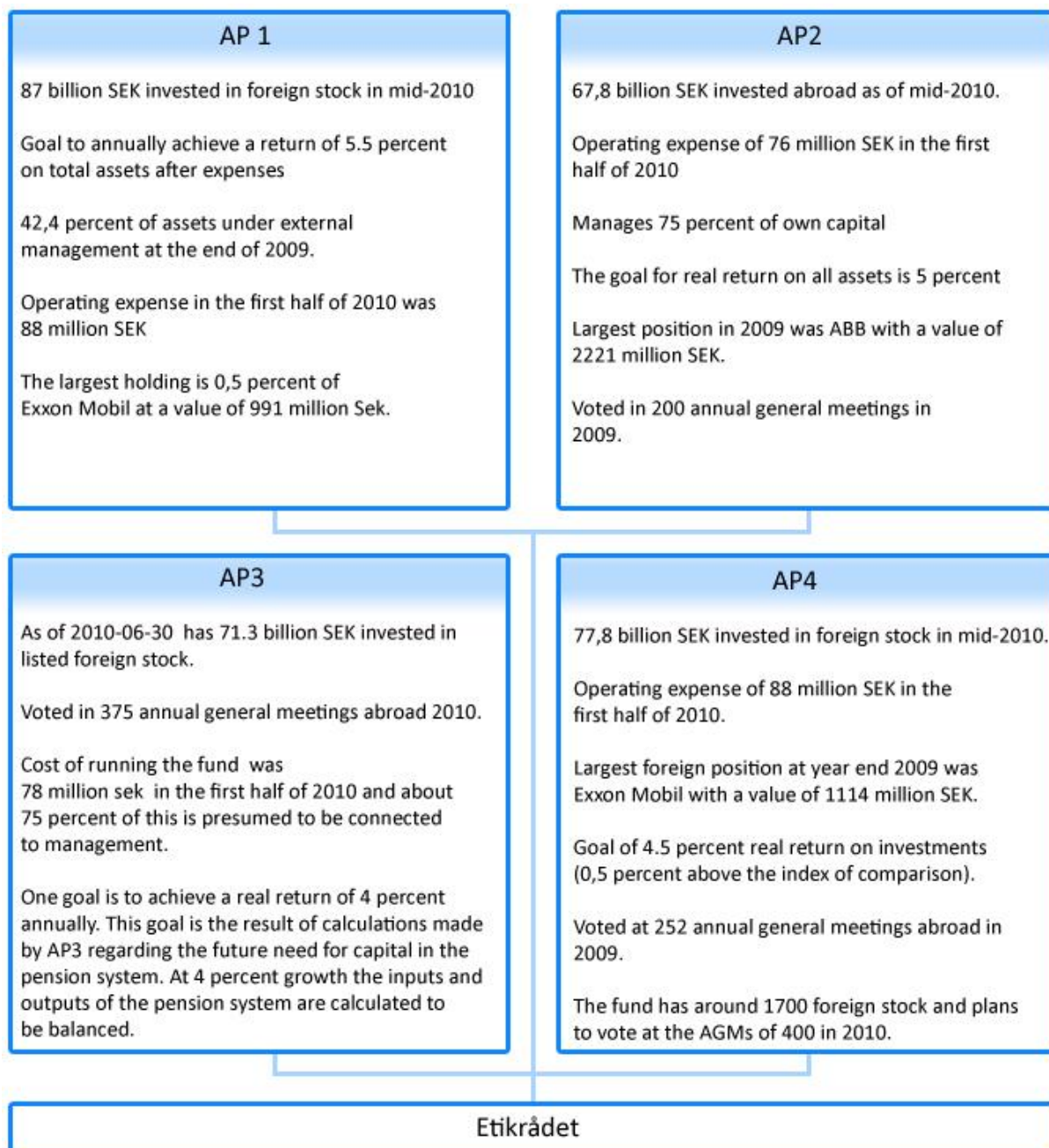


Figure 4-1 A background to the First to Forth AP-funds sourced from Första AP Fond, 2010, Andra AP Fond, 2010, Tredje AP Fond, 2010 and Fjärde AP Fond, 2010. Table source: Own drawing

4.1.2 The Ethical Council (Etikrådet)

Etikrådet (translates The Ethical Council) is a collaboration between the four buffer funds. The purpose of the Council is to join forces and collaborate on active ownership issues connected with ethics in companies outside of Sweden.

