

AP2

Andra
AP-fonden

Corporate Governance Policy



Corporate Governance policy

Decided by the Board in December 2020

Introduction

The First, Second, Third and Fourth Swedish National Pension Funds (the AP Funds) are buffer funds in the Swedish pension system. The objective of the AP Funds is to manage fund capital to generate the greatest possible benefit for the national pension system. The total risk level in the AP Funds' investments must be low. At the chosen risk level, fund assets should be invested so as to secure a high long-term return. The AP Funds' asset management shall be, in accordance with the Swedish National Pensions Insurance Act, conducted in an exemplary manner through responsible investments and ownership. In its investment management, special importance must be attached to the promotion of sustainable development without sacrifice on the overall goals on return and risk. The AP Funds can collaborate in the achievements of sustainability goals. Andra AP-fonden's (AP2) sustainability work is based on the Fund's mission and entails a long-term approach to protect and add value to its investments – based on an economic, environmental and social perspective.

AP2's vision is "World-class investment management". In order to achieve this vision, it is a prerequisite that sustainability is integrated into all analysis and investment processes. By actively promoting and incorporating sustainability in AP2's business, value can be created and safeguarded, and sustainable development facilitated. Sustainability includes the environment, ethics, social issues and corporate governance. The fund's work on sustainability in its asset management is governed by four focus areas: climate, diversity, corporate governance, and human rights. AP2 is responsible for both the management and the governance of the capital assets that the fund has received and works actively with sustainability from both perspectives. Systematic and exemplary sustainability work is also one of the key factors in retaining and recruiting employees.

The Funds may not take industrial policy or other economic policy considerations into account. As per the investment regulations stipulated in the Act, the Fund's assets in publicly listed Swedish companies shall be no more than two percent of the combined value of the Swedish stock market. Holdings should not exceed 10 percent of the voting rights of a single listed company¹. It shall exercise its governance role to better capitalise on the opportunities for a higher return on assets under management.

Background

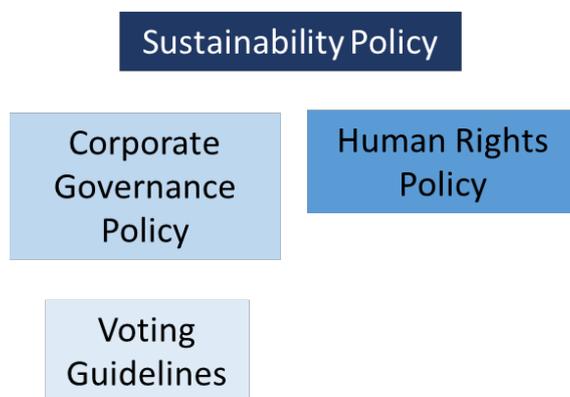
The overall guidelines for AP2's work on sustainability issues is given in the Fund's sustainability policy. In addition to a separate policy for corporate governance issues (*Corporate Governance*

¹ During the period 20201101-20210701, this limit is increased to 15 % under certain conditions in the AP Funds Act.

Policy), the Fund in the field of sustainability also has a human rights policy. All these policies are included in the Fund's Business Plan.

AP2's *Corporate governance policy* provides the overall guidelines for how the Fund, within the framework of its mission of managing the fund assets in an exemplary manner through responsible investments and responsible ownership, shall contribute to the positive development of companies and thereby add value as a major shareholder.

The Fund's *Voting Guidelines* describe the Fund's ten corporate governance principles, which are the starting point for operational work on corporate governance issues. It also sets out in more detail how the Fund intends to vote on various issues. The purpose of these guidelines is to increase understanding of what AP2 expects of companies in areas such as sustainability and corporate governance.



AP2 welcomes an ongoing dialogue on the content of *the Corporate governance Policy* with companies, other investors and other stakeholders. This *Corporate governance policy* applies to in-house as well as externally managed assets.

AP2's Corporate governance policy is decided annually by its Board of Directors.

AP2's management of global equities is a quantitatively based management model, which means that the Fund is exposed to many of the companies reflected in the index. Consequently, the decision to invest in individual companies is not company specific but depends on the index chosen and the company's weighting in the particular index.

AP2's corporate governance work will primarily focus on companies and areas where the fund believes that the Fund has the greatest opportunity to influence and make the most use. The starting point for the Fund's action is an assessment of the conditions for achieving a result that benefits today's and tomorrow's pensioners. In Sweden, AP2 will primarily work with corporate governance issues in companies where the Fund is one of the largest shareholders and/or in companies where the fund has the most capital invested. When it comes to issues of a principled nature, it may be important that AP2 actively takes a position even in smaller holdings in the Fund's portfolio.

