

The ATP Group

# 2019 Stewardship

Part of ATP's responsibility



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# ATP's stewardship activities

Stewardship is given high priority at ATP. As active owners, ATP and other investors are better able to understand and control the companies' overall transactions and promote their long-term value creation.

## Basis

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The basis for this work is ATP's Policy of Stewardship, which lays down the framework and principles of ATP's work. ATP's principles build on our own experience as well as leading expert and academic knowledge in the field.

ATP also follows the development of other players, who are also part of defining requirements and expectations for the stewardship of institutional investors. This includes legislators

such as the Danish government and the EU, which during the past years have adopted both the Stewardship Code and the EU's updated Shareholder Rights Directive.

ATP's Policy of Stewardship is updated annually and approved by ATP's Supervisory Board to ensure that ATP follows the development in the field.

## Processes

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ATP pursues two processes that govern our stewardship activities. Continuous dialogue and dialogue through general meetings. The two processes reflect the difference in how stewardship is best exercised depending on either ATP's ownership interest or the value of our investment.

A continuous dialogue is undertaken with the companies in which ATP holds a large ownership interest. We do so because we have great influence in these companies and because we can defend spending more resources due to the size of our investment. As part of the continuous dialogue, we are

in regular contact with the companies' executive boards and board of directors. This allows us to impact the companies' long-term value creation, while also allowing us to use the dialogue to make better investment decisions.

Dialogue through general meetings means that ATP participates in the general meetings of our portfolio companies. ATP attends meetings both in person and by proxy, but has opted for an extended and hands-on proxy voting model where ATP, based on our voting policy, considers each voting item specifically, so that ATP makes the decision itself.

## Activities

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ATP's stewardship activities are largely defined by the two processes – continuous dialogue and dialogue through general meetings.

The continuous dialogue with the companies is basically confidential and is not shared with the public. We publish any presentations ATP make at company general meetings, just as we publish our voting in the companies. During the 2019 general meeting season, ATP has voted at a total of 442 general meetings, where all proposals have been reviewed.

ATP has continued to focus on the composition of the boards and remuneration packages, particularly in US companies, and climate has been a prominent topic at a number of general meetings. In total, we voted against the recommendation of the board of directors in 22% of the proposals.

All ATP's voting items are available at [atp.dk](http://atp.dk).

## ATP's ESG principles and stewardship

#1

ESG as  
investment belief

ATP has a considerable interest in the markets for listed companies functioning according to the best international standards, in management and control generally being exercised with the overall transactions of the listed companies and in the pricing on the markets being as effective as possible.

#2

Strong  
tailored processes

ATP sees ESG risks in line with other investment risks, including market risks. ATP's Policy of Stewardship seeks to minimise risks and optimise business opportunities in ATP's portfolio of listed companies. ATP therefore pursues two specific processes for stewardship that match our investment style.

#3

Development  
of ATP's ESG  
competence

ATP handles all stewardship-related matters itself. We believe that by handling dialogue and stewardship ourselves rather than hiring an external business partner, we gain special and important insight into a company's affairs. Furthermore, we believe that this is the only way to ensure the integrity of all votes and thereby maintain ATP's reputation with companies and other stakeholders.

#4

Preference for  
active capital  
ownership

As an active owner, ATP may on the one hand use dialogue with the company to create an understanding of the challenges facing companies and any company-specific risks and opportunities. At the same time, ATP can work to minimise risks and promote the long-term value creation of companies by encouraging change.

# Stewardship leads to better investments

Stewardship is at the core of ATP's ESG strategy, and ATP uses considerable resources on exercising stewardship in listed equities.

We do so because, as a player in the market for listed companies, we have a responsibility for and an interest in the markets working efficiently and according to the highest standards. By exercising stewardship and contributing to the optimal functioning of the markets, we create long-term value for our members.

## WHAT IS STEWARDSHIP?

As a shareholder in a company, you have certain rights, and stewardship is about how you exercise your rights. It primarily involves a dialogue with the company and participation at general meetings.

