

The ATP Group

# 2020 Stewardship

Part of ATP's Social Responsibility



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# ATP's Stewardship Activities

ATP manages its own stewardship, as we believe that this provides valuable inputs to our investment processes and ensures the highest quality and the greatest amount of credibility.

## Basis

Stewardship is a core responsibility of ours as an investor. As a large and significant institutional investor, ATP has a responsibility to contribute to the development and maintenance of good corporate governance both in Denmark and abroad.

Similarly, our stewardship activities can contribute to the long-term returns for our members by ensuring that ATP is investing in well-run companies focused on long-term value creation.

## Processes

ATP's stewardship activities are ongoing throughout the year, but the activities peak in spring where most companies hold their annual general meetings. Even though there is a lot of activity surrounding annual general meetings, the work with monitoring the companies we invest in continues throughout the year.

We want to use stewardship and active ownership in our ongoing investment work and to contribute to the companies' value creation by being active and clear owners. This year,

## Activities

In 2020, we have decided to focus on complexity in compensation packages. Our attitude is the compensation packages need to have a clear correlation with the company's long-term value creation, and it must be transparent how the compensation package creates this correlation. This is also the direction that the EU has put forth with the new Shareholder Rights Directive which became part of Danish law in 2020.

In addition, we have chosen to be stricter in our approach to voting on elections for Boards of Directors in a number of areas, particularly for foreign companies, as when it comes to

Our policy is based on principles, meaning that we do not take into account different market practices between countries. However, at the same time, the policy does allow for a certain amount of flexibility which allows us to make exceptions if a company is moving in the right direction.

we have been particularly focused on continuing to develop our dialogue with the Danish companies with a focus on ESG.

In connection with the companies' annual general meetings, we prioritise being clear about our expectations. We do so by both being clear about our expectations for good corporate governance in the ongoing dialogues we have with the companies and by clearly communicating the reasons for doing so if we vote against a proposal from the company at the annual general meeting.

issues such as salaries and climate, we have seen a number of Boards of Directors not responding as we would like.

Traditionally, ATP gives presentations at the annual general meetings of companies in our Danish portfolio, but due to the corona pandemic, the extent of activities has been smaller than usual.

All of ATP's presentations to annual general meetings and voting records can be seen at [atp.dk/voting](http://atp.dk/voting). This report is about data from 1H 2020, as the majority of the annual general meetings take place in the first six months of the year.

## ATP's ESG Principles

#1 ESG is an investment belief

#2 We believe in an effective ESG integration via customised processes

#3 Real integration requires internal ESG competences

#4 We believe in active ownership - to a certain extent

## ATP

- voted in favour of the boards' proposals in **75%** of cases
- voted against the proxy advisor ISS' recommendations in **21%** of cases
- voted at **446** meetings
- voted in favour of **40%** of shareholder proposals
- voted against **62%** of compensation packages in US companies

# Active Ownership and 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.

We also focus strongly on the investors' management of shareholder rights and duties. In 2020, the EU's new Shareholder Rights Directive entered into force in Denmark, and thus there are new rules in effect that Danish investors and companies need to take into account. We have been early in preparing for the new rules, and therefore we have already integrated the Shareholder Rights Directive in our practices.

## WHAT IS STEWARDSHIP?

As a shareholder in a company, you have certain rights, and stewardship is about how you exercise your rights. Stewardship is mostly about the dialogue with the company and exercising voting rights.

Even if ATP only owns a small share of the individual companies, ATP is still responsible for promoting good corporate governance. In our Stewardship Code/Policy of Active Ownership and elsewhere, it is emphasised that institutional investors should monitor and engage in dialogue with the companies they invest in, as this benefits the companies' ability to create value and provides investors with information that may be relevant for their investment decisions.

Similarly, the EU's directive on shareholder rights states that "an effective and sustainable stewardship forms one of the pillars for listed companies' model of good corporate governance."

However, for ATP as an investor, legislation is not the primary reason for us practicing stewardship. For us, it is about the long-term value creation in companies that benefit investors and the other stakeholders of that company.

The basis of the policy of stewardship pursued by ATP's Supervisory Board is a number of principles that guide our steward-

ship activities in listed companies. Generally speaking, ATP is an active owner in all of 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.

At the same time, 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.

For example, Elroy Dimson, an economist, has demonstrated the impact of stewardship on the share prices of companies, and the Nobel prize winning economist, Jean Tirole, has demonstrated that monitoring is an important factor in the long-term performance of companies.

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.

# Policy for Stewardship in the ATP Group

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

## SUPERVISORY BOARD

- 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.

## 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.

# Stewardship Promotes Value Creation

ATP is one of the largest investors in Denmark, and therefore we have a clear interest in ensuring that there is a well-functioning Danish market for equities. In order to have a well-functioning market for equities, good corporate governance is important, and therefore ATP is strongly committed to ensuring that this is the case.

At the same time, we have an investment strategy for domestic equities which makes it natural for us to have an in-depth knowledge of Danish companies. We are a long-term investor, and therefore we are also not afraid of investing in a company when the share prices are deep in the red as long as we can help to push the company back towards a profitable direction.

