

Responsible Investment Guidelines

Approved by Ilmarinen's Responsible Investment Executive Committee on 22 January 2021

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

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

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

- compliance with international norms
- active ownership
- ESG integration

These requirements are the same for all asset types. 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 some asset class characteristics, which are detailed in Appendix 1 to this document.

2 Responsible investment at Ilmarinen

Ilmarinen's responsible investment themes are compatible with the international ESG classification. The abbreviation ESG stands for environmental, social and governance. We define these terms as environment, human rights, and ownership.

Practical actions and tools available for each asset type may vary within the theme. The essential requirements concerning compliance with international norms, active ownership and ESG integration are an integral part of our responsible investment approach.

We have identified the most significant sustainable development goals (SDGs¹) in our investment activities. SDGs refer to a set of 17 targets approved by the UN General Assembly in 2015. Its purpose is to draw attention to global problems and their root causes and to encourage states and organisations to address them.

The goals were originally written from a state-level perspective, but many companies and investors have also adopted the goals as guiding factors for their own operations. We have identified the SDGs that are most significant in our investment portfolio. SDGs and solution-based business models are part of Ilmarinen's sustainability assessments and targets. Because the goals are interlinked, the right solutions can lead to positive development for more than one goal. For example, the effects of climate change are, in many ways, human rights issues. Human rights objectives include solutions for climate change mitigation and adaptation.



We actively seek companies that promote the sustainable development goals in their businesses.

The Responsible Investment Policy and these guidelines are applied to all asset classes (including listed and non-listed shares, fixed income investments, real estate, funds and investment loans), taking into account their specific characteristics. The asset class characteristics are described in Appendix 1 at the end of these guidelines.

¹ Sustainable Development Goal, <https://sustainabledevelopment.un.org/>

2.1 Main requirements

2.1.1 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 to receive 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 section 2.1.2 Active ownership and dialogue: Engagement processes. The reasons for exclusion are listed in section 2.2 Integrating ESG Analysis into Investment Decisions: Investment Exclusions.

2.1.2 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

Ilmarinen primarily engages with companies where it has direct equity or fixed income investments or another strong financial link. A derivative position alone is usually not sufficient to initiate an engagement process. Engagement can also be done with potential investees, if it is deemed appropriate.

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 may involve, for example, a significant responsibility challenge. Engagement can be done either alone or in partnership with other investors or stakeholders, and through the use of specific service providers.

There are three main models for implementing engagement processes:

1. Ilmarinen engages with the company itself. In this case, Ilmarinen prepares the agenda and the plans for the engagement process itself and is responsible for all communication with the company. The engagement process means an active dialogue that can include meetings, site visits, phone calls and letters. Ilmarinen obtains additional information, for example, by reading company publications or analyst materials. In Ilmarinen's own engagement processes, Ilmarinen's responsible investment expert is responsible for drafting and documenting the agenda.
2. Ilmarinen engages with the company as part of Nordic co-operation with Folksam and PFA. This co-operation is called the Nordic Engagement Cooperation (hereinafter NEC). 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.

Ilmarinen receives 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.

3. The service provider (e.g. Sustainalytics) engages with the company on Ilmarinen's behalf, prepares the engagement goals and plans the required activities. Ilmarinen follows the engagement process and can also participate in activities, which include, for example, letters, phone calls and meetings. Ilmarinen monitors 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.

Furthermore, engagement can take place jointly with other investors or through initiatives by participating in various campaigns, such as sending letters or arranging meetings. These are not considered engagement processes in reporting unless Ilmarinen has an active role in the engagement.

Ilmarinen's responsible investment expert always participates in engagement processes on Ilmarinen's behalf.

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, Ilmarinen will sell its investment in that company and exclude the company from its investees, whenever possible. Progress on all engagement processes is annually reported to the Responsible Investment Executive Committee.

Addressing individual issues

In addition, Ilmarinen is in contact with 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 contacts can also provide information that will trigger an engagement process.

Using ownership rights

Active ownership includes management meetings, company visits, discussions with other shareholders, if appropriate, and activity at general meetings. All of these are discussed in more detail in the section 5 "Ownership Policy Guidelines".

