

Application of Principles for Shareholder Engagement, 2019





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Principles for Shareholder Engagement

Swedbank Robur Fonder AB has adopted Principles for Shareholder Engagement¹ (formerly the Ownership Policy). In accordance with the Swedish Investment Funds Act, Swedbank Robur must provide a yearly account of how these principles have been applied. This report describes how Swedbank Robur's Principles for Shareholder Engagement were applied in 2019.

Adopted updated Principles for Shareholder Engagement adapted to the Shareholder Directive

Swedbank Robur's Principles for Shareholder Engagement cover all our funds' direct investments in shares. These are available on our website. The starting point of our Principles for Shareholder Engagement is our views on good corporate governance in Swedish listed companies. When playing an active owner role in other companies – companies traded in Multilateral Trading Facilities or foreign companies, for example – we follow these principles to the greatest extent possible.

Shareholder engagement is the shareholders' impact on and control over the company's Board of Directors and corporate management. Our shareholder engagement

occurs primarily ahead of and at general meetings, including participation in nomination committees, through continual dialogue with the boards of directors and corporate management, and – when deemed appropriate – through partnerships with other shareholders.

The general meeting is a company's highest decision-making body. Accordingly, it is important that Swedbank Robur participates in general meetings and exercises its voting rights for the funds' holdings. We can make exceptions if it is considered to be of minor importance to the unit holders, for example, if the holdings are insignificant in relation to the holdings of the other shareholders, or it comprises only a small part of the funds' portfolio value.

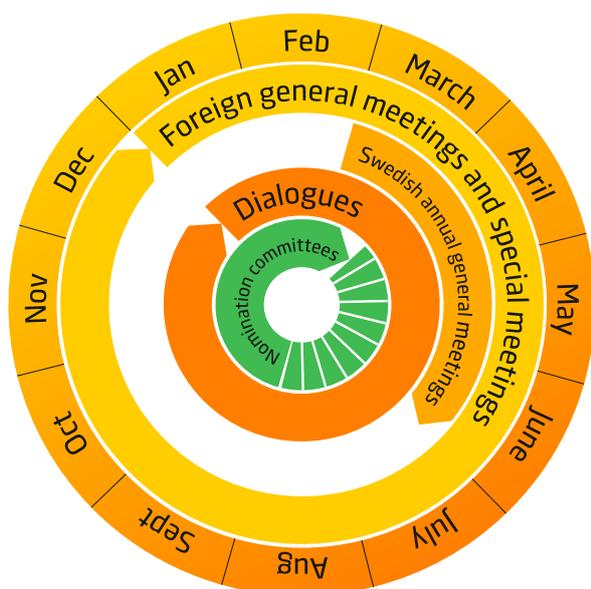
Swedbank Robur considers it important that our views on ownership issues are communicated to the unit holders and other stakeholders in the capital market. Our website also contains position papers on important ownership issues.



1) The name change resulted from the introduction of the EU's updated Shareholder Rights Directive, incorporated into Swedish law in June 2019, and the update in this connection of the Swedish Investment Fund Association guidelines for fund management companies' shareholder engagement.

How we work with ownership issues

Most Swedish companies have the calendar year as their financial year, which means that the season for annual general meetings is largely concentrated in the period from mid-March to May. The work on nomination committees takes place primarily in the period from September through March. The general meeting season in foreign companies is more spread out over the year, as more companies have split financial years. Dialogues with the boards of directors and management of companies on issues of corporate governance and sustainability are regularly conducted during the year.



We follow and monitor the holdings of our funds, for example, through analysis and screening of financial and sustainability reporting, notices to attend general meetings, press releases, media monitoring and regular dialogues with the companies.

Dialogues with various company representatives are held on a regular basis during the year through portfolio managers in actively managed funds, sustainability analysts, the corporate governance team and nomination committee members appointed by the fund management company.

In Sweden, we normally participate in general meetings with our own representatives, whereas participation in foreign companies often takes place through proxy voting. All decisions on voting are taken by the fund management company based on Swedbank Robur's Principles for Shareholder Engagement. Prior to voting, primarily in foreign companies, we have access to external analyses¹.

The foundation for sustainable and profitable companies is a board of directors and management that have a good strategy and effective control of operations. This requires a professional board of directors with a suitable composition as regards competence, experience, diversity and independence. Accordingly, the composition of the board is a crucial ownership issue. The nomination committees ensure a systematic process in which the board of directors is evaluated, skills requirements are identified and requirement profiles are produced. A significant part of Swedbank Robur's ownership activities consists of participation in the nomination committees of listed Swedish companies. Swedbank Robur's nomination committee members are employees or independent board members of the fund management company. They can also be external persons whose services we have engaged. There is more information on our website about the companies whose nomination committees we have participated in, and who our nomination committee members are.