The ethical values that the council bases its decisions on can be said to be those of the convention signed by the state of Sweden (among others, conventions on human rights, labor rights, corruption and inhumane weapons) as well as initiatives supported by Sweden such as the UN Global Compact. The council's work is a combination of two parts; reactive work that involves identifying companies that have been found in breach of a convention and attempting to influence them and proactive

work that entails influencing companies to improve policies by various industry and investor initiative.

In addition to engaging companies in dialog the council takes part in a number of international initiatives and conferences about corporate ethics and governance. The council supports the following initiatives Principles for Responsible Investment (PRI), the Carbon Disclosure Project (CDP) and the Extractive Industries Transparency Initiative (EITI) and these are all described further down.

The ethical council has a systematic method of screening its portfolio and engaging companies found in violation of international conventions in dialog to rectify the problem as described in figure 5-2.

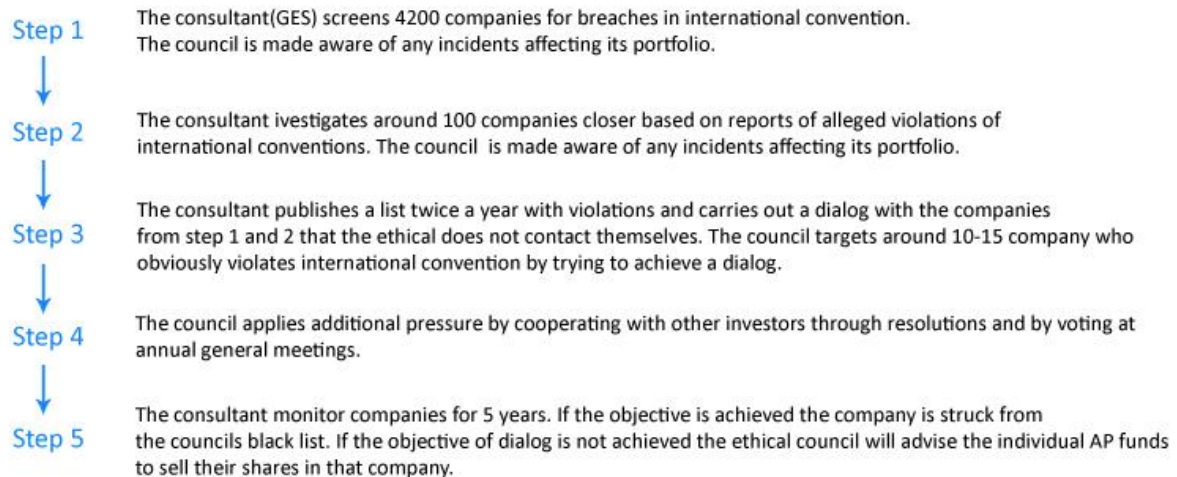


Figure 4-2 The screening process

Source: Own drawing

The council claims to have achieved objectives around the world in the fields of human rights, labor law, environment and corruption. For example in 2009 the council found out that Thales SA was involved in bribery and contacted them. The objective was later achieved as the company centralized its sales and developed a robust anti-corruption program.

The council points out that they recognize voting as an effective tool when influencing companies. During 2009 they have voted in about 30 resolutions on issues concerning environmental and social responsibility. They also see strengths in joining forces and teamed up with the Dutch ABP and New York City Pension Fund to file a resolution at the AGM of the American mining company Freeport-McMoran. The resolution that the board should appoint an environmental expert recited strong support with 32 percent of the vote. The council also has a black list that at present excludes around 10 companies. They are however still in contact with these companies urging them to rethink and change (Etikrådet Årsrapport 2009).

In addition to the Ethical Council's core task of influencing the actions of companies through dialogue, the Council takes part in a number of international initiatives intended to demonstrate its position as an investor and to promote corporate social responsibility.

The council claims that by actively taking on social and environmental issues companies can reduce risks and cost while exploiting business opportunities. This sustainable value creation ensures both present and future returns for Swedish pensioners in the long term.

4.3 Interviews

4.3.1 Christina Kusoffsky Hillesöy (2010-12-06)

Head of Communications & Sustainable Investments at the Third AP-fund

During the interview it is pointed out that affecting ethical and environmental change through active ownership and co-operation with other shareholders is a growing trend among large institutional investors. This backed up by FNs six principals. The six principles have many intuitional signatory's and entail very simplified that an investor will first influence company policy regarding ethical and environmental issues by means of owner influence .

Affecting a change from the inside is better than attempting to change companies by not buying their shares. If one is unhappy with a company and sells ones shares one simply distances one's self from the unethical company in question and one loses the right to change the company's policies as an owner. Simply selling ones share may not send a strong enough message to company leadership and changes nothing.

