ELO'S CLIMATE STRATEGY FOR INVESTMENTS

ELO MUTUAL PENSION INSURANCE COMPANY

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CONTENTS

INTRODUCTION TO CLIMATE CHANGE

Climate change is one of the greatest challenges humankind is facing and, therefore, climate change mitigation is one of the UN's Sustainable Development Goals. The World Economic Forum has estimated that the failure of economies to adapt to climate change is among the top five global risks. As a pension investor, Elo's responsibility for pension assets extends ahead for decades, and for that reason, the risk assessment of our investments must take climate change into consideration. Elo's objective is to ensure sustainable returns for our investments, taking into account the challenges that climate change imposes on the financial markets and our investments. In response to this, we have drawn up a climate strategy as part of our responsible investing objectives. The basis for the strategy is to pursue to make better investment decisions by considering climate issues.

CLIMATE RISK

Climate risk refers to the risk facing business operations and society at large as a result of the effects of climate change. From an investor's perspective, these risks can be divided into at least three areas:

- Physical impacts
- Transition risk
  (transitioning to a low-carbon society)
- Financial market systemic risk

Physical impacts related to climate change, such as global warming, extreme weather phenomena or sea level rise, have a direct or indirect effect on companies through their chain of subcontractors. The more common occurrence and increasing strength of extreme weather, in particular, can have a significant impact on the value of different asset classes.

In terms of financial risks, transition risk refers to legislative changes (e.g., carbon dioxide taxation and emissions trading, and emissions restrictions) and to changes in the product and service markets, such as increasing competition, substitution, the price of renewable energy and changes in the price of raw materials. This risk class also includes the so-called carbon bubble from fossil fuel reserves, the majority of which would become worthless within the 2 degree climate scenario. This form of risk places companies in emission-intensive industries at risk if they are unable to adapt their operations to suit a low-carbon society. Both the physical and transition risk could possibly be expanded as a systemic risk for the entire global economy. The Financial Stability Board has determined that climate change is a systemic risk for financial markets, and thereby a threat to the stability of the entire financial market.

CARBON RISK

Carbon risk refers to the risks to company operations and assets caused by measures to mitigate climate change, either in the form of a rise in the price of greenhouse gas emissions or restrictions on the use of fossil fuels. A low-carbon or carbon-neutral society is the only means of limiting global warming to no higher than 2 degrees, which is viewed as necessary, even though it is not a sure way to prevent uncontrollable climate change. A low-carbon society would generate significantly less greenhouse gases when compared to the current level.

CARBON FOOTPRINT

Companies' climate risks are generally assessed by measuring their carbon footprint. The carbon footprint represents the environmental load created by a company's activities or services. In other words, it reflects the amount of greenhouse gases that are generated during the lifespan of the operations. The carbon risk of an investment portfolio can be assessed by calculating the overall carbon footprint of the portfolio based on the individual carbon footprint of the companies therein. The calculation of the carbon footprint helps investors to better understand and control risks and opportunities related to the environment. The carbon footprint is not, however, sufficient on its own for assessing the climate risk of an investment, but rather calls for the consideration of additional factors, such as the fossil fuels in the balance sheet, the dependence of the company operations on fossil fuels, changes in the company's operations and the company's goals with respect to climate risk.

SUSTAINABLE DEVELOPMENT SOLUTIONS

The UN's Sustainable Development Goals serve as the framework for the assessment of positive impacts within responsible investing at Elo. Climate change is directly involved in two of the UN's Sustainable Development Goals, but its effects are indirectly related to many other goals, since the goals are interconnected and no individual goal can be attained without the support of the others.

For example, sustainable cities need inexpensive and clean energy, a sustainable infrastructure and clean water. All of these goals are vital to the building of a sustainable society, so for that reason, we do not emphasise the importance of any one goal above the others. Rather, we view it as a positive action if a company is able, through its operations, to offer solutions for any of these important goals. In our opinion, the UN's Sustainable Development Goals serve, in the best case scenario, to generate market demand and to be long-term trend motivators for companies that offer solutions to meet these common challenges.

"The UN's Sustainable Development Goals serve as the framework for the assessment of positive impacts within responsible investing at Elo."

SOURCE WWW.YK.FI

***Figure:** UN's Sustainable Development Goals.*

ELO'S CLIMATE STRATEGY GOALS

At Elo, we recognise that climate change can have an impact on our investment universe and investment activities. We believe that it is important to respond proactively to climate change, to actively assess the risks of climate change, and also, to actively seek and exploit sustainable development solutions as part of efforts to work toward the 2 degree global target. Our climate strategy aims at a comprehensive assessment of the climate risks and to exploit the investment opportunities introduced by climate change.

Our strategy comprises two primary goals and the sub-goals that support their realisation.

- **The long-term goal** is for a significant portion of our investments to be aligned with the UN's Sustainable Development Goals by the year 2025.
    - This goal applies to direct equity and corporate bond investments and all infrastructure and real asset investments.
- **As an ongoing goal,** we strive to ensure that our investments don't involve excessive climate risk.
    - Each year, we calculate and report the carbon footprint of our investment portfolio, and we use the results as part of the assessment of carbon risk.
    - Elo joined the Energy Efficiency Agreement for the property sector. The savings target for 2017–2025 is a minimum of 7.5 per cent of the annual energy consumption.

In addition to these primary goals, our climate strategy contains the following aspects, through which we pursue to consider climate change in a comprehensive manner.