2.1.3 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. Ilmarinen impacts companies as a financier when participating in new share issues or bond issues.

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. Different tools can be used in different asset classes, but on the other hand, the ESG equity index can also be used in other asset classes, especially corporate credits to gain further understanding.

Ilmarinen's own responsible investment analysis tool

Ilmarinen has developed its own analytical 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 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 processes.

ESG ratings and classifications

In order to integrate the ESG analysis into investment activities, Ilmarinen uses ESG ratings and classifications. 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.

If no external analysis of the company is available, Ilmarinen's internal sustainability questionnaires and analysis in assessing risks and opportunities will increase in importance. 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 and risks of the investment opportunity in question.

Benchmarks

In our stock selection, we make extensive use of ESG indices. Ilmarinen uses MSCI indices that integrate companies' environmental and social impacts and governance. The ESG indices include the most responsible companies in the industry and geographical area. The ESG indices exclude the lowest-rated companies.

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 Head of Responsible Investments 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.

Company reporting

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

We promote corporate environmental reporting, through stakeholder dialogue, for example. There are various reporting frameworks to choose from. From Ilmarinen's perspective, it is important to provide investors with meaningful, timely, comparable and reliable information. What matters is not the amount of information but its relevance to the investor. For example, TCFD², Task Force on Climate-related Financial Disclosure, is an internationally recognised and rapidly growing framework for reporting climate risks and opportunities.

Excluding investments

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

- Companies that make so-called controversial weapons. Controversial weapons include 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 Ilmarinen considers particularly serious.

² [TCFD homepage](#)

- 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 with significant business-related carbon intensity, when no other reason warrants the investment. If a company's business involves high carbon intensity, 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 intensity categories. The high carbon intensity category includes, for example, 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 30 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. We evaluate the companies exceeding the threshold through, among other things, strategy changes, reporting coverage and emission reduction targets. 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 not more than 15 % of our investees' business in high carbon activities by 2025. An example of carbon risk calculation can be found in Appendix 3.

- Companies that produce cannabis or cannabis products for recreational use and generate at least 10% of their turnover from recreational cannabis products. Investments are permitted in companies that produce cannabis for the pharmaceutical industry or in pharmaceutical companies that have medical cannabis products.

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, its success is highly uncertain, or the industry itself is in violation of our guidelines, we will not make new investments and will exit from existing investments where possible.

The exclusions apply to all our direct equity and fixed income investments. 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 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.

2.2 Reporting

Openness is one of Ilmarinen's values and it also relates to reporting on our investment operations. We report extensively on our investment operations as part of Ilmarinen's other 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 Ilmarinen's website.

- Ilmarinen's Responsible Investment Reports (PRI Reports)
<https://www.ilmarinen.fi/en/ilmarinen/investments/responsible-investment-policy/>
- Ilmarinen's Corporate Responsibility Reports:
<https://www.ilmarinen.fi/en/ilmarinen/financial-information/annual-report/>

In addition, we strive to provide data for stakeholder surveys and comparative studies whenever possible. More extensive surveys and studies have been carried out by, for example, the Climate Organization AODP and the WWF.

3 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 investment activities at Ilmarinen.

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, at this stage, we have concentrated a large part of our environmental work on climate change. Adaptation and mitigation play a key role in our environmental work.

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

3.1 Requirements related to the Environmental Policy

Ilmarinen requires from its investees the adherence to international norms and conventions related to environmental matters. These norms and conventions include, for example:

- UN Global Compact ³,
- UN Guiding Principles on Business and Human Rights ⁴,
- OECD Guidelines to Multinationals ⁵

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

³ The UN Global Compact sustainable business principles, www.globalcompact.org

⁴ Further information: www.ohchr.org

⁵ Further information www.oecd.org/corporate/mne/

- use widely recognised/known reporting frameworks such as TCFD⁶ and/or CDP⁷
- 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.

