

ABP Corporate Governance Framework

2026



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Introduction

Stichting Pensioenfond ABP¹ (ABP) is the sector-wide pension fund for employers and employees of government and educational institutions in the Netherlands. ABP has a total of over 3 million participants, former participants and pensioners. As many as 1 in 6 people in the Netherlands now receives or will receive a pension from ABP in the future.

ABP strategy

Our aim is to build a good pension together in a liveable world. ABP invests globally with the aim to achieve the highest return for our beneficiaries while ensuring our pension fund remains strong, sustainable and futureproof. We believe ABP's investments have an impact on society, and society has an impact on ABP's investments. Responsible investment and making the investment portfolio more sustainable does not negatively affect the risk-return profile of the portfolio. Responsible investing is therefore an integral part of our investment beliefs².

The importance of good governance

We see good corporate governance as a prerequisite for good investments. Solid governance, good business operations and a constructive relationship with shareholders and other stakeholders are required for companies to manage risks and to create long-term value.

The corporate governance framework

This framework outlines our guiding governance principles and expectations of the companies in which we invest. It sets out:

1. Our guiding Principles of Corporate Governance
2. Tools for fostering good Corporate Governance

3. Our Corporate Governance Expectations
4. Corporate Governance-related Regulation

Our principles apply to all investee companies (listed and non-listed companies), whereas concrete expectations generally apply to listed investments only. In chapter 2 we explain our minimum criteria and the instruments we use to achieve our ambitions. The expectations in this framework provide the basis for many of our stewardship activities.

Other policies

The ABP Global Corporate Governance Framework should be read in conjunction with other ABP policies, most notably our [Sustainable and Responsible Investment Policy](#), our [Engagement policy](#) and our [Voting policy](#).

This framework will be reviewed and updated if and when required.

1 <https://www.abp.nl/english/about-us.aspx>

2 See: ABP Investment Beliefs

1. Principles of Corporate Governance

We believe that our investments have an impact on society, and society has an impact on our investments. Regarding corporate governance, we believe that good governance is a condition for good investments.

ABP uses principles to guide our expectations of companies (chapter 4). Our four underlying corporate governance principles are:

1. Long term value creation

Where we refer to value creation, we mean value in a broad sense, meaning that companies take social and environmental value drivers, which we deem to be financially material in the long term, into account. We believe companies and therefore their directors and executives should create and enhance value in the long-term, taking due account of the interests of the company, its investors and other stakeholders. Companies should thus focus on long-term value creation in a sustainable manner.

ABP acknowledges that companies operate in a shareholder driven system, where the focus varies from the short- to the long-term. While the market may value short-term results, we believe that focussing too heavily on short-term gains could undermine a company's long-term success by encouraging decisions that sacrifice sustainable growth, innovation, and stakeholder trust for immediate results.

We believe that short-term and long-term focus should not be pitted against each other: they should complement each other. We only see merit in

companies that focus on the short-term if it is demonstrably aligned with the long term. A sound corporate strategy, policies, risk management, internal controls, reporting, and conduct should reflect and support that goal.

2. Accountability and internal control

The directors of a company must be accountable to its shareholders and creditors and make themselves available for meaningful dialogue with their investors and other relevant stakeholders. Directors have a duty and are accountable to uphold and demonstrate responsible business practices, policies and culture and respond effectively if and when performance falls short of these standards, as this shortfall could affect the long-term value of our investment.

At the same time, internal control should function as a critical complement to external accountability, ensuring that risks are identified early, compliance with policies and regulations is maintained, and that the board is supported in making responsible and transparent decisions that contribute to long-term value creation.

3. Transparency

We require transparent and meaningful disclosure from the companies in which we invest. This enables us to make well-informed investment decisions. Companies should disclose operational, financial, sustainability, personnel and governance information in a timely, complete and comprehensible manner.

Companies should provide meaningful disclosure of relevant social and environmental risk factors that a business is exposed to, including information on matters that have a potential current or future impact on companies' long term value creation.

4. Effective decision making

The governance of organisations should equip the board and management to address strategic and operational challenges. This include having adequate board composition and expertise. Being the ultimate decision-making body of an organization, the quality of the board determines its effectiveness. We expect companies to maintain an optimally sized board with a balanced mix of skills, experience, and perspectives. Directors must have sufficient time and capacity to fulfil their responsibilities, and regular board evaluations and refreshment should ensure continued effectiveness. Adequate structures should be in place to support informed and independent decision making.

2. Tools for fostering good Corporate Governance

ABP leverages multiple tools to foster good corporate governance for our listed investments. We distinguish between tools that we use to construct our portfolio (minimum requirements) and stewardship instruments that we use to enhance good corporate governance, once we are invested (voting and engagement).