In the case of companies outside Sweden, the Fund's engagement in ethics, social issues and environmental issues are primarily conducted via the Council on Ethics. The Fund exercise governance in foreign companies by utilising its voting rights in a number of these assets and though follow-up dialogues with some of these companies.

Corporate governance framework

AP2's work with governance issues are based on regulations and conventions such as OECD's Guidelines for Multinational Companies and Corporate Governance, the UN Global Compact and the UN Principles for Responsible Investments, the UN Guiding Principles on Business and Human Rights, the Swedish Companies Act, the Swedish Code of Corporate Governance, other specific corporate governance codes including ICGN Global Stewardship Principles and UK Stewardship Code and the Shareholders Rights Directive. AP2 has been behind the PRI (Principles for Responsible Investments) since its inception.

Organisation and distribution of Responsibilities

The board of directors establishes the guidelines and policies in governance issues. The CEO is tasked by the board of directors to manage ownership issues as part of the day-to-day operations. In issues of major importance, the CEO shall consult with the board chair. Governance issues of particular importance, where the guidelines in the Corporate governance policy do not provide sufficient guidance, should be presented to the board of directors in their entirety. A decision to exclude a company shall be made by the board of directors, unless the circumstances are such that a decision cannot wait, in which case the CEO can make the decision in consultation with the board chair. The board of directors shall be informed about the measures that have been taken by the Fund in governance issues. AP2's board of directors shall receive a report about the Fund's sustainability work at each meeting.

The Fund management together with the head of the strategy department and the Fund's senior sustainability analysts are responsible for the strategic sustainability work as well as implementation and follow-up. The day-to-day corporate governance work is managed by the Fund's Corporate Governance Group which consists of people from the Fund management, the Fund's corporate governance analyst and the head of Swedish equities. Based on the corporate governance strategy the Corporate Governance group develops action plans and continuously follows up how the work is progressing.

Board representation

In order to avoid hampering the Fund's role as an asset manager, the Fund have, as a general rule, that the Fund's employees should not be directors of listed companies.

However, for the Fund's directly owned unlisted companies, board representation is pursued from the Fund.

Exclusions and divestments

The AP Funds have, in accordance with legislation, jointly produced guidelines on which assets the Fund should not invest in. It says the following:

“In the common core values drafted by the AP Funds, the legality principle requires the AP Funds to observe the international conventions which Sweden has ratified and the international agreements that Sweden is behind. These therefore constitute grounds for evaluating which assets the Fund should not invest in. International conventions are in most cases drafted to regulate how countries should act and are not intended to directly regulate the company's operations. This means there is room for interpretation when it comes to contravention of international conventions by enterprises. An AP Fund must therefore make an interpretation of whether or not an enterprise has contributed to the infraction of an individual convention. An AP Fund's decision not to allow investments in certain assets because of convention grounds is termed "exclusion". Exclusion means that an AP Fund does not allow any investments to be made for non-financial reasons.”

AP2 can also decide on exclusion if, in its view, the circumstances are serious enough to warrant exclusion despite the fact that a violation of a convention did not take place or cannot be proven.

AP2 follows the UN and EU sanctions.

A company can be re-included in the Fund's investment universe after a thorough analysis of the facts indicating that the grounds for exclusion no longer exist.

The Fund may also divest from companies supported by the AP Funds law in terms of exemplary management. The Fund may also divest from companies due to sustainability risks.

In the case of exclusions and divestments of companies, the Fund shall both divest the holdings in the companies and exclude the companies from the respective benchmark indices.

Collaboration

Collaboration with other investors is important to achieving success in dialogues with companies, but also in promoting progress towards responsible investments. Work on governance issues in foreign companies shall be conducted in association with selected partners and address matters of particular interest to the Fund. AP2 shall further promote good corporate governance by cooperating with other major shareholders in addressing matters of principle and through active participation in the development of policies, regulations and standards.

The AP Funds Council on Ethics

The First, Second, Third and Fourth AP Funds have coordinated their efforts on environmental and ethical concerns involving foreign companies in which they hold shares in, by forming a joint Council on Ethics. This cooperation is designed to enable a review of the Funds' holdings in companies suspected of being in contravention of international conventions, as well as facilitating the analysis of the facts and the establishment of a dialogue with the companies in question.