We also focus strongly on the investors' management of shareholder rights and duties. In 2019, the Danish Parliament adopted a bill that implements the EU's updated Shareholder Rights Directive into Danish law from June 2019, thereby supplementing the existing Stewardship Code from the Committee on Corporate Governance in Denmark.

*As an active owner, ATP may on the one hand use dialogue with the company to create an understanding of the challenges facing companies and the company-specific risks and opportunities.*

The basis of the policy of stewardship pursued by ATP's Supervisory Board is a number of principles that guide our stewardship activities in listed companies. ATP is an active owner of all the listed companies we invest in. As an active owner, ATP may on the one hand use dialogue with the company to create an understanding of the challenges facing companies and the company-specific risks and opportunities.

An understanding that ATP can use to make better and more informed investment decisions.

On the other hand, ATP can work to minimise risks and promote the long-term value creation of companies by encouraging change. ATP believes that including investments and stewardship under one roof may ultimately lead to better investment decisions. ATP's internal portfolio managers invest in listed equities, and all dialogue with the companies are handled internally by ATP. This allows ATP to ensure consistency and quality in our work. Another advantage of this solution is that it can create synergies between the individual processes so that the information from the dialogue can be used to support the investments and vice-versa.

ATP's approach is confirmed by various academic studies of stewardship, which look into the effect of stewardship. This includes economist Elroy Dimson, who has demonstrated the effect of stewardship on equity prices. Similarly, Nobel award-winning economist Jean Tirole has demonstrated that monitoring is key to the long-term performance of companies, meaning that ATP's stewardship is instrumental in supporting efficient markets. The monitoring and control function is also emphasised in the EU's Shareholder Rights Directive.

*Efficient and sustainable shareholder engagement is one of the cornerstones of the model for corporate governance of listed companies.*

*The EU's Shareholder Rights Directive*

Dialogue is the key tool in ATP's stewardship activities. The dialogue with listed companies can relate to any topic that might affect the investment. Examples include strategy, performance, risk, capital structure, corporate governance, corporate culture, executive remuneration and social responsibility in general. The specific subject matter of the dialogue with the companies is determined by the overriding principles of ATP's Policy of Stewardship and ATP's Policy of Social Responsibility in Investments.

ATP engages in two types of dialogues: continuous dialogue and dialogue through general meetings as described below. The scope of the dialogue follows a principle of proportionality that is applied to the value of the investment and the size of ATP's ownership interest.

### Continuous dialogue



On-going dialogue with the companies about strategy, performance, risks, ESG and corporate governance, etc.



Participation in voting at general meetings and presentations by ATP.

### Dialogue through general meetings



ATP explains to the company how we vote and the rationale behind our voting prior to the general meeting.



ATP participates at general meetings by electronic vote based on ATP's principles.

# Principles for ATP's stewardship activities

- We are an active investor which includes making use of our voting rights.

## **Board of directors**

- Supervisory boards must act in the long-term interests of all shareholders.
- We work to ensure that supervisory boards are independent of the day-to-day management.
- We believe that supervisory boards have a control function in respect of the Executive Board and should actively participate in the preparation of the company's strategy.
- We believe that members of supervisory boards (except for any employee representatives) should be elected for a short period, so that they are often responsible towards the shareholders. Election of
- members to the supervisory board should take place in a transparent procedure, and it should be reported how the evaluation is made.
- We seek to create working space for well-functioning supervisory boards on the assumption that the supervisory boards work for the long-term interests of the shareholders. We have an obligation to provide room for the elected supervisory boards to exercise the duty they have been entrusted. room for the elected supervisory boards to exercise the duty they have been entrusted.

## **Value creation**

- We support work of supervisory board, where we expect this to increase the value of the shareholders' ownership.
- As a general rule, we support the proposals made by supervisory boards, but we do not support proposals which we believe to be detrimental to the rights or financial interests of the shareholders. Where we are in continuous dialogue with a company, we will not vote for the proposal of the supervisory board until we assess that other possibilities of influence have been exhausted.
- We believe that a business-oriented integration of ESG can contribute to increasing the value of our investments. Furthermore, we believe that companies' lack of focus on basic principles and standards on ESG matters constitutes a risk that ultimately threatens the value of our investments.