3.2 Targets related to the Climate Policy

Our long-term goal is to achieve carbon neutrality for our entire portfolio by the end of 2035. We are working on and developing a long-term road map consisting of various milestones. At the same time, we are exploring the possibility of achieving carbon negativity for our domestic direct holdings in a similar timeframe. Our purpose is to use each step as a learning process on our way to the following milestones. In the first phase (2020-2025) we will focus on the following themes:

- carbon risk as part of the investment analysis
- developing a tool to monitor investees' climate targets and their reporting
- transparent reporting on climate risks and opportunities
- increasing climate-related engagement in both our active and our passive investments
- an emissions compensation scheme for real estate, taking into consideration also the emissions during the construction phase
- strengthening our carbon sinks

These targets are described in more detail in the Guidelines Appendix 2.

We are committed to the following targets according to our Climate Policy:

1. We measure carbon risk as part of the investment analysis.

In order to reach our carbon neutrality target, we overweight low carbon companies in our portfolio and demand that our investees make a change towards a lower carbon society. In our previous road map we used a 30% revenue threshold for the energy use of coal alone. The new policy also takes into account the manufacture and use of other fossil fuels.

We do not invest in companies with significant business-related carbon intensity, when no other reason warrants the investment. If a company's business involves high carbon intensity, 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 intensity categories. The high carbon intensity category includes, for example, the production and use of coal and other fossil fuels. Fossil fuels include, among other things, coal, fossil oil and natural gas.

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

⁷ CDP (formerly Carbon Disclosure Project), an international organisation collecting corporate level climate data, www.cdp.net

If more than 30 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. We evaluate the companies exceeding the threshold through, among other things, strategy changes, reporting coverage and emission reduction targets. 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 the high carbon activity limit at 15 % by 2025. An example of carbon risk calculation can be found in Appendix 3.

2. We are developing Ilmarinen's own analysis to monitor investees' climate targets and their reporting.

We require our investments to set, monitor and continually develop climate targets in light of the Paris Agreement. In this way, the calculated emissions of the investment portfolio as well as the actual emissions of society will be reduced in the long run. This target applies to all of our direct investments with a turnover in excess of EUR 10 million. The objective of the previous road map was to improve investees' climate reporting. In our new targets we will pay special attention to reporting on the investees' climate targets and the change they will achieve.

3. We report transparently on our investment portfolio's climate risks and opportunities, taking into account the Paris Agreement 1.5-degree scenario.

We disclose the carbon footprint of our equity and fixed income portfolios according to international standards. We publish scenario analyses of our portfolio structure from the perspective of the Paris Agreement.

The target in the previous road map was to reduce the carbon footprint of investments. In the new targets, the carbon footprint will decrease as other goals are achieved. The focus of investment activities is the actual emission reductions obtained through engagement, rather than the calculated emission reductions of the investment portfolio alone.

4. We influence our active and passive investments to address climate change.

Our investments generate a lot of climate impacts. To reduce the negative impact, we influence our investments in many different ways. Whenever possible, we report on our climate-related engagement processes and make and support climate-related shareholder resolutions when appropriate. In addition to investing, we also engage in social debate and regulatory development to address environmental issues.

We want to develop products widely used in the financial markets to better incorporate ESG. We will continue to contribute to the development of both passive products and index families, with particular emphasis on carbon risk. The gradual conversion of the ESG indices towards low carbon will achieve significant effects without market disruption. Our direct active equity portfolios are already following the ESG indices. Our goal is for our entire passive equity portfolio to

follow the ESG index.

5. We compensate for emissions from our business premises and offer our customers the opportunity to compensate for emissions from their properties.

We will continue our years of work on building energy efficiency through certification programs, energy efficiency programs, responsible building and lifecycle models, among other things. In Finland, around 80% of electricity produced is already emissions free, which means that more attention must be paid to emissions during the construction phase.

In our previous road map, the target was to reduce the carbon footprint of properties. With the new targets, the carbon footprint will decrease with active measures and engagement. The consideration of construction-time emissions will increase and an important factor in reducing these emissions is influencing city planning and construction methods.

For the unavoidable emissions we compensate together with our clients. Compensation is optional for our customers.

6. We strengthen our carbon sinks through forest ownership, sustainable use of natural resources and technological development.

