CORPORATE GOVERNANCE PRINCIPLES

Sweden

Hermes EOS
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For professional investors only

www.hermes-investment.com

HERMES
INVESTMENT MANAGEMENT

ENDORSEMENT OF THE SWEDISH CORPORATE GOVERNANCE CODE

We generally endorse the recommendations of the Swedish Corporate Governance Code and encourage companies to comply with them or to explain their reasons for non-compliance. However, these recommendations do not sufficiently cover all the issues we regard as important. In our Swedish Corporate Governance Principles, we therefore address additional issues, highlight certain points and set out our preferred approach to particular matters. We outline priorities that will assist companies in taking concrete steps to improve their corporate governance, thus attracting investment and contributing to sustainable company performance.

We seek to work with companies and regulators to help them move towards and enhance best practice. The following sections are intended to assist Swedish companies and their directors in understanding our views on these issues.

BOARD OF DIRECTORS

Composition and independence

We place a strong emphasis on the overall balance in the composition of a board. The board should be made up of members with an appropriate and diverse range of attributes, competencies, knowledge and experience to enable it to discharge its duties and responsibilities effectively. These include leadership skills to move the company forward, expertise to make decisions, as well as sufficient character and independence to hold executive management to account. We encourage companies to introduce mechanisms to assess board performance and to promote appropriate board refreshment where long tenures may compromise the independence of directors and as the needs of the company evolve.

The board of directors has a duty to represent the interests of all shareholders. Therefore, even directors nominated and elected by the controlling shareholders have a duty to represent shareholders in their entirety and not just the interests of those that appointed them.

While we understand that it is often justified and useful for major shareholders to play an active role on the board, we expect at least one third of directors to be independent and its management and major shareholders to protect the interests of minority shareholders. In circumstances where the board composition does not meet this requirement, we expect an explanation as to whether and how the interests of minority shareholders are represented on the board.

Board committees

We encourage the implementation of formal, majority independent and independently chaired audit and remuneration committees. Where this is not the case, companies should explain how potential conflicts of interest in relation to audit and remuneration are dealt with.

Board diversity

Boards are most effective when they have access to the knowledge and experience of a wide range of backgrounds that are relevant to the company, including its long-term strategic direction, suppliers, employees, customers and geographic footprint. In addition, a wide variety of viewpoints and perspectives will make for better debate and challenge. Boards that have too much commonality of backgrounds run the risk of groupthink and even hubris, both clear signs of governance failure. We believe that boards should take account of diversity in its broadest sense, including gender, nationality, ethnicity, as well as skills, experience, character and other attributes when considering possible candidates for the board and other senior positions.

NOMINATION PROCESS

In Sweden, the nominations committee is appointed by and reports to the shareholders' meeting. Generally, representatives from three to five of the largest shareholders form the committee, together with a member of the board of directors. We recommend the representative of the board of directors to be a member independent from the company, its management and major shareholders. If the board representative on the nominations committee represents a major shareholder, that individual's role should solely be to provide information about the board's work to the committee. In this event, the committee should also meet from time to time without this individual.

The committee should implement procedures which ensure that the interests of all shareholders are taken into consideration during the nominations process. The name and contact details of a contact person on the committee should be disclosed on the company's website and input from all shareholders encouraged.

We note that the nominations committee normally considers the overall composition of the board, as well as the merits of the individuals when proposing nominees. Nevertheless, we believe that candidates should be voted on individually and not as a single slate. This would enable investors to express concerns about specific candidates without having to vote against all board candidates.

EXECUTIVE REMUNERATION

Executive remuneration continues to be an area of concern for Hermes EOS. We expect long-term remuneration plans to employ specific metrics, with rigorous targets that are closely linked to a company's long-term strategy. This nexus should be clearly explained in the discussion and analysis on pay within the company's annual report. Most variable remuneration should be explicitly linked to these performance targets and not simply vest over time.

The Remuneration Principles for Building and Reinforcing Long-Term Business Success[1] that we developed with a number of pension funds provide high-level guidance to companies regarding our expectations of their pay structures and practices. In particular, we expect executive management in Swedish companies to make a material long-term investment in the shares of the businesses they manage.

The full version of our Remuneration Principles, along with a number of further policy documents on remuneration and other topics which Hermes EOS has produced, can be found on our website at www.hermes-investment.com/ukw/stewardship/eos-literature/

EQUITABLE TREATMENT OF SHAREHOLDERS

Multiple-class share structures

Multiple-class share structures disenfranchise minority shareholders and often increase the power of one shareholder for a disproportionate economic stake. We encourage issuers with multiple-class share structures to adopt the concept of one-share one-vote. We are unlikely to support the issuance of shares with reduced or no voting rights or capital raising exercises that discriminate against minority shareholders.

TRANSPARENCY AND DISCLOSURE

Meeting notification and proxy documents

For minority shareholders, the annual general meeting is a formal opportunity to obtain information about management's and the board's stewardship of their investments and, if necessary, to request clarification of any decisions taken during the year. The annual general meeting is thus an important accountability mechanism, and the communication of detailed information on all agenda items at least 30 days in advance of the meeting is a pre-requisite for its effectiveness. All documents should be clearly displayed and accessible on the company's website.