## **Pay**

- We believe that companies should have a pay policy to ensure that they are able to attract qualified labour.
- The remuneration of the Executive Board should be carefully adapted to the conditions of the company and include both variable and fixed pay elements which strengthen the commonality of interests between the Executive Board and the shareholders. Performance-related pay must contribute to ensuring the company's long-term value creation.
- The remuneration of supervisory board members should be fixed, but we prefer a share of the remuneration to be invested in shares in the company. Variable remuneration of supervisory board members may undermine the control function in respect of the Executive Board.

## **Information**

- We work to ensure that companies make all relevant information available to the shareholders wherever possible, while taking into account the company's competitive environment and the confidentiality of the information.

This includes:

- companies providing a comprehensive description of their strategy and detailing how it contributes to long-term value creation.
- companies' executive remuneration, including incentive schemes, being described comprehensively in the financial statements.
- companies reporting comprehensively on their ESG matters.

# Continuous dialogue

We have good experience in establishing a continuous dialogue when ATP is about to invest or has already made a major investment in a listed company. In fact, stewardship through a continuous dialogue is an integral part of the investment process for any kind of investment.

When ATP holds a major ownership interest in a company, ATP will conduct an in-depth, long-term analysis of the company, covering issues such as corporate strategy, performance, risks, governance, market position and social responsibility.

The analysis is based on meetings with the company, among other things, to establish a dialogue with the executive board and the board of directors about these issues. Stewardship is initiated even before the investment is made and is followed up by regular meetings with the management and the board of directors for the duration of ATP's investment.

In ATP's experience, companies can often be influenced through continuous dialogue, and ATP listens to good arguments. ATP is also of the opinion that this form of stewardship has created added value in the companies in which ATP has and is invested in, and that it has ultimately been instrumental in creating a higher return on these investments.

## ATP'S STEWARDSHIP IN DANISH COMPANIES

ATP commonly exercises stewardship in Danish companies through a continuous dialogue, of which the annual general meeting is just one of many points of contact during the year. ATP is thus often able to express its concern and opinion at direct meetings with the companies, which may influence the company's final proposals for the general meeting. Accordingly, ATP only votes against the board of director's recommendation at the general meeting in special cases.

In 2019, ATP voted against the board of directors at Genmab's and Lundbeck's general meetings.

” There can be no doubt that the case in Estonia has had a negative effect on both Danske Bank's image and Denmark's reputation internationally.

Danske Bank is an important institution in Danish society, and a special effort is therefore needed to improve this reputation and ensure that Danske Bank's compliance function and effort to combat financial crime are of the highest international standard.

*ATP's Head of Equities, Claus Wiinblad at Danske Bank's general meeting.*



ATP's level of involvement in individual companies depends on several factors, including ATP's ownership interest, the size of the investment and required changes. Another factor could be, in ATP's opinion, an unfavourable turn of events for the company. In our continuous dialogue with companies, ATP seeks to build a trusting relationship where the companies' problems and challenges can be discussed. To obtain the best possible dialogue with the companies, it is commonly understood that such discussions take place in confidence.



The background of the page is a photograph of a modern glass-fronted building. The 'Danske Bank' logo is visible on a dark horizontal sign above a set of windows. The sky is blue with some light clouds, and the building's glass reflects the sky and surrounding environment.

Danske Ba

## Dialogue with Danske Bank

The money laundering case in Danske Bank has deservedly stirred much attention – both in the media and among investors. Highly criticisable conduct has been revealed in Danske Bank’s Estonian branch between 2007 and 2015, and the authorities in several countries are investigating whether the bank has violated the money laundering legislation by not having adequate controls.

Money laundering is a clear breach of ATP’s Policy of Responsibility in Investments, and ATP exercised stewardship early on by engaging in a dialogue. In our opinion, it will best serve ATP’s interest to put pressure on Danske Bank to implement improvements through dialogue instead of excluding Danske Bank from our investment universe.