We own forests through companies and funds. In order to achieve the portfolio carbon neutrality target, and possibly even the carbon negativity target of domestic direct investments, we need to maintain carbon sinks, ensure the sustainable use of natural resources, and support technological development. We aim to increase the carbon sink effect of our holdings and require our investees to reduce their carbon footprint and to encourage them to increase their carbon handprint. Before setting numerical targets, clearer methodology is needed to measure actual impacts. In our previous road map, the target was to increase the amount of our forest investments wherever possible. The new targets focus more on strengthening carbon sinks than simply increasing the amount of forest investments.

We report on our progress towards these targets as part of Ilmarinen's annual reporting. These targets and reported figures are described in more detail in the Guidelines Appendix 2.

3.3 Investor initiatives and reporting

Openness is one of Ilmarinen's values and it also relates to reporting on our investment operations. We report extensively on our investment operations as part of Ilmarinen's other reporting.

We are participating in a number of environmental reporting and investor initiatives or exploring our potential for reporting in accordance with these initiatives. These initiatives include the Montreal Pledge, TCFD (Task Force on Climate-related Financial Disclosure) and ClimateAction 100+.

In accordance with the Montreal Pledge, we are committed to report our portfolio carbon footprint each year. In the calculation, we use an external service provider to get the best estimate of the carbon intensity of our portfolio. We are aware of challenges with data availability and methodologies.

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. TCFD includes recommendations for reporting on climate risks and opportunities, which is why we have included TCFD in our reporting wherever possible.

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 a five-year investor initiative that brings investors together with the world's largest greenhouse gas emitting companies. Ilmarinen is involved in this joint venture of more than 300 investors.

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

4 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 investment activities at Ilmarinen.

Adherence to human rights is important to Ilmarinen and is thus also included in investment operations. 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.

4.1 4.1. Requirements related to the Human Rights Policy

Ilmarinen requires from its investees adherence to international norms and conventions related to human rights issues. These norms and conventions include, for example:

- UN Global Compact
- UN 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.

4.2 Targets

Unlike with the Environmental Policy, there are no detailed numerical targets or road maps for the Human Rights Policy. However, there is a link between human rights and the objective of increasing investment in Sustainable Development Goals (SDGs). The SDGs include human rights objectives in areas such as health, access to food, housing and work.

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.

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.

4.3 Investor initiatives and reporting

Openness is one of Ilmarinen's values and it also relates to reporting on our investment operations. We report extensively on our investment operations as part of Ilmarinen's other 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 report on these activities as part of Ilmarinen's annual reporting. In addition, we publish other reports, such as the annual report on engagement, on our website.

5 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 investment activities at Ilmarinen. The definitions contained in the Ownership Policy are also used in these Guidelines, unless otherwise stated.

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

5.1 General meeting: notice, attendance and voting

Ilmarinen attends the annual and extraordinary general meetings of the companies in which it is a major owner or where participation is otherwise deemed appropriate, for instance due to a theme on the agenda.

As a rule, we participate in the general meetings of the Finnish publicly quoted companies at least where our holding is significant (from the Finnish equity portfolio perspective) or where we are amongst the 10 largest owners. We usually vote at the general meetings of foreign companies in which we have a significant shareholding. 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 is meaningful and important to support or an important governance aspect discussed at the general meeting. At foreign general meetings, we primarily vote online.

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.

Ilmarinen strives to physically attend meetings especially in Finland but encourages companies to also allow e-voting.

Ilmarinen publishes on its website its votes at publicly quoted companies' general meetings. 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.

Our Ownership Policy is available on our [website](#).

5.2 Changes in the capital structure

Ilmarinen considers 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.

Ilmarinen considers 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.

5.3 Participation of Ilmarinen employees in the work of boards of directors

Ilmarinen's Board of Directors approves any and all memberships of Ilmarinen employees in the governing bodies of listed companies. 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.

The Board of Directors has approved guidelines on Ilmarinen employees' governing body memberships and secondary occupations. 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.

- [Governing body memberships and secondary occupations \(in Finnish\)](#)
- [Ilmarinen's employees in the positions of trust \(in Finnish\)](#)

5.3.1 Participating and engaging in the process of nominating Board members

Ilmarinen actively participates in the selection of Board members via the nomination process. Ilmarinen promotes professional governance and management of the companies it owns.

