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 workability.

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 responsibility 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

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, CSR programme and Principles for Responsible Investment, but also by Varma's:

- climate policy
- ownership policy
- 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.

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 closer ESG monitoring

We require our investees to operate responsibly, and especially to take climate change into account in their operations.

Climate change mitigation and adaptation

Varma has published a climate policy for investments. The climate policy's long-term goal is to bring Varma's investment portfolio in line with the Paris Agreement. 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 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.

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 those 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.

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

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 have excluded the following:

- companies that rely on coal- or lignite-based operations for more than 30% of their net sales

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

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

Compliance with these standards is monitored by screening our portfolios on a regular basis. If a company breaches any of the above-mentioned standards, our priority is to engage with the company to change their operating methods. If our efforts to engage with the company produce no are unsuccessful in the long run, our option is to exclude the company from our portfolio.

Varma has defined industries that require enhanced ESG monitoring. More comprehensive 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 and transport 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 acts lawfully and with integrity and in compliance with legal and regulatory tax requirements. Varma will not enter into transactions with the main purpose of securing a tax advantage contrary to the intention of the legislator in enacting the relevant tax legislation. Varma's principle is to avoid double taxation on its investment returns; double taxation would contradict the ultimate objective of the investment operations, which is to generate returns.

Varma does not engage in aggressive tax planning. In investments, we comply with each country's tax policy and international tax regulations. In the absence of clear guidance by tax legislation, our leading principles are caution and tax transparency.

We require that the domiciles of funds participate in the exchange of tax information between authorities. International tax regulation and automatic exchange of information provide governments with better tools to collect corporate taxes.

Approval of Varma's Principles for Responsible Investment

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

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