Minimum requirements

We are not invested in every company but instead create a portfolio of companies that meet our minimum criteria. We do so judiciously and prudently. Companies that do not meet our minimum criteria are not allowed in our portfolio. Our minimum criteria regarding governance can be found [here](#). With our minimum criteria we also accommodate the Sustainable Finance Disclosure Regulation (SFDR) requirements on good governance practices.

Stewardship

In exercising our stewardship activities around corporate governance, we are guided by public standards, codes and guidelines such as those issued by:

- The Organization for Economic Cooperation and Development (OECD)
- The International Corporate Governance Network (ICGN)
- The Dutch Corporate Governance Code Monitoring Committee

Engagement with investee companies

Via our engagement activities we inform companies about our ambitions and objectives, assess the extent to which they are aligned with them and encourage them to take sustainability considerations into account.

ABP expects companies to demonstrate responsible business practices and have relevant policies in place and to respond effectively in the event their performance falls short of these standards. Engagement supports our ambitions by holding companies accountable for sustainable and responsible business operations.

Generally, our asset manager engages individually with investee companies. However, when this is considered more effectively, engagements are conducted collectively with likeminded investors. Collaborative engagement includes joint engagement meetings, co-signing letters to companies, or co-filing shareholder proposals. More on how we conduct engagement is described in our [engagement policy](#).

Voting

The execution of voting rights at shareholder meetings is an important part of ABP's active ownership approach. Our asset manager centrally oversees and coordinates the exercise of equity voting rights globally using an electronic proxy voting system, involving portfolio managers in the decision making. We have developed our own [voting policy](#) which, combined with research from a proxy voting service provider and inhouse expertise, results in voting instructions across the portfolio. When deciding how to vote, our asset manager considers the specific context and market in which the

company operates, such as the provisions set out in national corporate governance codes as well as local laws and regulations whilst encouraging the implementation of global best practice corporate governance standards.

Shareholder litigation

Globally, lawsuits may be filed against companies for alleged violations of securities laws. These lawsuits may concern e.g. fraud, deceit, misrepresentation, disregard of disclosure obligations and breach of fiduciary duties. In cases where ABP has suffered and has a claim that represents a certain value, and if within its powers, we will take reasonable steps to pursue and realize such a claim and thus recover damages suffered. Where possible and appropriate, ABP will seek to introduce corporate governance reforms, and under certain circumstances may take an active role in a securities case to improve corporate governance at a company involved in litigation. Corporate governance reforms can thus be made part of a settlement.

If ABP is part of the class action and has incurred the largest amount of damages suffered, it may choose to assume the role of lead plaintiff in the proceedings.

In principle, active involvement in (shareholder) litigation shall not be initiated (solely) for the purpose of achieving a goal other than recovery of the losses that ABP has suffered.

Engagement with policy makers

One of our stewardship tools is engaging with policymakers. These policymakers include legislators, civil servants, advisors, advisory bodies, and regulators at local, national, and international levels. Policymakers play a key role in creating the framework conditions for the real economy to thrive, which makes them logical partners for ABP in the context of its Sustainable and Responsible Investment Policy. ABP is transparent about what we ask of governments in these discussions and why. For more information please see our [policy on engagement with policymakers](#).

3. Corporate Governance Expectations

Our corporate governance expectations of listed portfolio companies across all markets form the basis for our voting, engagement and other stewardship activities. In assessing companies' governance and evaluating issues we take into account specific company characteristics and circumstances as well as local laws, regulations and standards.

1. Board

The primary responsibility of a board of directors is to set and/or oversee the company's strategic direction and navigating risks effectively while safeguarding financial health and (local) legal/ regulatory compliance. The structure and composition of a board may vary depending on the complexity of the business, its size, country of incorporation and ownership structure. Whilst we recognize this, we expect the listed companies in which we invest to take all the necessary measures to ensure the effective functioning of their board.

Directors' responsibilities can be complex and time-consuming. We expect directors to make themselves available for constructive dialogue with shareholders and creditors as providers of capital. Also, directors should be open to the views of other stakeholders as appropriate and listen to their points of view.

Non-executive directors should exercise independent oversight, bring an outside perspective and should be prepared to constructively challenge and

hold management accountable when necessary. We expect boards to identify, disclose and oversee all material risks over the short, medium and long term. Thus, ensuring that they are effectively controlled and managed to safeguard a sustainable future for the company. The board defines the company's purpose, strategy and values and is responsible for building a corporate culture that upholds high standards of business integrity and supports long-term value creation.

We expect boards to be well-balanced and to establish committees that provide effective oversight over the business on material topics.

Broadly speaking, the two most prevalent board types are the unitary boards, with both executive and non-executive directors as members, and the two-tier boards, comprising two bodies, the management board and the supervisory board. The following principles apply regardless of the structure in place.

a. Composition

An effective and well-led board contains a mix of individuals with diverse but relevant experience, expertise and backgrounds, ensuring leadership aligns with the company's mission and values. We strongly believe that well-balanced and diverse boards contribute to board effectiveness and ultimately value creation over the long-term. The management board, the supervisory board, and the executive committee (if applicable) should be composed in such a way that the company has an appropriate degree of diversity in terms of expertise, experience, competencies, other personal qualities, gender or gender identity, age, nationality, and (cultural) background.

