



**ILMARINEN MUTUAL PENSION INSURANCE COMPANY
OWNERSHIP POLICY**

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Approved by Ilmarinen's Board of Directors on 27 October 2011

1 General Principles

1.1 *Mission and Values*

Ilmarinen's mission is to safeguard the statutory employee pension cover of employees and self-employed persons, as well as to manage the investment assets that cover future pensions. The core values that guide our activities are responsibility, openness and succeeding together. Ilmarinen's ownership policy is based on the company's basic task and values.

1.2 *Investment Goals*

The primary objective of our investment activities is to maximise the long-term return on pension fund assets without exposing the working capital to a higher level of risk than that determined by the Board of Directors. The average long-term expected return on Ilmarinen's investment assets is 6 per cent, and the expected standard deviation of the return is 8 per cent. Good long-term investment returns can help alleviate the pressure to raise future pension contributions. One of Ilmarinen's main goals is to be a financially sound pension insurance company, as well as the most successful of all pension companies in the management of investment assets covering underwriting reserves. The Board of Directors is responsible for investment activities, and has delegated investment-related decision-making to the CEO, the investment director and the investment organisation. The company's investment organisation is responsible for the preparation of decisions and the implementation of investment activities.

Ilmarinen invests employee pension funds pursuant to legislation and the investment guidelines and regulations issued by the Finnish Financial Supervisory Authority in such a way that the funds will, under all circumstances, be sufficient to cover the company's underwriting reserves. Ilmarinen's investment activities comply with both the current legislation and social acceptability. Ilmarinen determines social acceptability in all of its investments through an analysis based, for example, on legislation and international norms. The principles for responsible investment are described under each asset class.

Ilmarinen considers it important that industrial and commercial activities in Finland remain competitive and that the conditions for the long-term development and operation of business activities are good. Successful business activities provide job security and ensure the present and future sustainability of the pension system.

1.3 Ownership Policy Objectives

In order to achieve the objectives set for its investment activities, Ilmarinen invests its pension assets in various asset categories, such as equities, fixed-income instruments and real estate, and provides financing for companies.

Ilmarinen is a major institutional investor in the financial markets. Our investments are long-term in nature, and we aim to maximise their long-term value. We require that the companies we invest in operate in a way that increases their ownership value. A company that acts in a responsible and socially acceptable manner also takes into consideration other stakeholder groups, such as the employees, sub-contractors, financiers and customers, in addition to complying with the principles of sustainable development with respect to the environment.

A target company's operations must be sufficiently transparent. Comprehensive reporting is the most important transparency indicator. In addition to financial reporting, companies must report on their governance and responsibility principles, as well as how these are applied.

Various asset classes have their own special characteristics that have been taken into account in Ilmarinen's ownership policy.

1.4 Principles for Responsible Investment

Ilmarinen's investment activities are guided by three main principles: active ownership, an integrated responsibility analysis and a minimum requirement based on international norms in addition to legislation. These principles are complied with in the various asset classes to the extent permitted by legislation and regulations.

1.5 Reporting on investment activities

Ilmarinen reports on the implementation of its ownership policy in its annual report.

2 Listed Securities

Listed securities include investments in listed equities and fixed-income investments, as well as investments in equities and fixed-income funds. These are inspected based on the statutory and international norms mentioned in section 2.1. In addition, equities are subject to Ilmarinen's active ownership steering, which is discussed further in section 2.2.

2.1 Responsible Investment

Ilmarinen is a signatory to the UN Principles for Responsible Investment, according to which investors take environmental, social and governance issues into consideration in their investment decisions. Ilmarinen has set minimum requirements for its listed securities investments. According to these requirements the companies must, in addition to national legislation, comply with, for example, the following norms and agreements:

- UN Global Compact
 - e.g. respect for human rights, including equal treatment regardless of race, religion, social origin or gender
- ILO Conventions
- OECD Guidelines for Multinational Enterprises
 - guidelines on, for example, rules for working life, sustainable development, issues concerning the responsibility of financiers of investment projects, and environmental issues
- UN Declaration of the Rights of the Child

Ilmarinen does not automatically exclude any single industry or company as a potential investment target. It is assumed that the investment targets comply with the above-mentioned agreements and norms. If a company included in Ilmarinen's investment portfolio has violated Ilmarinen's principles for responsible investment, Ilmarinen, either alone or in co-operation with other investors, will attempt to influence the company so that the undesirable actions cease. If the measures do not result in the desired outcome or their success is uncertain, the company in question is removed from Ilmarinen's investment universe.