Swedbank Robur is not part of any fixed owner group, but we feel that collaboration with other shareholders on certain issues can improve the possibilities for active and efficient shareholder engagement. This could concern, for example, collaboration on sustainability dialogues with companies in a given industry as part of the Principles for Responsible Investments (PRI) or collaboration with other institutional owners regarding share-based incentive programmes.

1) Nordic Investor Services and ISS-Ethix

Results – impact during the year

Nomination committees

For many years, Swedbank Robur has been active on nomination committees in order to attain increased diversity and equality on boards of directors and a proper balance of independent and dependent members. It is also important that board members have a strategic understanding of the company's possibilities and challenges in sustainability and the change process that is thereby required.

Nomination committee work goes through a structured procedure with evaluation of the existing board of directors based on the company's strategy and financial situation. The nomination committee studies the evaluation of the company's board, conducts interviews with board members, prepares competence profiles for new members and searches far and wide for new candidates from different networks and with the help of recruitment consultants. We work regularly on expanding our network to find new candidates for board members, and work to integrate sustainability topics into the board evaluations.

Swedbank Robur supports the 2014 initiative of the Swedish Corporate Governance Board (SCGB) that listed companies as a whole are to achieve equality on their boards of directors (average of at least 40 per cent of the under-represented gender). Our work on nomination committees has yielded results, and in practice the goal for independent members has already been met.

According to the SCGB, the total proportion of women among the members judged to be dependent in relation to the largest shareholders was only 18.6 per cent, which reduces the scope for nomination committees to elect men as new Board members if the target of 40 per cent is to be reached. The SCGB's level of ambition applies to Swedish companies in a regulated market.

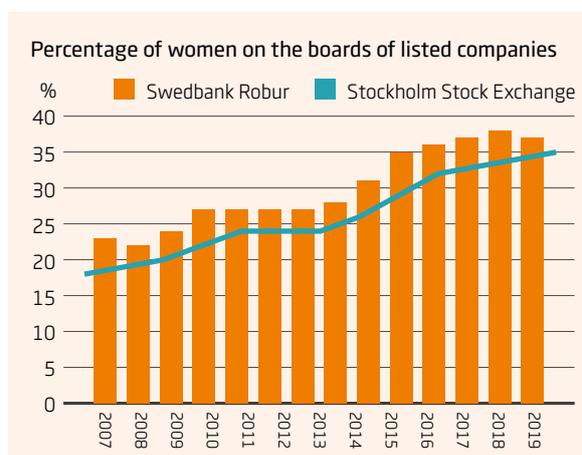
We also take part in nomination committees in companies that are not listed on a Swedish regulated market. By and large, these are companies that are traded on Multilateral Trading Facilities – primarily First North, where introducing the nomination committee system has become more customary. We also took part in the nomination committee of a Finnish company during the year. Excluding these companies (i.e. companies on a Swedish regulated market), the proportion of women on the companies' boards of directors was 38 per cent on average.

In various contexts, Swedbank Robur has taken up the problem of new companies on the stock exchange with a low proportion of women, or none at all, on their boards of directors. For reasons of continuity, replacing a large portion of the board of directors immediately after listing is most often inappropriate. Accordingly, it can take several years to correct something that should have been in place prior to listing.



Another important issue is achieving greater diversity in the management groups of companies and at the higher executive levels. This is an issue we often raise with board members in a nomination committee context, and in dialogues with corporate management. These groups are also a recruitment base for future board members.

In foreign companies, where the nomination committees are not owner-led but most often a board committee comprising independent members, we are sometimes contacted more for the purpose of being informed and garnering support for proposals. We then often bring up our general views on the composition of the board, particularly if the proposal contains a low proportion of women and many members that are not in a position of independence. During the year, we held dialogues with companies such as Enquest and Henry Schein regarding the composition of their boards.



Source: SIS Ägarservice/Swedish Corporate Governance Board

Nomination committee activities	2019	2018	2017
Participation in nomination committees (number)	94 ¹	91	81
– proportion of women on boards of directors ^{2,3,4}	37%	38%	37%
–annual increase from start to goal	1 percentage point	3 percentage points	3 percentage points
Proportion of new members	13%	15%	17%

1) Of which, 93 companies listed in Sweden and 1 company listed in Finland.

