Responsible Investment Guidelines

Approved by Ilmarinen's Responsible Investment Executive Committee on 14 November 2022.

Ilmarinen's Responsible Investment Guidelines describe how the principles of responsible investment are taken into account in our investment activities. The guidelines cover the three themes of responsible investment: the environment, human rights and governance (ownership).

Ilmarinen's Responsible Investment Executive Committee approves the document and is responsible for maintaining and updating it.

Person in charge: Karoliina Lindroos, Head of Responsible Investment

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Introduction

Ilmarinen’s Responsible Investment Guidelines together with the Responsible Investment Policy form the responsible investment framework that guides Ilmarinen’s investment activities.

Ilmarinen’s Board of Directors approves the Responsible Investment Policy. If required, Ilmarinen’s Responsible Investment Executive Committee makes suggestions and clarifications to the Board regarding the policy document approved by the Board.

The Responsible Investment Executive Committee also approves these Responsible Investment Guidelines. In these guidelines we have highlighted the principle mentioned in our policy document followed by the explanatory notes on how the principle is being implemented in practice.

We are a long-term investor and it is our duty to act in the best interests of our clients and pensioners. Therefore, responsibility is an integral part of our investment activities. Our mission is to invest pension assets in a profitable, secure and responsible manner so that we can pay pensions also in the future. As part of this mission, we take into account the environmental, social and governance aspects of investment decisions. We see that taking these aspects into consideration also has an impact on investment returns.

We actively manage ESG risks associated with investments and identify investment opportunities to address the challenges and goals of sustainable development. In addition, we make a positive contribution to promoting responsibility through our direct investments as well as through selected asset managers.

Responsible investment at Ilmarinen

We are a global investor. Our investments have a great impact on society. Through our Responsible Investment Policy and the tools in place, we guide our investment activities to minimise the negative impacts and maximise the positive impacts of our investments. The objective is to achieve sustainable long-term returns.

Ilmarinen’s Responsible Investment Policy is guided by three key requirements:

- compliance with international norms
- active ownership
- ESG integration

The aforementioned requirements concern all of our investment activities. Instead of the traditional asset-class approach, Ilmarinen’s responsible investment is described in terms of environmental, human rights and ownership principles. We also take into account characteristics specific to the asset classes, which are detailed in Appendix 1 to this document.

Responsible investment at Ilmarinen

Main requirements

Compliance with international norms

National legislation is not always strong enough from a responsibility perspective, which is why we insist that our investees also comply with international norms.

Alongside our own analysis and clarification requests, we use an external service provider as a source of information about possible norm violations. In addition to our own continuous monitoring, our service provider reviews our securities investments and reports any suspected or detected norm violations.

We take into account known norm violations when making investment decisions and systematically monitor new suspected violations. Norm violations are always addressed by the Responsible Investment Executive Committee. In undisputed cases, responsible investment experts can make the decision on how to proceed. The Responsible Investment Executive Committee will review more ambiguous cases and decide on how to proceed.

If a company does not comply with international norms, we can either exclude the company or start an engagement process. If a confirmed norm violated is associated with the company's operations, the company cannot be invested in without an engagement process. The engagement processes are described in the section *Active ownership and dialogue*: Engagement processes. The reasons for exclusion are listed in the section *Integrating ESG Analysis into Investment Decisions: Exclusions and limitations concerning investees.*

Active ownership and dialogue

Through active ownership and dialogue we have the opportunity to engage with our investees and highlight ESG-related risks and opportunities.

In addition to compliance with international norms, active ownership is another key responsible investment principle for us. Through dialogue, we receive information about our investments and potential investees. Active ownership can be implemented in various ways, for example through engagement processes, company meetings and by exercising our ownership rights.

Engagement processes

We believe that engagement in financially material ESG issues supports companies' long-term financial performance and reduces risks. We apply broadly used frameworks and analysis from service providers to identify material sustainability issues.

Through engagement, we strive to improve the investee's operations and to increase its awareness of material sustainability risks and best practices to manage those risks. Furthermore, engagement is a way for us to inform the companies of our expectations concerning sustainability and to build our own expertise in the various ESG risks that affect our investees.

We primarily engage with companies where we have direct equity or fixed income investments or another strong financial link. Engagement can also be carried out with potential investees where deemed appropriate, and on a broader scale, at the level of a sector or a value chain, for example, if material sustainability risks have been identified.

According to our Responsible Investment Policy, it is mandatory to start an engagement process if we want to invest in a company despite a confirmed violation of norms. In addition, we can engage with companies that are suspected of a norm violation.

Engagement can also be proactive or focus on a specific theme. In such a situation, the company may not necessarily be suspected of violating norms, but its operations, sector or geographic region may involve, for example, a significant sustainability challenge or an elevated sustainability risk. We use well-known frameworks and analysis from service providers to identify material sustainability issues.

Engagement can be carried out either alone or in partnership with other investors or stakeholders, and through the use of specific service providers.

We engage with companies ourselves. We prepare the agenda and the plans for the engagement process and are responsible for all communication with the company. The engagement process means an active dialogue that can include meetings, site visits, phone calls and letters. We also obtain additional information, for example, by reading company publications or analyst materials. The portfolio management team participates in engagement work together with the responsible investment team. In Ilmarinen's own engagement processes, Ilmarinen's responsible investment team is responsible for preparing the agenda and documentation.

We engage with companies as part of Nordic co-operation with Folksam and PFA. This co-operation is called the Nordic Engagement Cooperation (hereinafter NEC). Engagement themes and targets are agreed on together between the participating organisations. The engagement processes are coordinated and implemented by Sustainalytics. Ilmarinen, Folksam and PFA may be involved in meetings, phone calls and letters on a case-by-case basis. The role of investors will vary depending on the case. The investor can, for example, play an active role in agenda preparation and the meeting process or a passive role as a listener.

We receive regularly, approximately four times a year, updates from Sustainalytics experts on the progress of the engagement processes. The engagement objectives and plans are primarily managed by Sustainalytics and take into account the investors' objectives. The documentation is maintained by Sustainalytics. NEC reports on its activities annually and the report is published on our website.

Investor groups such as IAHR (Investor Alliance for Human Rights) or CA100+ (Climate Action 100+) engage with companies. We can participate either as active members performing engagement work or by supporting investors who participate in joint engagement processes. We monitor the progress of the engagement process by, for example, participating in investor calls or through reporting.

A service provider (e.g. Sustainalytics) engages with the company on our behalf, prepares the engagement goals and plans the required activities. We follow the engagement process and can also participate in activities related to the engagement process, which include, for example, letters, phone calls and meetings. We monitor the process at least once a year through, for example, analyst calls or the aforementioned engagement activities. The service provider prepares and is responsible for the agenda and documentation for the engagement process.

Ilmarinen's responsible investment expert always participates in engagement processes on Ilmarinen's behalf. Depending on the situation, portfolio managers are also involved in the process. External fund management companies also engage with their investees. We discuss these engagement processes with our fund managers as appropriate.

If a company's operations are subject to a confirmed norm violation and the engagement process does not bring about change or its success is highly uncertain, we will sell our investment in that company and exclude the company from among our investees, whenever possible. Progress on all engagement processes is annually reported to the Responsible Investment Executive Committee.