When it comes to foreign companies the AP funds usually own around 0.05 percent of the shares in a single company. Therefore it is there for important to cooperate with other shareholders, often other international pension funds to get backing for a certain proposition. The trend is to corporate more and here by draw attention to ethical and environmental issues.

Abroad, in the USA specifically it is common for ethical issues to be brought up at the AGM. The AP therefore bring up ethical issues at the AGM, for example at Freeport's AGM they put forward the suggestion than an environmental expert be appointed to the board. In Sweden on the other hand issues of ethical nature are often dealt with through a dialog with the company in question as one seldom votes on such issues.

It is pointed out that change is a process and as such takes time. The AP-funds are also aware that they need to co-operate with others to achieve any change. A good way to get a company's attention and open a dialog is face to face meetings. This way it is possible to establish a relationship and allow the respective parties to gain each other's trust. This is important as companies have sensitive information that they don't want leaked to the media and this type of information may be disclosed in negotiations between management and investor. This type of face to face dialog is very resource taxing and the AP funds therefore only have the possibility to negotiate with very few companies.

The AP funds use the screening services of a company called GES Investment service (GES). GES is described as being experts in the field of ethical investing and as having a lot of contacts. It is however pointed out that GES lacks the power of an investor when contacting the management of the company. However they do a lot of the ground work like fact finding and initiating dialogues with companies.

The AP funds don't exclude industries - they follow international conventions Sweden has sighed and there are no conventions against tobacco. However they would for example intervene in a tobacco company if they used child labor since that would mean that the company was in violation of the UN international convention on human rights.

Certain industries have been found to be more problematic than others. The mining industry is a risky industry and frequently infringes on the AP-funds ethical code.

Most of the AP-funds equity investments are passively managed, which means they invest in

companies in a given index.

When asked if ethical behavior increases long-term profit the answer is that that is the belief. It is hard to prove but the AP funds believe this to be the case. Companies are wary of getting a bad reputation as a crisis cost a lot. Examples of this could be BP and Nestle. By acting ethically the risk of a crisis is minimized. Moreover, ethical behavior is also an opportunity for companies since that can make them an attractive employer, gain new investors and customers and gain market shares.

It is not said that the AP funds are better at affecting companies than other funds. Neither the less certain factors are seen to help them in this sense namely that they are not controlled by customer preference/demand and therefore find it easier to cooperate with other international pension funds. It is also stated that they don't sell a product and therefore have greater freedoms as they are not bound to the short term whims of customers. One perceives one's self as more independent of customer preference/demand than other funds.

The employees of the fund responsible for environmental/ownership questions attend seminars regularly related to those topics, as well as serve as speakers at around-the-table-discussions to trade experiences with other investors

Christina believes that PRI encourages more investors to get involved with ownership questions through dialogues and by voting. This in turn increases the possibility to make a change in companies, boards included. There are however other networks that are important for corporate governance issues, ICGN [International Corporate Governance Network] for example.

4.3.2 Christina Olivecrona (2010-12-10)

Sustainability analyst at the Second AP-fund

Screening of the companies that Andra AP-fonden invests in is done twice every year by GES Investment Services. Often there is a specific incident that creates an alert that in turn leads to some sort of intervention taking place. The first contact is then often made by a letter and if there is no response they try again until they reach some form of dialog with the company in question. The next step after this is often to establish a telephone conference.

The Second AP-fund almost exclusively works with active ownership in order to make a change and regard exclusion as a last resort as it makes no difference at all to exclude companies when you are a small owner. However it has had some effect in the USA where the tobacco companies have been somewhat effected by exclusion.

One of the most important ways of affecting a company is to change the company's policies from the inside. The issue of social responsibility is a question of a company's maturity and more knowledge with these questions can help the company as a whole. One key factor of being successful with their work is to find win-win situations that are helpful both for the investor as well as the company invested in. Off course they want the companies to succeed and bring a future return on their investments. A safe way of reaching win-win situations is to have deeper knowledge of the company's situation and thereby putting the right type of pressure on the management of the company.

Co-operation internationally is becoming more important as one seeks to affect the policies of foreign companies. In different parts of the world the importance of voting versus face to face meetings with management varies great. Therefore you need to have different strategies for different situations.

As a well diversified owner the negative external effects of one portfolio company might negatively affect another portfolio company. This means that the AP funds have a vested interest in limiting these negative external effects and encouraging positive external effects in the companies owned.