As a rule, Ilmarinen's representatives on the Nomination Boards of listed companies are the President and CEO, CIO or another investment expert. We usually accept all Nomination Board memberships based on our shareholding. By actively participating in the Board member selection via the nomination process and holding discussions with the management of the companies we own, we strive to promote the professional governance and management of the companies.

5.3.2 Composition of a Board of Directors

When selecting Board members, Ilmarinen values competence, experience and complementary 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 Board member selection 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. However, the general criteria applicable to any Board selection process include, for example, the following:

- Members' relevant qualifications.
- Members' work experience and complementary expertise.
- Sufficient knowledge of legislation, Group and financial administration, management, risk management, the company's sector and the Corporate Governance Code and stock exchange rules.
- Capability to co-operate and efficient and direct interaction skills.

- Sufficient independence of directors both with respect to the company and the largest shareholders.
- Diversity that supports the company's business and its development. Ilmarinen considers it important that the composition of the Board of Directors takes into account the members' gender and age distribution and different backgrounds.
- Possibility to devote sufficient time to the duty.

5.3.3 Remuneration

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

In publicly quoted companies, it is important to distinguish between the remuneration of operative management and that of the Board of Directors. The decisions about the Board members' fees are made by the shareholders. We also consider it important that nomination and remuneration proposals are submitted well before the general meeting.

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 that entered into force at the beginning of 2020, transparency of remuneration systems is an important consideration for us.

5.3.4 Communication with companies outside general meetings

Ilmarinen holds discussions with the management and, if need be, the Board of Directors of the companies it owns 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.

Ilmarinen's portfolio managers regularly meet with the management of the companies we own. The issues raised in these discussions also include factors closely associated with responsible business practices, specifically compliance with norms related to human rights, labour rights, the environment and corruption. We annually disclose the number of these meetings in our reporting on this topic.

5.3.5 Communication with other shareholders

Communication with other shareholders in individual companies is essentially limited to nomination board work or engagement processes.

In individual cases, we can also hold discussions with other shareholders outside general meetings, company meetings, nomination boards 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 section 2.1.2 Active ownership and dialogue: Engagement processes.

6 Practical guidelines for the tax policy

Responsible tax policy increases our societal impact and transparency of our investment activities.

6.1 Ilmarinen's tax status

Ilmarinen is generally liable to tax in Finland for all the income derived 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, are typically not in a tax paying position in Finland.

However, it is typical for international investment activities that return on investments may be 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 withholding taxes levied at source 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 besides Finland also in another jurisdiction.

6.2 Responsible tax policy in Ilmarinen's investment activities

Responsible tax policy in Ilmarinen's 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. Ilmarinen monitors its 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 where it has business operations. 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, Ilmarinen's listed investments do not involve tax structuring. Therefore, it is not appropriate to separately analyse 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 and access 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 development 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 tax legislation and international tax norms 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 Ilmarinen's 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.

6.3 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 BEPS project and the EU's ATAD I/II directives.

Ilmarinen's 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 solely to achieve tax benefits.

Our definition of aggressive tax planning includes for instance

- using holding companies that do not practice actual business operations as defined in the OECD's Principal Purpose Test in their country of domicile, the only purpose of the arrangement being to avoid withholding taxes through the abuse 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 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.

6.4 Openness as part of the responsible tax policy

Openness is one of Ilmarinen's values and therefore also relates to the statutory reporting on the taxation of our investment activities.

We annually report our taxable income to the Finnish Tax Administration. We also ensure that any tax returns to be submitted in other countries are filed 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 Reportable Arrangements in the Field of Taxation (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.

7 Appendices

7.1 Appendix 1: Specific characteristics by asset class

Omaisuuslajikohtaisen lähestymistavan sijaan Ilmarisen vastuullista sijoittamista kuvataan ympäristö-, ihmisoikeus ja omistajaohjauksen periaatteiden kautta. Tästä huolimatta tiedostamme, että eri omaisuuslajeihin kuuluu kuitenkin omaisuuslajikohtaisia erityispiirteitä. Käsittelemme erityispiirteitä tässä liitteessä.

7.1.1 Real estate investments

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

Owning real estate (leasing and maintenance)

We invest in resource-efficient buildings that are healthy and safe for their users and are located along good traffic connections. We work closely with tenants throughout the investment's lifecycle. 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 lifecycle 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 lifecycle.