ABP expects a board to recruit from the greatest pool of talent. We recognize that different jurisdictions have a variety of approaches as well as legal constraints to board composition. Our overarching belief is that variety of relevant perspectives and experiences are directly linked to a company's success. In our voting and engagement activities with companies, we expect companies to explain how their approach to board composition supports their long-term value creation. We expect companies to report on the diversity of the board, and we expect companies to publish their board's skills matrix.

The board nomination process should be designed to achieve an optimal board composition. Different positions on the board require different strengths, and members must be carefully selected to meet those needs. Individuals should not only have specific expertise or experience but should also be capable of collaboration, leadership and long-term thinking.

Companies should have a clear governance structure in place to foster variety of perspectives throughout the organisation and demonstrate how this is linked to the company's general approach to human resource management. We expect the board to report on its approach to, its performance and progress regarding the composition of the board, among executive management and the entire employee population.

At companies with material social and environmental risks or those operating in sectors with high social and environmental risks, we expect that ultimate responsibility for relevant sustainability issues be allocated at the board level. This could be, for example, in the form of one or more directors with relevant sustainability or governance experience or a designated committee of the board.

b. Independence

Unitary boards should have a majority of independent directors³. Supervisory boards of companies with two governing bodies should comprise non-executive

directors only, of which the majority should be independent. Former executive directors should not be chairman of the board. When a company makes an exception to this, the case should be explained and justified by the board.

We expect companies with a controlling shareholder⁴ to have a majority of independent directors. However, at family-owned companies and in markets where a lower independence threshold is either best practice, legally required or rule of the listing standards, we may accept the board to be composed of at least three (or one-third) independent directors only if the chairman is an independent, non-executive director.⁵

If a minority shareholder is represented on the board, the number of board seats should be proportionate to the economic interest the shareholder represents.

There are circumstances which can give rise to concern about the ability of an independent director to exercise independent judgement. These include but are not limited to:

- Existence of material business relationships
- Former employee or executive
- Long tenure
- Family ties
- Representation of a significant/ controlling shareholder
- Interlocking board relationships.

3 The non-executive chairman will be included for the purpose of assessing the independence threshold.

4 Majority control is defined in terms of economic interest and not voting rights and is considered to be any shareholder or group of shareholders acting collectively that control at least 50 percent + 1 share of the company's equity capital.

5 Taking into account factors such as governance model, size of the company, shareholding structure and free float.

If based on the above expectations and in the event that any of the above conditions exist and we believe the level of independence of a board member or candidate is compromised, we may not support the re-/election of the nominees, whom we consider to be non-independent members of the board. In general, we consider individual board members whose tenure surpasses nine years as non-independent (or up to twelve years where the regulations allow).

c. CEO/Chair

The leadership of the board and the management in our view should not vest in one individual because they require distinctly different skills and qualifications for their respective set of responsibilities and a combination of the roles causes an undesirable concentration of power. The chairman of the board should be independent at the time of his/her appointment. We recognize that in exceptional circumstances there may be reasons why the roles are temporarily combined. These cases require justification. We expect a truly independent senior (or lead) independent director to be appointed with clear responsibilities to act as a balancing power for the temporarily combined CEO/chairman role and as a direct conduit to investors if needed.

d. Board Committees

Boards (or supervisory boards in a two-tier structure) should set up remuneration, nomination and audit committees. At least two-thirds of the members of the remuneration and the nomination committees should be independent. The audit committee should comprise only of independent directors. Each committee should have an independent chair. The audit committee chair or lead/senior independent director is expected to make themselves available to meet minority shareholders at least once a year.

e. Appointment and (re-)election of directors

The appointment of directors should be guided by a pre-defined and disclosed process led by the nomination committee. Selection should be based on all

the factors that could contribute to the effectiveness of the board as a whole. This includes competencies, experience, skills and composition. As stated, we expect companies to publish their board's skills matrix. We also expect the board to have a robust succession plan in place which is reviewed regularly and gives due regard to the optimal composition of the board. Each individual director should stand for re-election by shareholders at regular intervals. We do not endorse staggered boards or governance models in which directors serve non-uniform terms. The board should have a formal and robust process for the induction of new directors.

f. Board Size

We expect boards to have a number of directors that is optimal given the company's complexity and size. Overall, the size of the board should enable high-quality decision making and promote active involvement by all members, thereby avoiding a subset of the members having undue influence or an imbalanced time commitment.

g. Time Commitment of Directors

Directors need sufficient time for the preparation, attendance and participation in board and committee meetings. When accepting additional board appointments, directors should consider if they have sufficient capacity to effectively exercise their duties and responsibilities on all the boards on which they sit.

h. Evaluation and refreshment

Boards should conduct board effectiveness reviews to assess collective and individual performance, conduct and composition. We expect these reviews to be performed annually and at regular intervals (every 3 years) we expect the review to be performed by an external party. The board should report on the general outcomes of the evaluation in the company's annual report. Regular board refreshment contributes to the efficient and effective functioning of the board.