Addressing individual issues and other communication

In addition to engagement processes, we can engage jointly with other investors or through initiatives by participating in various campaigns, such as letters or resolutions. These communications are not considered actual engagement processes in our reporting.

In addition, we contact companies on individual ESG issues, which may arise, for example, from general meeting notices, through non-governmental organisations or the media, or be other one-off contacts. These communications can also provide information that will trigger an engagement process.

We also discuss sustainability themes broadly with our Finnish investees, participating actively in companies' sustainability-related materiality surveys, for example.

In fixed income investments, engagement is possible before issuance. In Finland, for example, we have the opportunity to discuss with companies material sustainability criteria that can possibly be applied further to the loan conditions of a sustainability-linked bond.

Exercising ownership rights

Active ownership includes management meetings, company visits, discussions with asset managers, discussions with other shareholders, if appropriate, and activity at general meetings and nomination committees. All of these are discussed in more detail in the section *Ownership Policy Guidelines*.

Integrating ESG analysis into investment decisions

Environmental and social impacts and governance issues influence companies' profitability, costs and reputation. They are therefore also relevant to the investor's return and risks.

It is important to us that those responsible for investment decisions also participate in the ESG analysis as part of portfolio management. ESG issues have a significant financial impact. Thus, portfolio managers play an essential role in assessing the portfolio companies' risks and opportunities, including in terms of responsibility.

We have dedicated ESG experts to help our portfolio managers and to develop our responsible investment activities. Their duties include training, development, maintaining appropriate tools, following sustainability trends and providing expert insights to Ilmarinen's Responsible Investment Executive Committee.

Environmental and social impacts and governance issues influence companies' profitability, costs and reputation. They are therefore also relevant to the investor's return and risks. We impact companies as a financier when making decisions on participating in new share issues or bond issues.

Impacts of investments and sustainable development goals

Systemic risks, such as climate change and biodiversity loss, cause risks to our investment portfolio. We invest in global value chains, because as a pension insurance company we need a broadly diversified investment portfolio. That means we cannot avoid risks completely; instead, we must endeavor to address them together with other market participants. Responsible investment has been an integral part of our investment activities for over two decades. We foresee that, going forward, it will be increasingly important not only to manage ESG risks, but also to better understand and measure investment solutions related to sustainable development and their positive impacts. From an investor's perspective, focusing on opportunities has upside potential, considering companies' evolving operating environment: progressing climate change, loss of biodiversity and natural capital, and increasing interest towards labour rights and human rights worldwide.

Agenda 2030 is a global action plan whose objective is to secure financial and human well-being in an environmentally sustainable manner. It states that it is urgent for our economic system to embark on a more sustainable path. The Agenda 2030 was adopted in all UN member states in 2015 and it is implemented through 17 sustainable development goals (SDG). The objective is to create a more sustainable and fair world through the SDGs by 2030. The SDGs can be used as overall global goals also from an investor's perspective and they are relevant to investors who strive to understand and measure their contribution to sustainable development. In terms of Ilmarinen's investment activities, we approach the SDGs through our approaches and targets related to the climate, natural capital and biodiversity. Read more about our approaches related to these themes in our Climate Roadmap (pdf) and our Biodiversity Roadmap (pdf). Through these themes, we have identified the following goals as our most relevant SDGs:

7: Affordable and clean energy

9: Industry, innovation and infrastructure

11: Sustainable cities and communities

12: Responsible consumption and production

13: Climate action

14: Life below water

15: Life on land

More information is available in our background paper on SDGs that will be published in 2023.

Responsible investment tools

When analysing ESG factors, we use not only internal resources but also external resources as and when needed. Procurement follows Ilmarinen's procurement policy. Some tools can only be used in certain asset classes, but some can be used across asset classes, such as the external ESG rating focusing on listed equity investments, which can also be used in other asset classes, especially corporate bonds.

Ilmarinen's own responsible investment analysis tool

We have developed our own ESG analytics tool in order to analyse investments and potential investees in a systematic and comparable way. The tool we developed uses several different sources combined with financial data and our own evaluation. The tool enables us to take into account both individual corporate ESG factors and portfolio-wide sustainability trends.

We utilise the tool to identify investment risks and opportunities and for engagement work.

ESG ratings and classifications

In order to integrate the ESG analysis into investment activities, we use ESG ratings and classifications for listed direct investments. The ratings are based on a combination of third-party ESG ratings, our internal and external analysis and conclusions.

The analysis on which the ratings are based extends to the risks and opportunities associated with corporate responsibility, as well as past corporate responsibility failures and norm violations. Investing in companies with the worst ratings always requires a separate authorisation, which can only be granted based on a more detailed assessment by a responsible investment expert.

ESG surveys

If no external analysis of an investee is available, the importance of Ilmarinen's internal questionnaires and analysis increases when assessing sustainability. The reporting of non-listed companies is more limited than that of publicly quoted companies. Therefore, when evaluating non-listed companies, the questions asked by Ilmarinen are emphasised. We have defined key ESG issues by industry. The research scope may vary depending on the size, industry, operating area and risks of the investment opportunity in question.

We also carry out thorough ESG due diligence surveys on our new asset managers and conduct regular ESG surveys among our existing asset managers.

Benchmarks

In our listed investments, we make broad use of sustainable benchmarks, such as ESG indices that integrate companies' environmental and social impacts and governance.

Portfolio managers compare their stock choices with the aforementioned indices. If a portfolio manager wants to invest in a company outside the indices, the ESG rating will be given more weight when evaluating the investment.

ESG analyses, thematic analyses and internal resources

In addition to ESG classifications, ratings and indices, portfolio managers have access to multiple studies and research pieces. Portfolio managers also have the support of the responsible investment team when assessing ESG issues. The team's purpose is to ensure the responsible investment policy's and guidelines' practical implementation, the selection of the right tools, responsible investment reporting and development.

A company with a low ESG rating may only be invested in after more thorough due diligence. The research is done by responsible investment experts in co-operation with the portfolio managers. The responsible investment expert may grant or refuse the investment permission. However, the Responsible Investment Executive Committee has the ultimate responsibility for the Responsible Investment Policy's practical interpretation.

Investee reporting

In order to make investment decisions, an investor must have sufficient information on the investee's operations and impacts. We consider it important that portfolio companies and funds report on their operations in an open, regular and comprehensive manner, including ESG factors. We encourage investees to report on sustainability issues that are relevant in terms of their business and have a significant social impact.

We promote corporate environmental reporting, through stakeholder dialogue, for example. There are various reporting frameworks to choose from. From our perspective, it is important to provide investors with meaningful, timely, comparable and reliable information about our investments. What matters is not the amount of information but its relevance to the investor. For example, TCFD[1], Task Force on Climate-related Financial Disclosure, is an internationally recognised and rapidly growing framework for reporting climate risks and opportunities.

Exclusions and limitations concerning investees

We actively exclude companies from our investment universe for the following reasons:

- Companies that make so-called controversial weapons. Controversial weapons include, for example, anti-personnel mines, cluster weapons and nuclear weapons. The controversial weapon manufacturer is defined as a company whose involvement in the manufacturing process is essential and the component manufactured by the company has no dual purpose.

