

# AP6

**Ownership  
policy  
for  
Sixth AP Fund (AP6)**

# 1 Purpose

Sixth AP Fund (AP6) is an active, requirement-setting owner in the market for unlisted investments (private equity). The purpose of this policy is to describe AP6's role as owner. The policy describes AP6's approach and role as a long-term responsible owner since it is important that external fund management teams and co-investors are aware of the values upon which AP6 conducts business. AP6's values and approach are described in a separate Code of Conduct.

The ownership policy is based on the Sixth National Pension Fund Act (2000:193) and the guidelines that govern the organization. The AP6 ownership policy applies to all investments made in unlisted holdings.

The policy is decided by the AP6 Board of Directors and it is updated each year.

## 1.1 Investment focus of AP6

AP6 strives to create a long-term high return with adequate risk diversification by making responsible investments in the private equity market and exercising responsible ownership.

Characteristics of the market for unlisted investments (private equity) include:

- Unlisted shares are not traded in a regulated marketplace and as such, they are illiquid assets.
- Investments in the private equity market focus on active ownership with the aim of developing the companies.
- The professional market for private equity is primarily organized as regional and international PE funds with various investment focuses aimed at providing management with active ownership and risk diversification to major institutional investors with a long investment horizon.
- Institutional investors typically invest in the asset class as passive owners in closed fund structures with a long, pre-established lifespan.
- Long-term owners of a private equity fund may be offered opportunities to make direct investments together with the manager of a particular investment, which is referred to as co-investment. In such instances, a separate, discretionary contract is drawn up for the investors in the particular investment.
- There are also occasions when institutional investors make direct investments in specific companies together with other investors, with the joint ownership then regulated via an ownership agreement or its equivalent.
- The ownership horizon is relatively long and typically for a specified period of time. In other words, when the main owner has, via active ownership, achieved the long-term value creation that was expected, the entire holding in the company (or parts of it) are divested.

Investing in unlisted companies requires specialist expertise and well-developed models for exercising the role of active owner in private equity funds and in specific investments. AP6's investment strategy is based on creating a well-diversified portfolio of private equity investments, which is done by selectively investing in high-quality private equity funds, along with being an active co-investor in the asset class. The strategy demands solid investment expertise in both fund investments and co-/direct investments. The strategy is explained in AP6's investment policy. Important components of the policy are for AP6 to be a long-term investor that integrates sustainability into

its investment activities. This is because sustainability and responsibility go hand-in-hand and it is a prerequisite for achieving the overall goal of a long-term high return.

## **2 Overall information about the ownership role**

AP6 is an engaged, requirement-setting investor where exercise of an active ownership role is a key component of its strategy. Active corporate governance is aimed at creating long-term value growth in the investments that are made. AP6's responsibility as an owner is to also ensure that such value growth occurs in a responsible, sustainable way. AP6 has integrated sustainability into the entire investment and ownership process. In its role as owner, AP6 strives to be perceived as an owner that meets the following criteria: responsible & long term, businesslike & professional, requirement-setting & engaged.

### **2.1 Responsible and long term**

AP6 is a signatory of the UN Principles for Responsible Investment (PRI) and the Global Compact. Accordingly, AP6 has committed to integrating sustainability issues into its investment activities, which occurs primarily via working methods where there is requirement-setting, follow-up and evaluation consistent with generally accepted international conventions.

### **2.2 Businesslike and professional**

A high level of professionalism and expertise in many areas is required for succeeding with the overall goal of achieving a long-term return with adequate diversification of risks. AP6's employees have a wide range of expertise and much experience in evaluating and investing in private equity funds and unlisted companies.

### **2.3 Requirement-setting and engaged**

A requirement-setting owner's task is to formulate, secure support for, and monitor that the established goals for a business are achieved. As owner, the stated goal with the investment must be carefully formulated so that it is possible to exercise the ownership role. Goal formulation includes AP6's expectations and how the goals are to be translated into action for each particular holding.

## **3 Ownership role for various types of investments**

AP6 has developed processes for being an active, requirement-setting owner for both fund and co-investments and, where applicable, direct investments. The various forms of investment require different types of expertise. How the active ownership role is exercised is also different for each.