2. Shareholder Rights

a. General mandates for issuance

Companies issue new shares from time to time to raise fresh capital. This may be to fund internal investments, external acquisitions or perhaps to reduce leverage. A company can issue shares with or without pre-emption rights to existing shareholders.

ABP expects requests to issue new shares to be fully explained and in the best interest of shareholders, both in the short and long term whilst avoiding any unreasonable shareholder dilution. In addition, when seeking authority to issue shares, the company should explain the conditions and circumstances under which this authority will be exercised. At the very least, the explanation should include the maximum number of shares to be issued, the duration of the authority sought and how the exercise price will be determined. Separate authority should be sought for different share classes.

b. General mandates for buy-back

We support buy-back programmes on the right terms. Although ABP is aware that local legislation and regulation may vary, ABP will generally not support recurring, annual buyback programmes that request authority to purchase more than 10% of outstanding share capital. Caution will especially be taken when repurchased shares will be reissued. If companies repurchase shares, they must ensure that all shareholders receive equal financial treatment.

For more information on ABP's expectations on the issuance and buyback of shares please refer to [ABP's voting policy](#).

c. Amendments to articles of association

We will generally vote against amendments of the articles of association that aim to limit shareholders' rights. As a rule, we expect each amendment to

be submitted to a separate vote. We will in principle not support combined proposals if any of the individual amendments would negatively affect our position as providers of capital.

d. Take-over barriers

In principle we are not in favour of take-over barriers. Problematic barriers include but are not limited to general share issuance authority to facilitate entrenched ownership and staggered or classified board structure to deprive shareholders of the opportunity to challenge ineffective boards via take-over bids. However, we recognize that some take over barriers may be justified under certain conditions to protect shareholders interests in a meaningful and proportionate manner.

Examples of situations where takeover barriers are justified include situations in which the barrier gives management time to consider different strategic options in a bidding process, the barrier is used to protect boards pursuing long-term value creation against opportunistic takeovers or for safeguarding national or strategic interests.

e. One share one vote

Companies should respect the principle of 'one share, one vote' and the rights of all shareholders equally. Therefore, we are generally not in favour of supermajority voting requirements. We expect companies to limit the use of the super-voting rights to extraordinary circumstances only (e.g. hostile takeover) and introduce both event-based and time-based sunset clauses. We expect companies with a super-voting rights structure such as a dual-class shares structure or weighted voting rights structure, to break down voting results per share class.

f. Shareholder proposals

In addition to the right to vote, shareholders also have the right to submit

shareholder proposals. These enable proponents to draw attention to subjects and request other shareholders to express an opinion by voting at a shareholder meeting.

We generally support shareholder proposals we believe are in the best interests of the company and its shareholders. In principle, we support proposals that address governance and sustainability issues the company is currently failing to address adequately or proposals that otherwise positively impact the company's ability to create long-term value.

For more information on ABP's approach on shareholder proposal please refer to [ABP's voting policy](#).

3. Remuneration

Pay policies should support long-term value creation. As long-term owners, we expect boards and their remuneration committees to incentivize management to enhance this. Moreover, we believe that well-structured and transparent remuneration policies for management can be a supportive driver to achieving long-term value creation. In general, performance criteria, including non-financial criteria, should be challenging and meaningful in relation to the company's business.

Companies should be mindful of the social impact of excessive pay levels, which are significantly higher than what is considered responsible or fair, especially compared to average employee wages, industry benchmarks, company performance, the companies' role in society, and the context in which a company operates.

Management receiving excessive pay does not fit with the broad long term value creation which we believe a company should pursue, nor does it fit with the accountability which an organisation has to its stakeholders. We believe that, over time, this excessive pay may lead to erosion of public confidence in business and harm the companies' license to operate.

In the Annex, we explain our extensive remuneration expectations in more detail.

4. Annual Account & Audit

The annual report and accounts are an important source of information for all stakeholders to gain a true and fair picture of the financial performance and health of a company. As providers of capital, investors are the primary audience of the accounts. Shareholders (as equity investors) and creditors (as fixed income or credit investors) provide capital and bear the residual risk of the company and therefore their interests need to be understood.