ATP's investments in listed Danish companies is based on in-depth analyses of, among other things, the companies' strategy, products, market position and valuation. Therefore we know both the companies and their competitors, and this allows us to help move companies in the right direction.

The Danish equity team also uses significant resources on creating and maintaining close relationships with the Danish companies - both at the executive and Board of Directors levels. When this process succeeds, it results in the building of trust and confidence with the management teams of the companies we invest in.

We call this process 'continuous dialogue'. This continuous dialogue helps to validate our investment cases and therefore becomes an integrated part of the value creation in the Danish equity portfolio.

We also use the close relationships we have with executive boards and Boards of Directors to express our attitudes on, among other things, the company's strategy, management, reporting and work with responsibility. In our experience, the companies tend to accept the criticism and make the necessary changes. If a company is faced with a major strategic decision, there are many examples of cases where they ask ATP for advice or ensure that we support the decision before it is implemented.

ATP can only assume this role if the companies are confident that their dialogues with us are confidential. It has been demonstrated that the continuous dialogue works best if both parties have faith that it is completely confidential. During the process of continuous dialogue, many disagreements will be resolved to find common ground, which explains why ATP most often votes in line with the management recommendations on companies run through continuous dialogue. The few times where ATP has disagreed with a proposal from a Board of Directors, this will typically be addressed by ATP at the annual general meeting. Therefore, there are many cases of annual general meetings where ATP has told the public what we think about the Board of Directors' proposals and the company's actions in general.



“ The dialogues with companies is an important part of our investment process. We get closer to the companies and this strengthens our day to day work with our investments. At the same time, we can be clear about ATP's expectations for good corporate governance in the companies we invest in.

Claus Wiinblad, Head of Domestic Equities

## Bavarian Nordic - an Important Vaccine Manufacturer

For many years, ATP has owned a significant share of the Danish company Bavarian Nordic, not least due to its vaccine production capabilities.

One of Bavarian Nordic's most important business areas has long been the production of smallpox vaccines for the American market - a relatively complicated vaccine production process, which the company has demonstrated over a number of years that they can successfully manage.

Besides the competences to produce vaccines, Bavarian Nordic also has spare production capacity. ATP has therefore believed for a long time now that it could be a good idea to acquire more vaccine business to gain greater economies of scale in their production.

In 2H 2019, this exact opportunity presented itself as Bavarian Nordic was able to buy two vaccines with all of the associated rights from GSK, a large pharmaceutical company. When we were notified of the imminent acquisition, we expressed our clear support, and this was one of the preconditions for the deal being able to go through.

In spring of 2020, Bavarian Nordic chose to issue more equity to finance the purchase of the two vaccines. ATP's clear support for the strategy and the acquisition was highlighted in the prospectus.

In connection with the issuing of new equity, however, there were a few investors who did not exercise their right to purchase them. Therefore, the issuing banks ended up with quite a bit of equity. As the issuing banks were not long-term investors, ATP bought a large part of the excess equity in a deal where all of the banks' equity were sold. In that connection, we increased our ownership stake to more than 10 per cent of the company.

The higher ownership stake reflects our conviction that Bavarian Nordic in the long run will realise its great potential in vaccine research and vaccine production. The vaccine production takes place in Denmark, and is in itself a valuable asset, as was demonstrated during the COVID-19 pandemic.

“ At Bavarian Nordic, as part of our IR policy we have had an ongoing and active dialogue with the company's owners/shareholders and the other stakeholders. Not least ATP, which for many years has been one of our company's most important shareholders. We appreciate the constructive dialogue we have had with ATP.

The collaboration with ATP and their participation in our equity increases over the years has been a crucial element in the company's development. It has allowed us to both build up a significant vaccine production capacity and also to complete an M&A strategy that has resulted in a positive and transformative development. We have gone from being a development company to now being a profitable, innovative specialist vaccine company with an ambition to grow even further.

Henrik Juel, EVP & CFO at Bavarian Nordic

# Enhanced ESG Dialogue with Danish Companies

ESG issues have in recent years become more and more important in our ongoing dialogues with Danish companies, and more Danish companies are also in a leading position globally when it comes to responsibility. This is good news, because it is also good for the competitiveness of Danish businesses and thus also for ATP's investments in Danish companies.

In 2020, we have strengthened our dialogue with Danish companies so that we use more of the knowledge and experience that ATP has gained via dialogues with global companies across various business sectors. This allows us to be a better professional sparring partner for the largest Danish companies, but also to challenge companies to do even better.

However, besides the large companies, there is also a group of companies that have only just begun working with responsibility. In such cases, ATP can be a professional sparring partner that can help companies move in the right direction so that they maintain their focus on developing their business and integrating responsibility in a manner that supports their business models.