Many of the co-operations are coordinated through PRIs Clearinghouse, which is a forum to help signatories of the PRI principles come together in their work with ESG issues. The AP-funds were early to sign the PRI principles and they have provided the framework for these issues since then. While she feels that the PRI is a great initiative she also points to some of the difficulties. Even though it is meant to make the institutional investors more active there is still a risk that some will sign the principles purely for marketing themselves as responsible.

One of the reasons for the formation of Etikrådet is that active ownership issues take up a lot of time and resources and it is hoped that by cooperating the first to forth AP fund will make this process easier.

Some of the advantages of being a national pension fund are in that they, in one way or another, represent Sweden as a trademark and are seen as representatives of Sweden as a country. One difference with private funds is that they have the ability to create customized products for different customers while the national pension funds cannot divide their customers in to different categories.

4.3.3 Richard Torgerson (2010-12-13)

Corporate analyst of responsible ownership at Folksam

It is equally important to screen the companies when considering whether to invest in the company as during the period when they own the stock. To deal with the screening process they use GES investment services which are absolutely necessary to cope with the large amount of companies to screen.

Transparency and sustainability is important because it tells you so much more about how the company is run, such as a good management and good values within the company. This transparency leads to a higher profit in the long run even though he acknowledges that earlier research points both ways.

When it comes to active ownership it is easier to get a change if you are an active owner. To succeed in getting through to the company you need to start early. At Folksam this contact is often kept through telephone calls and letters. One point is that it is easier to control companies in Sweden than it is to control companies abroad and that co-operation between different investors is necessary to achieve a change.

Folksam are involved in several cooperative projects such as Hållbart Värdeskapande in Sweden and the Nordic Engagement Cooperation (NEC); a Nordic co-operation meant to coordinate the engagement in environmental, social and governance activities. Folksam cannot take credit on their own for the changes they have achieved when it comes to sustainability because there are often several partners involved. Many more are starting to interest themselves in active ownership and it is needed for as many as possible to be involved to get a more significant change.

One business sector that is completely excluded by Folksam is tobacco. The simple reason for this is that they are an insurance company and to invest in tobacco would seem counterproductive. They also reject investments in illegal weapons such as nuclear weapons. KPA pension goes even further and excludes alcohol, tobacco, gambling and all forms of weapon production.

What drives Folksam forward are their customers who are also the owners. Therefore they make regular customer research to get opinions of in what direction the company should move.

On a follow up question of why the number of intensive engagements in Sweden regarding questions of sustainable business has dropped from 208 in 2009 to 133 in 2010, as shown by a recent PRI rapport, Torgerson answers:

It's hard to know why. The number of cases in the UK is down too. The question is when the definition of intensive first was used? Maybe it was in 2010 and before that it was a subjective definition? Investors that have worked with engagement for a while tend to successively expect more from themselves and raise the bar for what is perceived intensive. They could be many plausible explanations, but I don't believe that investors are working less with responsible investment. The financial crisis, from what I've heard, has not lowered the support for SRI, if anything the opposite.

5 Analysis

The purpose of this study was to evaluate pension funds as socially responsible owners. With this in mind we will analyze our empirical finding with the help of our theoretical framework. In this section we will apply theories to help us understand pension funds as large active owners based on our empirical findings. We will explore why pension funds might act as active owners, the mechanisms for active ownership as well as looking at what power pension funds have in practice.

The AP funds don't strictly follow the SRI definition that Hellsten and Mallin (2006) give of engagement, preference and screening. As they point out it is perceived as better and more ethical to invest in all industries and then better them from the inside instead of exclusion. The term ethical investment used by Allen Consulting Group (2000) to take social and environmental factors into account is better applied.

5.1 SRI initiatives

This section provides a view of different organized initiatives among institutional investors in the field of social responsible investing. The purpose of this is to gain insight that enables us to analyze how institutional investors could gain power by cooperating, as well as understand the mechanisms of co-operation.

PRI was mentioned in all our interviews as well as in much literature in the subject of SRI. While our interviews stress it's not the one and only share holder initiative, it's definitely one of the largest and far reaching with a total 872 investment companies as signatories and 223 signatories collaborating through the PRI clearing house between June 09 and June 10. PRI is a relatively new initiative and according to both our interviews and PRI themselves vastly growing in scope. In time this could possibly lead to the unification and standardization of the terms that many people ask for as Sandberg (2009) notes. As we were told the PRI grows the more attractive it becomes to join, which is backed up by Radice (1971) and Cubbin and Leach (1983) as well will see further on in this chapter. The First to Fourth Swedish National Pension funds fit the typical signatory of the PRI principles when the interviews and information given by the funds are compared with the UNPRI statistics. A lot of the language used by the interviewees is similar to that of the principles, where both for example talks about the difficulties with distances to the companies invested in, that co-operations are a necessity and that voting is an important method of active ownership.

