



# Active ownership and engagement principles at Varma

Active ownership and engagement are an integral part of responsible investment. They are a means of promoting responsible business and sustainable value development for the long term.

Active ownership is applied differently in different asset classes. In listed equity investments, active ownership includes engagement and voting at annual general meetings of shareholders. Engagement means that an investor requires companies, for instance, to take sustainability issues better into account, or it could mean enhanced reporting.

These principles describe Varma's engagement goals, focus areas and methods, as well as how engagement reporting takes place.

Varma also has an [ownership policy](#), that explains how Varma fulfils its role as an active owner by voting at annual general shareholder meetings and by serving on companies' nomination boards and boards of directors.

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## Engagement goals and focus areas

Varma's engagement goals are twofold. Firstly, Varma engages with companies in an effort to rectify the situation if the investee company has violated local laws or international agreements. In addition to local legislation, we expect investees to comply with international norms and agreements. This means compliance with, among others, the principles of the UN Global Compact initiative on sustainability and social responsibility. The principles of the Global Compact initiative cover the UN Declaration of Human Rights and Convention against Corruption, ILO labour conventions and the Rio Declaration on Environment and Development.

Secondly, through its engagement Varma also strives to promote sustainability and sustainability reporting to investors. Our aim is to promote the implementation of the UN's Sustainable Development Goals, both directly and indirectly.

The focus areas of Varma's engagement can be divided into environmental, social and governance (ESG) factors and separate focus areas that are confirmed annually. The focus areas are confirmed each year in the engagement plan.

In environmental matters, Varma's engagement is guided by both the climate policy for investments and compliance with international agreements and conventions. The Paris Agreement and local environmental laws are key elements in screening the investment portfolio for violations. In addition to the Paris Agreement's emission reductions, biodiversity is one of the engagement themes in environmental matters. Varma uses the data provided by a 3rd party to monitor violations of environment-related norms by its investees.

The screening covers, for instance, failures in reducing air pollution and assessing environmental impacts.

In line with our climate policy, we engage with companies to reduce greenhouse gas emissions both directly and in collaboration with other investors. For example, for investees that require enhanced monitoring we create an engagement process to accelerate the decommissioning of coal-based operations. The coal plants of the monitored companies must be decommissioned by 2030.

In social matters, developing working life and respect for human dignity are our key focus areas. Our engagement in social matters is guided by compliance with international agreements and especially taking human rights into account. International agreements address risks that are negative from an investor's perspective, such as child labour, restrictions on freedom of association, and poor working conditions.

Good governance is built on international guidelines on good governance practices and national corporate governance codes.



Varma requires good governance of the companies it owns. Violations of good governance include violations related to money laundering or corruption. The requirements for good governance are also described in Varma's ownership policy.

## Means of engagement

Investors can employ several means of engagement and ways of implementing the engagement process. The objectives of the engagement process, the ownership share and whether the issue involves taking action on a violation or promoting sustainability themes often determine the most sensible means of engagement for the investor.

Engagement can take place, for example, in meetings, by phone and via email.

In implementing the investor's engagement process, the service provider also plays a role, particularly in cases where norms have been breached. In promoting sustainability themes, it is typical for investors to work together.

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## Screening investments for norm violations

A violation of international norms can be either a single event that exceeds the threshold in terms of its severity or numerous separate and less severe events that indicate an overall deficiency in operations.

Varma classifies violations in direct equity and bond investments into one of three categories:

- blacklisted investments, i.e. companies that are not invested in
- investees that are involved in an engagement process
- investees that are on an observation list.

Various engagement methods are in use for different categories. In the most severe category, violations in investee companies are automatically blacklisted. If an investee is blacklisted and sufficient progress is not made to rectify the violation, the investment will be divested at the latest within 18 months or based on the market situation.

Violations in the second most severe category are included in Varma's engagement process. Further investments cannot be made in an investee company that is in an engagement process without a decision by the investment committee. Targets and a schedule are defined for the engagement process, and the progress of the process is monitored.

Violations in the third category are placed on an observation list. We mainly engage with these investees through the service provider. The service provider engages in a dialogue with the company, and during the engagement process the company has the right to know our name. The progress made to rectify violations and the situation is monitored regularly.

What is significant for Varma in terms of monitoring the situation is that progress is made in the desired direction.

In fund investments, Varma also requires the companies in the funds to comply with laws and international agreements. In the event of a possible violation, the fund's management company contacts Varma and begins an investigation process into the violation. In fund investments, the fund management company is responsible for monitoring the sustainability of the portfolio's investments.

In index investments, Varma primarily aims to select investments where companies that have committed serious violations are already excluded. In index investments, the engagement process is carried out by the investment company. Since Varma does not have direct holdings in index companies, direct engagement is not possible, but Varma does engage with the companies through collaborative initiatives.

**Varma reports annually on how it has voted in the shareholder meetings of listed companies on its website. In addition, the company's Annual and Sustainability Report discloses possible norm violations in the portfolio, as well as current engagement projects, and the goals and progress of the projects.**

## Promoting sustainability themes in investee companies

Varma engages by meeting with companies in order to rectify the situation and promote responsibility. In its meetings with companies, Varma discusses topics such as sustainable business and taking climate change into account in business operations and encourages companies to report on their climate risks in accordance with the Task Force on Climate-related Financial Disclosures (TCFD) framework.



Varma strives to promote the sustainability of investees and reporting thereon together with other investors, especially if the investment was made through a fund or, for example, in the case of a bond.

In externally managed funds, our aim is to develop collaboration between investors as a tool for mitigating the effects of climate change. In order to mitigate and adapt to the effects of climate change, we promote collaboration within the financial markets while also taking part in the public debate on the impacts of climate change together with other investors.

Engagement to promote a fund's sustainability and reporting on responsibility issues takes place during the selection phase as part of the fund's due diligence process, with discussions taking place in the fund's advisory committees and in collaboration with the fund's management companies.

## Reporting and communication on engagement

We report annually on how we have voted in the shareholder meetings of listed companies on our website. In addition, in our Annual and Sustainability Report we disclose possible norm violations in the portfolio, as well as our current engagement projects, and the goals and progress of the projects.