Furthermore, our dialogue with Danske Bank has convinced us that the bank is making a considerable effort to strengthen the entire compliance area in the bank going forward, which we believe will reduce the risk of similar violations in the future.

Our dialogue with Danske Bank has taken place at three different levels. We have been in a direct dialogue with the board of directors, with the executive leadership team and the bank’s compliance officers. Last but not least, we have engaged in a dialogue with some other investors. In parallel, we have expressed criticism in public of Dansk Bank’s handling of the case, both in the media and at the general meeting in March 2018.

The purpose of the dialogue was to assert ATP’s influence in relation to the bank in order to improve the handling of the case itself, but also to gain a better understanding of the specific case and the measures taken by Danske Bank to strengthen the compliance area going forward.

The scope of the case escalated during summer/autumn 2018. Its severity and magnitude meant that ATP knew that extensive changes were needed in the management of Danske Bank to bring the bank forward on the back of the serious accusations. Accordingly, our dialogue escalated to also include other investors, including A.P. Møller Holding.

In November 2018, this dialogue led to ATP supporting A.P. Møller Holding’s initiative to convene an extraordinary general meeting. The purpose of the extraordinary general meeting was to replace the chairman of the board of directors and the chairman of the audit committee and to elect Karsten Dybvad as new chairman of Danske Bank. The election of a new chairman combined with the considerable effort to correct the bank’s anti-money laundry processes led to ATP supporting the board of director’s proposal at the general meeting in March.

Most recently, Danske Bank has engaged Chris Vogelzang as its new CEO, which clearly shows that Danske Bank is working hard to correct its criticisable conduct. ATP continuously follows the development at Danske Bank.

# Dialogue through general meetings

Voting at the general meetings of portfolio companies is a central part of ATP's stewardship. Through stewardship and voting, investors can contribute to the optimal functioning of the markets for listed equities, while also promoting the long-term value creation of companies.

The exercising of voting rights by investors is a central element in the EU's Shareholder Rights Directive, just as it is an integral part of the Stewardship Code by the Committee on Corporate Governance that investors must exercise their voting right.

Investors can live up to these obligations in various ways, e.g. by showing up in person at the companies' general meetings or by proxy voting where a third party undertakes the voting process.

It is a natural part of ATP's ownership of listed equities to exercise its voting rights at general meetings. ATP attends meetings both in person and by proxy, but has opted for an extended and hands-on proxy voting model where ATP, based on our stewardship principles, considers each voting item specifically. ATP will rarely and only in exceptional cases attend general meetings in foreign companies in person.

ATP often attends general meetings in Danish companies, where we commonly make presentations, which are available at [atp.dk](http://atp.dk).

ATP uses the technical infrastructure from proxy voting in connection with votes at most general meetings. Basically, proxy voting means that you vote via a substitute (proxy). The concept of proxy voting is wide ranging and can cover everything from complete outsourcing of the task, including the actual voting decisions, to a practical outsourcing of the actual physical voting.

## ATP'S PRINCIPLES OF STEWARDSHIP

At a general meeting, the shareholders must consider a number of matters such as the composition of the board of directors, remuneration policy, capital structure, etc.

ATP has 16 principles for stewardship that provide a guideline for how ATP should relate to proposals at a general meeting. The 16 principles are outlined on page 6.

On principle, ATP does not outsource decision-making powers to third parties in connection with its stewardship. Instead, ATP specifically considers all voting based on the principles for stewardship and by focusing on the company's individual situation, challenges and risks. By making voting decisions internally, ATP ensures a high quality of decisions and the possibility of creating synergies between investment processes and voting so that information from the dialogue can support the investments and vice-versa.

The Policy of Stewardship sets out 16 principles for the way in which ATP must manage its stewardship. In order to translate the principles into practice, ATP's Committee for Responsibility is authorised to set out the guidelines for the overall practice.

