

Corporate Governance Policy

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Purpose

The Fourth Swedish National Pension Fund's (AP4's) Corporate Governance Policy lays out overarching guidelines and strategies for the asset management organisation's work on corporate governance.

AP4's ownership work aims to, through active commitment and use of different ownership tools, contribute to generate sustainable and high return. The goal is that the companies that AP4 invests in shall conduct sustainable, responsible and efficient operations. This gives conditions for the companies to be successful and create long-term high returns.

It is thus an investment belief for AP4 that active engagement and various forms of corporate governance are effective tools for contributing to favourable development of the companies, which creates and safeguards asset values as it contributes to a better risk-adjusted return over time. In such way AP4 helps safeguard current and future pensions.

AP4's corporate governance work also includes to drive development of quality and practice in corporate governance and promote development of well-functioning securities markets.

Background

AP4's operations are grounded in the National Pension Funds Act (Lagen (2000:192) om allmänna pensionsfonder), which stipulates that the overarching mission of the Second, Third and Fourth AP Funds (the AP Funds) is to manage the fund assets in such way that they will be of the greatest possible benefit for insuring income-based retirement pensions, that is, generate the highest possible long-term return for the benefit of the insureds in the income pension system.

In addition, the AP Funds Act stipulates that the AP Funds shall manage the fund capital in an exemplary way through responsible investments and responsible ownership, and that each of the AP Funds shall adopt guidelines for exercising their voting rights. AP4's guidelines for exercising its voting rights and how active corporate governance is to be conducted more generally are described in this Corporate Governance Policy.

This Corporate Governance Policy is grounded in relevant laws and industry practice in the area – in Sweden, for example, by the Swedish Companies Act (Aktiebolagslagen (2005:551)) and the Swedish Code of Corporate Governance.

The Corporate Governance Policy is complemented by AP4's Sustainability Policy, which describes the principles for how AP4 integrates sustainability in its asset management. This document is available at AP4's website.

Responsibility

The Board of Directors adopts this Corporate Governance Policy. The Policy is reviewed every year and is revised if needed. The CEO administers ownership matters in the operations on a continuous basis or delegates this duty to another employee of AP4. The CEO reports to the Board of Directors on a regular basis on the progress and development of corporate governance work.

Preconditions for corporate governance work

The Corporate Governance Policy is applied for corporate governance of listed Swedish companies, listed foreign companies and for directly owned unlisted companies and other unlisted investments. The preconditions and tools for being able to exercise corporate governance and thereby also how the corporate governance work vary between the various investment forms. To some extent the Corporate Governance Policy uses terminology mainly coupled to AP4's direct ownership in limited companies. Even though the terminology is different for other investment forms, the purport of the Corporate Governance Policy is also applied for these.

- AP4 is often a significant owner of listed Swedish companies, which creates conditions to carry on a continuous dialogue with the portfolio companies concerning current ownership issues regarding an individual company, for example concerning issues of a principal character and ahead of general meetings of shareholders. AP4 can also work on nomination committees by virtue of its ownership, collaborate with other investors on specific matters, and vote at general meetings of shareholders.
- In listed foreign companies, AP4's ownership is more diversified, and as a consequence its ownership stakes in individual companies are much lower. As a result, AP4's main tools for corporate governance are to vote at general meetings and cooperate with other owners in company dialogues in an effort to influence for positive changes in the companies.
- In investments in unlisted companies there may be other opportunities as well as limitations for corporate governance than for holdings in listed companies, depending in the context. These can also differ from each other to a significant degree. In direct company investments, for example, this typically involves a handful of owners, while in unlisted funds it can concern tens or hundreds of co-investors. The company form and thereby also the investor influence may thus vary, and AP4 can be both an equity investor and limited partner or fund investor. This creates different preconditions for structuring investor bodies and how corporate governance can be conducted. Depending on the situation, AP4 may for example work through investor bodies such as investment committees,

nomination committees, boards and by voting at general meetings, and annual meetings as well as through active dialogue.

With a starting point in the Corporate Governance Policy, AP4's CEO decides on detailed guidelines for AP4's view of ownership matters specifically for listed Swedish companies, listed foreign companies and unlisted investments.

Corporate governance principles

Three central principals in AP4's ownership work are shareholders' rights, influence in principal issues including sustainability as well as transparent and relevant information.

Shareholders' rights

Shareholders' rights are a basic precondition for a minority shareholder. Important principles are that all shareholders shall:

- be treated equally,
- have the right to take a position on important issues concerning the company's governance and operations. This includes, among other things:
 - a shareholder's right to vote,
 - submitting proposals to general meetings,
 - voicing a position on remuneration, capital structure and cash flow

Influence in principal issues including sustainability

Having a well-working board is a keystone in the work for a company to be successful and conduct long-term sustainable business. Important shareholder issues coupled to well-working boards are:

- the Board of Directors composition with respect to independence, diversity of expertise and experience, number of directors and time available for the board assignment,
- the nomination committee's composition and work,
- remuneration of senior executives and Board members
- election of and remuneration of auditors and
- risk management including sustainability and business ethics.

The board is responsible for the company's organisation and for administration of the company's affairs. The board has a responsibility to all shareholders. AP4 expects that the members of a company's board of directors will exercise their responsibility when diverging interests between shareholders can be believed to exist. AP4's expectation is also that a company board is responsible for ensuring that the company works in overall accordance with national laws, international conventions and guidelines, and particularly regarding all areas of sustainability encompassed in the categories of climate and environment, social responsibility, business ethics and corporate governance. The board shall ensure that the company acts responsibly and considers risks and opportunities related to these issues. Further, the board is responsible for adopting codes of conduct, policy documents, ensuring that these are implemented and continuously followed up.

