



# Climate policy for Varma's investments

Climate change will have substantial financial, social and environmental impacts on current and future generations.

Investors must be prepared for the changes brought by climate change. Greenhouse gases from human activities have already changed the climate and caused financial risks for investors. The operating conditions of several industries and companies are on the verge of a change. In some industries, such as electricity generation, the change has already begun.

Mitigating climate change calls for substantial and long-term emission reductions. The goal of the Paris agreement is to limit the increase in the global average temperature to well below 2 °C above pre-industrial levels. This requires a global transformation to a low-carbon economy as well as an appreciable reduction in the use of fossil fuels.

**We support actions to mitigate climate change and make adapting to the change possible.**

Varma has previously committed to aligning its investments and investment processes with the Paris Agreement. In the course of 2020–2035, we will develop our portfolio towards carbon neutrality by

1. investing in companies whose solutions enable emission reductions and who take the progression of climate change into account in their operations
2. fostering collaboration in the financial markets in order to promote climate change mitigation and adaptation
3. focusing on analysing the financial risks of climate change in the investment portfolio

**We aim for a carbon-neutral portfolio by 2035, provided that the investment environment allows it.**

**We are developing our portfolio towards carbon neutrality in 2020–2035.**

We reach for carbon neutrality by identifying new investment opportunities brought by climate change and by creating a climate-friendly investment allocation, in which we include companies and projects:

- whose business benefits from actions to mitigate climate change
- whose operations do not cause significant greenhouse gas emissions
- who have a clear strategic and science-based target of reducing greenhouse gas emissions
- whose operations offer carbon sinks

Our target is for the allocation to represent 20% of the investment portfolio by 2025.

We promote collaboration within the financial markets in order to mitigate and adapt to the effects of climate change, while also taking part in the public debate on the impacts of climate change at events and through collaborative initiatives. We are involved in developing business and investment strategies that reduce the greenhouse gas emissions of our investments.

A carbon-neutral investment portfolio must be backed by strong scientific data and the latest information, as well as tools for developing the investment operations. We make use of the latest scientific data and tools when assessing the impacts of climate change.

We have defined industries that, in terms of climate change, both offer the greatest opportunities for emission reductions through their business and are also significantly exposed to risks caused by climate change mitigation, such as regulation and market risks.

These industries are:

- oil & gas
- utilities
- automobiles
- metals & mining
- construction materials
- transportation
- chemicals

In our investments in the above-mentioned industries, we commit to using the emission reduction analysis in compliance with the Science Based Targets<sup>1</sup> initiative.

We keep track of the research on climate change, and we update our climate targets at least every three years.

We are preparing for the financial risks of climate change by developing TCFD reporting<sup>2</sup> and the assessment of the financial risks of climate change. The assessment of financial risks means analysing the physical and transition risks of our investments, and an analysis of how prepared our investees are to adapt to global warming.

**Our goal is to increase the share of low-carbon index funds to 35% of our index investments by 2025.**

We are furthermore decreasing our exposure to fossil-based investments in our portfolio.

## Listed equities and corporate bond investments and derivative instruments

In listed investments, we focus on companies whose business benefits from climate change mitigation and who have a smaller risk of being exposed to the impacts of climate change. Investments in companies that operate in the oil & gas, utilities, automobile, metals & mining, construction materials, transportation and chemical industries and which offer alternative products or services to fossil fuel use present the most significant opportunity for mitigating climate change. We also favour companies that increasingly use renewable energy and whose operations are resource efficient in terms of the use of raw materials and other production inputs.

As part of the allocation of climate solutions, in listed corporate bonds we invest in green bonds.

The IPCC's 2018 climate report states that by 2030, global greenhouse gas emissions should be cut by 50% from the 2016 level. The TCFD reporting framework's metrics are becoming one of the most commonly used methods for measuring carbon efficiency. Both emission-reduction targets and increased reporting on the financial impacts of climate change are creating new regulation-based risks for investors. We believe that carbon-efficient companies who are reducing their emissions are in the best position to succeed, which is why we are revising our targets to reduce the carbon intensity of our investments.

The goal is to reduce the carbon intensity of listed equity and corporate bond investments, i.e. greenhouse gas emissions in relation to revenue, from the 2016 level as follows:

- 30% by 2023
- 40% by 2025
- 50% by 2027

1 Science Based Targets is a collaboration between the World Resources Institute WRI, the World Wildlife Fund WWF and the UN Global Compact initiative.

2 International Task Force on Climate-Related Financial Disclosures framework.

In addition, we assess the risk of fossil resources in the listed portfolio as part of the climate change risk assessment.

We are committed to exiting from investments in thermal coal by 2025.<sup>3</sup> We are also committed to excluding oil exploration from our investments by 2030.

Some companies require enhanced monitoring due to their exposure to climate risks. Our plan is to engage these companies in order to accelerate the decommissioning of coal-based operations. Our goal is to have these companies decommission their coal plants by 2030. Otherwise, we will exit the investment. We see no future for coal-based electricity generation.

We increase the share of low-carbon index funds in our index investments yearly, and our objective is to raise their share to 35% of all index investments by 2025. In active equity funds, we invest only in low-carbon and sustainable-development investment strategies. In active fixed income funds, we are increasing the share of low-carbon and sustainable-development investment strategies, in accordance with market and fund offering growth.