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.

We compensate for and offer our customers the opportunity to compensate for emissions from real estate. Compensation is optional for our customers. We draw on experts in calculating the emissions and the level of compensation and in selecting the compensation targets.

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.

7.1.2 Fund investments

Ilmarinen has fund investments in equity, corporate bond, private equity, infrastructure, forest, private debt, hedge funds and real estate funds. Ilmarinen's 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. Ilmarinen considers the asset manager's commitment to international initiatives that promote sustainability, such as the PRI (Principles for Responsible Investment) or a similar initiative/program for the asset class, to be a positive factor.

Asset manager monitoring

We annually monitor the asset manager's or fund's compliance to 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 investments' sustainability performance 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 Ilmarinen's direct security investment sustainability ratings in our investments in equity funds and corporate bond funds. We do not

require asset managers to use Ilmarinen's 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 2.2.7 Exclusions). The exclusions are defined in the asset management contracts at least so that Ilmarinen does 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 2.2.7 Exclusions). The exclusions are defined in the asset management contracts at least so that Ilmarinen does not participate in such investments.

Absolute-return funds (hedge funds)

In the case of hedge funds, Ilmarinen's 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 Ilmarinen for fund investments cannot be applied as such to defining the sustainability of hedge funds. Ilmarinen is an investor member of the Standards Board for Alternative Investments (SBAI) and promotes 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. Ilmarinen's own responsible investment questionnaire is also used in assessing real estate funds.

7.1.3 Direct non-listed equities and investment loans

Ilmarinen has direct investments in non-listed equities and investment loans. Investment loans are loans that Ilmarinen grants to companies for investment purposes. Ilmarinen also grants premium loans to its client in which the pension company lends funds that have accrued on a client's 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 terms and conditions for insurance contracts.

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.

7.2 Appendix 2: Targets for phase 1

The objective is to develop the responsible investment metrics to better reflect the impacts. That is why we will not disclose some key figures in our 2020 reporting. All new metrics and their values are not yet available, so we will use the existing ones as applicable.

The new reported key figures include, for example, carbon risk, scenario analysis results, quantity and quality of our investees' climate targets and compensation amount.

	Previous target	Measures	Targets 2025
Carbon risk calculation	Previously coal threshold alone (max. 30% of turnover)	Investments in high carbon risk companies permitted only after more thorough due diligence.	High carbon risk level max. 15% of turnover
Investees' climate targets	Increase climate reporting	Communicating climate and emissions reduction targets to investees.	Reporting on climate and emissions reduction targets to all direct investments with a turnover in excess of EUR 10 million.
Reporting on climate risks	Reduced carbon footprint	Reporting on carbon footprint, reporting on carbon risks (TCFD), carbon calculations and scenario analyses on a sector level	Disclosing detailed scenarios from the perspective of the Paris Agreement
Engagement	We engage with investees on climate topics and index provider on ESG index contents	Reduction of investees' actual emissions, better low carbon incorporation into broad ESG indices	
Compensation	Reducing the carbon footprint of real estate (in-use emissions)	We will continue our work to improve energy efficiency in the real estate sector to reduce emissions during both use and construction. We will compensate for the emissions from the premises we use ourselves and offer our customers the opportunity to compensate for theirs (in-use emissions). We will explore options to compensate for emissions during construction.	Compensate for in-use emissions and take measures to start compensation for emissions during construction.
Strengthening carbon sinks	Increase forest investments whenever possible	Investments in forests and technological development	Strengthening carbon sinks and carbon cycle economy

Overall goal

Our goal is to reduce the investment portfolio's actual and calculated emissions. As part of our climate work, we also take into account the just transition. The first phase 2020–2025 is integral to our goal of achieving carbon neutrality in 2035. Our target is to have 75% of our entire investment portfolio, including non-listed investments, covered by emissions calculations by the end of 2025.

7.3 Appendix 3: Example of carbon risk calculation

Company	High risk*	Medium risk*	Low risk*	Emission reduction targets	Time-frame 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	Average	 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

* Carbon risk level, % of company net sales.

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 section 2.1.2 Active ownership and dialogue.