

# ABP Corporate Governance Framework

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# 1. Introduction

Stichting Pensioenfond ABP<sup>1</sup> (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.

Our aim is to build a good pension together in a livable world, ABP invests globally with the aim to achieve the highest net return for our beneficiaries while ensuring our pension fund remains strong, sustainable and future-proof. We believe in the power of collaboration and collectivity - to maximize economies of scale, but also to share risks and windfalls. In doing so, ABP as a not-for-profit social organization commits itself to building a good pension for everyone who is depositing or has deposited pension contributions. To build a strong relationship with our stakeholders, first and foremost our participants. And to building a better society, now and for generations to come.

Good governance and responsible investment are inherent to our investment processes as we believe this contributes to the risk-adjusted returns of our portfolios and to a more sustainable world. Responsible investing is therefore an integral part of our investment beliefs.<sup>2</sup>

## Belief

*"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."*

We therefore 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 prerequisites for companies to manage risks and create long-term value.

At the same time, companies without good governance, cannot successfully contribute to combating climate change and preserving nature and biodiversity. This means having a comprehensive approach for making a material positive social, economic and environmental contribution in the real economy by influencing the entities in which we invest, and engaging with policymakers and other stakeholders to help build a sustainable financial system. We invest in over sixty countries worldwide and believe good corporate governance and responsible conduct contribute to the long-term economic value of investments globally. Good governance supports a culture of accountability, the fair and equitable treatment of investors' and other stakeholders' interests, and addresses issues that could affect the long-term performance of the business. It contributes to the alignment of company purpose, strategy and values, and ensures a commitment to high standards of business integrity and oversight of a supporting corporate culture. It is the bedrock of sound management of sustainability risks and opportunities and of long-term value creation. Therefore, good governance is an enabler for companies to contribute to a more sustainable world.

This document explains ABP's framework for corporate governance. It sets out:

1. Our Underlying Principles of Corporate Governance
2. Our Active Ownership Statement
3. Our Corporate Governance Expectations
4. Corporate Governance-related Regulation

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

<sup>2</sup> For the ABP Investment Beliefs see: [ABP Investment Beliefs](#)

The ABP Global Corporate Governance Framework should be read in conjunction with ABP's and our asset manager's policies, guidelines and publications with more detailed guidance on specific topics related to responsible investing such as climate, tax, remuneration and Sustainable Development Investments (SDIs). It will be regularly reviewed and updated as necessary, based on market trends and public policy developments.

## 2. Principles of Corporate Governance

ABP believes that good corporate governance is essential for investing well and is a prerequisite for companies to manage risks and create long-term value. Without good governance, companies cannot successfully contribute to combating climate change and preserving nature and biodiversity. We therefore set out four underlying principles which form the basis for our stewardship activities.

Our four underlying principles of corporate governance are:

### 1. Enhancement of long-term value

We expect companies and therefore its directors and (fund) managers, to create and enhance value in the long-term, taking due account of the best interests of the company, its investors and other stakeholders. An investment's strategy, policies, risk management and internal controls, reporting, and conduct should reflect and support that goal.

### 2. Accountability

The directors of a company must be accountable to its shareholders and creditors and make themselves available for meaningful dialogue with shareholders and creditors as providers of capital and with other stakeholders as appropriate. Companies should respect the principle of 'one share, one vote' and the rights of all shareholders equally. Directors are accountable to uphold and demonstrate responsible business practices and policies and respond effectively in the event that performance falls short of these standards. This includes both financial and non-financial performance such as operational performance and how a company deals with controversies.

### 3. Sustainability

We expect companies to act in a sustainable way by focusing on long-term value creation. This includes determining strategy, making decisions and conducting business in a responsible manner in line with the company's interests and in the

wider context in which it operates. Companies should provide relevant disclosure of significant social and environmental risk factors that a business is exposed to, including information on matters that have a potential present or future impact on companies' value drivers, shareholder value creation and on the society and the environment as a whole.

### 4. Transparency

Shareholders and creditors demand transparent and meaningful disclosure from the companies and funds they invest in that enables them to make well-informed investment decisions. We expect companies to disclose operational, financial, sustainability, personnel and governance information in a timely, complete and comprehensible manner, and additional information for social stakeholders where appropriate. We also expect information related to environmental and social matters, and the integrity of the company's conduct to be regularly and clearly disclosed as and when they could have a material impact on the company's long-term performance.

### 3. Active Ownership

ABP recognizes that the responsible use of investor rights and our role as stewards of capital involves the monitoring of and engagement with the listed companies in our portfolio and exercising our investor rights. To us it is an integral part of being a long-term responsible investor. We actively exercise our rights as investor to protect and enhance the economic value of our investments and to increase the sustainability of our portfolio step by step

ABP's Board of Trustees outsourced its fiduciary advise function and asset management activities to APG Asset Management (our asset manager). These include carrying out our stewardship responsibilities and exercising our investor rights. Our asset manager engages with public companies directly and through external managers investing on our behalf.

