

Varma's ownership policy

Varma's ownership policy outlines Varma's activities as a major shareholder. Varma's goal is to support and encourage companies to succeed and thus safeguard and improve its long-term investment returns.

The goal of Varma's investment operations is to secure the long-term and sustainable financing of the earnings-related pension scheme. We pursue this goal by, among other things, widely diversifying investments across and within various asset classes. Through diversification, we strive to achieve the best possible return on investments and secure the payment of pensions, regardless of the market situation. Investments are made in Finland and abroad, and they may consist of both direct and indirect equity investments. All investments must be in line with the investment plan that is approved annually by Varma's Board of Directors. The investment plan defines the general principles for investments, the basic allocation for investments, targets for return, diversification and liquidity, decision-making powers, control systems and reporting, among other things.

The policy covers Varma's equity holdings both in Finland and abroad. Our activities are focussed on companies and themes in which we estimate we can best make use of our expertise and have significant opportunities for engagement. Varma is a large shareholder typically in Finnish companies. Application of the share ownership policy varies according to, among other things, the companies' stage of development and ownership structure.

Important premises of Varma's ownership policy are the equality of the shareholders, transparency and responsibility.

In the case of unlisted companies, the special characteristics of each company are taken into account when applying the policy.

The starting point for Varma's share ownership policy is the shareholder's position in the company as a financier who targets a return on their capital. At the same time, the shareholder is the company's key risk bearer, who receives a return only after other stakeholders have received their contractual compensation. The shareholder receives a return only once the company's business has proven profitable in the longer term. Monitoring and influencing the company's operations are essential in order to secure these key aspects.

As a shareholder, Varma receives information about the operations of companies through many channels. In addition to companies' reporting, we take part in investor events arranged by companies and in general meetings of shareholders. We regularly meet with the management and boards of directors of the companies in which we have a holding, especially those companies in which Varma has a major holding. During the meetings, we discuss the company's targets, possible challenges, responsibility and other matters that are important

to the company's success. Our aim is to understand and assess the company's and management's operations as a whole, and to communicate to the company our policies and expectations as a shareholder. Important premises of Varma's share ownership policy are equality of the shareholders, transparency and responsibility.

Varma engages in dialogue with investees, as well as with other shareholders and stakeholders. Varma strives for engagement jointly with other investors, especially when Varma's holding is small, however also in cases where Varma is not a direct shareholder. This makes addressing problems easier and more effective. The more shareholders behind the engagement process, the greater its impact will be on the decisions made by the investee.

General meetings of shareholders and exercising voting rights

At general meetings, the shareholders make decisions on matters that fall within the competence of the general meeting, by virtue of the Limited Liability Companies Act. Of these matters, the most important are the appointment of the members of the board of directors, deciding on the distribution of assets, decisions related to shares and share capital and the appointment of the auditor. We expect the companies to comply with normal rotation practices when appointing an auditor.

In principle, Varma participates in the general meetings of Finnish companies in which it has a holding. Outside of Finland, we usually participate, by proxy, in the general meetings of companies in which we are a major shareholder. We may also vote in other companies in cases where the agenda includes a theme that is important to us and we have a significant holding in the company.

Varma supports the proposals made in the general meetings by companies' boards of directors unless there are justifiable grounds not to. In cases where we are opposed to proposals on the agenda, we will undertake to discuss the matter and reach a solution that is acceptable to all parties. If this is not possible, Varma's representative will participate in the general meeting and exercise his/her right to speak in order to clarify Varma's position. Demanding a vote depends on our estimate of the outcome.

We require that companies present the grounds for exceptional proposals already in the notice to the general meeting. This enables the shareholders to easily make an informed voting decision.

In Varma's opinion, the most important task of shareholders is to appoint to the board of directors members who meet the company's needs, bring genuine added value and enable the company's long-term success through good board work.

Board of directors and board remunerations

Varma's main means of influencing companies is through the appointment of boards of directors. A proposal on the composition of a board of directors can be prepared by the company's board of directors or shareholders' nomination board or on the initiative of major shareholders. Irrespective of the method of preparation, we consider it natural to discuss the composition with the major shareholders. Varma participates in shareholders' nomination boards in companies where its holding allows it. Information about the nomination boards in which Varma is represented can be found on [Varma's website](#).