A sub-committee has been established under the Committee for Responsibility to ensure that specific votes in various companies are carried out in accordance with the intentions of the committee and our Supervisory Board. The work of

**ATP does not outsource decision-making powers to third parties in connection with its stewardship. ATP forms its own position on all agenda items at general meetings in portfolio companies.**

translating theory into practice is a process under constant development involving a continuous dialogue on interpretation and direction of the work. It is not possible to define guidelines beforehand that takes all outcomes in all companies into account.

During a voting season, issues will always be raised that have either not been accounted for in the policy or where special circumstances might influence ATP's vote. ATP is continuously working to improve and refine the practical implementation of the guidelines.

Generally, ATP issues voting intentions to the companies if ATP on one or more voting items intends to vote against the board of directors and the company's recommendations. When ATP issues voting intentions, ATP basically wants to explain to the companies how they should interpret our specific vote.

ATP also seeks to inform the company if we support the specific proposal by the board of directors, but finds values in elements of the proposal. This might be proposals relating to discrimination. ATP does not necessarily support all proposals relating to the topic of discrimination as they may concern a process or implementation rather than the core value of discrimination.

ATP is naturally always against discrimination, which we will explain so that a vote against a proposal cannot be misinterpreted as opposition against the core value.



# ATP wants independent boards of directors

Election to the board of directors is also an area with major local differences, which has led ATP to base its voting on fixed principles. Generally, ATP believes that a well-functioning board of directors should be independent. The policy does not take account of local markets where companies pursue a corporate structure that is different from e.g. Danish corporate structure, in which the majority of board members are independent.

ATP's approach to boards of directors and their independence is based on the Danish and European corporate governance model. In order for a board of directors to serve as a control function in relation to the executive board and the daily management in general, the European model widely accepts that the board of directors should on the whole be independent. This means that ATP expects at least half of the board members to be independent of the company. Independence of a company is difficult to define. However, in order to operationalise the work, it makes sense to provide some guidelines for independence.

For ATP, that means that you cannot go from serving the role as CEO to serving the role as chairman of the board. It also means that board members are regularly replaced. We believe that, over time, board members become such an ingra-

ined part of the company that they lose their independence. This obviously does not happen overnight, but our guideline provides a maximum period of 12 years.

A good board of directors is composed of both experienced members with insight into the specific company and new members, who can challenge the mindset or ask questions from new angles.

Another fundamental criterion for the board of directors to serve as a control function in relation of the executive board is that it is run by a chairman who has no conflict of interest with the executive board – ultimately, the chairman of the board might have to dismiss the executive board. When roles are combined and held by one person, conflicts of interest might arise in the areas where the roles collide. The Danish Companies Act (section 111) stipulates that directors cannot also be chairman of the board (or deputy chairman of the board). However, this rule does not necessarily apply in the rest of the world.

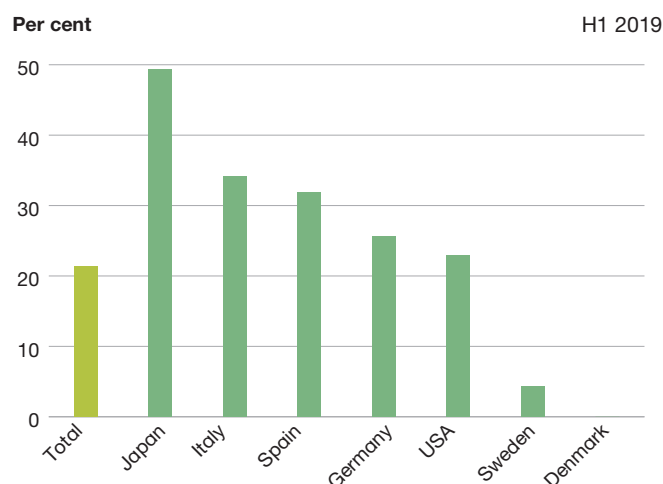
As a result of the principles of stewardship, ATP relatively often votes against the proposals of the board of directors, see the chart below. The chart shows that some countries have special market standards that very often make ATP vote

## WHAT CHARACTERISES A GOOD BOARD OF DIRECTORS?

It is important to remember that there is no one-size-fits-all solution to composing a board of directors that fits all companies. According to ATP, a good board of directors is characterised by:

- A majority of board members being independent of the company
- Separate chairman of the board and CEO
- Annual elections for the board of directors
- Recurring evaluation of the board of director's work

## Votes about board composition where ATP has voted against management



All figures cover the period 1 January to 30 June. ATP updates the voting database with our voting activities every six months. Find the voting database here: [atp.dk/voting](http://atp.dk/voting)

against the executive board's recommendation to the board members.