Ilmarinen's ownership steering procedures are discussed in section 2.2.

2.1.1 Analysing Investment Targets

Ilmarinen's investment organisation analyses companies, also taking into account responsibility and sustainability perspectives. The investment organisation uses an integrated model in its responsibility analyses, which means portfolio managers and analysts evaluate responsibility criteria as a part of normal operations. Depending on the industry and company, the portfolio managers and analysts make use of various information channels to help them in their work, for example reports and research that focus on responsible investment.

2.1.2 Engagement

If an investment target does not comply with Ilmarinen's responsibility principles, Ilmarinen will try to initiate an engagement process. The engagement goal is to put an end to the undesirable activity by means of active dialogue. The intention of the engagement process is not to transfer the target company's operative management to the investors, but rather to expose the risk factors that will weaken the company's value. Ilmarinen strives to carry out engagement processes in co-operation with other investors, thus ensuring a higher probability of success. The engagement process includes several stages:

- Recognition and analysis of the situation, and drawing up an agenda
- Contacting other investors
- Drawing up an engagement process plan
- Contacting the company
- Discussions, company visits, on-site visits etc.
- A satisfactory outcome for all parties at the end of the process, or termination of ownership

It is difficult to set strict time limits on the engagement process, since the topics of the process can vary, for example from drawing up human rights policies to changes in production methods. The development and progress of the engagement process are verified at regular intervals so that the grounds for continuing the process can be determined. If the process does not result in a satisfactory outcome for Ilmarinen, it must terminate the ownership and refrain from purchases. Engagement processes may also be carried out in companies in which Ilmarinen is not an owner. These companies may represent interesting investment targets, but there are problems in the compliance with Ilmarinen's responsibility criteria. During the engagement process, securities purchases are permitted.

2.2 Ownership Steering

Ilmarinen is an active owner, for example, in the following ways:

- by participating in the Annual General Meetings of companies
- by promoting professional governance and management of the companies it owns by actively taking part in the selection of the members of the companies' Boards of Directors
- by maintaining regular contact with the management of the companies
- by co-operating with other shareholders

2.2.1 The Annual General Meeting

Ilmarinen attends all of the Annual General Meetings of the domestic companies in which it is a major owner.

It is important to Ilmarinen that, for example,

- the shareholders receive information on all the topics that will be addressed at the Annual General Meeting well in advance
- any extraordinary motions will be explained in detail in the notice of meeting
- the shareholders are presented with the principles of management's remuneration, compensation, and pension plans

2.2.2 Selection of the Members of the Board of Directors

The Board of Directors is responsible for the company's governance and the appropriate organisation of the company's operations. In addition, the Board guides and monitors the company's acting management, appoints and dismisses the President and CEO, approves the company's strategic targets and the principles of risk management and ensures the functioning of the management system. In accordance with good governance, the Board also ensures that the company establishes the values that must be applied to its operations. The Board's task is to represent the interests of the company and all of its shareholders. The members of the Board of Directors are not representatives of the parties responsible for nominating them as members. The Board's goal must be to increase the company's long-term ownership value.

Ilmarinen holds professional skills, experience and strengths that complement the strengths of other members within the Board as important factors when selecting Board

members. The composition of the Board of Directors and the number of members must be in line with the industry-specific structure of the company in question, and with its life-cycle stage. The Board must be able to find sufficiently broad competence without the need to unnecessarily increase the number of board members. Board members should have sufficient time to perform their duties satisfactorily. People who hold too many Board memberships simultaneously should therefore not be elected to the Board. In forming the Board of Directors, special attention should be paid to the independence of directors both with respect to the company and the largest shareholders. Individuals who may find themselves in a conflict of interest with the company due to their employment or for some other reason should not be elected to the Board of Directors.

