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Alecta Corporate Governance Policy

Approved by: The Board of Directors, June 4, 2019

Background and purpose

Alecta pensionsförsäkring, ömsesidigt (Alecta) is the largest occupational pension provider of the Nordic countries, with 35,000 corporate clients in the private sector and 2.5 million insured individuals. Thereby, Alecta has been entrusted a significant capital in order to ensure that the insureds receive the pensions and other benefits to which they are entitled, in accordance with the ITP plan and other collectively agreed occupational pension schemes for which Alecta is a provider. To manage the assets in these plans is a central and crucial task for Alecta.

A large portion of Alecta's capital is invested in equity, and Alecta is one of the largest institutional owners in Swedish listed companies. In addition to this, Alecta has significant holdings in debt securities issued by central governments, companies, Swedish municipalities and Swedish county councils. Real estate holdings are directly owned or partly owned through joint ventures. Joint ventures are mainly controlled by shareholder agreements with co-investors and through Board representation.

For its own part, Alecta has chosen to comply with the Swedish Corporate Governance Code. However, there are certain deviations as a result of Alecta being a mutual insurance company and not a listed company.

This Corporate Governance Policy presents the way in which Alecta intends to exercise the active ownership and advance corporate governance in Alecta's holdings in listed companies and, where applicable, also in Alecta's holdings in non-listed companies. This policy describes Alecta's principles for shareholder engagement.

The purpose of Alecta's corporate governance

The goal of Alecta's asset management is, within the defined risk limits approved by the Board of Directors;

- to safeguard Alecta's commitments to the insured individuals,
- to strive for the highest possible long-term return on assets under management.

The general purpose of Alecta's corporate governance policy is to promote these goals.

As an owner and investor, Alecta should also act in a prudent way that evokes respect and confidence from both Alecta's customers and the companies we invest in. Alecta should work with the best interest of the shareholders and the individual company.

General approach

Alecta’s investment strategy

Alecta’s model with active management of a limited number of holdings is based on the conviction that well-managed companies with sound business models contributes to a stronger increase in long-term value and are more stable over time. While limited, the number of holdings still allow for diversification, but an active selection requires a more in-depth fundamental analysis and assessment of a company’s future potential.

Alecta’s investment strategy proceeds from the long-termism that management of occupational pension capital requires, which allows for greater persistence in relation to short-term market volatility. A natural consequence of a longer time horizon is a broader perspective on risks and opportunities, including sustainability aspects that may have positive or negative impact on companies’ capacity to create value. Business risk level in holding companies should be moderate and manageable. Companies should have an efficient capital structure that is fit for purpose, supporting the development both short- and long-term.

Alecta integrates shareholder engagement in its investments through the evaluation of companies’ business models, market potential, sustainability and ownership structure, including the board and executive management. The business strategy, financial and non-financial risks are also part of the assessment. There is an ongoing dialogue with the holdings and in particular if a company does not meet Alecta’s requirements in one or several areas. See ‘Monitoring of shareholder engagement’ below.

Exercising Corporate Governance

Monitoring of shareholder engagement

Alecta monitors its shareholder engagement in relation to relevant issues for the companies in which Alecta is a shareholder. Such assessment is conducted ahead of any new investment, and as part of the ongoing monitoring of Alecta’s holdings.

Company strategy

Alecta engages in dialogue with holding companies. In regard to strategy, Alecta has a number of principled topics that are subject to questions to investees. These matters are continuously followed up on in meetings between Alecta’s equity department and the investee company, and also through internal analysis and participation in webcasts.

Financial and non-financial results and risks

Alecta has a defined checklist for assessment of results and risks that is applied for any new investments and on a regular basis. Alecta’s equity analysts and portfolio managers monitor investee companies’ results and risks based on these criteria.

Capital structure
Alecta has some fundamental principles for how investee companies should manage capital structure issues. See ‘Capital structure issues’ under the chapter ‘Alectas position on specific issues’.

Social and environmental impact
Alecta has a number of principles for social and environmental impact, see the chapter ‘Sustainability’. Alecta engages a third party dedicated to sustainability screening to monitor our holdings on a regular basis, to ensure that they comply with the defined criteria. Screening is conducted ahead of any potential new investment, and on a quarterly basis for existing holdings.

Corporate governance
Alecta monitors investee companies through dialogues with company representatives and other stakeholders within the investee companies. Alecta does not invest in companies with poor corporate governance, capital structure or strategy. See ‘Dialogue’ below.

General
Alecta intends to exercise shareholder engagement via the following channels;

Dialogue
Alecta has a continuous dialogue with the companies in which Alecta is a shareholder. These dialogues are conducted both through meetings between the companies’ investor relations representatives and Alecta’s equity department, and through contacts with the Chairman of the Board in each company, and those active in the corporate governance process. Alecta’s goal regarding the engagement is to exercise an active ownership in areas such as strategy, risk, capital structure and corporate governance. Alecta supports openness and transparency, also in relation to relevant stakeholders of the investee companies.