### **3.1 Fund and co-investments**

AP6 invests in private equity funds and co-investments with experienced management teams. With this type of ownership, AP6 only has an indirect role in relation to any specific company. However, it has an active ownership role in the fund itself. The external management team is responsible for making the investments along with such things as investment and divestment decisions, exercising corporate governance and value-creation in the portfolio companies. Accordingly, AP6 focuses its requirement-setting on the fund and its management team.

### **3.1.1 Evaluation process**

To achieve a satisfactory long-term return with adequate risk diversification, it is of utmost importance to, as an investor in private equity funds, select management teams with the right prerequisites for responsible value creation.

Over a long period of time, AP6 has built up structure capital via a well-developed evaluation process for making investments in private equity funds. The most important components of the evaluation process consist of making assessments of the following:

- investment strategy and market position
- sustainability efforts
- the organization and its expertise
- investment processes and ownership (including nomination of board of directors and remuneration issues)
- historical return and value-creation
- contract terms

For some parts of the evaluation, AP6 engages external advisors and consultants. AP6 is responsible for ensuring that they act professionally, cautiously, responsibly, and confidentially throughout the entire process. During an evaluation, AP6 strives to clearly communicate its position on professionalism, ethics, openness and sustainability work to the external management team and any advisors/consultants who have been engaged.

### **3.1.2 Ongoing ownership role, governance, and control**

AP6 has structured processes for active corporate governance and control so that it is able to be an active, involved owner with impact. It includes maintaining a continual dialog with management teams, along with routines for continuous monitoring and evaluation, where sustainability is prioritized.

AP6 strives to secure a position on advisory boards, which are typically comprised of representatives from the major investors, whose role is regulated in the fund agreement. A position on advisory boards provides greater insight into the work done by management teams. It also provides investors with opportunities for promoting important issues and setting requirements on the management teams.

Besides representation on advisory boards, AP6 engages in ongoing dialog with management teams in order to both monitor and impact fund development. Certain types of evaluations (e.g. work with sustainability issues) are performed annually using templates and formats that AP6 has developed itself.

Ongoing, formal reporting from the funds is on a quarterly and annual basis, at the annual general meetings and other informational meetings targeted towards investors.

### **3.1.3 Active participation in developing the industry**

Participating in development of the industry is important to AP6. AP6 is a member of ILPA<sup>1</sup>, Invest Europe<sup>2</sup> and SVCA<sup>3</sup>, which, for example, are working with developing standards in several areas of joint interest for industry stakeholders, along with governance, transparency, and reporting. ILPA runs trainings and seminars specifically designed for investors in private equity funds. Participation like this makes it possible to exchange experience with other investors, monitor industry trends and obtain information that is valuable to AP6 as an investor.

### **3.1.4 Co-investments**

Co-investments are when AP6, via its investment in a private equity fund (although they may also occur with funds where AP6 has not committed capital) is offered an opportunity to also make a direct investment in conjunction with investing in a new portfolio company. Prior to such a transaction, AP6 reviews the evaluation made by the fund management team, along with performing its own analysis and making its own assessment of the investment opportunity. Sometimes, it is also possible to meet with the portfolio company. Important components of evaluation of a co-investment are:

- Attractiveness of the company and investment based on AP6's investment strategy and values
- Ability of the fund to responsibly create value in the company

AP6's corporate governance model for co-investments is aligned with the model used for fund investments since it is structured in a similar way. During the ownership phase, AP6 maintains a continuous dialog with the fund management team responsible for investing in the company. Monitoring and setting requirements for the co-investment is done indirectly via the model for active corporate governance of funds, as described above.

## **3.2 Direct Investments**

It is also possible for AP6 to make minority investments with other private equity investors than the existing fund management teams or with other co-investors, provided that the main owner is a professional private equity investor with a long-term investment horizon and management focus consistent with AP6's investment strategy and values. The main investor must, in addition to the company evaluation, be evaluated as an investment partner in the same way as with a traditional co-investment. With these investments, it is also a requirement that the total ownership composition is evaluated.

Company evaluation is a joint activity with the prospective main owner. The business plan is a key component of the documentation used for making an investment decision and it is produced as a joint effort between the company and prospective main owner. Extensive effort is put into verifying the key assumptions underlying the business plan and thereby the value-creation plan, from which a valuation is derived.