Significant owners must, through their own active input, strive to make sure that a carefully prepared and well-founded proposal on the Board of Directors' composition is submitted to the Annual General Meeting for approval. Depending on the company's ownership structure, Ilmarinen favours two different models for the Nomination Committee. In companies that have one or more significant long-term owner(s), the Nomination Committee members should be chosen primarily from amongst the largest owners. In companies with a diversified ownership structure it is well-founded to have a Nomination Committee that is made up of Board members. In the latter case as well, Ilmarinen considers it to be good practice that the largest shareholders are consulted in advance when necessary. As a rule, the Chairman of the Board should be a member of the Nomination Committee, either as a member or as an expert.

Ilmarinen's employees do not, as a rule, take part in the activities of the Board of Directors of the listed companies owned by them. On a case-by-case basis and with good reason, however, Ilmarinen's Board of Directors can decide otherwise. Ilmarinen actively participates in the selection of Board members via its Nomination Committee activities. In terms of ownership steering and significant shareholders' responsibilities, the key issues are regular evaluation of the Board of Directors' performance and the nomination of candidate members: owners must monitor the Board of Directors and ensure that it acts in the best interests of all owners.

It is important that the functions of the Chairman of the Board and the CEO are clearly separate. The CEO reports to and is accountable to the Board of Directors, while the Board reviews and decides on key strategic issues. As a rule, the CEO should not be a member of the Board of Directors.

2.2.3 Compensation of the Board of Directors

The Board members should receive competitive compensation. It should be proportionate to the difficulty of and time used to perform the work. The compensation can be composed of an annual remuneration, meeting fees or a combination of the two. Ilmarinen considers Board members' share ownership desirable and compensation can

be partly paid as shares. The Board of Directors should not have its own option programme, and participation in share-based incentive programmes should be approved at the Annual General Meeting.

2.2.4 Independence and Activeness of the Board of Directors

The Corporate Governance Code provides a framework for evaluating independence. Ilmarinen considers it important to focus on the big picture when evaluating independence. Although an individual might fulfil specific independence requirements, a look at the bigger picture may reveal a dependence on either the company or the largest owners.

Companies should report separately on individual Board members' attendance records at Board and/or committee meetings.

2.2.5 Dividend Policy

The dividend-paying capacity of the company depends on its financial performance, capital structure and growth prospects. Ilmarinen considers it important that the company has a dividend policy approved by the Board and that the dividend policy is, from the shareholders' perspective, active and goal-oriented.

2.2.6 Shareholder Rights Plan

The best structure for creating value for the company is one vote per share and the same dividend for each share. It is essential that the rights are distributed in proportion to the capital contribution to the company.

2.2.7 Remuneration – General Principles

Creating a uniform remuneration plan that fits every company is impossible. Each company has special characteristics and the industry sector also places its own demands on such plans. Nevertheless, a good remuneration plan has the following qualities: long-term perspective, clarity, simplicity and rewards only on earned success. Ilmarinen believes that listed companies should have a separate Remuneration Commit-

tee. The principles of remuneration, compensation and pension plans for management should be presented in the Annual General Meeting.

Ilmarinen is in favour of management remuneration plans provided that they help to align a company's management goals with those of its shareholders. It is desirable that the company's management and members of the Board of Directors own shares in the company. When these holdings constitute a significant proportion of the total assets of these individuals, the interests of other owners and those of the company's management are more or less aligned.

Ilmarinen believes that a well-implemented remuneration plan can encourage a company's management to increase the value of the company they lead over the long term. Even if the management is unable to directly influence the value of the company, it can have an impact on the company's financial performance. Ilmarinen believes that in the long term, financial success will have a positive impact on the company's value development. On the other hand, poorly designed remuneration plans can work against owners' interests. It is advisable that the people who would gain the most from the remuneration plan, such as the company's CEO, are not involved in the development of remuneration plans that apply to them.

2.2.7.1 Remuneration for Employees

All staff groups have a great impact on a company's success. Ilmarinen embraces all management and staff incentive plans that encourage employees towards a better and more sustainable financial performance. From the owners' perspective, it is expedient to create incentives for the company's executive management to ensure that the interests of the company's management are aligned with those of its shareholders. The company management has the primary responsibility for specifying the remuneration plan for other employees and ensuring that the plan is not in conflict with the owners' interests.