- Companies that have committed serious and systematic international norm violations related to the UN Global Compact and the norms referred to therein. The norms related to the Global Compact are Human Rights, Labor Rights, Anti-Corruption and Environment. The norms referred to in the Global Compact are the UN Declaration on Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Sustainable Development and the UN Convention against Corruption. In addition to the Global Compact standards, the investment exclusions refer to breaches to the UN Convention on the Rights of the Child and the OECD Guidelines for Multinational Enterprises insofar as they are related to the Global Compact.

- Companies with a suspected norm violation, which we consider particularly serious.

- Companies manufacturing tobacco products and generating at least 50% of their turnover from tobacco products. Tobacco products refers to the cultivation of tobacco and the tobacco product manufacturing (e.g. cigarettes, snus). By contrast, tobacco products do not refer to tobacco-related products such as filters or flavors, nor to the sale of tobacco products to retail customers. Companies to be excluded are defined based on industry classification.

- Companies that produce cannabis or cannabis products for recreational use and generate at least 10% of their turnover from recreational cannabis products.

[1] TCFD website (fsb-tcfd.org)

Investments are permitted in companies that produce cannabis for the pharmaceutical industry or in pharmaceutical companies that have cannabis products.

Exclusions and limitations in line with our Climate Roadmap:

- Companies that are planning new coal investments in energy production

- Companies deriving more than 1% aggregate revenue from thermal coal mining

- Companies whose business's carbon intensity is significant, when no other reason warrants the investment. If a company's business's carbon intensity is significant, we assess the company's situation through carbon risk calculation. In carbon risk calculation, the company's business is divided into high, medium and low carbon risk categories. The high carbon risk category includes the production and use of coal and other fossil fuels. Fossil fuels include, among other things, coal, fossil oil and natural gas.

  If more than 20 per cent of a company's business consists of high carbon risk operations, we can only invest in the company based on a more detailed assessment. We use the methodology and categories provided by MSCI. For companies exceeding the limit, the emission reduction targets and already achieved climate performance are assessed in detail. In addition, we assess climate-related strategy changes and the coverage of reporting. In addition, the investment decision can be influenced by the company's position in its peer group, for example, the relevance and timing of emission reduction targets compared to other companies in the same industry.

  We will gradually lower the threshold for carbon risk evaluation. Our goal is to have no more than 10% of our investees' business in high carbon risk activities by 2025. An example of carbon risk calculation can be found in Appendix 2.

Before excluding a company, we seek to find out whether it is possible to create positive change through engagement. If the engagement process is not successful, or its success is highly uncertain, we will not make new investments and will exit from existing investments where possible.

Within fund investments, we ask asset managers about their policies regarding the above-mentioned industries and their processes towards norm violations. Whenever possible, we use known violations as part of asset manager discussions and encourage asset managers to raise ESG issues with their portfolio companies. We aim to exclude the same industries in our non-listed private equity and debt fund investments as we exclude in our direct listed investments. The exclusions are defined in the asset management contracts at least so that we do not participate in such investments. With ETFs, we strive to invest in ESG-focused ETFs, when such ETFs are available and competitively priced. Due to the passive nature of the product, we cannot exclude individual companies.

Reporting

Transparency is one of our values and it also applies to reporting on our investment activities.
We report extensively on our investment activities as part of Ilmarinen's other sustainability reporting.

In addition to statutory reporting, we are committed to reporting on our responsible investment activities in accordance with, for example, the PRI (Principles for Responsible Investment) reporting framework. Reports in English are available on our website.

Ilmarinen's Corporate Responsibility Reports (ilmarinen.fi)

Ilmarinen's Responsible Investment Reports (PRI Reports)

In addition, we strive to provide data for stakeholder surveys and comparative studies whenever possible.

Environmental Policy Guidelines

Ilmarinen's Responsible Investment Executive Committee is responsible for the guidelines related to environmental policy. The guidelines define how the Environmental Policy approved by the Ilmarinen Board of Directors is taken into consideration in investment activities. Both the policy and the related guidelines are an essential part of our investment activities.

The environment plays a significant role in our health and well-being. That is why it is natural that the environment is one of the key themes of our sustainability work. In our investment operations, the environment means the built environment, cultural environment and natural environment.

The positive health impacts of the built environment, land use issues, biodiversity and sustainable use of natural resources are all important to us. We are aware that environment is a much wider concept than climate. However, until now, we have concentrated a large part of our environmental work on climate change. Preparing for it and responding to it play a key role in our environmental work. Biodiversity loss is, however, a significant systemic risk alongside climate change, and it must be taken into account in investment activities. We have published a separate roadmap on our opportunities and approaches for integrating biodiversity considerations into our investment activities.

In order to achieve the carbon neutrality target and actual emissions reductions and to manage the risks related to biodiversity, engaging with investees is important, rather than just excluding them. By engaging we can also ensure a just transition, that is, respect for human rights as part of our climate work.

What we require and expect from our investees in terms of the Environmental Policy

We require from our investees adherence to international agreements, norms and guidelines related to environmental matters. These norms and conventions include, for example:

- UN Global Compact[2],
- United Nations Guiding Principles on Business and Human Rights[3],
- OECD Guidelines to Multinationals[4].

[2]The UN Global Compact sustainable business principles, www.globalcompact.org

[3] More information on the principles at guidingprinciplesbusinesshr_en.pdf (www.ohchr.org)

[4] More information on the guidelines Guidelines for MNEs - Organisation for Economic Co-operation and Development (oecd.org)

In addition to the above-mentioned international norms and conventions, we expect our investees and issuers, if applicable, to:

- report openly, clearly and comparably on their climate impacts such as carbon footprint, carbon handprint and emission reduction targets and manage their climate risks and opportunities
- use widely recognised/known reporting frameworks such as TCFD [5] and/or CDP[6]
- develop their business strategies to be aligned with the Paris Agreement and human rights (just transition)
- be willing to engage with investors on climate-related topics
- set science based targets (SBT) and publish short, medium and longer term scenario analyses.

Our assessments take into consideration the company's or issuer's size and business sector, which impact the reporting and target setting capabilities.

Targets related to the Climate Policy

Our long-term goal is to achieve carbon neutrality for our entire portfolio by the end of 2035. In 2021, we published a Climate Roadmap for our entire portfolio, and two asset-class-specific Climate Roadmaps (listed direct equity investments and Finnish real estate investments). In 2022, we published two more asset-class-specific Climate Roadmaps: for corporate bonds and foreign real estate investments. The Climate Roadmaps set interim targets, key measures and metrics to monitor progress. Our purpose is to use each step as a learning process for setting the following interim targets.

More information on the Climate Roadmap documents:

Ilmarinen's Climate Roadmap (pdf)

Our approach is built from the following key themes:

- Analysing and managing climate risks as part of achieving carbon neutrality.
- Investing in climate solutions.
- Investing in companies in transition that have the opportunity and will to transition to a low-carbon economy.
- Engaging with high emitting companies to further climate transition.
- Promoting co-operation, climate action, partnerships and new climate solutions.
- Targeting a net zero carbon portfolio by 2035 and reporting annually on our progress.

In the first phase (2021–2025) we will focus on the following themes:

- We will create more asset-class-specific Climate Roadmaps with interim targets and baselines, key measures and indicators.
- We will review the principles concerning climate change engagement and voting.