## LARGE COMPANIES NEED TO STAY EAGER AND ORIENT THEMSELVES TOWARDS INTERNATIONAL MARKETS

ATP believes that the largest Danish companies are quite advanced when it comes to working with ESG issues, and they are often among the leading companies internationally in this area. However, even if you are one of the best, there is still the need to work on improving the status quo or working with new trends and currents.

This helps to ensure that in ATP's Danish portfolio companies there is still a correlation between the work with ESG issues and value creation, and that when companies work with responsibility, they are also paying attention to the relevant topics that the public at large might only notice at a later date.

In our dialogue with companies, we use our knowledge of the leading global companies working with ESG issues - both in terms of general themes and their specific sectors. Similarly, we also look at the ESG data that we have from

various suppliers in order to confirm that our perception of the company matches what is shown in the ESG ratings. It is also relevant to investigate whether there are areas that are rated poorly in ESG ratings but where the company actually has strong processes.

In order to test the companies' focus on value creation, we also use Sustainable Accounting Standards Board (SASB) metrics for materiality in ESG matters.

It has been our experience that companies have a positive view of the new form of dialogue, and in some cases, ATP has been part of implementing changes to practices and/or implementing new initiatives as part of the ESG dialogue.

Besides the proactive dialogue, ATP is also contacted by Danish companies that need professional sparring on specific ESG issues. For example, this might be related to climate reporting, the EU's taxonomy for green investments and the like.

## SMALLER COMPANIES NEED HELP TO START THE JOURNEY

Besides the big well-known Danish companies, ATP also invests in a number of smaller Danish companies that rarely make it to the front pages of newspapers. When ATP invests in companies, it is because we see a potential for long-term value creation. In smaller companies, where the focus has not yet been directed towards ESG issues, we enter into a dialogue with the companies to investigate how an increased focus on ESG can help to support value creation in the short and long run.

Whereas the large companies often have departments with specialists, the small companies might only have one dedicated employee, or perhaps none at all, to work with responsibility. The amount of initiatives and the number of different organisations related to ESG issues can therefore seem overwhelming and difficult to prioritise.

In such cases, ATP can be a professional sparring partner that can offer advice on where it might make sense to launch new initiatives and which initiatives are less urgent.

### CONCLUSIONS FROM ATP'S ESG DIALOGUES WITH LARGE DANISH COMPANIES

	Exceeded ATP's expectations	Did not meet ATP's expectations
<b>Company 1</b>	The amount of substance in the company's climate strategy was a positive surprise to us	The management of a critical ESG issue in one part of the business did not meet our expectations
<b>Company 2</b>	We were positively surprised at the upgrade of the company's approach to the entire ESG area	The company's processes involving responsible supplier management have room for improvement
<b>Company 3</b>	A compliance programme was strongly implemented across markets	The future overall strategy for this area can be strengthened. The level of transparency can be improved
<b>Company 4</b>	We were impressed at the level of detail and the implementation of the company's anti-corruption programme	The company's processes for responsible supplier management have room for improvement
<b>Company 5</b>	Exceeded our already high expectations in a number of areas	The future overall strategy can be strengthened
<b>Company 6</b>	Exceeded our expectations for processes related to responsible supplier management	The company's climate reporting did not meet our expectations

### ATP'S STANDARD MESSAGES TO SMALLER COMPANIES:

1. We believe that involving ESG issues can contribute to your long-term value creation
2. Prioritise your efforts in the areas that are material for your company
3. Find out who specifically are your stakeholders when it comes to ESG issues
4. Your reporting must satisfy both investors and other stakeholders
5. It may seem like an insurmountable task - but do not lose hope

# How ATP Exercises its Voting Rights

ATP handles all corporate dialogues with Danish and international companies in-house. It is important that ATP exercises its voting rights in the companies we own and express the reasons for why we vote as we do. Therefore, we use a significant amount of resources to manage our stewardship so that there is a clear correlation between our beliefs and the way we act as owners.

When it comes to Danish companies, we participate in annual general meetings and give the reasons for our votes in our presentations. But when it comes to international annual general meetings, we vote electronically and justify our votes in a letter to the company. The important thing for ATP is that the companies understand why we vote as we do, so that they do not just see us voting against certain proposals, but also know why we act the way we do.

Voting at annual general meetings is an important part of the relationship between investors and companies. At annual general meetings, investors can tell the Executive Boards and Boards of Directors about their attitudes towards a number of important questions. Similarly, it is also a requirement that the management teams get shareholder approval for plans and proposals so that they can move the company toward the direction the management team wants to take. In that way, annual general meetings are quite similar to what you would see at sports clubs or other associations.

Previously, it has been costly for investors to exercise their voting rights, as annual general meetings required physical participating or the sending of a power of attorney. In the past, ATP therefore only exercised its voting rights in Danish companies. However, as electronic voting has gained ground, since 2016 ATP has voted at all annual general meetings in listed companies across all markets.

It is a positive development that shareholders have been given the opportunity to exercise their voting rights, and with the Shareholder Rights Directive of 2017, the EU has also focused on making it easier to exercise shareholder rights. It is also clearly stated in the Shareholder Rights Directive that it is expected that shareholders take their duties as owners seriously: "Institutional investors and asset managers should

publicise information on how their stewardship policies are implemented and namely how they have exercised their voting rights."