ENVIRONMENTAL, SOCIAL AND ETHICAL RESPONSIBILITY

Companies should effectively manage environmental and social factors that are relevant to their business, with a view to enhancing long-term sustainability. They also ought to disclose to shareholders on a regular basis how they identify and manage the relevant risks and provide evidence that these structures are effective. Companies should clearly define board and senior management responsibilities for environmental and social issues. We believe that directors of companies are accountable to shareholders for the management of social, ethical and environmental risks and opportunities in the same way they are accountable for the company's financial performance.

Bribery and corruption

We expect companies to have best practice anti-bribery and corruption policies and processes in place and robust compliance mechanisms to enforce them. However, on their own, these are not enough.

We expect boards to oversee the anti-bribery and corruption controls and – as importantly – to set the tone from the top, as well as to outline the highest ethical standards and expectations and the values of the organisation. This is to ensure that the culture does not allow corruption to thrive and has the necessary organisational measures in place to provide the best possible defence against corruption. We seek to enter dialogue where we judge the culture and values of a company to be lacking or the effective oversight, management of or reporting on bribery and corruption, company values and ethics to be insufficient.

Climate change

Climate change is a systemic risk to the value of the portfolios of our clients because of its economic and geopolitical consequences. We therefore support the ambition of the 2015 Paris Agreement of 195 countries to limit global warming as a result of climate change to below 2°C. This historic commitment was helped by the intervention of companies globally, which encouraged political action in the run-up to and during the 2015 UN climate change conference.

Because of the systemic risk to the global economy, we encourage all companies to publicly support the ambition of the Paris Agreement and to have this commitment as a central tenet of their public policy and sustainability activity. To support this, boards should ensure that they have climate change on their board meeting schedules at least annually and that they expose themselves and senior management to experts who can challenge them on the strategic risks and opportunities that climate change represents.

Task Force on Climate-related Financial Disclosures

We welcome the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures. As a representative of long-term shareholders, we expect companies to assess and report on possible future climate change risks, not just those that have already emerged. Therefore, we expect companies to respond positively to the recommendations and to report against them. For companies in sectors where the risks from climate change are most material, this should include identifying potential material issues by testing the performance of their strategies against a range of low-carbon scenarios and demonstrating that these are effectively monitored and managed. These sectors include banking and other financial services that fund, invest in or insure climate change-related risks.

Good quality reporting

We believe that the quality of narrative reporting reflects the board's thought process behind its strategy and indicates its ability to execute it. In addition, effective reporting means that engagement between shareowners and boards is more productive. For this to be most useful, boards must report openly and transparently on the performance of the company and their stewardship of it over the year. It is fundamental that risk is reported in a way that allows investors to understand the main risks that the board has identified for the business and the management and mitigation of these by the company. We encourage companies to adopt the International Integrated Reporting Framework.[2]

Sustainable Development Goals

We expect companies to assess the relevance of each UN Sustainable Development Goal (SDG) to their business and to consider how best to incorporate those which may be material into their business models and strategies. We urge companies to report on how they support the SDGs and to engage with civil society to find out how best to respond to them.

[1] https://www.hermes-investment.com/wp-content/uploads/2017/09/Remuneration-Principles.pdf
[2] https://integratedreporting.org/wp-content/uploads/2013/12/13-12-08-THE-INTERNATIONAL-IR-FRAMEWORK-2-1.pdf

Tax

We expect companies to:

- Comply with all tax laws and regulations in all countries of operation
- Recognise the importance of taxation to the funding of good public services on which they and their stakeholders rely and their commitment to pay their fair contribution
- Ensure that their tax policies and practices do not damage their social licence to operate in all jurisdictions in which they have a presence
- Disclose the taxes paid by or collected by them in each country.

HERMES INVESTMENT MANAGEMENT

OUTCOMES BEYOND PERFORMANCE

HERMES INVESTMENT MANAGEMENT

We are an asset manager with a difference. We believe that, while our primary purpose is to help savers and beneficiaries by providing world class active investment management and stewardship services, our role goes further. We believe we have a duty to deliver holistic returns – outcomes for our clients that go far beyond the financial – and consider the impact our decisions have on society, the environment and the wider world.

Our goal is to help people invest better, retire better and create a better society for all.

Our investment solutions include:

Private markets
Infrastructure, private debt, private equity, commercial and residential real estate

High active share equities
Asia, global emerging markets, Europe, US, global, and small and mid cap

Credit
Absolute return, global high yield, multi strategy, global investment grade, real estate debt and direct lending

Multi asset
Multi asset inflation

Stewardship
Active engagement, advocacy, intelligent voting and sustainable development

Offices

London | New York | Singapore

Why Hermes EOS?

Hermes EOS enables institutional shareholders around the world to meet their fiduciary responsibilities and become active owners of public companies. Hermes EOS is based on the premise that companies with informed and involved shareholders are more likely to achieve superior long-term performance than those without.

Contact information

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