



Climate policy for Varma's investments

Climate change is one of the most significant factors that investors must prepare for in the long term. Greenhouse gases from human activities have already changed the climate. Emissions arising from fossil fuel combustion, from changes in land use and from agricultural and industrial processes have led to an increase in greenhouse gas concentrations in the atmosphere and global warming.

Climate change will have substantial financial, social and environmental impacts on current and future generations. The operating conditions of several sectors and companies will change in the long run. In certain sectors, such as energy production, the change can already be seen.

Mitigating climate change calls for substantial and long-term restrictions on emissions, as the future development will largely be determined by the total volume of greenhouse gas emissions. The goal of the Paris climate agreement is to limit the increase in the global average temperature to well below 2 °C above pre-industrial levels. The goal requires shifting to a low-carbon economy as well as an appreciable reduction in the use of fossil fuels.

Varma recognises the importance of climate change to its investment activities and the long-term development of the economy. We support actions to mitigate climate change and adapt to the upcoming changes.

We want our investments and investment processes to be in line with the 2-degree target.

We are committed to developing our investment operations such that our investments and investment processes comply with the 2-degree target. This means focussing investments in the longer term on investees that are low carbon or whose climate strategy aims for a low-carbon society.

In the short term, our goal is to reduce the carbon footprint of our investments. Our goal is to reduce the carbon footprint of our listed equity investments by 25% and that of listed corporate bond investments by 15% in relation to the companies' revenue, and the carbon footprint of real estate investments by 15% in relation to gross square metres by the year 2020.

Through its climate policy, Varma further commits to:

- developing ways of assessing the risks and opportunities of climate change in its investment activities on both the sector and corporate level, and preparing our investees for the change
- identifying any new investment opportunities brought by climate change
- assessing, encouraging and promoting business and investment strategies that reduce the greenhouse gas emissions of our investees
- promoting, through various means of influence, the disclosure of greenhouse gas emissions and climate change preparedness by our investees
- participating in the public debate on the impacts of climate change where our investees are concerned at events and via co-operation initiatives
- reporting on our operations annually

Varma has signed the CDP (formerly Carbon Disclosure Project), and joined the Montréal Carbon Pledge initiative supported by the Principles for Responsible Investment (PRI) and the United Nations Environment Programme Finance Initiative (UNEP FI). Under the Montréal Carbon Pledge, investors commit to measure and publicly disclose the carbon footprint of their listed equity investments on an annual basis.

Listed equity investments

Varma's goal is to reduce the carbon footprint of its equity investments by 25% in relation to the companies' revenue¹ between 2015 and 2020. At the end of 2015, the carbon footprint was 238 tonnes (tCO₂e) in relation to revenue, which was one quarter lower than the benchmark index.

The target will be achieved by investing in companies with the best practices. We determine companies' preparedness for climate change during meetings with the companies and by consulting various sources of information. The portfolio is built relative to the sector or corporate structure such that the carbon footprint is reduced. In the longer term, we can also influence companies and encourage smaller carbon footprints and carbon footprint disclosure.

Companies that disclose their emissions data account for 90% of our direct investments, calculated on the basis of

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invested capital. Our goal is for especially larger companies to disclose their footprint via the CDP, and we discuss the disclosure with these companies. Our goal is that by 2020, ninety-five percent of listed direct equity investments will be disclosing their greenhouse gas emissions.

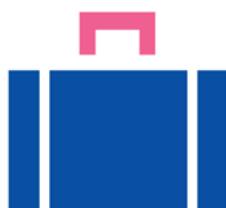
In 2016, we are establishing a new portfolio under the theme of climate change. The portfolio will be made up of companies whose operations benefit from climate change mitigation in different fields, such as technology and renewable energy production. We will furthermore invest in companies that are making their operations less carbon-intensive in the medium term and thus less risky also from a financial perspective.

In fund investments, we will take climate change into account in ranking the responsibility of active funds. Our most important criteria will be the fund company's climate change policy and measurable targets: the way climate change has been integrated in the investment process and annual disclosure, especially on the carbon footprint.

Listed corporate bond investments

Varma's goal is to reduce the carbon footprint of listed corporate bond investments in relation to revenue² by 15% between 2015 and 2020. At the end of 2015, the carbon footprint was 244 tonnes (CO₂e) in relation to revenue, which was nearly 50% lower than the benchmark index.

The target will be reached both by investing in companies with the best practices and by taking into account the



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¹ The indicator used is financed emissions/financed revenue.

² The indicator used is our financed share of the entire bond issue multiplied by the company's emissions in relation to revenue.

carbon-intensiveness of the companies' operations as part of the selection process and sector allocation. In our meetings with companies, we will influence the attention that is paid to climate change in their operations. A changed business environment, new official requirements and possible stranded assets are examples of the risks that climate change and its limitation will bring.

Real estate

Varma targets a 15% reduction in the carbon footprint of comparable real estate that it is responsible for maintaining by 2020 and 20% by 2025 from the 2015 level in relation to gross square metres³. At the end of 2015, the carbon footprint was 33.8 kg per gross square metre.

The carbon footprint of Varma's real estate includes carbon dioxide emissions from the buildings' consumption of heat, electricity, cooling and, in part, water. Carbon dioxide emissions caused by waste are not included in the early years of the carbon footprint target period, but the goal is to include them in the carbon footprint by 2020.

In buildings, carbon dioxide emissions are mainly caused by energy consumption arising from electricity and heat production, which can be reduced by improving the energy efficiency of the buildings. In 2011, Varma joined the Commercial Property Action Plan for the property sector under the National Energy Efficiency Agreements scheme. The action plan is in force until 2016. We are also joining the action plan for commercial and housing properties, to take effect on the 1st of January, 2017. The action plan entails committing to a 7.5% energy savings target between 2017 and 2025. Varma's own energy savings target in the corresponding period is, however, 10%.



³ The indicator used is kg CO₂/GFAm², which illustrates the volume of a building's carbon dioxide emissions per gross square metre.

Our goal is to reduce the carbon footprint of our direct real estate investments by 15% by 2020.

The energy savings target will be achieved through energy-efficiency measures such as need-based control of lighting, heating, cooling and ventilation, and equipment upgrades.

The carbon footprint will be reduced furthermore by using energy that is generated through renewable energy sources. Solar energy is being used in Varma's properties for the first time in 2016. New construction and renovation projects will adopt engineering solutions that aim to minimise the carbon footprint, taking into account the use of renewable sources of energy and, for example, the use of devices that have a high rate of efficiency in building services.

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

Private equity and hedge fund investments

Our goal is to influence fund managers such that they include climate aspects in their responsible investment practices and take them into account when making investment decisions. Private equity funds make majority investments in target companies and thus play a key role in influencing companies' practices. In hedge fund investments we stress taking climate change into account, especially in funds that focus on longer-term ownership. We also actively highlight the fact that preparing for climate change offers significant investment opportunities in the entire field of alternative investments.

Varma's goal is to influence fund managers such that by 2020 more than half of the fund capital in Varma's hedge and private equity funds has a climate change policy and has climate change integrated into the investment process. We furthermore expect the funds to report on their work.