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[5] CDP (formerly the Carbon Disclosure Project), an organisation supporting environmental disclosure www.cdp.net

[6] TCFD (Task Force on Climate-related Financial Disclosure), an international climate change reporting framework, www.fsb-tcfd.org

- We will integrate climate work into reward mechanisms at the company's various levels.
- We will assess opportunities to take climate change into account in long-term return and solvency scenarios.
- We will organise climate-related internal training.
- We will establish further requirements for external asset managers.
- We will develop the Climate Roadmap and its implementation continuously through asset-class-specific Climate Roadmaps.

The key metrics of the Climate Roadmaps are:

- Carbon footprint of direct listed equities and corporate bonds -30% in 2025 and -50% in 2030 (compared to 2020).
- Direct listed equities and corporate bonds aligned with the Paris Agreement's 2-degree scenario in 2025 and with the 1.5-degree scenario in 2030.
- Only CO_2-free electricity in Finnish real estate as of 2021.
- Finnish real estate's in-use carbon footprint -50% in 2025 and -80% in 2030 (from the average of 2018–2020).
- Finnish real estate's total energy CO_2-free in 2030.
- Foreign real estate's in-use carbon footprint -15% in 2025 and -25% in 2030. The interim targets are based on the targets set by our real estate managers, which we expect to tighten in the upcoming years.
- 100% of foreign real estate covered by GRESB in 2025.
- Foreign real estate's environmental certification 90% in 2025 and 95% in 2030.

The targets are described in more detail in the Climate Roadmaps:

Ilmarinen Climate Roadmap (pdf)

We report on our progress towards these targets as part of our annual sustainability reporting.

Biodiversity policy

Biodiversity loss has the potential to affect investment portfolios across asset classes, sectors and geographical regions in the same way as the climate risk. As a long-term risk averse investor, it is important for us to consider long-term risks related to biodiversity and natural capital. We look for ways to address both biodiversity-related dependencies and risks of our investments, as well as the impacts on biodiversity that our investments generate. At the same time, we aim to identify investments that are positive for nature. We foresee that biodiversity loss and the related financial impacts will be increasingly important for investors. That is why we aim to follow the best available practices and continuously develop our biodiversity approach to address our portfolio impacts and dependencies.

Key action by 2025:

- Portfolio level analysis to build understanding on biodiversity and natural capital-related risks and impacts.
- Enhanced due diligence on high-risk sectors, portfolio level reporting in accordance with the industry's best standards and supporting the industry's key co-operation projects to promote biodiversity.
- Engagement strategies related to biodiversity and setting additional requirements on sectors with significant biodiversity impacts.

More information on our biodiversity action can be found in the Ilmarinen Biodiversity Roadmap.

Ilmarinen Biodiversity Roadmap (pdf)

Investor initiatives and reporting

We participate in a number of environmental reporting and investor initiatives or report in accordance with these initiatives. These initiatives include the IIGCC Paris Aligned Investment Initiative, Montreal Pledge, TCFD (*Task Force on Climate-related Financial Disclosure*) and ClimateAction 100+.

We are a member of the Institutional Investors Group on Climate Change (IIGCC) and the Paris Aligned Investment Initiative (PAII) whose members are committed to decarbonise their investments. The initiative deepens co-operation and its Net Zero Investment Framework tool guides the setting of net zero carbon targets and measures. We report on the targets of our roadmap and our performance against the targets in accordance with the framework.

In accordance with the Montreal Pledge, we are committed to report our portfolio carbon footprint each year. The carbon footprint is a backward-looking figure and therefore it is important to also look at the climate risks and opportunities of one's investment portfolio in a more forward-looking manner. The TCFD reporting framework contains recommendations for reporting on climate risks and opportunities. We report on the climate risks of our investment portfolio in accordance with the TCFD's recommendations.

Exclusion alone will not solve the greenhouse gas emissions problem; our investees will also need to cut emissions and improve efficiency. Engaging, either alone or in co-operation with other investors, is also a good way to highlight the emissions risks from an investor's perspective. ClimateAction 100+ is an initiative that brings investors together with the world's largest greenhouse gas emitting companies. We are involved in this joint venture of more than 300 investors.

We report on these activities as part of our annual reporting. In addition, we publish other reports, such as the annual report on engagement, on our website.

Human Rights Policy guidelines

Ilmarinen's Responsible Investment Executive Committee is responsible for providing practical guidance on the Human Rights Policy. The guidelines define how the Human Rights Policy approved by the Ilmarinen Board of Directors is taken into consideration in investment activities. Both the policy and the related guidelines are an essential part of our investment activities.

Adherence to human rights is an integral part of all our operations and it is thus natural that it also shows in our investment activities. The basic assumption and minimum requirement is that our investees comply with human rights and the rights of children in addition to core labour standards.

What we require and expect from our investees in terms of the Human Rights Policy

We require from our investees adherence to international agreements, norms and guidelines related to human rights. These include:

- UN Global Compact
- United Nations Guiding Principles on Business and Human Rights
- ILO core conventions
- OECD Guidelines to Multinationals
- Rights of the Child

Compliance with these human rights norms is monitored in the same way as other norms. In addition, we encourage companies to widely acknowledge children's rights through, for example, the 'Children's Rights and Business Principles' recommendations. It is important to us that companies report extensively on the impact of their business on the local population, employees, consumers and important stakeholders. Our investees must have the ability to identify modern slavery and maintain appropriate measures to eliminate it, both in their own operations and in their value chain. A significant part of companies' business can be conducted through subcontracting and thus the responsibility for operations must include supply chains.

In addition to the above-mentioned international norms and conventions, we expect our investees and issuers (if applicable), to:

- report openly, clearly and comparably on their human rights commitments and activities
- take into consideration human rights aspects when developing Paris Agreement aligned strategies (just transition)
- be willing to engage with investors on human rights related topics.

Our assessments take into consideration the company's or issuer's size and business sector, which impact the reporting and target setting capabilities.

Practices related to human rights in our investment activities

Unlike with the Environmental Policy, there are no detailed numerical targets or road maps for the Human Rights Policy. Alongside our own analysis and clarification requests, we use an external service provider as a source of information about possible norm violations.

Instead of excluding investment targets, we prefer engagement processes to improve the ESG capabilities in the target companies. By doing so, we acknowledge our ownership responsibility. In general, positive changes in operations and the rectification of deficiencies are in the interest of all parties. Where possible, we will exit the holding if the engagement process does not produce the desired outcome or is highly uncertain to succeed.

More detailed information about the engagement processes and the screening of investees for norm violations can be found in the section *Main requirements.*

We are happy to take part in societal discussions on human rights, and we participate in various events to talk about responsible investing, including from a human rights perspective.

Investor initiatives and reporting

We are involved in investor or other initiatives related to human rights on a case-by-case basis. In previous years, these activities have been linked, for example, to occupational safety, the use of forced labour or the consideration of children's rights in business. We are involved in the activities of the Investor Alliance for Human Rights (IAHR), which supports investors by increasing expertise and opportunities for investors to implement, in practice, their responsibility to respect human rights. We have participated in the IAHR engagement co-operation, for example.