**THERE ARE STILL CHALLENGES ASSOCIATED WITH EXERCISING VOTING RIGHTS**

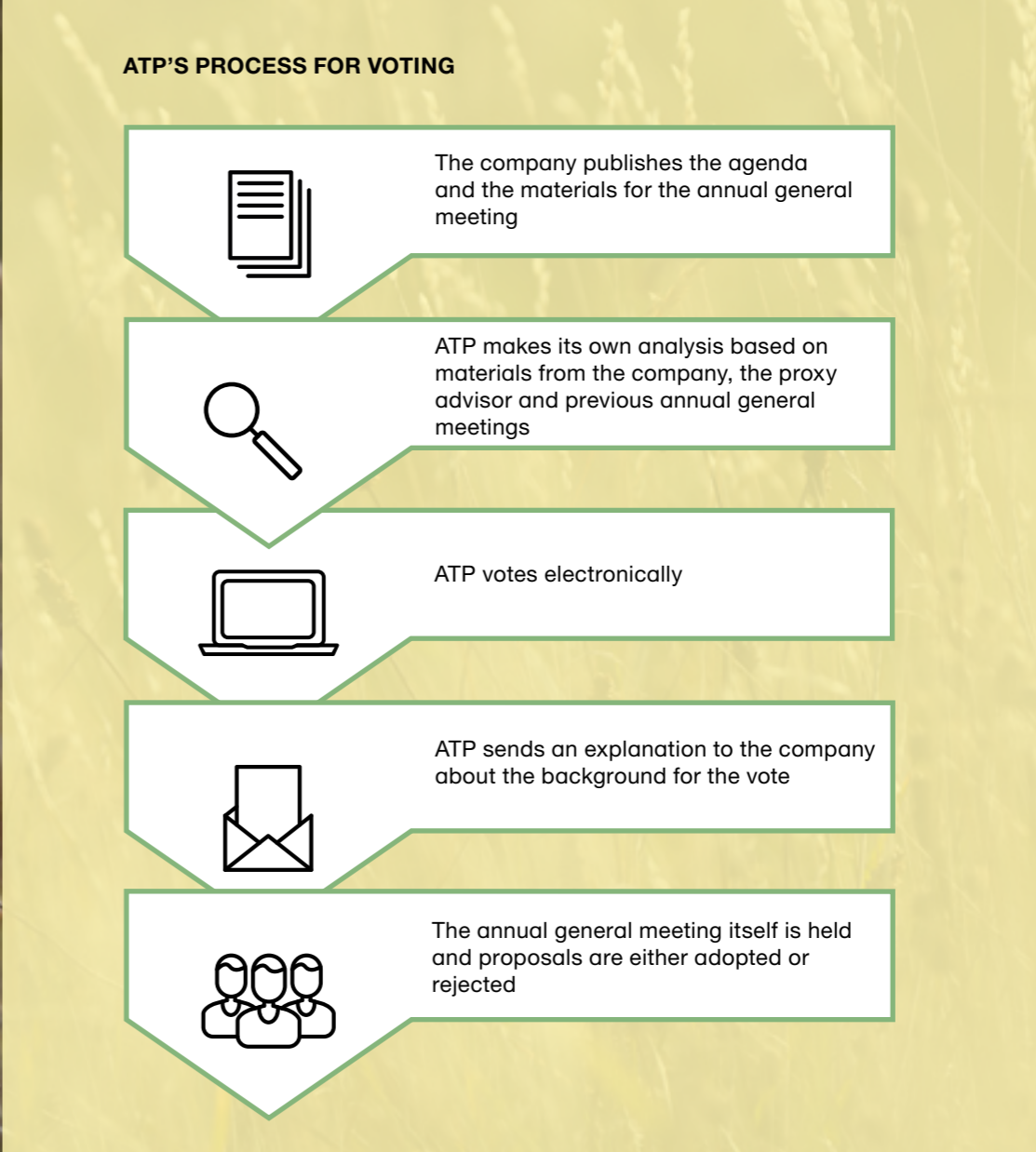
There remains a number of challenges when it comes to exercising voting rights as a global investor and in ensuring that your vote is received in time and counted in the final result.

Fundamentally, it is about the financial "pipelines" that ensure that ATP's decision reaches the company we voted on. ATP's equities are placed with a global custodian bank which, on behalf of ATP, ensures that ATP receives the payments we are entitled to and that we can exercise our rights by validating ATP as the owner of the equities in question.

The requirements differ from country to country in terms of when one can vote electronically, and different companies may also have different articles of association with differing requirements. There may be different requirements for documentation of either ownership or documentation for the ATP employee who is casting the vote.

Likewise, there may also be a number of challenges associated with getting ATP's vote registered. In some markets, ATP's global custodian bank is unable to vote on behalf of ATP, and therefore a local custodian bank must cast the vote. Finally, companies may also have special provisions in their articles of association which may make the process more difficult for investors.