Investors expect the annual report to include information on the management, risk profile and risk management of the company. Companies should provide clear insight into current and future strategy; how strategic, operational, financial, and compliance risks are managed, and how companies address key social, environmental and integrity matters. We strongly encourage companies to give an integrated account of how their governance, performance, sustainability, strategy and prospects support value creation over the short, medium and long term.

a. Audit Committee

The audit committee, as a key committee of the board, is given the authority to supervise the integrity and quality of financial and non-financial reporting. It

also typically assesses the effectiveness of the internal risk management and control systems. At least one or more members of the audit committee should be designated as having recent and relevant financial expertise including risk management, and at least one or more members should have recent and relevant non-financial expertise for the oversight of sustainability issues, among other matters material to the company.

We expect the audit committee to be composed exclusively of independent non-executive directors. The existence of a fully independent audit committee is of particular importance where companies are involved in related-party transactions that represent potential risks to minority shareholders. Such transactions should always be carried out at arm's length, preferably subject to shareholder approval, and be fully disclosed.

b. Internal Audit

ABP believes in the merits of a robust internal audit function with the responsibility to assess the design and the operation of the internal risk management and control systems. The audit committee should have direct access to the internal audit function and vice versa.

c. External Audit

The appointment of the external auditor and the proposal to approve their remuneration should be put to a shareholder vote, typically at the annual general meeting. We expect the audit committee to annually assess the independence of the external auditor and the quality and cost of the audit. The audit committee should advise the board on the (re-)appointment of the external auditor and should lead and manage the auditor selection process as needed. We expect the role of the external auditor to be put out to tender on a regular basis. We expect periodical rotation of the external auditor; we encourage companies to maximize the tenure of the audit firms to 10 years. Whenever the tenure exceeds 10 years, we expect the role of the external

auditor to be put out to tender. Also, we expect lead partners to rotate frequently.

d. Audit Fees

The fees paid to the auditor for both audit and non-audit work performed should be disclosed separately in the annual report. To prevent conflicts of interests or concerns about the independence of the auditors, we expect non-audit fees not to exceed audit and audit-related fees.

e. Whistleblower and anti-corruption policies

Companies should have in place policies to prevent and mitigate the risk of bribery and corruption or other malfeasance. We also expect companies to publish a whistleblower policy.

f. Political, charitable donations and lobbying

Lobbying and political affiliation are legitimate but must be transparent, ethical, and aligned with shareholder and stakeholder interests. In general, we expect companies to avoid making donations to political parties or organisations closely associated with political parties. In markets where this is common practice, we expect companies to disclose their political and NGO-contributions and trade association spending policies and activities and to ensure that their membership bodies positions are aligned with their own.

Charitable donations can help build relationships, but a company should have a clear policy in place to avoid potential conflicts of interests and publish its donation record.

g. (Voluntary) adherence to sustainability legislation

In recent years, sustainability reporting requirements have expanded significantly across jurisdictions, especially in the EU. The sustainability reporting requirements described in these laws and regulations provide

shareholders with data that can help them assess companies' sustainability performance.

We encourage companies, where relevant and reasonable, to voluntarily align with leading applicable sustainability reporting frameworks. Such alignment can enhance transparency and comparability across markets, strengthen stakeholder trust and engagement, and signal companies' commitment to long-term value creation and responsible business practices.

5. Tax

ABP wants to promote companies to deal with taxes in a responsible manner.

ABP expects companies to comply with laws and regulations, be transparent about taxation and refrain from aggressive tax planning. For more information on what ABP expects on taxation please refer to our [Tax policy paper](#) and [Tax principles](#).

4. Regulation

Certain regulations set specific requirements for institutional investors around the consideration of corporate governance, and the exercise of stewardship responsibilities and shareholder rights more broadly. The way ABP complies with some of these regulations is further described below.

a. Sustainable Finance Disclosure Regulation ('SFDR') Good Governance Practices

ABP's pension schemes promote ecological and/or social characteristics. According to the SFDR, investments may therefore only be made in companies that act in accordance with good governance practices. Good governance practices of investee companies, as defined in the SFDR, include sound management structures, employee relations, remuneration of the staff concerned, and Tax compliance.

In our [policy to assess good governance practices](#) (in Dutch), we explain in more detail which indicators and thresholds we use.

b. Revised EU Shareholder Rights Directive ('SRD II')

The revised EU Shareholder Rights Directive, implemented in the Dutch Financial Supervision Act, sets certain requirements for institutional investors and asset managers in Europe around corporate governance and shareholder rights. For example, it requires us to disclose how we exercise our voting rights and how we engage in dialogue with investee companies. This legislation also requires us to publish a [conflicts of interest policy](#) in relation to stewardship activities. ABP complies with the SRD II requirements for institutional investors.

c. Dutch Corporate Governance Code (2025)

The Dutch Corporate Governance Code contains principles and best

practice provisions that regulate relations between the management board, the supervisory board and the general meeting/shareholders. It includes provisions for informed voting and reporting on voting behavior and engagement policies for Dutch institutional investors.