We monitor the development of derivative instruments that take climate change mitigation into account. We are committed to using them within the framework enabled by market liquidity.

## Real estate

Our goal is to reduce the carbon dioxide emissions of our direct real estate investments by switching to fossil-free heating and electricity by 2030 and 2025 respectively.

The carbon footprint of Varma's real estate includes carbon dioxide emissions from the buildings' consumption of heat, electricity, cooling and water. The aim is to include the carbon dioxide emissions caused by waste in the carbon footprint by 2021.

In buildings, carbon dioxide emissions are mainly caused by the energy consumption arising from electricity and heating, which can be reduced by improving the energy efficiency of the buildings.

In 2017, we joined the action plan for commercial and housing properties, where participants commit to an energy savings target of at least 7.5% between 2017 and 2025. Varma's own target is even higher than this, and we have committed to 10% energy savings during that period.

We will reach our energy savings target by controlling lighting, heating, cooling and ventilation, in addition to modernising our energy-consuming devices and equipment.

**Our goal is to reduce the carbon dioxide emissions of our direct real estate investments by switching to fossil-free heating and electricity by 2030 and 2025 respectively.**

As a general rule, Varma's most important office buildings will be certified according to the BREEAM environmental rating system by 2025, targeting a minimum rating of Good or Very Good.

## Real estate funds

When selecting real estate funds, we take into account how the fund manager has integrated sustainability matters in the investment process and in the real estate investments. We encourage fund managers to consider sustainability in their investment decisions and to set concrete targets, e.g., to reduce the CO<sub>2</sub> emissions and increase the energy efficiency of the portfolio's investments. We monitor the development at regular intervals through the Global Real Estate Sustainability Benchmark (GRESB) or through similar reporting and our own surveys.

## Private equity and infrastructure funds

In private equity and infrastructure funds, we guide the portfolio towards carbon neutrality by investing in funds that recognise the investment opportunities related to climate change mitigation and adaptation. We steer away from funds that are significantly exposed to the risks brought by climate change.

We utilize a low-carbon roadmap for electricity generation<sup>4</sup>. This means that

- investments in fossil-based electricity generation decrease at the same rate or faster than the roadmap requires
- the share of renewable energy grows in accordance with the roadmap, and our target is for it to account for at least half of electricity generation investments by 2030.

<sup>3</sup> With the exception of small-scale (5%) balancing power, i.e. electricity generation that is used to balance variations in electricity generation and consumption, and companies involved in the engagement process to decommission coal-based operations.

<sup>4</sup> The basis for the roadmap is the IPCC's 1.5 Degree Pathway, IEA Energy Technology Perspectives and UN PRI: Forecast Policy Scenario.

The roadmap requires, e.g., that renewables account for 50% of electricity generation investments by 2030, and that gas accounts for 22–25% by 2030. The roadmap also requires exiting from other forms of fossil production.

We strive to control the weight of industries with inherent climate risks by selecting managers and funds that are in line with our climate policy. Going forward, we are committed to a situation where the share of oil & gas companies in our private equity investments is smaller than the share of oil & gas companies in the listed equity market. Since funds have long investment horizons, we strive to ensure, through the careful selection of managers and funds, that our investees match our climate policy targets for the entire investment period.

Low-carbon and emission-free investments in private equity are also a part of our climate solutions allocation. Due to the long investment horizons, it is very important from an investor's point of view to take into account the changing operating environment that results from the progression of climate change and its mitigation. Our aim is to focus on investments that have clear emission-reduction targets in their operations.

In externally managed funds, our aim is to develop collaboration between investors as a tool for mitigating the effects of climate change. Our goal is to influence, together with other investors, how fund managers take climate perspectives into account in their operations as part of their responsible investment practices. We encourage funds to report on the potential financial risks and opportunities of climate change in their portfolio in accordance with the TCFD reporting framework.

## Corporate financing

In private loans, we emphasise investments that have less of a chance of being exposed to the risks caused by climate change mitigation or the progression of climate change. In addition, in our portfolio, we focus on companies where a change in their business operations reduces emissions.

## Hedge investments

In hedge funds, our goal is to develop collaboration in the financial markets in order to mitigate climate change. Our goal is to influence, together with other investors, how fund managers take climate perspectives into account in their operations as part of their responsible investment practices. We encourage funds and the underlying companies to report on the financial risks and opportunities of climate change in accordance with the TCFD reporting framework.

**Our target is for  
the climate allocation  
to represent 20% of  
the investment portfolio  
by 2025.**

We stress taking climate change into account, especially in funds where the investment horizon is long. We also actively highlight the fact that preparing for climate change offers significant investment opportunities in the alternative investment universe. Low-carbon and emission-free investments in hedge funds are also a part of our climate solutions allocation.

Our objective is also to develop, together with fund managers, the underlying companies' reporting on energy use and the carbon footprint.

We strive to control our exposure to industries with inherent climate risks through our manager and fund selection processes. Investments in coal & oil exploration have not played a strategic role in hedge fund allocation. The low-carbon roadmap for electricity generation is utilized also in hedge fund investments.