We report on these activities as part of our annual reporting. In addition, we publish other reports, such as the annual report on engagement, on our website.

Ownership Policy Guidelines

Ilmarinen's Responsible Investment Executive Committee is responsible for providing practical guidance on the Ownership Policy. The guidelines define how the Ownership Policy approved by the Ilmarinen Board of Directors is taken into consideration in investment activities. Both the policy and the related guidelines are an essential part of our investment activities. The definitions contained in the Ownership Policy are also used in these Guidelines.

Ownership is a key part of our investment operations. We are an active owner and engage in different ways with the companies we invest in. The focus of active ownership is on domestic ownership and direct engagement, which we accomplish through, among other things, nomination committees, voting at general meetings and regular communications with corporate management.

Attending general meetings and exercising voting rights

As a rule, we attend the general meetings of all the companies we own in Finland.

As a rule, we attend the general meetings of all the companies we own in Finland. At foreign general meetings, we make use of a service provider's voting service and principles that consider ESG aspects. We usually vote at the general meetings of foreign companies in which we have a significant shareholding. Using a service provider's voting service makes it possible to also extensively attend foreign general meetings. In addition, we can vote at other foreign general meetings if their agenda includes a significant item, such as an ESG-related shareholder proposal that we wish to push through or an important governance aspect discussed at the general meeting.

We participate in general meetings on site or through advance voting. If requested by the companies, Ilmarinen's representative can have different roles at the general meetings, e.g. supervise voting or scrutinise minutes. Ilmarinen can also make proposals to the general meeting. Ilmarinen's representative has the right to request more details on issues that might affect the evaluation of the items discussed at the meeting (shareholder's right to ask questions).

Ilmarinen's responsible investment experts are responsible for analysing the general meeting agendas and can use data provided by external parties. In order to be able to carry out the analysis well before the general meeting, we find it important that the general meeting notice and its attachments contain justifications and sufficient information for making a voting decision.

We publish the votes we have cast at the general meetings of listed companies on our website. This applies to both domestic and foreign votes and annual and extraordinary general meetings as of 2019. Previously, only domestic annual general meetings were published.

Ilmarinen’s votes at general meetings (ilmarinen.fi, in Finnish)

Our Ownership Policy (ilmarinen.fi)

Participation of Ilmarinen employees in the work of Boards of Directors

Ilmarinen’s internal ’Positions of trust and secondary occupations’ policy specifies the terms under which Ilmarinen employees can act as members of other corporations’ governing bodies. Ilmarinen’s Board of Directors approves any and all memberships of Ilmarinen employees in the governing bodies of listed companies. As a rule, Ilmarinen employees do not participate in the board work of listed companies. Ilmarinen’s Board of Directors can, however, decide otherwise for a justified reason. In addition, the Board of Directors approves all other memberships of the President and CEO and the members of the Executive Group in the governing bodies of corporations outside of Ilmarinen. The President and CEO approves all work-related memberships of other personnel in the governing bodies of non-listed companies.

When carrying out the evaluation, the person making the decision shall take into account the independence requirements for pension insurance companies, the appropriateness of the membership and the best interests of the pension insurance company. Furthermore, the membership may not cause any conflicts of interest, have a negative impact on decision-making regarding investments or interfere with the carrying out of the person’s basic tasks at Ilmarinen. The Board memberships and other positions of trust held by Ilmarinen employees are listed on our website.

Ilmarinen’s positions of trust (ilmarinen.fi)

As an owner in non-listed companies we are, on a case-by-case basis, involved in the Boards of Directors of our investees and, in this way, we are also able to influence and improve their sustainability.

Participating and engaging in the process of nominating Board members

We participate actively in the selection of Board members via the nomination process. We promote professional and responsible governance and management of the companies we own.

We primarily advocate the setting up of a Shareholders’ Nomination Committee whose members should be elected from among representatives of the largest owners. As a rule, Ilmarinen’s representatives on the Nomination Committees of listed companies are the President and CEO, CIO or another investment expert. We usually accept all Nomination Committee memberships that belong to us based on our shareholding. By actively participating in the selection of Board members via the nomination process and holding discussions with the management of the companies we own, we strive to promote the professional and responsible governance and management of the companies. We publish the Nomination Committee memberships on our website.

Memberships on the Nomination Committees of listed companies (pdf, in Finnish)

For non-listed investments, we aim to guarantee the right to nomination in the shareholders´ agreement.

Matters to be discussed at general meetings

We consider it important for any extraordinary motions to be explained in detail in the notice of meeting. If the proposals to general meetings are not aligned with our policies, we contact the company beforehand and ask for additional information before making the final voting decision.

Composition of a Board of Directors

When selecting Board members, we value competence, experience and complementary expertise, and sustainability expertise. The diversity of the Board supports the company's business and its development.

The Board of Directors plays a significant role in the long-term success of companies and thus the selection of the Board members is an integral part of ownership. When planning the composition of the Board of Directors, attention should also be paid to successor planning. Different companies have different needs when it comes to the composition of the Board of Directors, which is why it is challenging to precisely specify the competence required on the Board.

When selecting Board members, we value competence, experience and complementary expertise, and ESG expertise. The diversity of the Board supports the company's business and its development. The diverse composition of the Board of Directors also entails that the Board's members should represent different genders, different ages and different backgrounds. The composition of the Board of Directors and the number of members must be in line with the industry-specific structure and with the life-cycle stage of the company in question. The Board must have sufficient expertise without having to unnecessarily increase the number of Board members, i.e. relevant, mutually complementary expertise. The Board members must have sufficient knowledge of legislation, Group and financial administration, management, risk management, corporate responsibility, the company's sector and the Corporate Governance Code and stock exchange rules.

Board members should have sufficient time to perform their duties satisfactorily. Persons with too many simultaneous board memberships should thus not be elected to the Board. As a rule, the President and CEO or another member of the Executive Group of a publicly quoted company may hold no more than two other seats on the Boards of other publicly quoted companies, of which at most one can be as chairman. Furthermore, it is important to pay attention to the independence of members when electing the Board. The basis for evaluating independence is, for example in Finland, the Corporate Governance Code for listed companies. The majority of the Board must be, as a rule, independent of the company and at least two members of the Board must be independent of both the company and the company's major shareholders. Basically, we consider a Board member to be dependent if they have been a Board member for more than 10 consecutive years. The results of the independence assessment of new Board members should be published as part of the presentation of the persons standing for election.

It is important that the functions of the Chairman of the Board and the President and CEO are clearly separate. The President and CEO reports to the Board of Directors concerning operating activities, which the Board supervises. The Board of Directors is responsible for the company's strategic policies. As a rule, the President and CEO should not be a member of the Board of Directors of the company they are in charge of.

We consider it to be important for the Board's members to own shares in the company. Through share ownership, the goals of the Board members and shareholders can be aligned and harmonised.

Remuneration

In our view, competitive remuneration is an important tool for attracting skilled executives to a company. For us, it is important that both a company's management and Board of Directors own shares in the company.

In publicly quoted companies, it is important to distinguish between the remuneration of management and that of the Board of Directors. The decisions about the Board members' fees are made by the shareholders.

For Board remuneration, we use external research on the level of Board fees as required and take a closer look at the fees if they are to be raised. It is essential to look into how the Board fees are aligned with those of peers in the same size class and with the demands of the duties. The compensation may consist of an annual remuneration, meeting fees or a combination of the two.