Transparent and relevant information

Shareholders and other stakeholders have the right to transparent, relevant and public reporting on a company's operations, financial position and sustainability. It is central for knowledge and understanding and to enable structured improvements aimed at long-term positive sustainable value development.

AP4 therefore supports transparent and relevant public reporting. This includes the company's financial position, risks, goals and follow-up thereof, remuneration to senior executives and the Board of Directors as well as relevant sustainability aspects regarding Climate & environment, social responsibility and corporate governance, etc. AP4 also supports the development of reporting standards and encourages companies to apply relevant standards in their disclosure.

Strategies for conducting corporate governance work

Three central principals for AP4 as an owner, are responsibility, active commitment and a long-term approach.

As a responsible and committed investor, AP4 has both the opportunity to influence and a great responsibility. The companies AP4 owns are part of the society with an impact on people and the environment. AP4's long investment horizon enables making investments with a long-term perspective and thus being a well-informed and stable owner who can contribute to the companies' development and conduct responsible and efficient operations.

Exercise voting right

AP4 shall actively exercise its voting right when the opportunity for this exists. In listed companies, AP4 acts mainly on matters that are subject to decision by a general meeting of shareholders. Particular emphasis shall be put on companies in which AP4 has a significant shareholding or is one of the larger owners. In unlisted investments, the voting right can be exercised in various types of investor forums, for example. As a rule, AP4 strives to exercise an active role in highly significant matters of a principal nature.

Work on nomination committees, boards and investor bodies by virtue of ownership

Working on nomination committees, boards and investor bodies by virtue of ownership is an important ownership duty. AP4 participates on nomination committees in the companies in which AP4's ownership warrants such, which mainly encompasses Swedish listed companies and unlisted companies. By virtue of significant ownership in unlisted investments, AP4 may work on a company's board or other investor bodies, depending on the investment form.

AP4's CEO or other employees who work with ownership issues at AP4 may in individual cases take on board assignments in listed companies. Such assignments must be approved by AP4's board.

Cooperate with other shareholders and investors

AP4 cooperates with other investors, both in Sweden and internationally, in dialogue with portfolio companies and with greater influence to be able to achieve success in ownership matters. AP4 chooses to seek cooperation when it is determined to increase the likelihood for success on specific matters and when it is deemed to be cost- and resource-efficient.

With respect to Swedish listed companies and stock market companies, these collaboration dialogues are typically conducted directly by AP4. With respect to mostly foreign listed companies, the AP Funds collaborate through the Council on Ethics for engagement and dialogue in which the AP Funds are investors.

AP4 is a member of and supports various Swedish and international owner forums and organisations in order to cooperate and with greater influence gain a hearing on important issues.

Conduct dialogues with companies and other stakeholders

To carry on dialogues with companies and other relevant stakeholders, such as external asset managers or co-investors, AP4's foremost corporate governance tools are to influence and contribute to positive change.

AP4 can participate in preparatory processes ahead of general meetings of shareholders for companies in which AP4 has a holding even if AP4 is not one of the largest owners in terms of votes. In this work AP4 can take the initiative for dialogue with other shareholders on matters of a shared interest.

In AP4's application of its ownership principles, an aggregate assessment is made based on the specific company's unique situation, relevant laws and best practice as well as on the specific circumstances

surrounding the respective issue. In the same way, for unlisted investments an aggregate assessment is made of the opportunities that AP4 has for corporate governance of each individual investment.

Corporate governance goals

AP4 has set the following, specific goals for the Corporate Governance focus area. AP4 shall:

- in its corporate governance activities, work from the individual company's conditions and work in the best interests of the individual company in order to strengthen the individual company's value creation. AP4's long-term objective is that the companies' operations will develop and be conducted responsibly, sustainably and transparently, and thereby contribute to the companies' long-term value creation;
- use its influence and take responsibility as an owner and investor by working on nomination committees by virtue of its ownership stakes, actively participate in investor forums, and so on. In its work on nomination committees, AP4 shall strive to ensure that the companies have the best possible boards based on the companies' needs of expertise and experience. In this regard, AP4 shall work systematically and advocate for adherence to the recommendation of the Swedish Code of Corporate Governance (the Code) on the share of women on company boards;
- vote at general meetings of shareholders, in Sweden and globally, as well as in other investor bodies when the possibility exists. Particular emphasis shall be put on companies and investments in which AP4 has a significant shareholding or is one of the larger owners or investors; and
- advocate for development of quality and best practice in corporate governance and promote a well-working securities and financial market. AP4 supports well-grounded initiatives that support shareholders' rights and companies' work with sustainability. In general, AP4 shall also advocate and influence for attractive and transparent conditions for investors. A central principle is to safeguard the equal rights of all shareholders.

Follow-up and reporting

AP4's reporting shall be characterized by openness and provide factual and transparent information so that its operations can be reviewed and evaluated by external stakeholders.

AP4's corporate governance work, like its other work, is followed up and evaluated on a regular basis to ensure high quality and continuous development. This applies for AP4 as well as for the companies and organizations in which AP4 is an investor.

AP4 reports on its activities and goal achievement in corporate governance continually and in annual reporting.