It is important to state that it is important for ATP that the board of directors understands the background for its voting. That is why ATP is issuing voting intentions to companies where we intend to vote against proposals, so that the company can change its practice in the future.

**ATP voted against the proxy adviser ISS on 18% of all proposals presented at general meetings.**

In accordance with principle 2 of ATP's ESG strategy, ATP undertakes all voting as we want to have full control of our

ownership. Investors are often criticised for relying on third-party advisers such as ISS and Glass Lewis.

ATP does not always agree with the recommendations made by third-party advisers. One reason being that ATP has special views on e.g. remuneration, where ATP specifically considers the fairness and context of each remuneration package. Another reason for the difference between ISS' recommendations and ATP's voting practice is that ATP has a principle-based voting policy that does not show special consideration for local corporate governance customs in relation to e.g. the independence of board members. Since ATP uses ISS' analyses as input for our own analysis, we are able to see whenever we go against ISS' recommendation. In the first six months of 2018, ATP voted against approx. 18% of ISS' recommendations.



A good board of directors is composed of both experienced members with insight into the specific company and industry knowledge and new members, who can challenge the mindset or ask questions from new angles.

# Climate on the ballot

During the past years, several investors have raised the climate agenda at the general meetings of some of the large companies. They do so via shareholder proposals where they, for instance, demand strategies for green transition and publication of climate-related data.

ATP has also been part of this through our participation in Climate Action 100+, which had a number of significant impacts on the spring general meetings held at some of the world's biggest CO<sub>2</sub> emitters. Companies like BP, Shell, etc. have presented plans for what they intend to do to ensure that their business complies with the Paris Agreement. The climate agenda has particularly been raised at the general meetings of US and UK companies.



CLIMATE ACTION 100+ is an investor initiative intended to ensure that the world's biggest CO<sub>2</sub> emitters define targets for reducing their emissions. Investors with more than USD 34 billion in funds management support the initiative.

Shareholder proposals have for many years been an integral part of US corporate governance and can cover a wide array of themes and motivations. ATP considers each shareholder proposal individually and assesses it based on various parameters.

ATP regularly considers various shareholder proposals concerning companies' climate initiatives. During 2019, ATP has for instance voted at Exelon Corporation's general

## HOW ATP ASSESSES SHAREHOLDER PROPOSALS

### Does ATP agree with the intention behind the proposal?

ATP assesses whether we agree with the intention of a proposal. Typically, ATP is sympathetic to most shareholder proposals as they generally aim to do something positive in relation to one or more ESG parameters.

### Does the proposal create value for long-term investors?

As a long-term investor in a company, ATP has to assess the long-term financial implications of a proposal and consider the pros and cons. A proposal that limits the value in the short term might be positive in the long term if, for instance, it reduces ESG-related risks. Some shareholder proposals may also impose greater demands on companies than their competitors and thus put a company at a competitive disadvantage. This will weaken the company without solving the problem at hand.

### Will it give investors or other key stakeholders more information?

Over time, ATP has changed its position to shareholder proposals that relate to improved or more detailed company reporting. Whereas ATP used to focus more on whether the information provided was something that we would use actively, we now also focus on whether others can use the information meaningfully. Today, ATP often supports proposals that comply with other shareholders' request for information. The reason being that increased monitoring will potentially also benefit ATP.