The rapport on progress by UNPRI takes up the issue of education on socially responsibility issues and, just as they find many investors to do, the AP-funds education consists in seminars and conferences.

5.2 How pension funds may act as active and responsible owners

Here we view our empirical findings in light of the theories we previously listed regarding how pension funds act as owners and the power struggle between owners and managers seen through a corporate governance framework.

The ownership of the AP funds is conducted in a very similar way to the definition of active ownership given by Keasey et al. (1999). The AP funds both participate and are expanding their participation in annual general meetings abroad. They also interact with the management through letters and even better through face-to-face meetings when possible. This follows the trend of how most Swedish investors work with active ownership as noted by the Swedish Environmental Research Institute (IVL) (2003). According to IVL's (2003) research this is also the most effective way of affecting a company. Another factor of the AP-funds active ownership is their co-operation with

other shareholder to gain leverage for influence. This may be one factor that could differ pension funds from other investors as IVL (2003) writes: "If this [working together in networks] is an important driving force, maybe the largest potential increase in active ownership in Sweden lies with the pension funds"

In line with Keasey et al. (1999) the AP-funds practice active ownership via a mechanism called *voice* as they communicate and try to achieve a change rather than just selling their shares. Like Keasey et al. (1999) they point to active ownership as being an effective method, claiming that what they call exit/entry ownership to be an ineffective way of influencing management. Another reason for using active ownership is that the AP-funds have such large single positions, like AP 2's position in ABB worth in excess of 2 billion SEK that they might be too big to sell according to Hawley and Williams (2000).

The AP-funds say that active ownership is very resource heavy and therefore allowing them to be active in only a few companies annually. This is in line with both what Keasey et al. (1999) and Bhidé (1993) say.

Size is important to be able to engage in active ownership in the first place as pointed out by Bhidé (1993) it is something only the largest owner can afford or see any point in doing. Of course size also has the effect of having a greater share of the votes as we will see in the next section.

One of the methods the AP funds use to influence companies is voting. The AP funds are large owners by outsider system standards (Franks and Meyer, 1992) however they have very few votes in each company, seen as a percentage. The largest single holding is 0.5 percent and that is way below both the 15 percent share found by Radice (1971) and the 5 percent share found by Cubbin and Leach (1983) needed to control a company. It is pointed out however that a lot of weight is put on cooperation with other institutional investors through platforms such as PRI. This way it may be possible to amass a larger voting bloc. The example is given of the Freeport case where the AP funds managed to cooperate and get a 30 percent vote on their side.

By forming a large voting block and putting pressure on management in an outsider system it can be turned into an insider system. In insider systems a large owner enforces long-term thinking and stability in the company through representation or direct contact with management (Chew and Donald H, 1997). Many of the companies where the AP-funds own shares are based in countries with outsider systems, like the USA. In these markets the shareholders traditionally have little power over management due, in part, to the sheer number of shareholders as first documented by Franks and Meyer (1992).

The AP-funds say they believe that ethical behavior through active ownership will increase profits. This statement can find backing in the universal owner hypothesis presented by *Hawley and Williams (2000)*, as well as the fact that many reassures believe that active ownership is beneficial to company value and that a division of ownership and power is not beneficial (Monks and Minow, 2001).

As the funds mention, communication is very important in influencing management, preferably face to face meetings. This is along the lines of Brodin, Lundqvist, Sjöstrand, Östman (2000) as well as Fama (1980), who claim this, along with board representation, is a must for influencing companies effectively.

The AP-funds as well as Folksam mentioned the fact that they see the importance of increased corporate transparency. This is necessary if they want to be active owners since credible information from management is needed for good corporate governance (Gilson, 2000). By decreasing information asymmetry companies that are well run will increase their value and the market as a

whole will be strengthened and stabilized (Gilson 2000).

5.3 Why pension funds would act as active and responsible owners

Here we follow up by connecting theories of why a pension fund would act as a social responsible active owner with our empirical findings. Part of understanding how the pension funds act as owners is also to understand the motivation for behaving as a social responsible owner.