It is good to present the overall remuneration clearly, specifying the various components. The Audit Committee's workload has substantially increased in recent years, and therefore it is justified to pay an increased fee to the Audit Committee's chairman based on the demands of the duties.

In accordance with the Corporate Governance Code, transparency of remuneration systems is an important consideration for us.

The remuneration policy should specify the amount of the CEO’s maximum remuneration and the relative shares of their variable pay, at least by indicating the variation ranges or target values. We expect reporting on the duration of the earnings and/or restriction period for long-term variable remuneration. The duration of the long-term earnings and restriction period should support long-term value creation. For the most part, we expect an earnings and/or restriction period of at least three years in total for long-term variable remuneration. The restriction period can also consist of deferred parts of remuneration.

In terms of the remuneration report, we expect the variable remuneration reporting to contain information on what indicator has been used as the remuneration criteria. We also expect reporting on the remuneration criteria’s weight. This applies to both short- and long-term variable remuneration. We also expect the publication of remuneration criteria for maturing variable remuneration, in the case that the amount of the remuneration has been established and it is reported. We expect transparent reporting of the grounds for any extra remuneration in line with the remuneration policy.

Changes in the capital structure

We consider it important that the authorisations proposed by a Board of Directors concerning the issuance of new shares are appropriate considering the company's strategy and life cycle. We consider it to be a good thing if a share issue authorisation used for remuneration is separate from a so-called general share issue authorisation so that shareholders are able to assess the purposes and appropriateness of the authorisations.

We consider it important that the authorisations proposed by a Board of Directors concerning the issuance of new shares, as a rule, amount to no more than 20 per cent of the total number of a company's issued shares, calculated by share series. We consider it important that the authorisation is in force for no more than 18 months at a time. Exceptions are possible based on the company's development situation and needs resulting from the business, but we expect to receive additional justifications in these situations.

Dividend policy

The dividend-paying capacity of a company depends on its financial performance, capital structure and growth prospects. We consider it important for a company to have a dividend policy approved by the Board and that the dividend policy is, from the shareholders' perspective, active and goal-oriented, and secures the company's solvency.

Share series and voting rights

In our view, the best model is one in which one share corresponds with one vote at General Meetings. We generally consider various voting right restrictions and approval clauses as factors that reduce a company's value.

Election of auditor and auditors' fees

We expect the auditor to be changed periodically. We consider it good practice for companies to report, in a detailed manner, on the fees paid to the auditor for services other than actual auditing services.

Shareholder proposals to general meetings for improving sustainability

As a rule, we take a positive view of shareholder proposals to General Meetings that promote sustainability in accordance with the policy followed at Ilmarinen. Depending on the situation, we can co-file for example shareholder proposals related to climate impacts and support similar relevant and purposeful proposals filed by other shareholders. Our decisions on whether to support a proposal or not are impacted by how relevant they are in terms of a company's business and its impacts, how the company has acted in the matter compared to its peers and the company's voting recommendation and its grounds. We support, for example, proposals to general meetings that support the key objective of Ilmarinen's Climate Policy: that companies should assess their strategic choices and investments in terms of mitigating global warming. If the climate-related strategies proposed to the general meeting are not sufficient or appropriate, we can also vote against them, depending on the situation. We use a service provider's analysis to support our voting decision.

Monitoring the operations of the companies we own

We monitor the operations of the companies we own through various methods, including through meetings and reporting. The operations of a company in which we invest must be sufficiently transparent and it must provide information on, for example, its financial performance, strategy and risk assessment.

Open, regular and comprehensive reporting by the investees on their operations is important to us. In addition to financial reporting, companies must report on their governance and sustainability principles, their application and the related objectives. We also consider it important that companies include their tax policies and tax footprints, diversity policy and the carbon footprint and other environmental impacts of their operations in their other reporting. A good practice is for the reported sustainability data to be verified by an independent party, taking into account the size and resources of the companies, however.

Communication with companies outside general meetings

We hold discussions with the management and, if need be, the Board of Directors of the companies we own as part of normal portfolio management. We review the companies' business and financial position in the discussions. The aim is also to advance the companies' sustainability.

Our portfolio managers regularly meet with the management of the companies we invest in. The issues raised in these discussions also include factors closely associated with responsible business practices, specifically compliance with the UN Global Compact and the UN declarations on human rights, the environment and corruption and the ILO's Declaration on Fundamental Principles and Rights at Work. In our view, it is important for the strategies of the companies we own to widely incorporate business-relevant ESG issues. We annually disclose the number of these meetings in our reporting on this topic.

Communication with other shareholders

As a general rule, communication with other shareholders in individual companies is limited to nomination committee work or engagement processes.

In individual cases, we can also hold discussions with other shareholders outside general meetings, company meetings, nomination committees or engagement processes. We do our part to ensure compliance with insider issues and market sounding legislation.

We can engage independently with Finnish companies, but especially in foreign engagement processes it is effective to work together with other shareholders. The engagement processes are described in more detail in the section *Active ownership and dialogue*: *Engagement processes*.

Due to possible market reactions, we cannot normally comment on our investment decisions. We are happy to engage in discussions with different stakeholders especially on the topic of sustainability.

Tax Policy Guidelines

Through a responsible tax policy, we are contributing to the societal impact of our operations and the transparency of our investment activities.

Ilmarinen’s tax status

Ilmarinen has general tax liability in Finland for all of the income from its investment activities, whether from Finland or abroad. However, employment pension insurance companies’ long-term preparedness for future pensions makes it possible to take transfers of investment returns to the solvency buffer into account as deductions when calculating taxable income. Due to targeted special regulation, Finnish employment pension insurance companies, including Ilmarinen, typically have no taxes to pay in Finland.

However, it is typical for international investment activities that return on investments is subject to tax in both Finland and the investment jurisdictions. As Ilmarinen’s tax status is based on special regulation related to employment pension insurance companies, it is not possible for us to receive credit for tax at source paid abroad. This results in double taxation, which is contrary to the principles of international taxation. We therefore aim to avoid, where possible, situations in which income from our investments is subject to tax in both Finland and another country.

Responsible tax policy in Ilmarinen’s investment activities

Responsible tax policy in our investment activities is monitored from two perspectives. The first perspective is the taxation of income resulting from the investee’s operations in accordance with the tax legislation of the countries in which the investee operates. The second perspective is the taxation of the return on the investment Ilmarinen made in the investee in accordance with international tax law principles and norms.

1. We monitor our investments based on the Responsible Investment Policy and Ownership Policy, also when it comes to taxation. We insist, within the scope of our influence, that investees abide by the tax legislation of the country of domicile and any other jurisdictions. This involves paying the correct amount in taxes resulting from their operations, at the right time and in the right place. Liabilities depend on where the investee’s business actually takes place.