2) On boards of directors where Swedbank Robur participated in the nomination committee.

3) The nomination committee companies vary to some extent between years. The average initial positions for 2017–2019 were 34%, 35% and 36% respectively, which involved an increase of: 3 (2017), 3 (2018) and 1 (2019) percentage points.

4) Including CEO, if elected by general meeting.



Dialogues

In addition to nomination committees, we have held continuous dialogues with the boards of directors and management of the companies on crucial issues of corporate governance and sustainability.

Share-based incentive programmes

We held dialogues on share-based incentive programmes with approximately 45 companies. In our opinion, share-based incentive programmes should be performance-based and designed so that they support the company's strategy, including sustainability, and the company's financial targets. They should lead to a personal shareholding and generate a reasonable outcome for participants. In certain companies – MTG and Pandox, for example – the programmes were changed after our dialogues. A ceiling for outcomes was introduced at MTG, as was a limitation on dilution. Pandox introduced requirements for participants to invest in shares in conjunction with outcomes in a long-term cash-based incentive programme. We continued our dialogues with ABB and AstraZeneca regarding the structure for incentive programmes, and we have noted certain improvements – but not enough to vote for the remuneration reports. With Enquest, we held a dialogue on changes to the remuneration policy.

Capital structure

Dialogues on issues of capital structure most often concern the extent to which the board of directors is given the authority to change it during the year without calling an extraordinary general meeting. In general, Swedbank Robur feels that authorisation for at most ten per cent of the share capital is a reasonable balance between the board's need for flexibility and the shareholders' right to resolve on issuances at a general meeting. Resolutions at a general meeting require a basis for the resolution on how the proceeds are to be used, and shareholders will have the opportunity to ask questions there. If the authorisation covers a directed placement in cash, it is essential that the placement occurs on a market basis in accordance with the SCGB's recommendations for directed placements. Ahead of the meetings for the year, we held dialogues with some 15 companies regarding authority for new share issues.

We have several funds with holdings in companies that are in the early development or commercialisation stage. In many cases, these companies have a limited or negative cash flow. They have a need to rapidly acquire capital through directed placements in cash, and a need

to expand their owner base to manage future capital requirements and to achieve better liquidity in the share. Some of these companies want greater authority than ten per cent. We can make exceptions in some cases and approve greater authority if there are particular reasons for the situation the company finds itself in, and if it is in line with the company's strategy.

In its notice to attend an extraordinary meeting, MTG proposed authority for a new share issue of 20 per cent. After dialogue with us and the other large shareholders, the proposal was withdrawn before the meeting. Other companies with whom we have had dialogues on authority for new share issues include Oncopeptides, Sivers IMA, SmartEye, Surgical Science, SystemAir and Vicore Pharma.

Sustainability

Dialogues with Swedbank Robur on this topic often deal with business ethics, climate issues, diversity, security, corporate governance issues and human rights. The relevance of these issues differs among various companies. Last year, we held dialogues in several different subject areas including the climate and renewable energy, deforestation, diversity, anti-money laundering (AML) and responsibility in the gambling industry.

Reducing climate risks in our management was the focus of several dialogues during the year. One forum where we took part in several climate-related dialogues is the Climate Action 100+ investor initiative, in which 450 investors across the globe with over \$40 trillion in assets participate. The primary purpose is to hold dialogues with the companies in the world with the highest carbon emissions and to persuade them to take tangible climate measures. Transparent organisation and governance of climate work, reduced carbon emissions throughout the value chain and transparent reporting of the results are the primary measures investors wish to see. Furthermore, Swedbank Robur's sustainability analysts themselves have pursued engagement in these issues. With BP, we discussed emissions from current production, plans for a climate strategy and their long-term ideas for transitioning to production of renewable fuels. We met with Apple and brought up our views on expanded reporting from the company regarding their climate-related activities. Through our dialogues, we have seen that most major Nordic companies recognise the importance of the Paris Agreement and have established climate targets in line with it.

Voting at general meetings

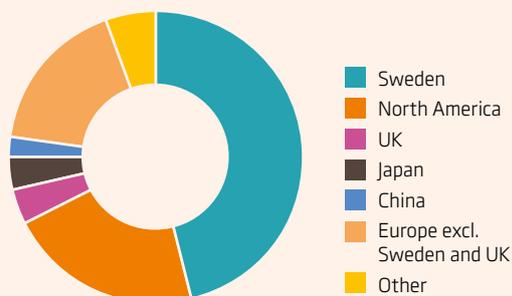
During the year we voted at 377 annual meetings, which is an increase of just over five per cent year-on-year, and in total (including extraordinary meetings) we voted at 429 general meetings. We voted in 25 markets, of which Sweden was the largest followed by the US, the UK and Japan.