The AP-funds are institutional investors that hold a well-diversified portfolio which represents a broad section of the economy. Added to this the fact that they have a long-term holding perspective and therefore they are by Hawley and Williams (2000) definition *universal owners*. This entails that they are affected by both the return of individual firms and by the market as a whole.

Hawley and Williams (2000) attach certain qualities to the universal owner implying that the AP-funds as owners are affected negatively by negative externalities that affect the market as a whole. We have found that the AP funds fight negative external effects like bribery and corruption, environmental damage.

The costs of negative externalities are definitively high enough to warrant the attention of the universal owner as outlined in (UNPRI, 2010). The cost of negative externalities decreases the owner's return as well as increasing the risk. The costs of negative externalities today affect the return of the universal investor in years to come and the cost of reversing environmental damage is usually more expensive than what it would have been to preventing them in the first place (Jaffe and Newell, 2005). Rendering that the AP-funds are long term investors it is easy to see why they would want to limit today's negative external effects.

The AP-funds would be expected to invest in projects that are more beneficial to the market as a whole than to the individual companies. This is due to the fact that they are positioned in such a way as to be able to capture a given firms positive externalities, much as society as a whole (Hawley and Williams, 2000). An example of this is that the AP funds have through the ethics council visited India in 2009 and shown interest in helping in a UNICEF project in which companies help better the life quality of the children and improve education.

Both Woods and Urwin (2010) and The Allen Consulting Group (2010) have noticed a need for pointing out the financial benefits of SRI to make this practice mainstream. Both the AP-funds and Folksam believe that the SRI work will be financially beneficial in the long run. This could be an indication that this view is catching on, as the stated writers predict.

6 Conclusions

Our research question was centered on pension funds as owners and how they influence the companies they invest in to act in a socially responsible way. To answer this question we have looked at how the AP-funds act as active owners in practice, and the mechanisms they use to achieve this. We have also investigated the theoretical reasons why pension funds might seek to act in a socially responsible way. We have disclosed in detail the mechanisms with which large institutional investors may cooperate on issues of social responsibility and some of the benefits with this type of co-operation. To answer our research question in short - the AP funds try to be active owners, increasing their power to influence companies to act socially responsibly. Let's see how and why.

From the investigation it seems obvious that the AP funds are trying more and more to act as active owners internationally regarding social issues. Their methods for influencing company management are mainly voting at annual general meetings, through face to face meetings and with other direct interaction with company management as well as partaking in shareholder initiatives to influence corporate policies. The AP-funds have rejected passive ownership tactics, such as not buying shares in a given sector or selling shares in displeasing companies as this is seen to change nothing and not actually influence management at all.

Another reason for influencing rather than selling could also be that they have too many shares to just sell without affecting the market and losing vast amounts. Instead they influence companies seen in breach of international conventions regarding ethical and social issues to change. They are increasing their cooperation with mainly other institutional investors around issues of ethics and social responsibility.

A mechanism for influencing company management that seems to be a growing trend is forms of collaboration regarding voting at annual general meetings. The AP-funds are trying to increase their voting frequency at AGMs as well as collaborate more to gain more power as an investor.

By cooperating with other institutional investors, especially other large pension funds with similar goals, one could say that increasing their voting power and taking power away from management and putting it more into the hands of investors. In a sense they are turning an outside system into a quasi-insider system with one large ethically aware owner. One wonders if as these co-operations grow, say around PRI, and pension funds size increases, if pension funds may soon be controlling the board of companies choosing board members in line with their goals and policies.

The reason for this concern around ethical and social issues which might very well stem in part from their connection to the Swedish state surely also is in part due to universal ownership issues and the fact that the AP-funds can benefit financially from being active owners. By the same token one wonders what incentive could exist for being profit maximizing in a sector with as we were told time and time again have "no customers". It perhaps is safer to just satisfy the goals of return each fund has. However with that said a certain level of active ownership is certainly necessary to secure the stability of future returns.

The AP-funds as universal owners can benefit from active ownership regarding ethical and social responsibility but they have by definition well diversified portfolios with too many companies to be able to invest the resources to monitor and influence them all. But maybe now through corporations like PRI they will be able to share this mammoth task with other pension funds and institutional investors who as diversified owners have at least similar holdings.

The reasoning behind our conclusion regarding the AP-funds backed by our study / interview with

other Swedish institutional investors point towards a general trend among large pension funds if not many institutional investors towards active ownership regarding ethical and social responsibility issues. The fact that these funds have a financially vested interest in increasing positive external effects and minimizing negative external effects from portfolio companies will maturity lead to attempts at active ownership regarding these issues.