Participation in shareholder meetings
The shareholder meeting is the most important body for the exercising of the shareholder’s role. Alecta exercises corporate governance through its participation in preparatory processes in advance of shareholders’ meetings and by exercising the voting rights that are related to Alecta’s shares at the actual meeting. Alecta’s ambition is to always participate in shareholder’s meetings when Alecta is one of the major shareholders in a company, but Alecta may, for practical reasons, choose to refrain from participating when Alecta has a minor interest. Alecta discloses its voting in shareholders’ meetings.

Collaboration with other owners

Alecta should act independently in its corporate governance activities and is not part of any ownership circle. However, Alecta can sometimes cooperate with other owners, both Swedish and foreign owners, in order to have a greater impact on specific issues.

Conflicts of interest

Alecta work continuously to identify, prevent and manage the conflicts of interest that may arise between Alecta and our stakeholders. This is also applicable in Alecta's work with corporate governance. A relevant stakeholder group to consider with regard to shareholder engagement are the companies in which Alecta is a shareholder and that Alecta also has other relations to. Alecta's board has approved a policy for conflicts of interest which includes conflicts of interest related to shareholder engagement. Should a conflict of interest in this area arise, it should be managed with openness and in accordance with the policy for conflicts of interest.

Corporate governance in Swedish holdings

The Swedish Corporate Governance Code

Swedish listed companies are governed by the Swedish Companies Act, The Swedish Code of Corporate Governance (hereinafter the Code. The Code is applicable to listed companies, whose shares or depository shares are traded on a regulated market in Sweden), the listing agreement with the marketplace and other applicable regulative frameworks. These regulative frameworks create uniform rules for corporate governance and establish the allocation of responsibilities between owners, the Board of Directors and company management.

Alecta is in favour of all Swedish listed companies listed on a regulated market in Sweden applying the Code. However, foreign entities should be given the option of applying the corporate governance code applicable in the country of domicile, or where the companies has its primary share listing.

Alecta promotes the Code to be as broadly accepted as possible. Alecta does this both by promoting that the companies covered by the Code follow the 'comply or explain' principle, and by working to align the Code to better meet the needs of owners and companies.

Alecta is involved in the continuous development of the Code through its membership in Institutionella ägares förening (Association of Institutional Shareholders).

Participation in nomination committees

Alecta considers the appointment of competent, effective and well-functioning Boards of Directors as one of the most important owner responsibilities. Alecta's ambition is to take an active part in the work of the nomination committees, when this is motivated by the share ownership in a company.

In accordance with the Code, Alecta supports initiatives for broadening the recruitment base of suitable candidates for directorships, and thereby work for diversity in the Boards of Directors. The nomination committees should promote an evaluation of the Board's work. Alecta holds the opinion that the evaluations should be used both as a base for replacing directors who no longer meet the requirements to be a part of the respective company's Board, and to enhance the Board's work.

In addition to the information about the Board's work that is submitted by Chairman of the Board, the nomination committees should also interview individual directors.

Corporate governance in foreign holdings

Alecta's prerequisites for corporate governance in foreign entities are limited compared to the influence in Swedish companies. The regulatory frameworks that govern shareholder rights have usually emerged separately on each market, and differences between the markets are common. It is common that the nomination committees in foreign companies consist of the independent directors rather than the owners.

In corporate governance issues on the international market, Alecta uses, as a starting-point, internationally accepted corporate governance principles, mainly the UN Global Compact and the OECD's Guidelines for Corporate Governance and Multinational Enterprises.

Alecta's goal is to exercise its voting power by proxy in all foreign holdings, the results are disclosed on Alecta's website.

Alecta's view on specific issues

Composition of the Board of Directors

Alecta's view is that that the Boards should consist of a majority of independent directors. The CEO and the Chairman of the Board should not be the same individual. However, Alecta might vote in favour of the CEO and the Chairman being the same individual if there are arguments to support this.

When appointing directors, the company's needs of experience and competence should be decisive. Also, the aim should be that the composition of the Board is characterised by diversity and equality. The directors should assign as much time as is needed to accommodate the interests of the company and its shareholders.

Board fee

Alecta's view is that the fee should be based on the responsibility and the engagement expected by the directors. Furthermore, the fee should be at market level. Alecta are not in favour of the directors being covered by incentive programs, in particular in the light of the avoiding conflicts of interest, as one of the tasks of the Board is to design, approve and monitor the effects of incentive programs for the employees of the company.

Remuneration to employees and senior management

The remuneration of senior managers should be well motivated, transparent and in line with market level. Market level implies that consideration is taken to the market where the company is based. Alecta might vote against proposals for remuneration schemes if they can be perceived as being in conflict with the long-term interest of the shareholders.

Alecta's view is that the Board is responsible for the company having a well-balanced and effective remuneration policy. It should be easily understood and transparent. The remuneration should be viewed as a package, consisting of a fixed and, as appropriate, variable compensation, share based incentive programs, pension provisions and other significant benefits.