We are in close dialogue with Swedish listed companies, where we are often a major shareholder, and we thus have the possibility of engaging them with the intent of supporting the final proposal at the general meeting. In general, we are a minor owner in foreign listed companies, which does not provide the same possibility for influencing the proposals in advance. Accordingly, it is more customary for us to vote against the board's proposals and for the shareholders' proposals

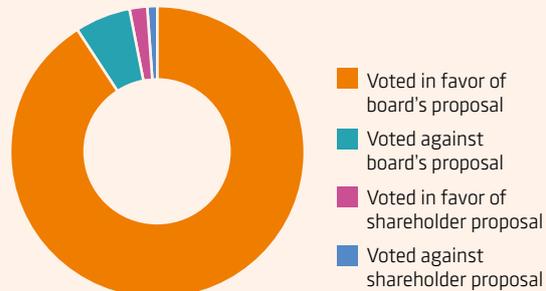
in these companies. If essential information regarding the proposals is missing, in some cases we abstain from voting on that item. In Japanese companies, we also abstain from voting for board members who are also employees of the company if we feel there is not a sufficient level of independence in the board of directors.

Shareholder proposals are a common feature of US general meetings, and they can relate to different areas – often sustainability and corporate governance. The proposals, which are often of an advisory nature, are evaluated by us – including commentary from the company. If we feel that the proposal is relevant, contributes positively to the company's operations and is in line with our Principles for Shareholder Engagement, we support it.

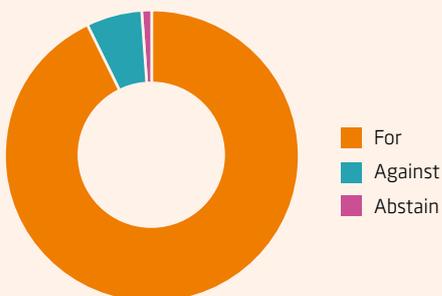
Geographic distribution of general meetings



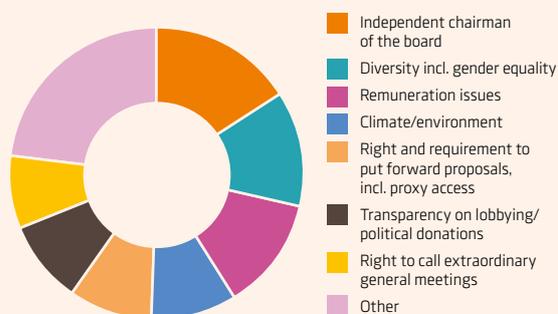
Votable agenda items – board and shareholder proposals



Votable agenda items – regardless of proposer



Shareholder proposals voted for – by category



General meetings	2019	2018	2017
Participation in general meetings	429	424	336
of which, annual general meetings	377	358	297
of which, extraordinary general meetings	52	66	39
Share of fund capital directly invested in shares we voted for	73%	74%	73%

Equal treatment

At the general meeting of Alphabet, we voted for a shareholder proposal to adopt a plan for how to equalize multiple-vote shares. The company currently has Class A and B shares with different numbers of votes per share, as well as Class C shares which carry no votes. The resolution to introduce non-voting Class C shares was made at the 2012 Annual General Meeting. At that time, we voted against the proposal to introduce the non-voting shares, but the resolution went through with support from the holdings of the founders and management in multiple-vote Class A shares. We feel that all shareholders should be able to vote at the general meeting, and that shares with a weaker vote value should not be introduced for shares with the same financial rights after a company is listed.

In Occidental Petroleum and Citigroup, we supported shareholder proposals to lower the threshold for shareholding in order to call an extraordinary general meeting from 25 per cent to 15 per cent. The proposals were also supported by the general meetings.

In the UK, it is customary for the board of directors in listed companies to propose a shortened notice period for extraordinary general meetings. This impairs the opportunity for shareholders to familiarise themselves with the proposals and to vote on them in time. Accordingly, we voted against such proposals at the general meetings of companies such as Diploma, AstraZeneca, GlaxoSmith-Kline and Prudential. We also supported shareholder proposals at the general meetings of US companies – Citigroup, Amazon, Home Depot and Electronic Arts, for example – to introduce lower thresholds for shareholding in order to call an extraordinary meeting.