In Varma's opinion, the most important task of shareholders is to appoint to the board of directors members who meet the company's needs, bring genuine added value and enable the company's long-term success through good board work. The board's role is central especially to the company's strategy and risk management. At least as important is the board's nomination of the CEO and its co-operation with the CEO.

A change in organisational structures and the increasing importance of stakeholders place new demands on board work. Boards are expected to actively work on developing the company's operations for the long term, but also to react quickly if the situation requires.

A board whose members represent different backgrounds and competence in terms of both professional and personal characteristics has the best conditions for broadly understanding the demands set by the company's operating environment and for being open to new opportunities and innovations. Well-defined diversity brings clear added value to board work. Diversity should be reflected in the board's composition as mutually complementing competencies, in addition to gender and age distribution.

Our other policies for appointing boards of directors and for their composition are:

- It is important to us that the activities of the Board of Directors are evaluated annually either as self-evaluations, as interviews carried out by the nomination board, or with the assistance of an external evaluator.
- In Finland, our definition of the independence of board members of the company and of major shareholders is based on the recommendation of the Finnish Corporate Governance Code. If the company has a clear main shareholder, Varma considers it appropriate that the main shareholder's representative is also a member of the board.
- We recommend that the roles of the chairman and the CEO are essentially separated. Exceptions to this can be made on a case-by-case basis, especially with regard to temporary arrangements.
- We recommend that the number of board memberships the CEO of a listed company has in other listed companies is limited to two.

When determining the remuneration level of the board members, the company's situation, the nature and scope of the operations, which defines the complexity of the board work and the expected amount of work, must be taken into account. The remunerations of the members of the board must be at a competitive level. We recommend that the remuneration paid to the chairman is at least double the amount paid to board members. The complexity of the role of chairman of the audit committee should be taken into account in the level of remuneration. A natural time to evaluate the level of the board's remuneration and its development is in conjunction with the annual general meeting.

Varma is in favour of paying board remuneration partly as shares, and it is viewed as positive that board members hold company shares.

Capital structure, dividends and repurchase of own shares

A key task of the company's board is to define a suitable capital structure for the company's targets and strategy, as well as policies governing the distribution of funds. The general meeting decides, based on the board's proposal, on the distribution of dividends and on the purchase of own shares.

Varma requires that policies governing capital structure, dividend distribution and repurchases of own shares are clearly communicated to the shareholders.

In the distribution of funds, we prefer dividend payments instead of share repurchases. Especially in growth companies, the appreciation of shares can be a significant source of returns for an investor.

Share issue authorisations

The general meeting may make decisions on share issues based on a proposal by the board of directors. The intended use of the authorisation is generally not defined in more detail; instead, authorisation is granted for general use, and the terms and conditions are left to the board to decide. The share issue authorisation granted by the general meeting can thus significantly influence the company's ownership base and the shareholders' rights, especially in cases where the board's authorisation also covers a directed share issue.

We require that share issue authorisations which are significant in terms of size and are sought for general use do not, as a general rule, include authorisation for a directed share issue without more precise specification of the intended use of the directed share issue. The share issue authorisation is significant if it covers more than 20% of the company's share capital. Varma's stance is that a share issue authorisation should not exceed 20% without justifiable grounds.

In addition, Varma requires that the general meeting decide on the renewal of share issue authorisations annually and that the duration of a share issue authorisation does not exceed 18 months, unless there is a particular reason. This ensures

that the authorisation given to the board is based on the most current information possible.

Varma requires that, where old authorisations are not cancelled, the extent of the valid share issue authorisations must be indicated in full.

Companies' share-based incentive schemes can provide a good basis for seeking a longer period of share issue authorisations. We recommend that share issue authorisations be separated such that part of the authorisation is for general use and part of the share issue is intended for use in incentive schemes. In such cases, authorisations can be specified for different periods of validity, e.g., such that the share issue authorisation intended for the company's share-based incentive scheme is given for the five-year period permitted by law and correspondingly the general authorisation is granted for a shorter period. We find it important that the issue authorisations used for incentive schemes are clearly specified in the notice to the general meeting.

A company's board of directors' tasks include building an effective and motivating remuneration scheme. The shareholder's task is to evaluate the scheme as a whole.

Management's salaries and remuneration schemes

The company's board of directors' tasks include building an effective and motivating remuneration scheme. The shareholder's task is to evaluate the scheme as a whole. The evaluation calls for transparent and clear reporting. The information required by the Corporate Governance Code provides a natural starting point for the reporting.