2. Due to the nature of the investment instruments, our listed investments do not involve tax structuring. Therefore, it is not appropriate to separately examine the tax treatment of the return on each individual listed investment. However, Ilmarinen always establishes the tax treatment of its returns on non-listed

investments before making an investment. Our goal in this work is to ensure that the income that Ilmarinen accrues is taxed correctly. One of the factors influencing this is Ilmarinen's special tax status as a pension investor and Ilmarinen's right to benefits agreed on in the tax treaties concluded by Finland. At the same time, we assess whether the returns could be subject to double taxation or cumulative tax costs resulting from the investment structure, which would directly reduce the return on investments. The assessment work is also intended to ensure that the investment structure planned for the investment complies with the investment jurisdiction's tax legislation and the principles of international legislative projects (incl. the OECD's BEPS project and the EU's ATAD I/II directives). At the same time, we identify any reporting obligations resulting for Ilmarinen from an individual investment.

The purpose of the assessment work carried out before making an investment is

- to minimise the uncertainty linked to the interpretation and application of Finnish and international tax legislation in Finland and abroad
- to increase the predictability of the tax treatment of investment activities, thereby managing investment risks and
- to ensure that the responsible tax policy is realised in both our own investment activities and in the activities of the partners we use in our investment activities.

The assessment work is carried out based on a predetermined process, either by Ilmarinen's tax specialist or an external service provider. Ilmarinen requires that an assessment be carried out before an investment decision can be approved.

Responsible tax policy as part of co-operation with external asset managers

Ilmarinen's direct control and influence over the activities of external asset managers depend on the size of Ilmarinen's investment in relation to other investors. That is why they are often limited. We do, however, expect the external asset managers that we use to commit to complying with the tax legislation of the investment jurisdictions and the policies of international legislative projects when planning their investment activities and the used investment structures. This is why we expect investment structures to be planned with an eye to changes that might be needed in the future, which may arise, in particular, from the local enactment of the OECD's BPS project and the EU's ATAD I/I directives.

Our task is to invest pension assets profitably and securely. The purpose of our investment activities is to secure the financing of current and future pensions. Our goal is to achieve the best possible return on investments that matches the risk level. This is why we expect asset managers to plan the taxation of their investments so that the return on investments accumulated by Ilmarinen is not subject to an excess tax burden or undue double taxation. In this context, we approve of tax structuring for investments.

We do not accept aggressive tax planning on the part of asset managers. By aggressive tax planning, we mean the exploitation of technical points of law included in the tax systems of individual countries and different legal interpretations, asymmetries and inconsistencies between two or more countries simply to achieve tax benefits. Our definition of aggressive tax planning includes

- using holding companies that do not practice real business as defined in the OECD’s Principal Purpose Test in their country of domicile, the only purpose of the arrangement being to avoid tax at source through the misuse of a tax treaty,
- using hybrid financial instruments that would result in the income from the instruments not being taxed in any country or the interest rate costs resulting from the instrument being deducted in several countries and
- using hybrid entities that would result in the income from the entity’s activities not being subject to tax in any country.

Openness as part of the responsible tax policy

Openness is one of our values and therefore also concerns the reporting on the taxation of our investment activities.

We annually report on our taxable income to the Finnish Tax Administration. We also ensure that any tax returns to be submitted to other countries are sent on time. Due to the administrative work linked to tax returns and the resulting costs, our goal is to try to avoid situations in which Ilmarinen would have to submit income tax returns in other countries in addition to Finland.

We have devised a separate policy based on which we monitor our international investments within the framework of the Finnish Act on the Reporting Obligation for Cross-Border Tax Planning Structures (*Laki raportoitavista järjestelyistä verotuksen alalla*). We report any investments that can be classified as controlled foreign corporations as part of the annual tax return in accordance with the Finnish Act on the taxation of shareholders in Controlled foreign companies (CFCs) (*Laki ulkomaisten väliyhteisöjen osakkaiden verotuksesta*).

We require that the external asset managers that we use have committed to comply with regulations related to the international exchange of information, thus fulfilling their DAC6, FATCA and CRS obligations, among other things.

Taxation responsibilities at Ilmarinen have been allocated among persons working in investment calculation, financial administration and the legal department. The responsibilities related to taxation in investment activities and the assessment of the tax treatment of investments have been agreed on with the portfolio managers responsible for the investments in question.

A clear division of responsibilities ensures that we can address topics related to the taxation of investments based on legislation in force at any given time. We also actively monitor legislative projects related to both Finnish and international taxation. This allows us to incorporate any changes into our operations and the planning of operations in a timely manner.

Appendices

Appendix 1: Specific characteristics by asset class

Instead of the traditional asset-class approach, Ilmarinen's responsible investment is described in terms of environmental, human rights and ownership principles. Nevertheless, we are aware that the various asset classes each have their own specific characteristics. We address these characteristics in this appendix.

Real estate investments

We own commercial and residential real estate. We lease, maintain and develop real estate in Finland. The environmental impacts of buildings and the design and use of the built environment are key issues in terms of societal well-being.

Information on our climate targets, methods and metrics concerning our Finnish real estate business:

Ilmarinen's Climate Roadmap (pdf)

Owning real estate (leasing and maintenance)

We invest in resource-efficient buildings that are healthy and safe for their users and located along good traffic connections. We work closely with tenants throughout the life-cycle of the investment. The goal of this co-operation is to improve customer satisfaction by, for example, obtaining information about any modifications required by the intended use of the premises. We work closely with our tenants in improving environmental issues, for example, by financing energy-efficient solutions. In addition, we apply for LEED environmental certification for some of our existing commercial real estate.

In terms of maintenance, the co-operation can be used to combat the shadow economy, minimise the negative environmental impacts of buildings and improve energy efficiency. We manage real estate systematically and proactively, which means long-term planning and implementation of maintenance that spans the entire life-cycle of the real estate. We address problems quickly and know our tenants and properties well.

With properties where we have little influence due to their location or ownership structure, it is important to select the right co-operation partners in order to ensure responsibility throughout the building's life cycle.

We maintain our real estate portfolio in a way that preserves the value of the buildings. We own several buildings that are integral to the cityscape, in particular in central Helsinki, and are mindful of our responsibility in terms of maintaining the city's cultural heritage. For us, responsibility for cultural history means carrying out renovations in a manner that preserves the cityscape, offers high-quality architecture and takes contemporary urban culture into account.

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Property development

As property developers, we require a LEED Gold or corresponding environmental label at the very least. The label sets strict requirements on the selection of building materials, energy efficiency, water consumption, indoor air quality and the location of the building, for example.

In addition, we require our service suppliers to fulfil their contractor's liability, combat the shadow economy and adopt safe working practices. We are involved in developing these practices in the real estate and construction industry, for instance, by participating in working groups and taking part in public dialogue.

Fund investments

Ilmarinen has fund investments in equity, corporate bond, private equity, infrastructure, forest, private debt, hedge funds and real estate funds. Our fund investments are indirect, i.e. the investments are managed by an external asset manager.

With regards to equity and corporate bond funds, this policy only applies to actively managed equity funds and corporate bond funds, i.e. funds that make active investment decisions. The policy does not therefore apply to index funds, which do not take a stand on investees from a responsibility viewpoint, instead, their goal is to achieve the average return for the market at the lowest possible cost. The objective is to select index funds that track ESG indices. By doing so, ESG issues will also be automatically incorporated in passive investments.

Selecting an asset manager and fund

The best opportunity to impact a fund's operating principles is at the investment process stage because the key decision-making power will be transferred to the fund management company after the investment has been made. When selecting funds, we extensively evaluate the implementation of a responsible investment policy.

