

PRI Reporting and Assessment survey 2011 Executive Summary

Your organisation:

Ilmarinen Mutual Pension Insurance Company

Governance, policy and strategy (Q 11)

In order to achieve the objectives set for investment activities, Ilmarinen invests its pension fund assets in equity, real estate and interest-bearing instruments, as well as investment loans. Ilmarinen is a relatively large player in the financial market. Our investments are long-term in nature. We aim to maximise long-term ownership value. This means that the companies we invest in must be managed for the long-term benefit. Companies that operate in this way usually give due consideration to other stakeholders, such as employees, subcontractors, lenders and customers. In addition, the company must operate in a responsible and socially acceptable manner and is committed to sustainable development with respect to the environment.

Ilmarinen expects these companies to also strive towards transparency. Comprehensive reporting on company activities is the most important transparency indicator. The reported information includes, for example, the independence of the members of the Board of Directors, incentive plans, accounting principles and information on major shareholders, as well as environmental and social responsibility reporting.

Ilmarinen exercises its ownership rights in the following ways:

- By participating in the Annual General Meetings
- By maintaining active contact with the management of the companies in which it invests
- By cooperating with other shareholders
- By participating in the work of the Nomination Committee

For example, it is important to Ilmarinen that:

- 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 executive and non-executive directors' remuneration and pension plan principles will be presented to shareholders .

In addition to complying with current legislation and regulations, Ilmarinen and its investment activities must also be socially acceptable. To Ilmarinen, social acceptability means compliance with international norms and agreements. Ilmarinen requires that in addition to domestic legislation, companies comply, for example, with 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 Fundamental Principles and Rights at Work
- 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 evaluates social acceptability using the principle of positive valuation, which means that as a starting point the investment targets are assumed to respect

the abovementioned agreements and norms so that, for example, no company or industry is automatically excluded as a potential investment target. To Ilmarinen, negative values are represented by indifference towards the abovementioned norms and agreements. If a company included in Ilmarinen's investment portfolio is found to have operated in violation of Ilmarinen's principles for responsible investment, Ilmarinen, through its own actions, will attempt to influence the company so that the undesirable operations cease. If the measures do not result in the desired outcome or their success is highly uncertain, the company in question is removed from Ilmarinen's investment universe.

Principle 1 - We will incorporate ESG issues into investment analysis and decision-making processes (Q 19)

Ilmarinen has a public ownership policy. Our main three principles within our ownership policy are: active ownership, esg-integration and international norms as the minimum requirement. These three principles have esg-issues at the core albeit at different levels and with different weightings and approaches.

Integration

We have an integrated approach to ESG with regards to in-house managed assets. Our portfolio managers are responsible for implementing all necessary ESG steps in investment decision making. To help them with specific questions/ issues they have a full time RI specialist sitting in our dealing room. We believe that our portfolio managers are the most knowledgeable people regarding their own specific companies and therefore it makes sense that they make the judgement on what ESG issues are material to their companies. The materiality question is very important as it varies between different industries and even companies within an industry. Our RI specialist is there to provide information and help with any research needs that may arise but she does not produce separate ESG-analysis on every company in our portfolios. Our approach is such that we feel that ESG issues are often very much financial by nature (directly or indirectly) and therefore they need to be assessed in conjunction with traditional financial analysis.

International norms as a minimum requirement

We have a formal ownership policy which state our minimum requirement and preferred approaches in integrated investment decision making. In our ownership policy we state that we require companies we invest in to follow legislation and international norms. In case a company fails to adhere to these requirements, it is either excluded from our investment universe (least preferred option) or we will start an engagement process (the preferred option) irrespective if we have current holdings in that company or not.

Active ownership

This issue is discussed at length within UN PRI Principle 2

Principle 2 - We will be active owners and incorporate ESG issues into our ownership policies and practices (Q 26)

Active ownership within domestic holdings

We have adopted a very active ownership strategy regarding our domestic holdings. Our domestic equity holdings account for approx. 42% of our equity portfolio. With Finnish equities we vote at over 90% of all ballots and if the comparison is made on the monetary value of our investments, we will reach approx. 99% of all ballots.

Besides voting we regularly meet with senior managements, chairmen of the boards and other board members. In these meetings we will raise ESG issues if needed. We prefer to do private and confidential engagement as our experience has shown that in these types of discussions we are in a better position to give feedback and achieve more than in public discussions.

Active ownership within foreign equities

On foreign equities we only vote on a case by case basis where there are significant, material issues and we have a significant holding. We meet with company executives but on a less regular basis compared to the Finnish companies. We have been very active with regards to engagement with BP for example and also our Nordic Engagement Co-operation with Folksam and KLP has proven to be an effective tool to do collaborative engagements with foreign companies.

