



# Global corporate governance policy

## AP3's mandate

The Swedish National Pension Funds Act makes clear that the AP funds should exercise their influence as investors to achieve the overall goal of high investment returns. The act also requires the AP funds to take due account of environmental and ethical considerations in their investment processes, while still aiming for maximum investment returns.

## Means of implementation

AP3 holds shares in a vast number of foreign companies (approximately 2,500) and the purpose of this policy is primarily to make public the Fund's expectations of companies in which it invests.

AP3 will exert its influence as a shareholder by participating in international networks and organisations in order to promote good governance by individual companies. These efforts will include initiatives to influence regulatory authorities, self-regulatory bodies and the listing requirements of securities exchanges.

The Fund may also cooperate with other investors to promote specific proposals or topics.

The greater part of AP3's foreign equity portfolio is managed by external asset managers and in most cases the Fund has delegated the exercise of voting rights to these managers. The managers have been informed about this policy but are not contractually bound to follow it in detail,

which is in line with established market practice. The contract between AP3 and the managers stipulates that voting rights should be exercised to promote the Fund's aim of high investment returns.

## Disclosure and transparency

Corporations should disclose relevant and material information in a timely manner so that investors are able to make informed decisions.

The information should include data about major shareholders, including information on special voting rights, shareholder agreements, significant cross-shareholding relationships and related-party transactions.

Corporations should disclose their systems for governance and whether such systems comply with any code of governance principles. Where a system does not comply with a relevant code, the differences – and the reasons for them – should be explained.

## Shareholder ownership rights

The exercise of ownership rights should be facilitated, and this should include giving shareholders reasonable notice of forthcoming shareholder meetings. AP3 supports initiatives to expand in absentia voting options, including proxy voting by mail and electronic voting.

Boards should treat all shareholders equally and should ensure that the rights of all investors, including minority and foreign shareholders, are protected.

Basic shareholder rights should include the right to nominate, appoint and remove members of the board and the external auditor.

## Corporate boards

The board should consist of directors with the requisite range of skills, knowledge and experience to enable it to discharge its duties and responsibilities.

The duties and responsibilities of the board are best described in section VI of the OECD Principles of Corporate Governance.

The chairman of the board should be a non-executive director separate from the CEO and independent<sup>1</sup> from the company.

Each board should have a strong presence of independent<sup>2</sup> non-executive directors. It should evaluate its performance and the performance of individual directors on a regular basis and disclose the process for such evaluations.

Non-executive directors should meet in the absence of company executives as often as required (at least once a year).

## Corporate remuneration

Executive remuneration should be designed so as to ensure cost-effective rewards for the creation of long-term shareholder value. Total compensation should be fair and in line with market norms.

Remuneration committees composed of independent directors should be responsible for designing and controlling executive

remuneration schemes.

Boards should publish statements on remuneration structure outcomes. Reports should also include remuneration principles for key executives and directors, including salary, cash bonus, share-based compensation and other benefits.

Options and other share-based compensation should have vesting conditions linked to relevant performance measures. The principles and conditions of these instruments should be subject to shareholder approval, as should any repricing of options.

Options and other share-based compensation should be expensed in the income statement.

## Audit

A company's financial statements should be subject to an annual audit on behalf of shareholders. The audit should be carried out by independent, external auditors. The fees paid by the company to auditors for non-audit services should be disclosed in the annual report.

## Ethical conduct of business

The observance of good environmental and social practice is essential if companies are to be run in investors' best interests over the long term. Hence, ethical and environmental considerations are an important aspect of AP3's corporate governance activities. AP3 will work to ensure that the executive managements of companies in which we invest identify and manage ethical and environmental risks in a way that maximises returns for shareholders.

AP3 takes the view that the companies in which it invests must follow international conventions and agreements and recommendations ratified by Sweden. These include the

<sup>1</sup> Independence here is defined as independence from the company, not independence from major shareholders.

<sup>2</sup> See 1) above.

UN Universal Declaration of Human Rights, the core ILO conventions and the OECD Guidelines for Multinational Enterprises.

If AP3 receives information that a company in which it holds shares may be associated with violations of international agreements, the Fund will contact the company to obtain information on the factual background of the alleged breaches. If inquiries indicate that severe violations have been committed, AP3 will request that the company takes measures to prevent repetition. If this request does not produce the desired results, and there is reason to believe that the company will continue to violate international conventions, AP3 will remove the company from its portfolio.

### **Status of this policy**

This policy has been approved by the AP3 Board of Directors and applies to all non-Swedish corporations in which AP3 has a direct ownership interest. It is based on relevant parts of AP3's Corporate Governance Policy for Swedish holdings (approved by the Board on 22 February 2006) and has been adapted to international corporate governance practices.

The above policy statements have been inspired by the Global Corporate Governance Principles of the International Corporate Governance Network, of which AP3 is a member, as well as the OECD Principles of Corporate Governance.