The Board should be able to motivate and defend the remuneration strategy in relation to shareholders and customers, as well as the general public. The remuneration systems should be at market level and promote long-term shareholder value. Variable remuneration systems should be easy to explain and understand. Furthermore, they should be at market level and be aligned to the long-term interest of the company and its shareholders.

Share or share price-based incentive programs should be approved by the general meeting of shareholders. These programs should be temporary, and they should comprise information of any cap, and the dilution of existing shares, respectively. Before any resolutions on a shareholders' meeting, the Board should give a comprehensive presentation of the costs of such programs for the shareholders, as well as their benefits. As part of this presentation, there should also be a follow-up of previous programs.

Information from companies on remuneration programs for senior managers should be introduced to the owners in good time, so that the owners have enough time to discuss and present any proposals for amendments before the shareholders' meeting.

Alecta considers that pension provisions to senior managers should be defined contribution schemes.

Shareholding

Alecta looks favourably upon employees, managers and directors of listed companies acquiring shares in the company at market value. Subsided share saving schemes should be avoided, as it is normally not in the shareholders' interest that any party is offered to acquire heavily subsided shares.

Capital structure issues

The Board of Directors and management are responsible for the company having an effective and adequate capital structure which supports the long and short-term development of the company. If capital needs to be contributed or distributed, Alecta favours the basic principle that all present shareholders are treated equally.

New shares should primarily be issued with pre-emptive rights for the company's existing shareholders. Should the Board find reason to by-pass from existing shareholders pre-emptive rights, for example in the case of a new share issue or issues in kind, this requires a comprehensive motivation by the Board. An authorisation to the Board whereby they can decide on new share issues where the pre-emptive right of existing shareholders is by-passed, requires a comprehensive motivation by the Board, as well as a description of the situations in which such an authorisation might be utilised, and on what conditions.

Should the Board of Directors propose a distribution of capital, this should primarily be done by way of a special cash dividend or a share redemption.

Share repurchase programs should be viewed in the light of the responsibility of the Board to maintain a balanced capital structure. Any proposal of exercising a share repurchase program should be justified, as should the conditions for utilising any authorisation to do so.

Obstacles to takeovers

Alecta intends to vote against the proposal of insertion of rules within or outside the articles of association in order to prevent or impede mergers and acquisitions.

Sustainability

General approach to sustainability

The starting point of Alecta's sustainability work is our mission, our vision and our core values. Thanks to our focus on an active in-house asset management, sustainability issues are well integrated in our asset management. A checklist of sustainability criteria informs all investment decisions.

Our active asset management means that Alecta will actively exclude companies that do not meet the sustainability criteria. As a significant owner in a limited number of companies, Alecta also has good prospects of having a close dialogue and to have an impact on these companies.

When investing in shares and debt instruments issued by listed and non-listed companies, Alecta should act in accordance with the following guidelines.

Environment, business ethics and social issues

Alecta's view is that a sound approach to environment, business ethics and social issues is a prerequisite for maintaining a sustainable competitiveness and profitability. This means that companies should act in accordance with rules, international conventions and legislation, as well as developing and maintaining a good corporate culture which characterizes the business.

Alecta should act to promote companies having effective guidelines, clear goals, resources and action plans for improvements, as well as a transparent reporting on their work with the environment, business ethics and social issues.

Expectations on investee companies' conduct

Alecta is expecting investee companies to comply with the international conventions and agreements that the Swedish government has signed. Among these are conventions on environment, human rights, labour rights, anti-corruption and against controversial weapons, as well as initiatives such as the UN Global Compact[1] and the OECD Guidelines for Multinational Enterprises.[2] This responsibility applies regardless of whether the country of operation is a signatory to these conventions or have a weaker legislation.

Alecta is monitoring the investee companies on a regular basis to ensure companies are not infringing these principles. Should a company in which Alecta has invested act in a questionable way as regards any of the sustainability areas, a dialogue should be initiated with the respective company.

The purpose of the dialogue is for the company to clarify its approach to the area in question and, if needed, adopt measures for improvement. If the dialogue does not lead to the intended results, or if Alecta does not think that an improvement is possible, Alecta might chose to dispose of its shares in the company. Alecta also engages in dialogue with foreign holdings to exercise influence.

[1] Comprises principles of human rights, labour rights matters, matters of environment and anti-corruption addressed to enterprises. The principles are based on the UN Declaration of Human Rights at work, the Rio Declaration and the UN Convention against corruption.

[2] OECD's Guidelines for Multinational Enterprises are agreed recommendations to enterprises from 40 governments. The recommendations partly overlap the UN Global Compact, but also includes aspects of the way enterprises ought to manage-disclosure of information, consumers' interests, science and technology, competition and tax matters.

This policy replaces the policy approved by the Board on 14 December 2018.

References to policy owner and internal coordination process for policy review are removed in this external version.