Our first key finding is that the AP-funds are becoming more involved as active owners through voting at AGMs, shareholder initiatives and direct communication. Trying in particular to effect company policy to incorporate socially responsible investing. Our second key finding is that the AP-funds and other institutional investors are seeking ways to increase the power of influence through co-operations, such as PRI. And our third key finding is that this behavior is in the best economic interest of a large well diversified fund.

6.1 Questions for further research

We have here by answered our research question regarding how the AP-funds behave as owners, but have not in our study identified the full ramifications of this active ownership.

Have large pension funds increased their dividends by being active owners? If large pension funds act in their own interest how does this affect the company, would internalizing a lot of negative external effects lessen the companies value in the eyes of short-term investors and render the company valuable to hostile takeovers? Being an active owner seems to be a relatively new idea - how will the co-operations between pension funds evolve in the future, will they literally end up controlling many large companies acting as a single large owner?

References

Academic Articles

- Akerlof, George A. (1970). *The Market for Lemons: Quality Uncertainty and the Market Mechanism*. *The Quarterly Journal of Economics*, Vol. 84, No. 3, pp. 488-500.
- Bengtsson, E (2008). *A History of Scandinavian Socially Responsible Investing*. *Journal of Business Ethics*, Journal of Business Ethics, Volume 82, Issue 4, pp. 969-983.
- Bengtsson, N and Peterson, K (2008). *Ethical funds: a lot of bark but not enough bite? – A comparison and investigation of Swedish ethical funds*. Thesis at School of Business, Economics and Law at University of Gothenburg.
- Black, B, *The Legal and Institutional Preconditions for Strong Stock Markets 5* (working paper, Jan. 2000)
- Bhide, A. (1993). *The Hidden Costs of Stock Market Liquidity*, *Journal of Financial Economics*, no. 34, pp. 31-51.
- Cajbrandt, A, Johansson, N and Järvsén, R (2007) *Hur etiska är etiska fonder? – en studie av fem svenska fondförvaltare*. Thesis at School of Business, Economics and Law at University of Gothenburg.
- Clark, L. G., & Hebb, T. (2004). *Pension Fund Corporate Engagement: The Fifth Stage of Capitalism*. *Relations Industrielles/Industrial Relations*, Vol. 59, No. 1.
- Cochran, P. L, (2007). *The evolution of corporate social responsibility*, *Business Horizons*, Vol. 50, no. 6 pp. 449-454.
- Cubbin, J. and D. Leach (1983). *The effect of shareholding dispersion on the degree of control in British companies: Theory and measurement*. *Economic Journal*, vol. 93, pp. 351-369.
- Hellsten, S and Mallin, C (2006). *Are 'Ethical' or 'Socially Responsible' Investments Socially Responsible?* *Journal of Business Ethics*, vol. 66, no. 4, pp. 393-406.
- Matten, D, Crane, A and Chapple, W (2003). *Behind the Mask: Revealing the True Face of Corporate Citizenship*. *Journal of Business Ethics*, vol. 45, no. 1-2, pp. 109-120.
- Fama, E. (1980). *Agency Problems and the Theory of the Firm*, *Journal of Political Economy*, vol. 88, no. 2, pp. 288-307.
- Franks, J. and C. Meyer (1992). *Corporate Control: A Synthesis of International Experience* (Working paper) London Business School.
- Gilson, R. (2000). *Transparency, Corporate Governance and Capital Markets*. Paper presented at the Latin American Corporate Governance Roundtable, Sao Paulo, Brazil, April 26–28, 2000.
- Jaffe, A.B., Newell, R.G., Stavins, R.N. (2005) *A tale of two market failures: Technology and environmental policy*, *Ecological Economics*, Vol. 54, Issues 2-3, pp. 164-174.
- Radice, H.(1971). *Control type, profitability and growth in large firms: An empirical study*. *Economical Journal*, vol. 81, no. 323, pp. 547-562.

