



Varma's principles for responsible investment

Varma's task is to invest pension assets profitably and securely. Responsibility is part of Varma's strategy, and alongside securing solvency, responsible operations mean smooth implementation of pension provision and promoting work ability.

Responsible investment takes key factors related to environmental (E), social (S) and governance (G) matters into account in investment decisions.

From an investor's perspective, making allowances for sustainability does not conflict with return expectations. At Varma, the goal of responsible investment is to reduce risks and to identify investees that benefit from responsible operations as well as the return potential of such investments. Varma's principles for responsible investment cover all asset classes and are applied differently depending on the asset class and type of investment.

Active ownership and engagement are an integral part of responsible investment. The [active ownership and engagement principles](#) describe Varma's engagement goals, focus areas, methods and reporting.

Varma has signed the [UN's Principles for Responsible Investment](#).

Integrating responsibility into the investment process

Responsibility influences our investment decisions alongside financial factors. Responsible investment at Varma is guided not only by our strategy, sustainability programme and principles for responsible investment, but also by Varma's:

- climate policy for investments
- ownership policy
- active ownership and engagement principles
- annual investment plan
- annual responsible investment targets that are defined for each asset class

In analysing responsibility, Varma focusses on the most material responsibility aspects related to the specific industry and asset class.

Mitigating and adapting to climate change

Varma has published a [climate policy for investments](#). The climate policy's long-term goal is to align Varma's investment portfolio with the Paris Agreement. In the course of 2020–2035, we will develop our portfolio towards carbon

Responsible investment at Varma

- We take responsibility into account as part of the valuation and overall investment process
- We strive to mitigate climate change, and we analyse the risks and opportunities of climate change
- We engage with the companies we invest in
- We have defined the areas that Varma will not invest in (negative screening), as well as the kind of companies that are subject to enhanced ESG monitoring

neutrality. The short-term goal is to lower the carbon footprint of its investments in various asset classes.

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

Engagement and active ownership

Varma's [ownership policy](#) outlines Varma's activities as a major shareholder. We regularly meet with the management and boards of directors of the companies in which we have a holding, especially companies in which Varma is a large shareholder. We also participate in general meetings of shareholders and shareholders' nomination boards; in some cases, Varma is represented in the company's Board of Directors.

Varma engages with the companies it invests in also with other investors, for instance, through collaborative initiatives and partnerships. 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.

We require our investees to operate responsibly, and especially to take climate change into account in their operations. In the name of mitigating climate change:

- we are committed to exiting from investments in thermal coal by 2025. We are also committed to excluding oil exploration from our investments by 2030.¹

Varma requires that its investees comply with international standards and agreements, the most important of which are:

- UN Global Compact initiative
- OECD guidelines for multinational enterprises
- ILO labour conventions

Compliance with these standards is monitored by screening our portfolios on a regular basis.

The [active ownership and engagement principles](#) describe Varma's engagement goals, focus areas and methods, as well as how engagement reporting takes place.

Negative screening and enhanced ESG monitoring

For ethical reasons, Varma has excluded the following from its direct investments:

- tobacco companies
- companies manufacturing controversial weapons, such as nuclear weapons, anti-personnel mines, cluster bombs, and chemical and biological weapons

Varma has defined industries that require enhanced ESG monitoring. Enhanced ESG monitoring and analysis concerns the following industries:

- Industries that are significantly exposed to climate risks, such as the oil & gas industry, electricity & heat production, and the automotive, mining, concrete, transport and chemical industries

- Companies that rely on coal- or lignite-based operations for 15–30% of their net sales
- Alcohol
- Legal cannabis products
- Adult entertainment
- Gambling
- Conventional weapons

Taxes

Varma is committed to acting in compliance with tax laws and regulations and rejects actions that, instead of business targets, aim to secure tax advantages contrary to the intention of the legislature. Varma does not engage in aggressive tax planning or partake in investment structures whose purpose is to avoid reporting obligations or make the beneficial owner of the income unidentifiable.

Varma closely monitors, e.g. the EU list of non-cooperative jurisdictions (i.e. the EU's blacklist), and Varma does not invest in countries that are on the list or in investees situated in low tax rate countries for tax reasons. Our task is to invest pension assets profitably and securely. Considering the scope of Varma's investment operations, this means that investments are made through larger and known funds which may also be situated in low tax rate countries. We do not make this choice for tax reasons, but instead for the options that are offered internationally to institutional investors. Varma's approach is also that the tax domicile of the funds commits to an exchange of tax information between authorities. We also require that the fund management companies used by Varma take care of reporting and the payment of taxes in the countries in which business activities are pursued. International tax regulation and automatic exchange of information provide governments with better conditions for collecting taxes. In its investments, Varma complies with the tax laws of the investment country in question as well as international tax rules. In the absence of clear guidance by tax laws or rules, Varma's guiding principles are prudence and tax transparency.

Varma closely monitors changes in international tax regulation, as well as the development of standards and recommendations related to tax sustainability reporting. International tax development projects, such as the OECD's BEPS project, combats tax avoidance and increases transparency and the automatic exchange of information in taxation. These provide governments with better conditions for collecting corporate taxes. Various standards and recommendations related to tax sustainability reporting, such as the Global Reporting Initiative (GRI) and Principles for Responsible Investment (PRI), support the development of sustainable tax reporting practices. Varma supports projects that aim to promote both international tax regulation and global reporting standards and also encourages its investee companies to comply with such regulations in their own operations.

Varma's [tax strategy](#) and principles are laid down in its tax policy. For responsibility issues, Varma has a whistleblower channel through which every one of our employees or an outside party can anonymously report observed potential misconduct. The whistleblower channel is also in use for tax-related issues.

Approval of Varma's Principles for Responsible Investment

Varma's Board of Directors approves the Principles for Responsible Investment.

¹ 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.