The Code emphasizes sustainable long-term value creation. The Code requires institutional investors, for example, to recognize the importance of a companies' strategy to be aimed at sustainable long-term value creation for the company. It also requires us to publish an engagement policy on our website and report on execution of the engagement policy. ABP adheres to the principles and best practices as set in this Code.

ANNEX: PAY STRUCTURE GUIDELINES

1. The basics

a. Pay policies

Pay policies should support long-term value creation. Inevitably this also means consideration of a broader set of constituents of stakeholders and indeed societal considerations generally, to ensure continuity and sustainable creation of value.

We expect corporate boards and their remuneration committees to incentivize management to balance between optimal operation of existing assets and efficient capital allocations and capital growth. Pay policies should be designed to reflect and support the company's long term business strategy.

In general, performance criteria, including non-financial criteria, should be challenging and meaningful in relation to the company's business.

b. Remuneration Committee

It is the responsibility of the board to set the right strategy to create and sustain value and to supervise the execution of that strategy. This entails translating the strategy into objectives for senior executives and setting out commensurate remuneration targets. In doing so, understandably the board should retain discretion so that significant remuneration outcomes are sense-checked with independent judgement applied by the board. We will strongly oppose cases of discretion exercised without satisfactory justification.

In response to material shareholders' dissent on executive pay, through "say-on-pay" votes, we expect remuneration committees to be receptive to feedback from shareholders. They should proactively engage in dialogue with shareholders to understand the reasons for dissent, review and potentially revise the company's remuneration policies, and transparently communicate these actions. This process aims to address concerns, align executive incentives with shareholder interests, and ultimately improve shareholder support for future compensation proposals.

In electing the members of the remuneration committee, companies should be mindful of potential conflicts of interests. If committee members have ties to companies in the peer group used for benchmarking executive pay, they may have incentives to inflate pay levels collectively.

2. Executive pay structure design principles

To achieve the long-term value creation with remuneration policies, boards have several key design levers at their disposal:

- a. Strategy, long-term alignment
- b. Shareholder and stakeholder alignment
- c. Pay levels
- d. Time alignment and share ownership
- e. Severance payments and change-of-control provisions
- f. Disclosure

a. Strategy and long-term alignment

Pay policies should be designed to reflect and support the company's business strategy. Adherence to generic market practices should not be the primary concern. While ambitious and measurable targets are always preferable, a well-designed incentive scheme is critical.

- We believe that incorporating performance metrics into remuneration policies provides stronger alignment with shareholders than time-based awards alone, as it incentivizes management to achieve strategic and ambitious long-term performance objectives aligned with the company's strategy.
- Performance metrics should be clear and understandable to recipients of incentive awards ('line of sight') and closely linked to the value drivers of the company. These metrics should incentivise strong long-term performance.
- Since pay policies should align with the company's business strategy, we expect them to maintain a similar level of stability. Frequent changes – such as annual adjustments to performance conditions or pay levels - may raise concerns about the competence of the remuneration committee.
- Pay strategies that are ill-fitted to the company's risk profile may undermine the sustainable delivery of shareholder value. In determining remuneration policies, boards should consider the company's risk profile and appetite, as well as the inherent risk dimensions of pay structures. Factors such as actual pay volatility, the stretch of performance targets, and incentives that encourage riskier capital structures should be carefully evaluated.
- We believe remuneration plans should include clawback mechanisms that can be used to recover compensation awarded based on incorrect (financial) information or outcomes that, in retrospect, have had negative impacts on the environment and/or society.

b. Shareholder and stakeholder alignment

Pay policies should be aligned with long-term shareholders' interests. Inevitably this also means consideration of a broader set of constituents of stakeholders and indeed societal considerations generally, to ensure continuity and sustainable creation of value.

- ABP favours pay policies that encourage executives to accumulate shareholding to be held over time. This should include holding obligations post departure.
- ABP encourages companies to use sustainability-related measures in ways that are relevant to long-term value creation, and to disclose why these measures are material and how they will ultimately contribute to long-term value. Examples of such measures include customer satisfaction, human capital, health and safety, climate, nature and biodiversity or other environmental performance. We expect companies to explain the process for assessment and the conclusion they have reached regarding the inclusion of such measures. We expect the targets associated with non-financial metrics to be as ambitious as those set for financial metrics.
- We prefer remuneration policies to be linked as closely as possible to the fundamental value drivers of companies, rather than to metrics which are heavily influenced by external factors.
- Total Shareholder Return (TSR) on its own is not a value driver, it is a market indicator of value delivery to shareholders. If used, TSR should be appropriately structured and calibrated. Preferably it should be complemented by other measures related to fundamental performance drivers. This is needed to ensure that actual pay is linked to overall performance. For example, if TSR is measured relatively, another dimension of absolute performance measurement should be added. We encourage

companies not to overly rely on TSR. We are generally not supportive of it determining more than 25% of total incentive opportunity.