#### Monitoring and engagement

Monitoring of investments is part of our role as good stewards of capital to gain a better understanding of how they are run. In the most basic terms, monitoring involves all aspects which in our view could impact a company's ability to create long-term value including governance, strategy, performance, sustainability, risks, opportunities and capital structure.

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 United Nations for Principles of Responsible Investment (UN PRI)
- The International Corporate Governance Network (ICGN)

Via our engagement activities we inform companies about our ambitions and objectives, assess the extent to which they meet them and encourage them to take sustainability considerations into account. Engagement supports our ambitions by

holding companies accountable for sustainable and responsible business operations, such as governance standards, and tackling abuses.

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.

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](#).

#### Proxy voting

Proxy voting is part of ABP's active ownership approach. Our asset manager centrally oversees and coordinates the exercise of all equity voting rights globally using an electronic voting system, involving portfolio managers in the decision making. We have developed our own voting policy<sup>3</sup> which, combined with research from a proxy voting service provider, generates custom voting instructions across the portfolios. When deciding how to vote, our asset manager takes into account 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.

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3 [ABP 2024 Voting policy](#)

### Market engagement and engagement with policymakers

ABP and our asset manager are actively involved in a number of investor and multi-stakeholder organizations.<sup>4</sup> Our asset manager regularly responds to national, European and international consultations on corporate governance and sustainability matters. Next to this, ABP pro-actively provides input to regulatory bodies regarding important matters pertaining to the functioning of the financial system as well as responsible corporate conduct and engages with policymakers to try to increase support for the choices we make when it comes to responsible investment, mitigate systemic risks that have an impact on our investment portfolio but are beyond our direct control and achieve our societal goals in collaboration with these policymakers. For more information please see our policy on [engagement with policymakers](#).

### 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 as a means to improve corporate governance at a company involved in litigation. Corporate governance reforms can thus be made part of a settlement.

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4 Such as the International Corporate Governance Network (ICGN), the Principles of Responsible Investment (PRI), the Council of Institutional Investors (CII), Eumedion and Asian Corporate Governance Association (ACGA).

## 4. Corporate Governance Expectations

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

### 1. Board

Boards have a critical role to play in the long-term success of a company. The structure and composition of boards 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.

We expect directors to make themselves available for meaningful dialogue with shareholders and creditors as providers of capital. Directors should be open to the views of other stakeholders as appropriate and listen to their points of view. Non-executive directors should exercise management oversight and be willing to constructively challenge and hold management to account when necessary. We expect boards to identify and oversee all material risks over the short, medium and long term and report key risks and ensure that they are effectively controlled and managed in order 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.

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. We expect boards to be

well balanced on the whole and set up committees to ensure effective running of the board.

#### a. Composition

An effective and well-led board contains a mix of individuals with diverse but relevant experience, expertise and backgrounds. We strongly believe that well-balanced and diverse boards contribute to board effectiveness and ultimately value creation over the long-term. Board appointments should be made on the basis of merit. ABP expects a board to recruit from the greatest pool of talent. In our view, diversity has several dimensions including social and ethnic background, gender, education, personality, nationality, sexual orientation, experience and age. The board nomination process should take these into account in order to achieve an optimal board composition. Companies should have a clear governance structure in place to foster diversity throughout the organisation and to explain 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 with regard to diversity on the board, among executive management and the entire employee population.

At larger companies and those in high impact sectors in particular, we expect that responsibility be allocated at the board level for relevant sustainability issues. This could be, for example, in the form of a director or several directors with relevant sustainability or governance experience or a designated committee of the board.

#### b. Independence

Unitary boards should have a majority of independent directors.<sup>5</sup> 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

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<sup>5</sup> The non-executive chairman will be included for the purpose of assessing the independence threshold.



not normally become 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 shareholder<sup>6</sup> 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.<sup>7</sup>

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 a director to exercise independent judgement. These include but are not limited to:

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

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 non-independent members of the board.

#### **c. CEO/Chair**

The leadership of the board and the management should not vest in one individual because they require distinctly different skills and qualifications 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 Committee**

Boards (or supervisory boards in a two-tier structure) should set up remuneration, nomination and audit committees. A least two-thirds of the members of the remuneration and the nomination committees should be independent. The audit committee should comprise only independent directors.

#### **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 diversity. We 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. Directors should stand for re-election by shareholders at regular intervals. We do not support board structures in which a proportion of directors serve for different 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.

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6 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.

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

#### **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) 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 and we therefore expect individual board tenure to be limited to a maximum of twelve years.

## **2. Shareholder Rights**

#### **a. Issuance and buyback of shares**

Companies issue new shares from time to time to raise fresh capital. This may be in order 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 run 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.