It is ATP's general stance that it needs to be as easy as possible for investors to participate in an annual general meeting, either physically or electronically, provided that the integrity of the annual general meeting is maintained.



At [atp.dk/voting](http://atp.dk/voting), you can see all of the votes that ATP has cast for its portfolio companies and also general statistics for various categories such as, for example, compensation and electing people to the Board of Directors.

# Boards of Directors Need to Take Responsibility for Their Decisions

The annual general meeting is the ultimate deciding authority in a listed company. One of the most important tasks of an annual general meeting is to put together the company's Board of Directors, which is to be both a sparring partner and a controlling entity of the company's management.

A good Board of Directors makes well-considered and long-term decisions that create value for shareholders in the long run. For example, it is the Board of Directors that creates the remuneration policy that shareholders will vote on at annual general meetings. If shareholders are unhappy with the remuneration policy, they can vote against that specific remuneration policy - but they can also choose to take a look at the Board of Directors that proposed it.

Over a number of years, we have voted against compensation packages where salaries exceed ATP's tolerance level for what we view as competitive salaries. Even though we have made our views clear to companies, it has not been our experience that companies' Boards of Directors have been particularly interested in listening to us when it comes to ATP's international portfolio companies. The willingness to engage in a constructive dialogue is greater in our Danish portfolio companies, and we therefore only vote against remuneration policies if we assess that other options to wield our influence have been exhausted. In the annual general meeting season of 2020, ATP voted against remuneration policies in five Danish companies.

In light of the limited willingness to listen to our viewpoints concerning salaries in international annual general meetings, this year we have changed our voting practices so that we no longer only vote against the remuneration policy if we disagree - we also vote against the members of Boards of Directors who are on the compensation committee. This means that in this year, ATP has voted against more members of Boards of Directors than previously. This year we voted against 31.4 per cent of the proposed candidates for Boards of Directors. For example, this took place with Public Service Enterprise Group Inc., where in previous years we have *only* voted

against the remuneration policy itself, but this year we also voted against the re-election of the board members who were on the compensation committee as we had seen no improvements in the company's remuneration policy.

Similarly, we have focused on how companies approach climate issues. In companies that do not meet reasonable expectations for data transparency and objectives on the climate area, we vote against the board members who are responsible for such issues. This is typically either the risk or audit committees. For example, we voted against a number of board members in Carlisle Companies Inc. (an industrial conglomerate) which, among other things, produces construction materials. In relation to the Danish companies, climate has been part of the ESG dialogue with a great number of them.

## AUDITORS MUST BE INDEPENDENT:

In 2020, ATP has changed its practices for approving auditors, which are often a standard item on the agenda of annual general meetings. With our new practice, we vote against auditors that have audited a company for more than 15 years in order to ensure that the auditors are independent of the company's management and act as the shareholder's guarantee of the company's financial statements not being misleading.

If a company is audited by the same auditor for too long, there is a risk that the relationship becomes too comfortable and no longer serves as a control function. Therefore, ATP voted against the proposed auditors in 143 cases in 2020 - in 2019, we did not vote against any proposed auditors. For example, we voted against the selection of PwC as the auditor for the pharmaceutical company Johnson & Johnson, as they have served as the company's auditors since 1920.

ATP's Claus Berner Møller commented on Per Aarsleff's annual general meeting and its election of a former CEO as Chairman of the Board, as such a transition can be against the principles of good corporate governance - however, it was found that Per Aarsleff had taken appropriate precautions and therefore ATP was able to back the proposal.



ATP wants there to be a waiting period of at least one year between stepping down as CEO of a company and then being able to be elected as Chairman of that same company. This is to help ensure that there is some distance between the decisions and actions taken as CEO and the critical assessment of these that you need to make as a Chairman of the Board. The waiting period will improve objectivity. It is more than a year ago that Ebbe Malte Iversen stepped down as CEO of Per Aarsleff, and the waiting period we like to see has therefore occurred.



ATP wrote to the American company, Visa, before its annual general meeting to explain why we voted against a number of proposals put forth by its Board of Directors.

Dear Investor Relations,

We wish to inform you on the reasoning behind our votes, at your upcoming annual general meeting.

At ATP, we believe that the roles of Chairman and CEO are best fulfilled separately. Because we believe this to be best practice, we have a voting policy of opposing setups where the roles are combined. Based on this policy, we will be voting against the election of the CEO to the Board of Directors.

At ATP, we further believe that the Chairman of the Board should not receive performance dependent remuneration. This policy also applies to combined Chairman/CEO setups, as it underlines the inability of the Chairman to independently act as a control function above the executive management. Because your remuneration policy does not live up to our best practice standards, we will be voting against the say-on-pay. Additionally, we believe your CEO receives excessive compensation. The levels currently implemented are incompatible with our voting policy.

We believe that your current board is lacking independence. As we view your current board as less than 50% independent, we will vote against all non-executive board members that we deem non-independent according to our voting policy. Note that our voting policy has a tenure limit set at 12 years, which impacts your board composition seen from the point of view of our policy.