### Is the proposal the right one to solve a given problem?

When ATP assesses a proposal, we may agree with its intention and core value, but disagree with the actual solution. This might be the actual process outlined by the proposal, or the proposal might duplicate processes that already exist in the company.

meeting (Exelon). Exelon operates a number of utilities in the US. The company's portfolio includes both fossil energy, nuclear power and renewable energy. At Exelon's general meeting, ATP had to consider a proposal made by the shareholder activist group Burn More Coal. The group believes that Exelon should focus its business on coal power, arguing that it is the cheapest energy source. The group is therefore asking the company to stop investing in renewable energy and focus on return to the shareholders. ATP voted against the proposal. Firstly, we believe that it is a short-sighted solution to focus solely on the current cheapest form of energy and not invest in innovation and new technology. Secondly, for investors like ATP, it is not enough to focus solely on the climate footprint of individual companies. It is true that Exelon cannot curb global CO<sub>2</sub> emissions alone, but by minimising its footprint and contributing to a green transition, Exelon also gears its business model in relation to e.g. new climate measures and thus ATP's long-term interests as investor.

ATP has also had to consider proposals submitted at the general meeting of PNM Resources (PNM) PNM is another energy company in the US that operates utilities. PNM was presented with a shareholder proposal asking the company

to report more on its efforts to avoid the health hazards of fly ash, a residual product of its energy production. PNM already complies with statutory requirements regarding management of fly ash and is working towards a goal of eliminating coal from its production by 2031. ATP voted for the proposal. We chose to support the proposal as it included a focus on the impact of the production going forward. Despite the fact that the company aims to reduce its use of coal towards 2031, its continued operations imposes some obligations in terms of protecting the environment and health until operations are stopped. We agree that the company must cover this tail risk which the proposal seeks to minimise.

At Yum! Brands' (Yum) general meeting, a proposal was presented asking the company to report its footprint in terms of deforestation. Yum is a global player and its production depends on various raw materials such as palm oil, paper, cattle, etc. Yum has presented a number of sustainability intentions and goals, but we do not think that Yum has been ambitious enough. This means that part of its business is falling behind its competitors. When we compare this with Yum's size and importance to the global value chain, we think that we can place greater demands on the company. We therefore chose to support the proposal.

ELECTRICITY IS LIFE. COAL IS ELECTRICITY. COAL IS LIFE.

**BURN MORE COAL**

### **BURN MORE COAL files shareholder proposal with Exelon**

MONDAY, NOVEMBER 19, 2018 · 10:12 AM | [EXELON](#)

Exelon abandoned coal in 2017 in order to save the planet. We want to see the math.

Caption: Screen dump from the shareholder activist group Burn More Coal's website. ATP voted against the group's proposal.

# Fair remuneration

ATP's policy of stewardship is one based on principles. This means that ATP does not take special local considerations in our voting policy, but work on the conviction that ATP's approach to corporate governance is value creating, no matter where in the world ATP invests. ATP often expresses its opinion at general meetings. The decisions cannot be formalised and automated without continuous maintenance and taking a position in the specific matters.

**ATP will not take any part in weakening the remuneration policy requirements and upward remuneration spirals. Remuneration must be based on a sound culture.**

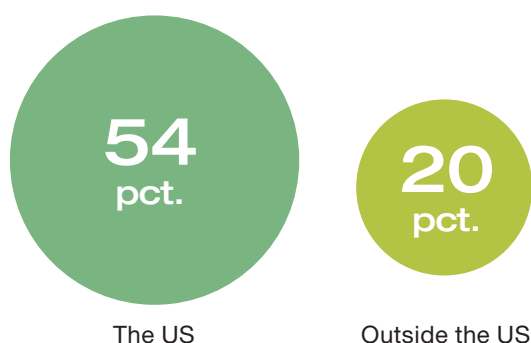
This report therefore also presents some cases to illustrate the considerations made by ATP in connection with votes and makes the case that votes should not be seen in isolation but as an element in an ongoing dialogue with a company.

An increasingly important topic in terms of corporate governance and general meetings is executive remuneration. This is an instance where the voting policy requires fairness, that the remuneration is adjusted to the special circumstances of the company, that the commonality of interest between the executive board and the shareholders is strengthened and that the company is able to attract qualified labour.