Engagement

With incident driven engagement we do not differ between domestic and foreign companies the same way we do with proxy voting. As we have a very good relationship with Finnish companies we, however prefer to do engagements on our own.

Therefore collaborative and/or public engagement is less frequent with domestic issues compared to foreign ones. With foreign company engagements we prefer collaborative engagements as they have proven quite successful.

Principle 3 - We will seek appropriate disclosure on ESG issues by the entities in which we invest (Q 52)

Integrated approach to investment decision-making

As we have an integrated approach, we seek information from various sources: the company itself, research providers, product specialists... Only a few are dedicated ESG-researches/ analysis as we strongly believe in a more modern, integrated approach. Each portfolio managers chooses which research houses they will follow, who will cater best for their particular needs and only some niche issues are coming from ESG-specialists.

We actively encourage companies to respond to Carbon Disclosure Project and Water Disclosure Project. We also discuss in public seminars and in one-on-one meetings with companies, the need for integrated reporting. We also help companies to develop their reporting by participating in any surveys or interviews they carry out with their investor base.

Principle 4 - We will promote acceptance and implementation of the Principles within the investment industry (Q 58)

Ilmarinen

We have for years now asked potential service providers if they are PRI signatories and if not, why not. We also promote our signatory position in public discussions (seminars, conferences, our web site, annual report...) and internal stakeholder discussions. We have been advocating many industry standards, have encouraged academics to do studies on responsible investment by providing them with data and connections and we have been involved in working groups and discussion groups to further enhance ESG-issues, notably governance issues through working groups and E/S through discussions.

We have also been very open on our signatory position and have held talks, "workshops" and "pep talks" to potential signatories usually when asked to do so. We have also been one of the driving forces in setting up Finsif. This work started during 2009 and Finsif was officially established in June 2010 together with the big Responsible Investment 2010 -seminar.

Finsif

The Responsible Investment 2010 -seminar attracted more than 400 investors, academics and other interested parties. After the seminar there has been a huge buzz within the Finnish investor base around responsible investment. The number of Finnish PRI signatories has grown rapidly making Finland one of the largest growing markets world wide. Ilmarinen has been a very active member since the planning stages.

Principle 5 - We will work together to enhance our effectiveness in implementing the Principles (Q 65)

Active member

We are a member of several groups, initiatives, working groups. Some of these initiatives are still growing and informal but others such as CDP are more established and formal. Due to the different stages the initiatives are in, our work within these groups is different too:

With CDP, we contact non-responding companies to encourage them to respond, we describe our membership position in public and private discussions, participate in CDP working groups to provide the investor side to the companies asked to participate.

With NEC, the initiative is now maturing but we still need to establish ourselves to the companies and the investment community. We do collaborative engagement, discuss strategies with each other and describe the initiative to companies and other investors. Our work is more systematic with written, pre-determined engagement goals, meeting minutes and overall a more formal approach. Compared to CDP, NEC is much more hands on throughout the year whereas with CDP we can best help the initiative when the CDP secretariat identifies situations where they need investor support.

Finsif was formally launched in 2010 and it took us some time to get ourselves more organised. But towards the end of the year, we had a few members only meetings relating to GRI reporting and problems arising from palm oil industries. As the initiative is still at the beginning, we are still looking at different ways to work together with other investors. The idea behind Finsif, however, is to provide a forum for investors, investment managers, service providers, media and other stakeholders interested in responsible investment and also to educate the ones who are not familiar with these issues. We will organise seminars, conferences and work shops.

With some other well known initiatives we have taken more of a back seat approach: we are a member, attend seminars, conferences and on an ad-hoc basis can take a more active approach.

Principle 6 - We will each report on our activities and progress towards implementing the Principles (Q 70)

Increased Disclosure

We have increased our reporting in recent years. In 2010 we published the majority of our responses to the PRI survey on our website like we did in 2009. (http://www.ilmarinen.fi/Production/en/ilmarinen/06_investments/06_1_liiteet/unpri2010.pdf). The sections that we didn't publish included sensitive, competitive material e.g. asset allocation figures that differ from official reporting. We published our survey results but as the secretariat made a statement encouraging investors not to publish their results, we removed them from our website.

In our annual report we have a section on our investments where we include our responsible investment policies and some facts and figures. During 2010 we highlighted some engagement processes and collaborative efforts together with our PRI signatory position. In the annual report we also published our corporate KPI's with regards to Corporate Responsibility items. One of the KPI's is the UN PRI and the requirement is to report on on-going and successful engagement processes.

We also discuss our signatory position and the ways we implement the principles both in public and private discussions. We participate in surveys (academic and non academic) and give interviews to journalists. Although our printed reporting may not be as extensive as with some other signatories', we are very open and willing to discuss these issues with other investors and other stakeholders. We have added each year material on our website on responsible investing as we feel that it is financially and ecologically a better solution than to extend our annual report by several pages.
