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Second AP Fund, general meeting report 2017 - Swedish companies

General meeting report for Swedish companies 01-01-2017 - 01-06-2017

The annual general meeting is the main forum for shareholders to exercise their influence. Being able to use their voting right as a shareholder at the general meeting is one of the most important opportunities to influence a company. That is why the Second AP Fund is active both at Swedish and foreign general meetings.

A large part of the capital of Second AP Fund is placed in shares in Swedish and foreign companies, and the Fund is therefore an important shareholder. The Fund is also non-political and independent, both in terms of ownership and in its unique position among Swedish government agencies, which means that the Fund has the opportunity to act as a dedicated and long-term owner.

The commitment and interest of shareholders in the long-term development of companies is an important prerequisite for the appreciation of value. As a long-term owner the Second AP Fund has an important function to fulfil on the world's capital markets. The Fund therefore works actively with issues that refer to professional corporate governance, good ethics, and to develop generally accepted business practices in issues related to asset management.

The activities of the Second AP Fund in relation to listed companies include active participation before Swedish and foreign general meetings and a dialogue with the boards and executives in the Fund's portfolio companies.

The Second AP Fund acts to promote good corporate governance by cooperating with other owners on important issues and by actively contributing to the development of policies, rules and regulations, and standards.

Corporate governance in Swedish companies

The Fund has shareholdings in some 140 Swedish companies. For practical reasons the Fund has judged it impossible to attend and vote at all general meetings in the Swedish market portfolio. The choice of companies, where the Fund attends at general meetings, is therefore based on several criteria:

- Companies that are among the Fund's 20 largest holdings.
- Companies where the Fund's share of voting power is over one per cent.
- Companies where the Fund is one of the ten largest owners.

- Companies with controversial issues on the agenda.

During the first six months of 2017 the Second AP Fund voted at 45 general meetings in Swedish listed companies. The Second AP Fund and other institutional owners have during the year had an excellent and constructive dialogue with the Swedish listed companies concerning many of the issues considered at the general meetings.

Nomination committees

The Second AP Fund takes a positive view of being represented on nomination committees in companies because this involves an important opportunity to exercise corporate governance. The Fund has a policy of accepting all inquiries concerning nomination committee assignments. The Fund's ownership group takes decisions on who should represent the Fund, based on who is most suited for the assignment.

Because the nomination committees often consist of the three to five largest owners in a company, the Fund's nomination committee assignments vary in relation to the Fund's participating interest in the companies.

Prior to the general meeting season of 2017 the Fund has been represented on the nomination committee for Opus Group, as chairman, and in Castellum, Coor Service Management, IAR Systems, Kindred (Unibet), Kungsleden, Midsona, Resurs Holding and Swedish Match.

Issues in focus

During the year the Second AP Fund has continued to focus on remuneration issues and several dialogues were held with boards concerning the structure of incentive programmes with a view to achieving improvements. During the year the Fund has emphasised the importance of increasing the number of women on the boards of listed companies, which is given special consideration when the Fund participates in the work of nomination. The Fund also holds that the nomination committees should establish a tangible plan for the work of achieving a satisfactory composition of the board in relation to gender, age, background, experience and competence.

Diversity

During the year the Fund has sharpened its focus on diversity, and above all on the number of women on boards. This is followed up for every company for which the Fund intends to attend the general meeting. The Fund's Female Representation Index for 2017 shows that the proportion of women in boards now accounts for 32.2 per cent.

Individual nominations

In 2016 the Second AP Fund sent letters to the boards and nomination committees in the companies at which the Fund had the intention to attend. The letters encouraged companies with a large foreign ownership to review how they formulate their notice to attend in terms of the nomination of board members. In Sweden it has often been proposed and decided to nominate board members as a unit, all board members nominated with just one decision. This is not particularly remarkable, since in Sweden we are used to considering the board as

collectively responsible. Nevertheless, in the Swedish Companies Act it is clearly stated that board members shall be nominated individually and not collectively, irrespective of how the actual decision is formulated.

In conjunction with the revision of the Swedish code for corporate governance by the Swedish Corporate Governance Board it was discussed how the nomination of board members should be carried out. A large number of foreign shareholders had written to the Swedish Corporate Governance Board and pointed out that the model common in Sweden made it in practice very difficult for them to vote against a proposal concerning an individual board member. This is because the agenda is prepared so that the nomination of the board takes place through one decision, which means that even the voting instructions that foreign owners normally use are formulated so that the nomination of the board takes place as a group.

One consequence of this is that if alternative proposals are made at the meeting and the voting then becomes individual the votes of foreign owners are invalidated.

The Second AP Fund wants all the votes of shareholders to be counted and therefore the Fund called on companies with large foreign ownerships to enable these owners to nominate board members individually. Several companies formulated their notice to attend in accordance with the wishes of the Fund.

In 2017 the Fund can confirm that more companies now formulate their notice to attend and decisions at the general meeting so that the nomination of board members is made individually.

Report on the approach to the UN's Sustainable Development Goals

Another focal point has been the approach of companies to the UN's 17 Sustainable Development Goals. In a letter this autumn to the chairmen of some 40 Swedish companies the Fund called for more companies to relate their business to the UN's 17 Sustainable Development Goals and by the annual general meeting to report their approach to the goals. In dialogue with the companies this has then been followed up, both before and at the meetings.

Companies that the Fund has praised for their work with sustainability include **SEB** and **Trelleborg** which are both excellent examples of how they have incorporated the goals in their business and explicitly reported this in their annual reports and sustainability reports.

Companies where the Fund has not found any form of reporting on their work with sustainability and therefore has asked for a report at the general meeting include **Swedbank** and **Garo**.

Incentive programme

Thule, Hemfosa, Mycronic, Tele2, Husqvarna and **Assa Abloy** have prepared proposals for incentive programmes that have either included matching shares or otherwise been subsidised without requiring separate target related performance. The Fund has reported its approach to this at the meetings of these companies. In the Second AP Fund's ownership policy it is stated that "the Second AP Fund considers matching shares should be linked to explicit targets (performance). The Second AP Fund does not consider further employment or investment as performance that should entitle matching shares. If matching shares are not based on performance this should specially motivated." The Fund finds it to be unfortunate when an incentive programme includes matching shares without performance and which are not

specially motivated in the documents.

The Fund did vote for the proposals in these companies this year, but will not support future programmes with the same structure. The Fund will vote against new programmes that include matching shares.

The Fund held a dialogue with **Midsona** and **Fingerprint Cards** on their incentive programmes and the companies then took appropriate measures.