The Council on Ethics can recommend that the AP Funds exclude companies that deliberately participated in the infringement of the international convention that Sweden has ratified. The Council on Ethics can recommend exclusion if, in its view, a continued dialogue with the

company will not result in positive change or if the dialogue has gone on for four years without significant progress being made. The Council on Ethics shall also take into account whether or not a company has deliberately and systematically committed an infraction of the convention. This should be assessed as being more serious than isolated events. The Council on Ethics also has the ability to recommend the exclusion of a company – without prior dialogue – in cases where, in the Council on Ethics' view, the preconditions for a dialogue that results in improvement do not exist.

International conventions may aim to restrict the use, scope or distribution of certain products or businesses because they are considered dangerous to health or they have a serious influence on fundamental human rights, for example. At the same time, the laws and regulations of countries that have ratified the convention may allow the manufacture of these products and the running of these businesses.

The AP Funds can ask the Council on Ethics for assistance with fact-based analytical support for these conventions. The aim here is to make it easier for the respective AP Fund to assess the purpose and character of the convention, an assessment that could lead to refraining from investing in companies in certain sectors. It is up to each AP Fund individually to make a final decision.

AP2's principles of corporate governance

AP2's operational activities concerning corporate governance issues derive from the Fund's ten principles of governance, which describes in detail in the Fund's *Voting Guidelines*. The principles of corporate governance apply primarily to listed companies and are based on the Fund's view of the company's structure for shareholder protection and effective governance. The Fund's work on governance issues focuses partly on individual companies while also striving to address a broader need, promoting a general improvement in the field as a whole.

The principles of corporate governance have two objectives: (i) to provide board members and management directors, guidance on how the fund is likely to vote in proposals submitted to shareholders; and (ii) to communicate the Fund's views on other important issues that boards may address in their operations. The principles of corporate governance apply primarily to listed companies. The section "Corporate governance of private equity" describes how the Fund's view corporate governance in private equity.

AP2 assumes that the companies that the Fund invests in comply with national legislation in the countries where they operate. It is the company's board of directors' responsibility to ensure that there are adequate processes and controls to make sure this happens.

The Fund's governance activities are founded on the requirement that all shares in companies shall carry equal rights and voting rights. This is expressed by the 'equality principle', cited in the Swedish Companies Act. The equal economic treatment of individual shareholders must be respected with regard to the issue of dividends, bids and all related transactions.

What companies can expect from AP2

Long-term investor

Shareholders' commitment to and interest in the long-term development of companies is a fundamental condition of solid economic growth. AP2 is non-political and independent, both with regard to the owner spheres in which it operates and in terms of its special position among Swedish state agencies (regulated by law), which enable it to act as a committed and long-term investor. As a long-term investor, AP2 fills an important role on global capital markets.

In companies where the Fund sees value in a change, it strives to achieve such change by engaging in a dialogue with the company in question. This may involve collaboration with other investors.

AP2 shall participate in and exercise its voting rights in companies in which it holds substantial assets and, in some cases, shall also adopt an active stance at AGMs.

AP2's governance role shall be exercised with regard to its mission and status. Among other things this means that AP2, as a major investor in a company, shall actively promote good ethics, environmental responsibility and professional corporate governance.

Dialogue

For the fund, which is a long-term and committed owner, dialogue is the most important tool to bring about change. Dialogue as a tool is also one of the Fund's six principles for sustainability work and the following:

It is not only through investment decisions that AP2 can promote sustainable development, but also in communication with the outside world. To begin with, it is important that the Fund is transparent and clear about its work to integrate sustainability into management. Not least, it is important to talk and cooperate with other similar players. It is also important that the Fund, in its role as owner, clearly communicates its view of sustainability and promotes greater integration of sustainability into companies it has invested in, both directly and through external managers. On the one hand, it should contribute a positive return as companies and external managers increase their sustainability profile and thus reduce sustainability risks, and on the other hand it should contribute positive effects for the outside world such as, for example, less environmental impact. However, the dialogue should not only relate to sustainability issues in a narrow sense, but should also include corporate governance issues. Good corporate governance in itself should contribute to sustainable development. Dialogues with companies take place both in the administration and within the framework of the AP Funds Council on Ethics. It is important that the level of ambition is balanced on the basis of the fund's limited resources, so that they are used as efficiently as possible.

In the Fund's fundamental equity management, analysts and portfolio managers have a comprehensive dialogue with many companies on a variety of issues. Here the Fund can act to get companies to improve their sustainability work and reporting. The Fund also has a dialogue with all external managers and promotes greater integration and focus on sustainability in their organizations and portfolio companies.