Furthermore, we have supported shareholder proposals that entailed increased possibilities for individual shareholders or groups of shareholders to nominate candidates for the Board of Directors (“proxy access”). We voted for such proposals at companies including Apple, UnitedHealthGroup and JPMorgan Chase.

Board and auditor elections

One area of focus for us is the composition of Boards of Directors, including a good balance between dependent and independent Board members. Primarily in US companies, it is still customary that the CEO is also Chairman of the Board, which we do not consider appropriate since the tasks of the board of directors include exercising control over management. Accordingly, we vote “no” on the CEO in board elections if this is the case, which we did in some 30 US, Japanese and French companies. At the general meetings of companies including IBM, Verizon, Amazon and Facebook, we also voted for shareholder proposals that the chairman of the board should be a person who is independent of the company and corporate management.

At Japanese general meetings, we also abstained from voting on some 70 proposals for board members since these were employed at the company and the board of directors as a whole had not achieved sufficient independence.

At Swedbank’s general meeting, the former CEO was not discharged from liability. Swedbank Robur voted against the discharge. The resolution on voting was taken by the Board of Directors of the fund management company, which consists of members who are independent in relation to Swedbank.

Remuneration to corporate management

We voted “no” on the share-based incentive programmes in Millicom and Swedish Orphan Biovitrum. The programmes permitted large allowances and could lead to significant potential outcomes while there were few or no performance requirements.

The board of directors of Vostok New Ventures paid out a large lump sum bonus to the CEO, which we felt the remuneration policy resolved on by the general meeting did not permit. In that light, at the general meeting we voted against the board of directors’ proposal for a remuneration policy and share-based incentive programme, and voted against re-electing the chairman of the board. At an extraordinary general meeting, we also voted against the board of directors’ proposal for a share-based incentive programme.

In foreign companies – primarily in the US – we voted in many cases against the remuneration-based proposals concerning corporate management, the reason being that the performance requirements in the share-based incentive programmes were either low or non-existent in conjunction with generous outcomes.

Capital structure

The companies that the funds have invested in must work for an efficient capital structure and must have the financial resources required to safeguard and develop their operations. The companies must justify the capital structures and dividend policies they have selected.

In the UK, it is customary for the boards of directors of the companies to propose that the shareholders approve broad authority for new share issue mandates. We feel that major changes to the capital structure are an ownership issue. Accordingly, we voted against some 15 such proposals, for example, in AON and Prudential.

As in previous years, Swedbank Robur voted “no” on the Sagax proposal for authorisation, since it could result in a high level of capital dilution for the current shareholders. For the same reason, we also voted against board proposals on authority for new share issues at the general meetings of Vicore Pharma and Oncopeptides. After dialogues and a more detailed justification, we voted for an expansion of authority in Oncopeptides at an extraordinary general meeting in December.

During the year, we took a position on and voted to approve structural business, for example, acquisitions or spin-offs. For example, at MTG’s extraordinary general meeting we voted for the spin-off of Nordic Entertainment Group (NENT). At the Fagerhult extraordinary general meeting, we approved a non-cash issue owing to the acquisition of the iGuzzini illuminazione lighting company.

At the extraordinary general meeting of Celgene, we approved the acquisition of the company by Bristol-Myers Squibb. Similarly, at the extraordinary general meeting of Worldpay, we approved its acquisition by Fidelity National Information Services. We also voted for Tieto’s directed new share placement for the shareholders in Evry in conjunction with the acquisition of the company.

Sustainability

During the year, there were many shareholder proposals related to sustainability and the climate. We voted for proposals that were focused on improved sustainability and climate reporting (for example, BP, Amazon, Exxon Mobil, Chevron, Alphabet and BHP Group). The proposal in BP came from Climate Action 100+, an investor initiative that Swedbank Robur signed on to and the general meeting resolved in accordance with the proposal.

We supported several shareholder proposals that were focused on companies reporting on the gender pay gap – differences in income between the men and women employed. Surveys and reports of this type are becoming standard practice in the US. Reporting in tech industry companies has been less developed despite relatively large differences in the gender balance in these companies. We voted for proposals in this regard at Adobe, Intel, Amazon, Microsoft and Facebook, for example.

Public takeover bids in Swedish companies

During the year, we took positions on public takeover bids in four Swedish listed companies: Acando, Oriflame, KappAhl and Hemfosa. We announced these positions on our website in conjunction with the respective bids. In every case, we deemed the bids to be financially sound and reasonable from a shareholder perspective, and we accepted them.



Would you like to find out more?

For more information on our work with ownership issues and engagement activities, visit [swedbankrobur.se](https://www.swedbankrobur.se)

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