- We consider carefully the appropriateness of payments on recruitment and on termination. We support payments that are justified by a robust business case. We are mindful of the detrimental impact that recruitment and termination payments can have on the alignment of shareholders and executives' interests and in some cases on the reputation of the company.
- While there have been significant improvements in termination and change-in-control payment practices, some companies still provide excessive termination payments, which can negatively impact the alignment between shareholders' and executives' interests, and in some cases, harm the company's reputation.
- Whilst we acknowledge the variation in practice across other markets, particularly in the EU, this remains a concern for us. In the US, we regard agreements involving catch-up payments unfavourably.
- When deviations are made from the remuneration policy there must be a substantiated rationale. We recommend shareholders be consulted on this in advance of such deviation if possible.
- One-off awards and retrospective amendments of metrics and targets are rarely supported and must only be used in truly exceptional circumstances and structured appropriately.

c. Pay Levels

Pay is part of the operational costs and, as such, should be effectively managed. Regardless of whether it represents a material cost, individual executive pay levels are also a concern to us, especially when doubts are

raised about shareholder alignment, effective governance or corporate disregard for societal responsibilities.

- Companies should be mindful of the social impact of excessive pay levels, which, over time, may lead to erosion of public confidence in business and, consequently, their license to operate. This is especially relevant during the periods of economic headwind or downturns. Responsible behaviour includes consistently demonstrating leadership and exercising restraint when circumstances require it.
- Pay levels should not be higher than is necessary to achieve the business strategy of the company.
- We are concerned about overly complex incentives structures, such as those involving too many metrics, which may be vulnerable to manipulation of corporate activities to boost payouts.
- Peer groups should be selected based on relevant criteria such as strategy, size, geographic alignment, sector and industry. For example, they should include organizations from which executives are likely to be recruited or to which they may transition.
- When setting target pay, historical performance relative to appropriate peers must be taken into account. We expect comprehensive disclosure regarding the suitability of the selected peer group and how target pay has been adjusted to reflect historical relative performance differentials.
- Incentives should serve to moderately enhance the basic remuneration package in cases of notable performance. We are therefore concerned about excessively high payouts potential, such as the use of exceptionally large awards, uncapped arrangements, and high multiple share matching plans.

- When calculated using a uniform, standardized methodology, pay ratio disclosure⁶ can provide useful information for investors. However, like many other financial disclosures, it requires informed comparisons and judgment to interpret the results meaningfully. We expect boards to explain pay differentials within the company and to disclose their approach and rationale.

d. Time alignment and share ownership

Pay policies, especially incentive structures, should be considered in the context of the company's strategic and capital cycles.

- The timing of incentive award grants, the length of the performance period, vesting schedules, and holding periods are all examples of pay design considerations that should be aligned with the company's strategy and capital cycle.
- Whilst we acknowledge that certain markets have strong conventions in this area, such as the length of performance periods, we nonetheless expect boards to seek ways to optimize time alignment - for example, through award retention or by making less frequent grants.
- Restricted shares held over a long period offer simplicity and transparency but lack the performance alignment provided by well-calibrated performance shares. The long-term impact of these arrangements on market pay levels remains unclear. Therefore, when asked for our view on a specific case, we would focus on (1) the strength of the business rationale and (2) the impact on pay levels, in addition to minimum vesting and holding periods. In assessing restricted share plans, ABP will consider the following factors:
 1. The company should provide a clear and well-founded rationale for replacing a long-term performance-based plan by a restricted share plan.
 2. Replacing conditional awards with awards that carry greater certainty of

vesting – sometimes approaching 100% - requires a meaningful trade-off in terms of award value. Therefore, we expect award levels to be reduced by at least 50% compared to the normal long-term incentive grant.

3. Shares received under the restricted share plan should be held for a minimum of 5 years. A shareholding guideline of at least two times base salary should apply and be maintained for at least two years following the executive's departure.
4. When introducing a restricted share plan, the company should ensure it is applicable across different business cycles (i.e. over five years).
5. Upon an executive's departure, unvested restricted shares should be pro-rated based on time and remain subject to the same holding requirements outlined in point 4 above.
6. The performance metrics and targets for the annual bonus should be fully disclosed, at least retrospectively.
7. To prevent excessive outcomes, we expect the company to provide transparency on total executive director remuneration. This should be assessed annually in both cash and restricted shares. Additionally, the board should publish - ex-ante - a maximum limit for the total annual remuneration of executive directors.
8. The remuneration committee should have discretionary authority to reduce awards if the outcomes of the restricted share plan indicate a misalignment between pay and performance, or executive directors and shareholders.

e. Severance payments and change-of-control provisions

In our view, remuneration in the event of dismissal should not exceed two year's total compensation. Termination payments should not be granted in case of culpable or negligent behaviour.