Note that our voting is based on our current voting policy. It is not based on the individual competencies of the directors up for election.

On the remaining points up for election, our votes are in line with the management recommendations.

At ATP, we believe it to be best practice to inform companies of our voting intentions when they differ from the management's recommendations. We adhere to this practice regardless of the size of our holding in a specific stock.

We hope that you will take our concerns into consideration at future elections.

# ATP Takes Responsibility for its Stewardship

For ATP, it is a standing principle that we do not outsource our stewardship responsibilities to other actors. Therefore, we do not use external consultants when engaged in dialogues with companies. We also make up our own minds about proposals put forth at annual general meetings, which allows us to ensure that it is ATP's own attitudes that are expressed via our votes. Similarly, it also allows us to respond to specific situations that may be outside the scope of certain rulesets.

External proxy advisors that advise investors about votes at companies' annual general meetings are a subject of some controversy. Critics claim that it is the proxy advisor rather than the real owners that control how votes are cast and that proxy advisors have therefore become a powerful faction when it comes to stewardship.

## WHAT IS A PROXY ADVISOR?

A proxy advisor is a specialised consultancy firm that reviews the materials for annual general meetings and comes up with recommendations for how one "should" vote for the various proposals put forth at annual general meetings. The proxy advisor is not a shareholder of the company and therefore does not vote itself, but investors can choose to follow the proxy advisor's recommendations as they like. Proxy advisors allow for the automation of voting processes by in advance defining one's own rules or by following the general recommendations of the advisor. In addition, the proxy advisor provides a digital infrastructure which allows investors to vote at all annual general meetings via a single portal. ATP subscribes to the proxy advisor called ISS and uses their portal to cast votes, but all votes are decided upon by ATP itself and not on the basis of the proxy advisor's recommendations.

At ATP, we believe that the proxy advisors deliver a necessary and important contribution to the voting process for investors. It is quite a big task to really get into all of the issues that are important in order to cast a qualified vote at a company's annual general meeting. When an investor has a diversified portfolio, then there are often hundreds or thousands

of companies where one is entitled to vote at their annual general meetings.

Here, the proxy advisor can be helpful in summarising the proposals that are put forth at an annual general meeting and find the relevant data needed to make a decision. For example, it may be the specific backgrounds of board members that impact how a compensation package is structured based on industry standards and other technical data that one needs to understand in order to know the consequences of a proposal.

We believe that it is our own responsibility to make decisions about the companies we own, and therefore we do not follow the voting recommendations issued by the proxy advisor, but rather make our own decisions based on our Policy of Stewardship.

ATP voted differently from ISS' recommendations in 21 per cent of all proposals put forth at annual general meetings.

The proxy advisor's policy and ATP's policy differ in a number of areas. ATP's Policy of Stewardship is based on principles, and we therefore do not take market practices into account when evaluating a proposal. This means that for ATP, it makes no difference whether a company is based in Denmark or the United States when we evaluate the proposals put forth at their annual general meetings. We allow for flexibility, however, so if a company is moving in the right direction and explains the reasoning, there is room to deviate from the policy.

The proxy advisor's policy takes into account things such as market practices, if a company's CEO is also the Chairman of the Board (which is common practice in the United States and the United Kingdom) and the fact that certain markets have different standards for the independence of the Board of Directors.

The difference between the practice of ATP and the proxy advisor can be seen by the fact that we voted differently from the standard recommendations of the proxy advisor in more than 20% of cases in 2020.

## Three Examples of Where ATP Did Not Follow the Recommendations of the Proxy Advisor

### Lennar Corporation

Here the proxy advisor recommended to vote in favour of the proposed compensation package, but we were critical about a number of elements in it. The company's CEO received compensation of almost USD 18 million, which in itself was quite high. At the same time, the Chairman, who was also part of the executive board, received almost USD 21 million and another executive received USD 16 million. We find this level of compensation to be higher than it needs to be and also higher than salaries among competitors and comparable companies. Those issues led to ATP voting against the compensation package.

### Trane Technologies

The company paid the CEO a compensation of almost USD 25 million, which is very high. At the same time, the CEO is also the Chairman of the Board, which is contrary to ATP's views on good corporate governance. The CEO's compensation is the equivalent of 442 times the median income for the company's employees, and this is an excessively large ratio. ISS' assessment is that the correlation between results and remuneration is sufficient. However, besides context, ATP also focuses on the level itself as a deciding factor.

### PACCAR Inc

At the company's annual general meeting, a shareholder had proposed that henceforth shareholders should be able to make decisions via written consents so that a sufficient proportion of shareholders could make decisions outside of the annual general meeting. The proxy advisor recommended to vote in favour of this, as its policy is to look favourably upon initiatives that give more power to shareholders. ATP voted against, as we believe that the annual general meeting should be the ultimate decider in a company and that decisions should be taken at a transparent meeting under specified rules.