Although ABP is aware that local legislation and regulation may vary, ABP will generally not support buyback programmes that request authority to purchase more than 10% of outstanding share capital. 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](#)

#### **b. 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.

## **3. Remuneration**

#### **a. Disclosure**

ABP expects companies to provide meaningful disclosure of pay policies and pay levels, particularly those applicable to senior executives. It should be clear and easy to conclude from public remuneration disclosures how pay structures and incentive targets relate to the business strategy and its implementation, what management is incentivized to do and how pay-outs correlate with performance.

#### **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 judgment applied by the board. We will strongly oppose cases of discretion exercised without satisfactory justification.

#### **c. Structure**

Remuneration 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.

We expect boards and their remuneration committees to incentivize management to balance between optimal operation of existing assets and efficient capital allocations

and capital growth. Performance metrics should be clear to recipients of incentive awards ('line of sight') and closely linked to the value drivers of the company. The board and their remuneration committee should assess whether it is appropriate to include environmental, social (e.g. human capital, customers) or governance (e.g. compliance breaches, ethics) metrics in pay policies and explain why these have (not) been included. Such metrics should satisfy the general requirements for metrics.

#### **d. Pay Levels**

Pay is part of the operational costs and as such should be effectively managed. Regardless of whether pay represents a material cost, individual executive pay levels are also of concern to us, especially when doubts are raised about shareholder alignment, effective governance or corporate disregard to 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 the license to operate. Responsible behaviour includes demonstration of leadership at all times and restraint under certain circumstances. Pay levels should not be higher than is necessary to achieve the business strategy of the company.

#### **e. Severance payments and change-of-control provisions**

In our view, remuneration in the event of dismissal should not exceed one year's base salary. Termination payments should not be awarded in the event of culpable or negligent behaviour.

In a change-in-control situation we expect unvested awards to be time pro-rated up to the change in-control. For those awards where vesting is subject to performance, we expect awards to vest only to the extent that these performance goals are attained at the time of the change-in-control. A change in control should only affect pay-out if it leads to termination of employment without cause.<sup>8</sup>

More details about our expectations of listed companies around remuneration can be found in our asset manager's remuneration guidelines to listed European and US companies.<sup>9</sup>

## **4. Annual Account & Audit**

The annual report and accounts are an important source of information for 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 and creditors 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 sub-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. The range of risks monitored by the committee should include those relating to information and communication technology as well as cybersecurity.

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.

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<sup>8</sup> Also known as a 'double trigger'.

<sup>9</sup> For our asset manager's Remuneration Guidelines to listed European and US companies see: [apg-remuneration-guidelines-to-listed-european-companies.pdf](#)

#### **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, maintaining regular direct contact to key personnel. Smaller companies may find the setting up of a dedicated audit control function to be inappropriate for their business and may instead use more suitable internal audit controls.

#### **c. External Audit**

The appointment of the external auditor and the proposal to approve their remuneration should be approved by shareholders, 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.

#### **d. Audit Fees**

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

#### **e. Political and charitable donations**

Companies should 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 contributions and trade association spending policies and activities. Charitable donations can help build stakeholder relationships, but a company should have a clear policy in place to avoid potential conflicts of interests and publish its donation record.

## 5. Regulation

Certain regulation 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 this regulation is further described below.

### 1. SFDR Good Governance Practices

ABP's pension schemes promote ecological and/or social characteristics. According to the Sustainable Finance Disclosure Regulation ('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:

1. sound management structures,
2. employee relations,
3. remuneration of the staff concerned, and
4. Tax compliance.

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

### 2. Revised Shareholder Rights Directive

The revised European Shareholder Rights Directive (SRD II)<sup>10</sup> sets certain requirements for listed companies, intermediaries, proxy advisors, institutional investors and asset managers in Europe around corporate governance and shareholder rights. ABP complies with the SRD II requirements for institutional investors. ABP's Stewardship Policy<sup>11</sup> describes how we fulfil our stewardship and engagement responsibilities as a shareholder in listed companies. ABP discloses

annually on what topics it has spoken about with the companies it invests in<sup>12</sup> and disclose how we have voted at general meetings of the companies we invest in.<sup>13</sup>

### 3. Dutch Corporate Governance Code

ABP recognizes her role and the responsibilities as institutional investor to the ultimate beneficial owners of companies for the careful and transparent assessment of how we exercise our rights as shareholder of listed companies. Therefore, ABP complies with the principles and best practice provisions of the Dutch Corporate Governance Code 2022 (the Code) aimed at institutional investors. This involves the exercise of voting rights on an informed basis and as we deem fit, publication of our Responsible Investment & Stewardship Policy and annual reporting about the implementation thereof, and publication of votes submitted at the annual general meetings of investee companies.

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10 Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC.

11 ABP's stewardship policy is available on our website: [stewardship-beleid.pdf \(abp.nl\)](#)

12 For the overview of engagement please see the list "Engagement met bedrijven" on ABP's [website](#)

13 For a complete overview of how our asset manager voted on our behalf, see: [VDS Dashboard \(issgovernance.com\)](#)

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