<sup>1</sup> ILPA – Institutional Limited Partners Association

<sup>2</sup> Previously EVCA – European Private Equity and Venture Capital Association

<sup>3</sup> SVCA – The Swedish Private Equity & Venture Capital Association

### **3.2.1 Ongoing ownership role**

For investments where AP6 is a direct owner in a company, the relationship with other owners is regulated in a shareholder agreement or similar, which covers such things as corporate governance and divestment. Sometimes, AP6 is also offered a seat on the board of directors or nomination committee. With direct ownership, corporate governance occurs via company bodies that are regulated through corporate law. If, by way of exception, AP6 becomes direct owner in a company that is listed on a regulated market, corporate governance is carried out in accordance with generally accepted practice, which includes compliance with codes and regulations that apply in the regulated market where the company's shares are traded.

It is important that there is a clear understanding throughout the entire company that AP6 is an active, responsible owner. Accordingly, there must be a dialog between AP6 and the particular company's management and board of directors. AP6 shall participate and exercise its voting rights and in certain cases, actively participate in the shareholder meetings of company holdings. Corporate governance is a key component of the ownership role and it is described in more detail below.

### **3.2.2 Governance and control**

Ownership responsibility includes regular (quarterly) follow-up and documentation of the company's development against the underlying value creation plan. As owner, AP6 is responsible for interacting with the company's board of directors to identify needs for change and initiating measures for achieving the goals for the investment. It requires that the holdings have efficient governance and control systems in place. Furthermore, AP6 must keep itself informed of all important matters specific to the company and its industry, taking whatever measures necessary in relevant forums. Divestment shall occur in an organized way in holdings where AP6 has assessed that achieving the long-term return goals will not be possible.

### **3.2.3 Terms and conditions for senior executives**

The Board of Directors at AP6 has established guidelines for remuneration to the senior executives for directly-owned holdings. The guidelines stipulate requirements on the boards of directors of such holdings that the terms and conditions for senior executives are treated in a conscientious, responsible, and transparent way. Boards of directors must ensure that the total remuneration is reasonable, well-considered and characterized by moderation. It must also foster a good company culture and ethics.

Those charged with this task must consult with AP6's Nomination and Remuneration Committee whenever there is uncertainty about how to apply the guidelines. In cases where it has been assessed that the employment terms or remuneration to a senior executive exceed the boundaries stated in the guidelines, approval for the exception must be obtained from AP6's Nomination and Remuneration Committee.

### **3.2.4 Board work in the directly-owned holdings**

The board of directors is responsible for the company's organization and management of the company's affairs. Board work must be carried out in an efficient manner. The Chairman of the Board is responsible for coordinating allocation of work among the members of the board of directors. Board members shall be appointed based on an assessment of the expertise they are

expected to contribute. The Board composition shall also be based on equality and diversity perspectives. Board members must be well informed about both the owners' intentions with the investment and the ownership policy.

AP6 shall strive to ensure that all documentation is high quality and that board work is transparent, which applies to such things as reporting structure, reporting frequency, and reporting of deviations.

## **4 Corporate governance**

AP6's model for corporate governance consists of several steps that provide the foundation for interaction with AP6, its partners and the holding. There are also internal working methods for management and governance of investment activities, which helps ensure that AP6 can effectively engage in decision-making and impact its holdings.

### **4.1 Foundation for corporate governance**

AP6's most important tool for achieving the goals of long-term value growth in holdings is the ability make an impact. To do that, there needs to be a clear description of what AP6 desires to achieve with its holdings, clear communication to other stakeholders and systematic evaluation & follow-up work. The items described below provide the foundation for active corporate governance efforts. AP6 strives to use this as its point of departure for working systematically and thoroughly documenting each step for each holding. The basic corporate governance model is the same for all holdings.

#### **4.1.1 Ownership plan**

AP6 has a well-documented plan for its ownership in each holding. The analyses and assessments made in conjunction the acquisition/commitment are carefully considered when drawing up such plans.