Our minimum requirements for asset managers include responsible investment principles regarding funds, a clear definition of roles and responsibilities, integration of responsibility analyses into investment decisions and reporting to investors. The asset manager need not have all of the above-mentioned procedures in place when the fund agreement is signed. Instead, the asset manager may continue to develop them during the co-operation in compliance with the agreement.

Furthermore, we consider it an additional advantage if the asset manager is committed to following and promoting compliance with the UN Global Compact and the underlying norms in the fund investments' investees. We consider the asset manager's commitment to international initiatives that promote sustainability, such as the PRI (Principles for Responsible Investment) or a similar initiative/programme for the asset class, to be a positive factor.

Asset manager monitoring

We annually monitor the compliance of each asset manager or fund with the responsible investment policy either through a fund query or a personal meeting with each asset manager. The objective is to gain information on best practices and development areas. We discuss this information with the asset managers at fund meetings, for example. We encourage asset managers to monitor the sustainability performance of the investments and their impacts, and to report on the sustainability of the asset managers' responsible investment practices and the sustainability of the investees.

Listed equity and corporate bond funds

Whenever possible, we use our direct security investment sustainability ratings in our investments in equity funds and corporate bond funds. We do not require asset managers to use our ratings, but we will use them as starting points for discussions on a case-by-case basis.

Non-listed private debt and corporate bond funds

Funds can best influence the sustainability of their investments when the investment decision is made. Since a debt investor does not have voting rights in the company, they have more limited opportunities to engage with the company than an equity investor.

Our objective is for the private debt funds that we invest in to avoid investing in sectors in which we do not make direct listed investments (see section *Exclusions*). The exclusions are defined in the asset management contracts at least so that we do not participate in such investments.

Private equity and infrastructure funds, including co-investments

Our private equity investments are made up of investments in private equity funds and co-investments, where we invest in an individual investee both directly and through the fund. Also with regards to co-investments, the fund management company manages the investment. In co-investments, the sustainability of a private equity fund manager can easily be analysed as part of the investment process.

A special characteristic of private equity funds is the ability of the private equity investor, as an owner, to influence business operations and the creation of a sustainable business culture. Through its significant voting power, a private equity investor is able to promote corporate responsibility, reduce sustainability risks linked to the operations of the company and benefit from value creation opportunities.

Our objective is for the private debt and infrastructure funds that we invest in to avoid investing in sectors in which we do not make direct listed investments (see section *Exclusions*). The exclusions are defined in the asset management contracts at least so that we do not participate in such investments.

Absolute-return funds (hedge funds)

In the case of hedge funds, our responsible investment practices focus on good governance. It is important in our view that a fund has a person appointed to monitor compliance who is independent of investment operations (for example a compliance officer) and who has the required authorisation to intervene in the portfolio managers' actions. In addition to governance, we look into how environmental and social responsibility is taken into account in the funds' operations.

The minimum requirements defined by us for fund investments cannot be applied as such to defining the sustainability of hedge funds. We are an investor member of the Standards Board for Alternative Investments (SBAI) and promote compliance with SBAI standards among selected asset managers. SBAI's standards are mainly focused on good governance and include recommendations, for instance, on independent management of funds, investment valuation and appointment of third party service providers.

Real estate funds

We apply to real estate funds the same principles as to other indirect investments. Particular attention is paid to the selection of asset managers, and their activities are monitored regularly. Our own responsible investment questionnaire is also used in assessing real estate funds.

Direct non-listed equities and investment loans

Ilmarinen has direct investments in non-listed equities and investment loans. Non-listed investments are very diverse in their characteristics, and on their part, we essentially aim to secure owner rights in the shareholder agreement.

Investment loans are loans that Ilmarinen grants to companies for investment purposes. Ilmarinen also grants premium loans in which the pension company lends to its clients funds that have accrued on pension contributions. It is not possible to apply all responsible investment principles to premium loans because customers are entitled to premium loans based on the insurance terms and conditions.

Integrating sustainability into investment activities

Sustainability is taken into account when making investment decisions, including in the case of non-listed companies or non-listed investment loans. The reporting of non-listed companies is more limited than that of publicly quoted companies. Therefore, when evaluating non-listed companies, the questions asked by Ilmarinen are emphasised. We have defined industry-specific ESG questions for all industries. The research scope may vary depending on the size, industry and risks of the investment opportunity in question. Where available, we use ESG ratings and classifications for investment loans. When assessing the sustainability of investment loans for which no ratings or classifications are available, we use the same ESG questions as for non-listed equities.

Active dialogue/engagement

We discuss corporate responsibility themes with executives. If necessary, we will deepen the dialogue into an engagement process. As an owner in non-listed companies we are, on a case-by-case basis, involved in the Boards of Directors of our investees and, in this way, we are also able to influence and improve their sustainability.

Appendix 2: Example of carbon risk calculation

Company	High risk*	Medium risk*	Low risk*	Emission reduction targets	Timeframe for targets	CDP/ TCFD reporting	Place in the industry peer group	Is an investment possible?
A	50%	40%	10%	Significant reduction targets	2035	Comprehensive CDP	Medium	Yes: annual monitoring; possible engagement process
B	35%	5%	60%	Low targets	2050	Neither	Weak	No
C	90%	5%	5%	Significant science-based reduction targets	2025	Yes, comprehensive CDP and comprehensive TCFD	Leader	Yes: annual monitoring

* Share of the business segment, according to the carbon risk level, of the company's business.

The table compares three companies based on business-related carbon risk. The first column indicates how large a percentage of the company's business belongs to the high carbon risk category, i.e. is dependent on fossil fuels and very emission intensive. The second column gives the proportion of medium carbon risk business and the third the proportion of low carbon risk business.

The following columns examine other factors that come into play in investment decisions: the company's emission reduction targets and their levels, the timeframe for achieving the targets, reporting on the targets and place among peers in the same industry in terms of the timing and quality of the targets. The last column contains a summary of the conditions under which the company could be invested in. Investment decisions are not based on carbon risk factors alone; instead, every investee also needs to meet the criteria of profitable and secure investment.

The industry of the example companies has not been specified. The responsible investment expert will not grant permission to invest in company B, even though it has the lowest percentage of high carbon risk business in its peer group. The percentage exceeds the threshold beyond which more thorough examination is required (30% of business in the high carbon risk category). Upon more thorough examination, it transpires that the company's emission reduction targets are low and they have been given a long timeframe. Furthermore, the company does not use the most common reporting frameworks to disclose its targets. An example would be a company that is dependent on the energy use of coal or the processing of oil sands. There are feasible alternatives for the use of coal in energy production.

Company C, on the other hand, is a leading company that operates in a carbon intensive industry. High carbon intensity industries include, for example, the steel industry. The company has ambitious, peer-evaluated science based targets with an ambitious timeframe. In addition, the company uses well-known reporting frameworks to report on them. There are no credible alternatives for steel on a global level, but a steel company can substantially reduce its environmental load by developing new manufacturing methods.

Company A has less ambitious targets and only reaches the average level in its peer group. Investing in such a company may require the initiation of an engagement process. The engagement processes are described in more detail in the section *Active ownership and dialogue.*