

CORPORATE GOVERNANCE IN FOREIGN COMPANIES 2009

AP4's goal of maximizing its long-term return, given a low risk exposure, is always the basis for the Fund's policy positions related to the exercise of its active ownership in Swedish as well as foreign companies.

The Fund's opportunities for exercising its ownership role abroad are limited compared to the way it does in Sweden. The Fund is one of Sweden's largest institutional investors. Internationally, the picture is completely different, because the Fund's ownership is more widely spread and holdings are relatively smaller. Thus the Fund may have limited opportunities for pursuing ownership issues on its own or participating in nominating committees. The rules and regulations for pursuing ownership issues differ significantly among markets. What may appear as self-evident in Sweden, in terms of opportunities for exercising an ownership role, can be completely different in another market.

Outside Sweden the Fund also uses several means to exercise active ownership. Important tools include exercising the Fund's voting rights at AGMs and cooperating with other institutional investors to put more weight behind the pursuit of key questions of principle.

AP4's guidelines for corporate governance in foreign companies are based on internationally accepted principles for good corporate governance, chiefly the UN Global Compact and the OECD Principles for Corporate Governance and Multi-national Corporations.

The principles cover proposals both from boards and shareholders. Local codes and regulations, industry standards, listing agreements, and circumstances specific to each market can lead to divergence from principles appropriate to particular markets.

The following are several items that the Fund considers significant in the exercise of corporate governance in foreign companies.

1. SHAREHOLDERS' VOTING RIGHTS

Shareholders' voting rights are a cornerstone of all good corporate governance. For companies with differentiated voting rights, it is important to safeguard the interests of minority shareholders.

Shareholders shall have the right to propose their own items of business for the AGM's agenda.

In areas of the environment and ethics, the Fund will encourage the submission of shareholder proposals at AGMs where they can help redress an unsatisfactory state of affairs.

The Fund supports the abolition of restrictions on voting rights based on the size of the holdings.

2. BOARD OF DIRECTORS

AP4 supports boards of directors that have a majority of independent directors (here, "independent" means that the member is not employed by the company).

Board committees, including remuneration, nominating, and audit, shall be completely independent; that is, the members shall not be employed by the company.

The CEO and chairman of the board shall not be one and the same person.

The board shall be elected for a period of one year.

3. TAKE-OVER DEFENCES

As a rule, AP4 votes "against the implementation of" and "for the abolition of" take-over defences.

Take-over defences include "poison pills", such as unlimited authorizations for fundraising, boards elected for periods longer than one year, and "golden shares".

4. MERGER AND RESTRUCTURING PROPOSALS

AP4 evaluates proposals for mergers and restructuring in cases where it is possible to evaluate them. The goal is to assess whether the transaction will add value for shareholders in the long run.

5. CAPITAL STRUCTURE

Each company shall have a capital structure that, in the long run, carefully balances strategic and financial factors.

Shareholders shall be entitled to vote on share issues to ensure that their rights are safeguarded.

6. REMUNERATION ISSUES

Remuneration to senior executives must be devised to attract, pay, and provide incentives to work in line with shareholders' long-term interests. Remuneration programmes shall reward favourable long-term performance but may also have the opposite effect; that is, when the desired performance is not delivered, total remuneration shall be less.

When information provided about the remuneration programme is insufficient for a decision, the Fund will abstain from voting or vote against the proposal. This makes stringent demands on the structure, evaluation, and transparency of the programmes.

7. ENVIRONMENTAL AND ETHICAL ISSUES

AP4's fundamental values are based on the international conventions that Sweden has signed as well as agreements such as the UN Global Compact and OECD Principles for Multinational Corporations. These values are the starting point for corporate governance in foreign companies, as are the OECD Principles for Corporate Governance.

If it is likely that a company in which the Fund has invested has violated any of the conventions that Sweden has signed, the Fund shall attempt to influence the company to implement change so that future violations can be avoided. If the company proves not to be interested in changing or the process of change takes an unjustifiably long time, the Fund shall exclude the company from its investment universe.

AP4 supports proposals on how to handle social and environmental situations that are important to the long-term appreciation of the company as well as relevant proposals from shareholders about adequate reporting on the social and environmental consequences of the company's business activities.

7.1 Human rights – a code of conduct

Companies shall respect human rights and internationally accepted norms for conditions in the work place. Companies also have a responsibility to influence their subcontractors to comply with these norms. That is why AP4 supports proposals for the introduction of a code of conduct that will deal with these issues.

7.2 Political contributions

AP4 will support proposals for compulsory reporting of political contributions if the reporting is not already done in a satisfactory manner.

7.3 Discrimination and equal opportunity

Companies shall have internal policies that prevent all forms of discrimination in the work place. The Fund will support proposals for their adoption if such policies do not already exist.

7.4 Climate change issues

Companies have a responsibility to limit their contribution to the greenhouse effect. The Fund will support proposals for the adoption of policies and reporting if such policies do not already exist.