ATP has for many years focused on the remuneration of managements in Danish companies, and during the past years, we

## Voting on remuneration where ATP voted against the management

H1 2019



have also focussed on executive remuneration in companies in our international equity portfolios. During the past years, ATP has also regularly reported on our activities in this field. By not beating about the bush about our expectations to remuneration packages, ATP wants to send a clear message to the market about what we believe is fair.

ATP specifically considers each remuneration package for each company. The specific circumstances might result in ATP accepting a remuneration package in one company while opposing a similar package in another company under a different set of circumstances. For instance, ATP might vote against a remuneration package in an European company, but support a similar package in a US company. It might be special considerations like the company's previous practice in terms of remuneration or other specific assessments that decide our vote.

Go to [atp.dk](http://atp.dk) to find ATP's actual voting at the general meetings of our portfolio companies.

## US remuneration challenge ATP's principles

It is a persistent trend that US remuneration packages commonly challenge ATP principles on remuneration. As you can see in the figure below, ATP votes against a much higher percentage of remuneration packages in the US than outside the US.

In 2019, ATP voted against the remuneration packages at e.g. Walt Disney. The total remuneration package of Walt Disney's CEO was an astronomical USD 140 million in 2018. We have, for a number of years, been voting against the remuneration at Walt Disney, and we have been in a dialogue with Walt Disney to express our concern.

At the UK company SEGRO plc., the remuneration level is much lower than at Walt Disney. Nonetheless, we have also voted against their remuneration proposal. The CEO of SEGRO received GBP 3.6 million in 2018. However, the company decided that the remuneration package should increase by 8% a year for two years. The background for the increase was a relatively low remuneration level compared to the competitors. However, ATP believes that the remunera-



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tion is relatively high compared with similar companies, and we also think that the increases illustrate one of the issues involved in 'benchmarking' of remuneration. SEGRO wants to increase the level compared to its competitors, which will cause some of its competitors to increase their remuneration level to maintain their position. It is an upwards spiral which does not serve our member's interests.

A few years ago, ATP engaged in a dialogue with Danish company Genmab on performance pay, where ATP accepted that Genmab, in exceptional cases, and primarily in connection with appointments in the US, should be able to offer an equity-based remuneration that accounted for up to four times

the regular remuneration. We did so, as we had to accept the major geographical difference in the use of performance pay and that it was necessary to attract the right skills in primarily the US. At the general meeting in 2019, Genmab proposed that the equity-based remuneration should constitute four times the regular remuneration and not just in exceptional cases.

ATP was unable to accept this and therefore voted against the proposal, just as we voted against a proposal to issue new warrants intended to finance the equity-based remuneration. ATP will not take any part in a slow weakening of the remuneration policy requirements, and we want to send a clear message about this.

## WHAT DOES A REMUNERATION PACKAGE CONTAIN?

Executive remuneration in the global markets is diverse and differ widely. One of the challenges that ATP faces when we try to adopt a consistent approach to remuneration is that we are often forced to compare apples to pears. There are practically no rules for how to design a remuneration package, which may be a challenge when you try to compare them.

The basic elements of remuneration packages are:

- Fixed salary – basic salary that does not vary
- Bonus – short-term cash bonus payment that depends on the performance during the past year
- Long-term bonus – equity ownership programme where payment depends on long-term performance (typically 3-5 years)
- Pension
- Other benefits – a variety of things – use of company plane, free car, various memberships, private secretary, extra home, security at home, office facilities, access to advisers, etc.

In addition, there are an abundance of more or less common add-ons to the remuneration programmes:

- Retention bonus – a bonus that is payable at a certain point in time for the purpose of ensuring that an executive member does not resign prematurely
- Sign-on bonus – a lump sum payment for attracting executive members
- Compensation for outstanding amounts in connection with job change – to attract executive members who hold non-redeemable equities or similar with their current employer, some companies choose to compensate the value to be able to attract the right executive members.
- Compensation for tax

Remuneration packages can be made in innumerable ways and are often extremely complex. As an overriding rule, ATP believes that a remuneration package should be fully transparent and as simple as possible.