The ownership plan describes the goals that AP6 has for the holding along with how long-term value growth shall be achieved. Any interim targets described in the plan must be measurable and followed up in the internal reporting. They should include both financial and operational goals (short-term and long-term) for the organization along with specific sustainability goals.

#### **4.1.1 Ownership dialog**

AP6 actively pursues engagement with the other owners of the holding. To succeed with that, there must be clear, regular communication. In its ownership dialog, AP6 clearly communicates its views and priorities on how it wants to develop the holding. AP6 also ensures that its wishes are aligned with the other owners.

#### **4.1.2 Advisory boards and board representation**

AP6 also strives to secure a position on advisory boards, which are typically comprised of representatives from the major investors. Appointment is decided by the external management team.

AP6 shall actively participate in the nomination work in instances where AP6 has an ownership share in a portfolio company and has a say in the composition of the board of directors. Composition of the board of directors shall be decided through close dialog with the main owner and other major co-investors. Where applicable, this is done via a nomination committee.

#### **4.1.3 Ownership directive/communication**

AP6 shall ensure that its long-term goals with each investment have been clearly communicated to the portfolio company/partners via a close dialog with representatives for the holding.

#### **4.1.4 Exercise of ownership**

AP6 allocates investment responsibility for its holdings to its Investment Directors, who are part of the Investment Organization. Investment Directors are responsible for ensuring that the ownership role in the holding is exercised in accordance with this ownership policy. Investment Directors also ensure that matters needing to be dealt with and decided in committees, by the CEO or the Board of Directors occurs in a satisfactory way.

#### **4.1.5 Reporting and follow-up**

AP6 has a wide portfolio and its holdings vary in terms of both size and focus. The exact content and design of reporting must be specific to each holding. Reporting of each holding shall occur at least once per quarter.

Internally, AP6's reporting is tertiary for its holdings. The reporting format includes information on how the holding is developing, status on prioritized activities, financial situation, market, management and remuneration issues, sustainability issues and important documentation for valuation of the holding.

### **4.2 Internal working methods and roles**

Effective corporate governance requires internal working methods designed to ensure that the employees understand AP6's views on how each holding should be developed and which matters to pursue. They must also be fully aligned and act consistently with AP6's values. The primary allegiance and loyalty of an owner representative must be with AP6, not the individual investment. An owner representative must also have the authority to act and actively pursue matters in the holding. These dynamics are achieved through internal working methods based on teamwork, openness, mutual respect, and shared responsibility for ensuring that AP6 achieves its overall goals.

AP6's internal working methods and decision processes have been designed to ensure efficient governance. Important components of AP6's working methods are described below.

### **4.3 Decision-making processes and committees**

AP6 strives to have a high level of openness at all decision levels. Investment Directors prepare and gather documentation used for making decisions, which is discussed in team meetings and by the investment committee. It is essentially the same material considered by the Board. Arriving at an investment decision is a multi-step process. The investment team and employees on the project team compile the documentation for making a decision and secure support for it with the investment team. Decisions are then made by the investment team and Board of Directors. AP6 works in a uniform way, with well-documented information for making decisions. Minutes are taken at all meetings where decisions are made.

The tertiary company & fund reporting always contain certain general areas:

- Financial development
- Board composition and remuneration to board of directors and senior executives
- Sustainability work in the fund/portfolio companies
- Valuation principles and suggestions

AP6's Nomination and Remuneration Committee compiles the information companies have reported that is relevant to matters having to do with board composition and remuneration. It assesses whether there have been any deviations with policies, and if so, the reasons for such. Feedback is given to the investment team and reporting to the Board is done via the remuneration committee.

Sustainability issues are very important to AP6. The investment team sets requirements for portfolio companies/funds and continually monitors how sustainability work is progressing. The challenges and risks specific to the company and industry are identified and documented. Senior management compiles and evaluates the sustainability work of funds/companies and regularly reports to the board's sustainability committee, which, in turn, reports to the rest of the board.

The investment team provides tertiary reports with its suggestions for valuation. These proposals must be well-founded and comply with AP6's established principles for valuation. The valuation committee is responsible for checking the quality of the documentation and identifying/highlighting important valuation matters that need to be further investigated and approved. The valuation committee reports to the risk & audit committee, which, in turn, reports to the rest of the board.

