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Andra AP-fonden (AP2) General meeting report 2019 Swedish companies

GENERAL MEETING REPORT FOR SWEDISH COMPANIES 01/01/2019 – 30/06/2019

The shareholders' general meeting is the primary forum for shareholders to exert their influence. As a shareholder, to exercise your right to vote at the general meeting is one of the most important opportunities to exert an influence on a company. AP2 is therefore active at both Swedish and foreign general meetings.

A large proportion of AP2's capital is invested in shares in Swedish and foreign companies, which makes the Fund a significant shareholder. The Fund is also apolitical and independent, in terms of both its ownership coalitions and in its special position among Swedish authorities, which means that the Fund has the opportunity to act as an engaged, long-term owner.

Shareholders' engagement and interest in the long-term development of companies is an important prerequisite for better growth in value. As a long-term owner, AP2 has a significant function to perform in the capital markets. The Fund therefore works actively on issues that promote professional corporate governance, good ethics and environmental consideration, and also develop good practice in matters of asset management.

AP2's activities with regard to publicly listed companies include active participation both before and at Swedish and foreign general meetings, as well as a dialogue with boards of directors and management teams in the Fund's portfolio companies.

AP2 also strives to achieve good corporate governance by collaborating with other owners on matters of principle and by becoming actively involved in the development of policies, regulations and standards.

According to the amended AP Funds Act, which applied as of 1 January 2019, new investment rules came into force that among other things require AP Funds to manage their assets in an exemplary manner through responsible investments and responsible ownership. In the management activities, special emphasis must be given to how sustainable development can be promoted without compromising on the overall objective regarding return and risk.

Corporate governance in Swedish companies

The Funds has shareholdings in approximately 170 Swedish companies. For practical reasons, the Fund has concluded that it is not possible to attend and vote at all general meetings in the Swedish share portfolio. The selection of companies whose general meetings are attended by the Fund takes place primarily on the basis of a number of criteria:

- Companies that are among the Fund's 20 biggest holdings.
- Companies in which the Fund's voting share is at least 0.5 per cent.
- Companies in which the Fund is among the ten biggest shareholders.
- Companies with controversial issues on the agenda.

All in all, during the first half of 2019 AP2 voted at 74 (77) general meetings of Swedish listed companies. AP2 and other institutional shareholders have for many years conducted a good, constructive dialogue with Swedish listed companies, partly in relation to many of the issues raised at the general meetings.

Nomination committees

AP2 takes a positive view of being represented on nomination committees of companies, as this represents an important opportunity to exert owner influence. It is the Fund's policy to accept all invitations to nomination committee assignments. The Fund's owners' group makes decisions on who should represent the Fund based on who is the most suitable person for the assignment.

As nomination committees usually consists of the three to five biggest shareholders in a company, the Fund's nomination committee assignments vary depending on the Fund's shareholdings in the companies.

Ahead of the 2019 season for shareholders' general meetings, AP2 has been represented on the nomination committee of IAR Systems, in the position of Chair, and at Better Collective, Coor Service Management, Immunicum, Kindred, Kungsleden, Midsona, Opus Group and Resurs Holding.

Issues in focus

During the year, AP2 maintained a focus on issues relating to compensation, and a number of dialogues were conducted with boards of directors regarding the structure of incentive schemes in order to achieve improvements. The Fund has for many years been emphasising the importance of a greater proportion of women on the boards of listed companies, and special attention is paid to this when the Fund takes part in work on nominations. The Fund also believes that nomination committees should confirm a tangible plan for work to achieve a good composition on the board with regard to gender, age, background, experience and competence.

Diversity

During the year, the Fund has focused in particular on diversity and above all the proportion of women on boards of directors. This is followed up for each company whose general meeting the Fund intends to attend. The Fund's Female Index for 2019 shows that the proportion of women on boards now totals 34.0 per cent. In the autumn of 2018 the Fund, AP1 and AP3 sent a letter to the nomination committees of companies on the Stockholm Stock Exchange that have no women or only one woman on their boards if

they constituted less than 20 per cent. At AGMs the fund votes against proposed nominees to boards that have no women members.

Incentive schemes

HiQ, Concentric, Atlas Copco, Epiroc, Recipharm, Oncopeptides, Tobii, BillerudKorsnäs and MTG Group have issued proposals for incentive schemes or guidelines on remuneration for senior executives that either included matching shares or in some other way were subsidised without any requirement for special, goal-based performance. The Fund did not vote in favour of these companies proposed incentive schemes, but voted against them. AP2's shareholder policy states that "AP2 believes that so-called matching shares must be linked to clear goals (performance). AP2 does not consider continued employment and personal investment to be a performance that in itself gives entitlement to matching shares. If matching shares are not performance-based, this must be specifically justified." The Fund considers it unfortunate when incentive schemes contain matching shares without performance that also cannot be justified in the documents.

In the past, the Fund made its views known on **Mycronic's** incentive scheme, which has contained matching shares. The Fund was pleased to note during the year that the company's incentive scheme no longer contains matching shares, but now has performance-based shares.

The fund voted against granting the CEO of **Swedbank** freedom from liability. In **Vostok New Venture** the fund voted against the proposal for board chairman and the same person as member and against recommendations for remuneration to the senior executives following the board's decision to authorise an extra bonus of USD 15 million to the CEO. In the fund's view, the board's decision deviates from market practice and the remuneration is not reasonable according to the guidelines adopted at the AGM.

Apart from this, the Fund has voted for all of the boards' and the nomination committees' proposals. The Fund has not voted for any proposal put forward by other shareholders.

Ahead of the AGM of **Better Collective**, the fund held a dialogue with the company about its incentive programme and the company then took appropriate action.

The Fund has also been active both in preparation for and during several general meetings and has expressed opinions in accordance with the Fund's corporate governance policy.