- Richards, B. (2007). *Do the fiduciary duties of pension funds hinder socially responsible investment?* Banking and Finance Law Review, Forthcoming.
- Schwartz, M (2003). *The "ethics" of Ethical Investing*. Journal of Business Ethics, Volume 43, Issue 3, pp. 195-213.
- Sethi, S (2005). *Investing in Socially Responsible Companies is a Must for Public Pension Funds – Because There is no Better Alternative*. Journal of Business Ethics, Volume 56, Number 2, pp. 99-129.
- Sparkes, R. (2001). *Ethical investment: whose ethics, which investment?* Business Ethics: A European Review Volume 10, Issue 3, pp. 194–205.
- Stenström, C and Thorell, J (2007). *Evaluating the Performance of Socially Responsible Investment Funds: A Holding Data Analysis*. Master thesis at Stockholm School of Economics.
- The Allen Consulting Group (2000). *Socially Responsible Investment in Australia*. <http://www.allenconsult.com.au>
- Woods, C and Urwin, R (2010). *Putting Sustainable Investing into Practice: A Governance Framework for Pension Funds*. Journal of Business Ethics, Volume 92, Supplement 1, pp. 1-19.

Published books

- Berle, A and Means, G (1932) *The Modern Corporation and Private Property*
- Blaxter, L, Hughes, C and Tight, M (2001). *How to research*. Open University Press
- Brodin, B., Lundqvist, L., Sjöstrand, S.-E., & Östman, L. (2000). *Koncernchefen och ägarna*. Stockholm: EFI: Ekonomiska forskningsinstitutionen vid Handelshögskolan i Stockholm
- Camejo, P (2002) *The SRI Advantage: why socially responsible investing has outperformed financially*. New Society Publishers.
- Chew, D. (1997). *Studies in International Corporate Finance and Governance Systems: A Comparison of the U.S., Japan, and Europe*. Oxford University Press
- Enquist, B and Javefors, H (1996). *Huvudmannskapets dialektik: en studie av Renault/Volvo-affären*.
- Hawley, J. and Williams, A. (2000). *The Rise of Fiduciary Capitalism: How Institutional Investors Can Make Corporate America More Democratic*. University of Pennsylvania Press.
- Jones, T. (2004). *Business Economics and Managerial Decision Making*. Wiley; 1 edition.
- Keasey, Kevin, Thompson, Steve, Wright, Mike (1999). *Corporate Governance: Economic, management and financial issues*. Oxford University Press
- Monks, R. and Minow, N. (2001). *Corporate Governance*. Wiley-Blackwell; 3 edition.
- Sandberg, J (2008). *The Ethics of Investing. Making Money or Making a Difference?* Gothenburg: ACTA UNIVERSITATIS GOTHOBURGENSIS

Annual Rapports

Första AP fonden
Ägar Rapport 2010
Ägar Rapport 2009
Årsrapport 2009

Andra Ap fonden
Corporate Governance Report 2009 - 2010 Andra Ap fond
Ägar Rapport AP2 2010
Ägar Rapport Ap2 2009

Tredje AP fonden
Ägarrapport 2010
Ägarrapport 2009
Årsrapport 2009

Fjärde AP fond
Ägarrapport 2010
Ägarrapport 2009
Årsrapport 2009

Etikrådet
Etikrådets årsrapport 2009
Etikrådets årsrapport 2008

Homepages

The first AP fund (<http://www.ap1.se/sv/Post.aspx>) 2010-12-10

The second AP fund (<http://www.ap2.se>) 2010-12-10

The third AP fund (<http://www.ap3.se/Sidor/Default.aspx>) 2010-12-10

The Fourth AP fund (<http://www.ap4.se>) 2010-12-10

Etikrådet (<http://www.ap4.se/etikradet/StartPage.aspx?id=556>) 2010-12-10

UN PRI (<http://www.unpri.org>) 2010-12-18

Enviromental externalities
rapport (http://www.unpri.org/files/6728_ES_report_environmental_externalities.pdf) 2010-12-18

Appendix A

Interview guide

This is a short account of the topics covered during our 3 interviews. Our interviews while semi structured still were centered on a few specific topics. To increase the validity of our information we have included this short list of topics touched upon.

How is the difference in affecting a change in corporate behavior from the inside as an active owner, contra passive ownership perceived? What effects can be achieved with each method? What method does the investor in question apply?

Does the institution in question exclude certain industries? What is the customer's role in this?

If they are an active owner, how do they actively affect companies, methods.

Have any trends in the way institutions hold their stock been noticed? How has this affected the investor in question.

How does the investor in question see active ownership? What does it mean to them? If they exist, do you have an actual example of engagement with companies?

Is the institution involved in any investor initiatives? What form does participation in these initiatives take?

Does ethical/socially responsible behavior lead to a difference? Examples?

Does ethical/ social responsible investing lead to increased returns?

What is perceived to aid your institution with affecting companies. What makes you an effective active owner?

Does the size of your institution affect your ability to be an active owner. Do you have a Macro perspective and does this change investment priority?