“ At ATP, we take stewardship very seriously. During peak season we vote at up to 50 annual general meetings per week. This requires planning and thorough preparation, as we need to take a stance on so many different and complicated proposals in a short amount of time.

*Jakob Skafte, Director, ATP's ESG Team*



# Dialogue Produces the Best Results

An annual general meeting is the ultimate decision-making entity in a listed company, and therefore it is a forum in which ATP actively participates in - both at Danish and international companies. In Danish companies, we show up in person to exercise our voting rights and give a presentation where there is, if relevant, both praise and criticism for the company.

”§ 76. A shareholder’s right to make decisions in a company is exercised at the annual general meeting.”

*The Danish Companies Act*

## CHAIRMAN REMUNERATION - WHAT MAKES THE DIFFERENCE?

In connection with the year’s annual general meeting season, ATP had to take a stance on two proposals for remuneration for board members that were quite unusual. One of the proposals was an increase of the total Chairman remuneration for Danske Bank’s Chairman of the Board by 44 per cent, making it DKK 3.8 million. The other proposal was the Chairman remuneration for the Chairman of the Board at A.P. Møller Mærsk which would amount to DKK 7 million.

**We chose to vote in favour** of the proposal for the Chairman remuneration in Danske Bank. The bank is in a very difficult and time-consuming transformation process, and as we see it, this explains the reasoning behind the raise. However, we would have preferred it if the company had specified that this was an extraordinary situation.

**We chose to vote against the** proposal on remuneration for the Chairman of the Board at A.P. Møller - Mærsk. A remuneration of DKK 7 million is so much significantly higher than the remuneration at comparable companies that we were unable to support it. On a technical level, we expressed our views by voting against the remuneration policy at A.P. Møller - Mærsk.

In the vast majority of cases, we vote in favour of the proposals that Boards of Directors of various companies put to a vote at annual general meetings. This is often the result of a long process that has been completed behind the scenes before the annual general meeting. Through our continuous dialogue with companies, over time there is created mutual respect and trust that makes it possible to discuss relevant subjects and issues before an annual general meeting is held.

There is a shared understanding between companies and ATP that this dialogue is to be kept confidential. It is precisely this kind of confidential dialogue that has over many years shown itself to be an effective way of pushing companies in the right direction. A lot of times, it results in changes being made to proposals for annual general meetings or promises of future changes. As a result, it is only rarely that we vote against the Board of Directors’ recommendations at annual general meetings.

Due to ATP’s close relationships with companies, our comments at annual general meetings will rarely be a surprise, as the comments will be about subjects that we bring up on an ongoing basis in our dialogues. However, annual general meetings allow us to praise management teams and employees, ask questions about the company’s dispositions and explain the background for how we vote at the annual general meeting.

It is also ATP’s belief that well-functioning Boards of Directors should be given the space to do the job they have been entrusted to do. Therefore, one of the shareholders’ most important jobs at an annual general meeting is to select the composition of the Board of Directors in such a way that it can be trusted to be both a sparring partner and act as a controlling entity towards the management on behalf of the company’s shareholders.

## COVID-19 AND ANNUAL GENERAL MEETINGS

Because of changed circumstances due to COVID-19, since March ATP has not participated in any annual general meetings, as we respect the need to keep infection rates down. As a result, we have also not held as many presentations in 2020 as in the past years.

## An Overly Aggressive Diminishment of Existing Shareholders at NKT was Avoided

Historically, ATP has accepted new equity of up to 10 per cent of the equity capital without the right of first refusal. In recent years, companies have begun asking for authorisation to issue new equity of up to 20 per cent of the equity capital without preemptive rights for existing shareholders. ATP has been opposed to this on multiple occasions.

In May 2020, the Danish industrial company NKT issued new equity of around 20 per cent without preemptive rights. At the same time, the company announced that at the imminent annual general meeting, they would be asking permission to issue new equity again later in the year amounting to an additional 20 per cent without offering the right of first refusal. The main reason for this was the expectation of a busy summer where a number of large and important orders were to be won. In order to be in the best possible position to win these orders, NKT assessed that it was necessary to strengthen its financial position.

We understood the company’s needs, but as NKT had already within six months twice issued new equity amounting to 20 per cent of the company’s former equity without preemptive rights, we felt that this would lead to an overly aggressive diminishment of the existing shareholders.

Therefore, early on in the process ATP entered into a dialogue with the company. In this dialogue, we expressed our concern about the potentially large diminishment of the existing shareholders and made it clear that we would not be voting for the proposal as it currently stood. When the final invitations to the annual general meeting were sent out, the original proposal remained NKT’s preferred solution. However, the company had also added two new proposals so that there were three proposals ranked in order of priority.

The last of the three proposals involved authorising the Board of Directors in round two to issue up to 20 per cent of the equity capital in the form of convertible loans without preemptive rights. ATP considered this to be an acceptable solution in this specific situation and therefore chose to back the proposal - which was also in the end adopted by the annual general meeting.

In connection with the interim report, the company stated that the coming new equity would be issued with preemptive rights.