Well-built share-based incentive schemes are a good way to reward management for growing the company's result and shareholder value in the long run. The board of directors' task is to explain to the shareholders the link between the company's strategy and the incentive scheme and to assess the effectiveness of the scheme.

Responsibility

As a responsible investor, Varma assesses in its investment decisions the key factors related to its investees' environmental (E), social (S) and governance (G) matters.

Responsibility is a broad topic, and the weight of individual themes varies from one company and industry to the next. Environmental responsibility refers to the company's way of managing and reducing the impacts of its operations on the surrounding nature and natural resources, and to taking into account the preconditions the environment sets on the company's operations. Social responsibility covers the company's interaction with the surrounding society. An important aspect of this is the company's internal and external stakeholders, such as employees and customers.

Good governance refers to the governance system that is used to manage and monitor the operations of the organisation in the best interests of the stakeholders. Varma requires good governance of the companies it owns; this includes, for instance, compliance with international good governance recommendations and existing corporate governance codes.

Varma focusses its influence on responsibility topics and themes which it has identified as essential to the companies' success. We focus on topics that we have accumulated knowledge about and which we can genuinely influence in order to achieve pre-defined targets.

Compliance with international norms and agreements

We require that our investee companies comply with international norms and agreements in their operations. The most important of these are the UN declarations on human rights, the environment and anti-corruption, which form the basis for the UN Global Compact initiative on corporate responsibility, as well as the ILO labour conventions.

We monitor norm breaches by regularly screening our portfolio. If a company breaches any of the above-mentioned norms, our priority is to engage with the company in order to change their operating methods. If our efforts to engage with the company are unsuccessful in the long run, we will exclude the company from our portfolio.

We expect clear assessments and reporting transparency from companies on the current and future impacts climate change will have on the company's operations and growth potential.

Climate change

In Varma's climate policy for investments, we are committed to developing our investment operations such that our investments and investment processes comply with the 2-degree target set in the Paris Agreement. We have also set targets for reducing the carbon footprint in our direct investments. For Varma, the ownership policy is a key means of achieving the set targets, especially when it comes to large and otherwise significant investments.

We expect clear assessments and reporting transparency from companies on the current and future impacts climate change will have on the company's operations and growth potential. The reporting should cover how climate change is included in the company's governance, strategy and risk management, especially in emissions-intensive industries. By reporting on the targets and indicators set by the company, it is possible to monitor the company's progress.

Varma analyses the financial risks and opportunities brought by climate change. We additionally report climate-related risks in accordance with the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD), and we encourage our investees to do the same.

Varma employees' directorships in other entities

When deciding on Varma employees' new representation in boards of directors or supervisory boards, the decision concerning the CEO is made by the chairman of Varma's board of directors. The chairman of the board of directors decides on an executive group member's new representation in the board of directors or supervisory board of an entity that is not Varma's subsidiary on the CEO's proposal using the "one-over-one" principle, whereas representation in Varma's subsidiary's board of directors or supervisory board and Varma's representation in the earnings-related pension sector's co-operative bodies is decided by the CEO. For other Varma employees, the decision is made by the CEO.

Membership in other entities' governing bodies always requires an assessment of insider, related-party and conflict-of-interest issues by the decision maker.

A Varma employee's participation in other entities' governing bodies must not

- have adverse effects on the decision-making of Varma's investment operations
- undermine confidence in the independence and neutrality required from the pension insurance company
- have adverse effects on the work tasks at Varma
- be contrary to Varma's interests

When a Varma employee involves in decision-making in other entities' governing bodies, the following must always be taken into account

- the necessity for and appropriateness of the membership
- fulfilment of the requirements set for the membership

The positions of trust held by Varma employees are available on [Varma's website](#).

Approval of Varma's ownership policy and taking inside information into account

The ownership policy is approved by Varma's board of directors. At Varma, the share ownership management group is responsible for more detailed guidelines. The group is made up of Varma's CEO, CIO and the persons participating in shareholder nomination boards as Varma's representatives. The group decides on the practical application of the ownership policy, and discusses current topics and future themes.

Varma's insider guidelines are taken into account at all stages of the discussions. Varma has clear rules and processes for obtaining inside information which ensure the correctness of the operations. As an investor, Varma complies with general insider guidelines that apply to professional investors. Varma additionally has internal guidelines concerning inside information, specifying precise rules for the distribution of information and for setting a trading ban.