2.2.7.2 Transparency

The compensation plan must be sufficiently clear and simple in order to facilitate measuring its effectiveness. In addition, it is important to determine who is responsible for monitoring the implementation of the plan and what principles should be applied to such monitoring. The Board of Directors of the company and its executive management are under obligation to disclose details of the compensation plan and any changes made to it. The company should strive for maximum transparency in its compensation plans.

2.2.7.3 Stock Options

Stock option plans are one type of compensation plan for company management. When companies use stock option plans as incentive for the management, the following points should be noted:

Ilmarinen advises against short-term stock option plans in which the company's management is given options whose exercise price is close to the market price.

Well-designed stock option plans change the company's ownership structure by increasing the relative ownership share of the company's executive management at the expense of the original shareholders. The decrease in the relative ownership share of the original owners must be limited.

Share buybacks form an oversight challenge for the Board of Directors that depends upon the expiration date of the stock options. It is advisable to refrain from significant buybacks of the company's own shares, especially close to the expiration date of the stock options.

As a result of successful stock option arrangements, executive managers can become significant shareholders in the company. It is important to Ilmarinen that the management remain shareholders in the company after the exercise of the stock options.

From the perspective of the original owners, the fairness and control of the dilution of ownership are more important than the control of the option exercise price in the long term.

2.2.8 Takeover Protection

Ilmarinen generally considers various voting right restrictions and approval clauses as factors that reduce the company's value.

3 Non-listed Investments

In its investments in non-listed companies, Ilmarinen, as a rule, follows the same principles as for its investments in listed companies. Ilmarinen considers it important that companies comply not only with the legislation, but also with the operating principles applicable in their own business sector and with the general principles of corporate re-

sponsibility – in all of their operations. Portfolio managers and analysts in charge of Ilmarinen's non-listed investments take responsibility issues into consideration in the company's investment decisions.

The liquidity of non-listed shares is weaker than that of listed shares. For that reason, Ilmarinen highlights an active dividend policy, particularly in non-listed companies. Ilmarinen is a long-term investor that aims not only for good investment returns, but also strives to foster Finnish business and industry.

Ilmarinen's employees participate in the activities of the Board of Directors on a case-by-case basis. Non-listed companies have less of a reporting obligation than listed companies, but Ilmarinen considers it important that companies aim for transparency and thoroughly report on their operations.

4 Real Estate

Ilmarinen is a long-term real estate investor that complies with responsible and socially acceptable operating practices in its own operations and demands the same from its customers and partners.

Ilmarinen is a signatory to the UN Principles for Responsible Investment, according to which investors take environmental and social and governance issues into consideration in their investment decisions. The minimum requirements set for responsible real estate investments comply with the main principles of responsible investment mentioned in section 1.4. According to these requirements the companies must, in addition to national legislation, comply with, for example, the following norms and agreements:

- UN Global Compact
- ILO Conventions
- OECD Guidelines for Multinational Enterprises
- UN Declaration of the Rights of the Child

In addition to the minimum requirements, Ilmarinen takes good care of the company's real estate base and develops it in accordance with the principles of environmental sustainability.

Ilmarinen pays particular attention to the energy efficiency, sustainable development, and ecological nature of the real estate properties, as well as the sustainability of the properties throughout their life cycle. As a responsible property developer,

Ilmarinen endeavours to ensure that the companies it hires take care of their employer obligations and strive for exemplary occupational safety and health.

Ilmarinen also strives to be a forerunner in real estate development and construction by constantly trying to find the most environmentally sustainable solutions for its sites.

5 Corporate Lending

For Ilmarinen, it is important that the companies for which it provides financing also operate in accordance with the principles of responsibility. Social and environmental responsibilities as well as governance issues are also analysed and taken into account when credit decisions are made. Ilmarinen considers it important that companies comply not only with the legislation, but also with the operating principles applicable in their own business sector and with the general principles of corporate responsibility – in all of their operations.