⁶ The ratio between executive or CEO pay and the pay level throughout the company, whether by reference to an average or median, etc.

In a change-in-control situation, we expect unvested awards to be time pro-rated up to the point of the change. For awards subject to performance conditions, vesting should occur only to the extent that the performance goals have been achieved at the time of the change in control. A change in control should only affect payouts if it results in termination of employment without cause⁷.

f. Disclosure

Remuneration policies should be transparent. ABP expects companies to provide meaningful disclosure of pay policies and pay levels, particularly those applicable to senior executives. Public remuneration disclosures should clearly demonstrate how pay structures and incentive targets align with the company's business strategy and its execution – highlighting what management is incentivized to achieve and how payouts correlated with performance.

Disclosure of the structure, metrics, targets, weightings and payouts is essential to adequately assess whether there is sufficient alignment between remuneration and long-term performance.

3. Performance drivers

We believe that pay should be linked to a combination of actual and current performance measures, as well as indicators of the company's financial and non-financial health. Actual and current performance measures help assess long-term value creation, while financial and non-financial health indicators provide insight into the company's ability to sustainably create value in the future.

a. Link to intrinsic value

A company's intrinsic value is determined by its future cash flows and cost of capital, which reflects the financial risk to which the company is exposed. Cash flows are driven by both operational returns (on the invested capital) and

business growth. Therefore, we encourage boards to link executive pay to both of these measures when assessing performance. Moreover, we emphasize the importance of striking the right balance between these drivers. Overemphasis on one at the expense of the other can lead to suboptimal outcomes. For instance, pursuing growth in areas where returns fall below the cost of capital destroys value, while focusing only on operational returns may result in underinvestment and missed opportunities for profitable future growth.

Metrics such as Economic Profit (EP), though not without limitations, can offer a comprehensive view of growth, operational returns and cost of capital when assessed over time.

The ability of a company to continue creating value in the future is best evaluated through a combination of financial and non-financial indicators, as well as risk metrics that may threaten its balance sheet and operations over time. Therefore, we encourage boards to incorporate non-financial measures to incentivise executives to prioritize long-term value creation and to mitigate the risk of short-term interests undermining the company's sustainability.

b. Examples of typical measures

Below, we have listed a number of typical measures categorised into performance areas. Recognizing that each company faces unique business circumstances - and that there is often more than one way of achieving effective performance linkage - we encourage companies to present their own tailored perspectives and emphasize the most appropriate measures for their specific context.

Performance criteria should be both challenging and meaningful in relation to the company's business. Additionally, we encourage companies to differentiate

⁷ Also known as a 'double trigger'.

metrics between short-term and long-term incentive plans. Duplication of metrics may result in executives being rewarded twice for the same performance. Where duplication occurs, we expect a thoughtful approach to target setting.

	Performance area	Typical measures
Current Performance	Operation return	<ul style="list-style-type: none"> Return on capital measures Return over cost-of-capital spread EBIT(DA) margin Cash from operations
	Growth	<ul style="list-style-type: none"> Organic top line growth Cash flow growth Market share growth
	Economic value Creation	<ul style="list-style-type: none"> Economic Profit Economic Value Added (EVA)
Company Health	Business and financial risk	<ul style="list-style-type: none"> Leverage ratio Net debt to EBIT(DA) Net interest cover Qualitative measures linking to risk mitigation*
Shareholder value	Market indicators	<ul style="list-style-type: none"> Total Shareholder Return Earnings Per Share adjusted for share buyback etc.
	Value creation and capital allocation efficacy	<ul style="list-style-type: none"> Return on Equity EVA Spread
Other measures		<ul style="list-style-type: none"> Sector-specific non-financial measures Human capital, for example employee engagement and leadership Customers, for example satisfaction, churn EHS (Environment, Health and Safety), for example safety performance Climate, Nature and Biodiversity-related measures

*For example, protection of business positions such as brands

Where companies adopt pay policies that do not align with our expectations, we may seek further explanations. For instance, we generally expect that companies in capital-light industries with high operational returns to place greater emphasis on growth, while those operating in capital-intensive, low-return sectors would focus more on improving return on capital.

c. Robustness of definitions

Boards and remuneration committees should keep in mind that the primary objective of incentive plans is to signal strategic direction and provide behavioural guidance to senior leadership. These plans should ensure that executives are incentivised to act in alignment with that direction and are rewarded for doing so successfully, within the behavioural and risk parameters set by the board.

With that in mind, we expect any metrics used to be:

- Based on definitions and calculation methodologies that remain stable over time
- Reflective of returns on an unimpaired capital base
- Derived transparently from the financial accounts

Additionally, we expect that at least some metrics will capture non-traditional aspects of (long-term) value creation - such as human capital, ethics and environmental and social sustainability – that can influence the sustainability of financial performance over time.

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