Dialogue, within the framework of this policy, is defined as dialogue between AP2 and companies with the intention of gaining knowledge, influencing or exchanging perspectives regarding a company's climate/environmental strategy, corporate governance, social issues or other issues affecting the business.

The Fund's dialogues are primarily run by the Fund's investment team for Swedish equities, Head for Corporate Governance, sustainability- and corporate governance analysts.

Dialogues take place mainly through formal letters to boards and/or management and meetings with companies.

The Fund mainly has dialogue with companies where:

- the Fund is a major share- or bondholder
- dialogue concerns an important issue for the Fund
- the Fund has an understanding of the issue as well as a constructive solution to propose
- The Fund believes that the dialogue may lead to changes that create value for the Fund

The Fund shall give its opinion at Swedish general meetings if there are unanswered questions that the Fund wishes to raise. If the Fund votes against a proposal from the Board of Directors or the Nomination Committee, this is justified at the Meeting.

A selection of the Fund's holdings in foreign companies shall be informed, after a general meeting, of why the Fund has chosen not to support proposals from the Board of Directors. Dialogue with foreign companies on ethical and environmental issues is primarily held by the AP Funds Council on Ethics.

The Fund also puts shareholder proposals at meetings when this is considered to be a good tool to influence companies.

Dialogue always precedes any exclusions based on companies systematically violating conventions that Sweden has signed. This type of dialogue is carried out within the framework of the Council on Ethics.

The Fund shall also have a dialogue with external managers and promote greater integration and focus on sustainability in their organisations and portfolio companies.

Consistent behaviour

Over time, AP2 aims to act as consistently as possible in its relationships with companies, in an attempt to gain understanding for the issues it pursues with each company.

Conflicts of interest

Handling of conflicts of interest in connection with corporate governance is important. As an independent state-owned institutional investor, AP2 is not subject to the same potential internal conflicts of interest as other players. Should such arise, however, they are addressed in three stages. Once a conflict of interest has been identified, the Fund's CEO determines the action to be taken in the specific case. In conflicts of interest of special significance, or in cases where the Fund's CEO is personally closely involved, the decision is delegated to the Chair. Conflicts of

interest are reported to the board and, if of particular significance, are published on the Fund's website.

Information and its dissemination

It is important that the Fund is as transparent and clear as possible in order to create understanding and confidence in how the Fund acts.

AP2 shall publish in the annual report, on its website and in the in the Sustainability Report changes in the Fund's Voting Guidelines, its position on matters of principle or information about which AGMs it has participated in and how, if so, its voting rights were exercised. AP2's response to PRI's annual survey is public and can be found on PRI's website.

Securities lending

Securities lending fulfils a vital function on the financial markets, one reason being its contribution to increased liquidity, to the benefit of stock markets and their long-term growth. Securities lending also increases the Fund's return. As a committed shareholder, believing it important to be able to exercise its voting rights in its portfolio companies, the Fund lends out Swedish equities only in exceptional cases, some of its holdings in an individual Swedish or foreign company. Where Swedish equities are loaned out, they are recalled prior to the AGM.

Governance of private equity funds

When investing in private equity funds, AP2 adopts a variety of investment strategies and approaches. Consequently, its portfolio companies are in different phases of development, ranging from development companies to mature businesses.

AP2 is continually increasing its focus on governance, sustainability and transparency in its relations with private equity funds. The objective is to ensure that the Fund's investments in the private equity industry continue to generate an attractive return.

AP2 employs a structured process for analysis, the evaluation of new investments and for monitoring its investments in private equity. Governance activities focus on ensuring that private equity funds possess structures and systems to manage portfolio companies' opportunities and risks concerning the environment, ethics and corporate governance. An on-going and constructive dialogue with the private equity funds about their sustainability efforts forms part of the follow-up process that aims to promote progress through collaboration.

AP2 believes it is important that private equity funds in which the Fund invests shall integrate sustainability in their business operations, investment policies and governance activities. The Fund is positive to the idea that private equity funds should apply the Principles for Responsible Investment (PRI) and the United Nations' Global Compact. The Fund also challenges private equity funds to support and comply with the Institutional Limited Partners Association/ILPA's guidelines and standards on general principles, accounting and reporting.

AP2 challenges private equity funds to report in their annual reports on what they and their portfolio companies have been doing during the year to live up to the principles of the PRI and Global Compact. AP2 evaluates and follows up these reports on an annual basis.