# Complex Compensation Packages Challenge ATP's Policy

One of ATP's focus areas in this year's annual general meetings has been the complexity of compensation packages. First and foremost, ATP's Policy of Stewardship imposes a number of requirements for the compensation packages. We prefer that the remuneration policies have a long-term orientation, where it is clear how the remuneration policy supports the long-term value creation of the company and ensures common interests between the management team and shareholders. At the same time, it is important for ATP that the compensation packages are at a reasonable and competitive level, but this is particularly often not found to be the case in certain international markets.

It is also important for ATP, however, to ensure that compensation packages are structured in an understandable manner and there needs to be a clear correlation between the compensation package and the value creation for shareholders. Similarly, we also do not believe that compensation packages should be restructured every year or every two years - this makes the compensation packages a patchwork of different instruments.

For ATP, it is not a criteria of success that we vote against a company's proposal. Compensation is one area where ATP is increasingly voting against the Boards of Directors (particularly in international companies) - for example, we voted against 62 per cent of the proposed compensation packages for American companies. This is typically because we believe that a certain compensation package is too vague or is too extensive.

In Denmark, we voted against proposed remuneration policies at Carlsberg, Mærsk, Genmab, Asetek and Lundbeck. There were different circumstances in each company that led us to vote against the proposals. At Asetek we - besides generally preferring shares over warrants - were, for example, worried that the amount of warrants in the remuneration policy would lead to too much of a diminishment of existing shareholders.

EU's Shareholder Rights Directive contains stricter requirements for companies' remuneration policies, which must now be far more detailed. Overall, we think it is positive that there will now be more transparency about compensation packages. For ATP, it is important that it is transparent how the compensation package corresponds to the value creation for shareholders and leads to management teams and shareholders having common interests.

However, transparency also means that companies have a better overview of their competitors' compensation practices, which may result in a compensation spiral where companies compare remuneration policies to see whether their own compensation levels are still competitive. Often, Boards of Directors tend to prefer being just around or a little bit above the average in order to attract potential talent. This does have a disadvantage, however, as over time the average will increase and this will lead to generally increasing salaries which does not benefit investors, who typically invest in several companies. Therefore, ATP also has an interest in keeping salaries from increasing too fast.

## NEW REQUIREMENTS FOR REMUNERATION POLICIES IN THE DANISH COMPANIES ACT

The remuneration policy must be clear and understandable and contribute to the public limited company's business strategy, long-term interests, sustainability and include the following:

1. An explanation of how the remuneration policy contributes to the public limited company's business strategy, long-term interests and sustainability.
2. A description of the different components of fixed and variable remuneration, including all bonuses and other benefits that can be accrued by the management team and indicating the relative proportion of each component.
3. An explanation of how the employees of the public limited company's compensation and terms of employment have been considered when preparing the remuneration policy.

*Excerpt from the Danish Companies Act, which has been amended as a result of the EU's Shareholder Rights Directive. It imposes new requirements on companies' remuneration policies and it entered into force in 2020.*

## Three Complicated Compensation Packages that ATP Voted Against

### Globe Life

The American company Globe Life has a complicated management structure that combines the role of CEO and Chairman of the Board. This is a structure that ATP is generally opposed to. At Globe Life, things have gotten even more complicated by splitting the role of CEO and Chairman of the Board between two individuals. In other words, Globe Life is headed by two people, each half CEO and half Chairman of the Board.

Besides the fact that this can result in a number of governance issues, it also has an impact on their remuneration policy. The compensation package for each of the two 'half CEO/half Chairman of the Board' individuals thus amounts to USD 9 million, which is in line with the competition. However, if you view the compensation package as being for a single CEO in a company rather than two halves, the compensation is actually USD 18 million - which is significantly higher than in the company's competitors. This is why ATP was unable to back the proposal.

### Alphabet

Last year, Alphabet got a new CEO. In connection with the promotion, this CEO was given a performance-based equity package valued at USD 90 million. In addition, the CEO was given a time-limited package valued at USD 150 million intended to keep him in his post in the long run. Whereas the individual elements can in some cases - despite the very large amounts - be viewed as simple, it becomes unnecessarily complicated if you are trying to clarify the incentives over time. The compensation for 2019 will in some cases be combined with prior incentive programmes. In 2016, the newly appointed CEO, in connection with his position at the time as CEO of Alphabet's subsidiary, Google, had a package valued at USD 200 million and in 2015 it was at USD 100 million. With major annual variations in size between the packages, and the background for how they are triggered (some over time, some on the basis of performance) it becomes needlessly complicated to clarify how the expected remuneration of the CEO will be.

### Comcast

In 2019, the CEO had a total compensation amounting to USD 37 million, but another four members of the executive board received just over USD 110 combined. As ATP sees it, this is an excessively large amount to pay these individuals, with the payments distributed across base salaries, bonuses, equity programmes, options programmes and pension benefits. The compensation packages are complicated even further by the fact that the payments are from agreements going back in time, which has a major impact on the size of the payments. For example, the total pension benefits for individuals in some cases amount to both USD 100 million and USD 200 million.