Our goals can be divided into three categories: carbon risk assessment and reduction, influence and engagement, and exploiting opportunities.

- **Assessing and reducing carbon risk**

  In terms of carbon risk, we assess the risk level and position within the sector in question. We continuously develop our methods of assessing the risks related to climate change to further reflect the risks in the different asset classes, sectors and companies. Our goal is to be able to assess whether carbon risk is sufficiently taken into consideration in the valuation of our investments. We pursue to reduce the carbon risk of our investments whenever reasonable with consideration for the other investment perspectives. We commit to measuring the carbon footprint of our investments on an annual basis (Montréal Pledge). We will pursue to expand our calculations to be more comprehensive. We also consider the carbon sink of our forest investments as part of our carbon risk analysis.

- **Influence**

  We pursue to influence companies to report their climate impacts and to reduce their climate risks. We encourage companies to find business opportunities in climate change mitigation. We strive to influence fund managers to take climate perspectives into consideration in their investments. Our goal is for each of our external fund managers to commit to considering climate change in their investments by the year 2020. Together with other investors, we pursue to influence decision-makers so that their actions encourage companies to move towards a low-carbon society.

- **Exploiting opportunities**

  We pursue to increase investments in sustainable development solutions. The purpose, in addition to achieving a positive financial return, is to assess the positive social influence of our investments. We pursue to assess the positive impacts of our investments, separately for each asset class, with the aim of systematically increasing the share of such investments in our portfolio. We need sustainable development solutions to resolve the world's greatest social and environmental challenges.

OBJECTIVES BY ASSET CLASS

Equity and credit investments

We strive to measure the positive impacts of our investments on the environment and society, because we want to know whether the companies in which we invest are contributing solutions to the challenges of sustainable development. Our goal is for more than half of our direct equity and credit investments to have a measurable positive impact on the environment or society by 2025. This goal will be reached by investing in companies whose products or services contribute to finding solutions to sustainable development challenges.

We encourage companies to report on their environmental impacts and to set ambitious goals to reduce their environmental load. We encourage companies to find business opportunities in climate change mitigation and to report more on the positive impacts of their products. We influence the companies directly, through fund managers and work collaboratively with other investors, particularly outside of Finland.

> "Our goal is for more than half of our direct equity and credit investments to have a measurable positive impact on the environment or society by 2025."

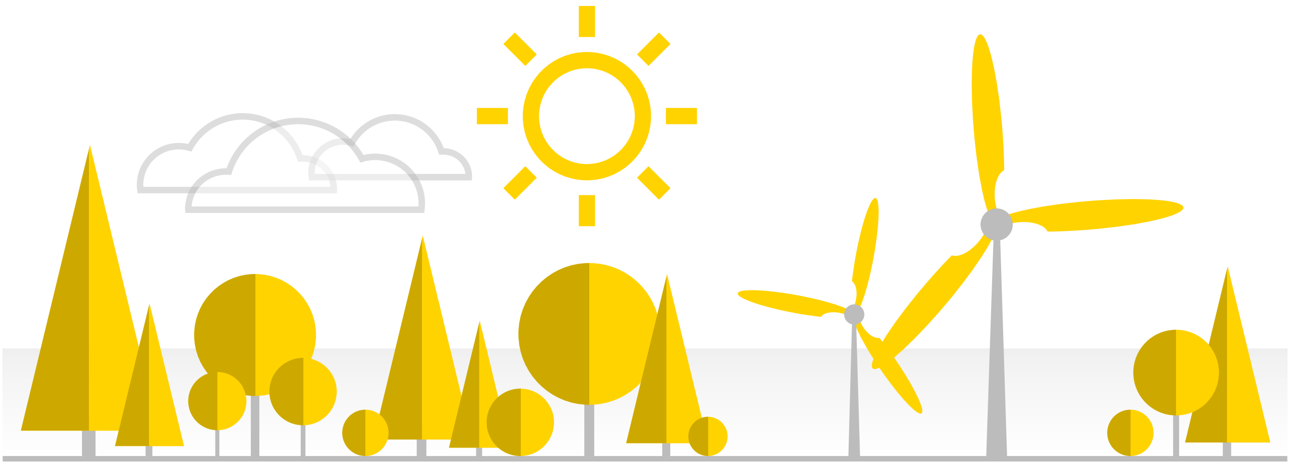
Infrastructure and real asset investments

In terms of the selection of infrastructure funds, we favour funds whose strategies place emphasis on sectors and investment objects that contribute to the reduction of the carbon footprint. Our goal is for more than half of our infrastructure and real asset investments to have a measurable positive impact on the environment or society by 2025. This goal will be achieved by increasing investments in renewable energy, including wind and solar power. Efforts will also be made to increase forest investments.

Real estate investments

We systematically monitor our investments' energy and water consumption and utilise energy surveys to find methods to reduce energy consumption. Elo has joined the Energy Efficiency Agreement for the property sector, and commits to the action programmes for business and residential properties. All properties in which Elo is a direct majority owner will be incorporated into the agreements, covering approximately 80 per cent of direct real estate investments. The savings target for 2017–2025 is a minimum of 7.5 per cent of the annual energy consumption of the properties. The energy efficiency improvement plan prepared in accordance with the Energy Efficiency Agreement will be reviewed each year and updated as necessary.

We work in co-operation with property tenants to find ways in which they can reduce their environmental load. Energy-saving methods are incorporated into basic renovation projects as well as in maintenance and annual repairs. We pilot new solutions, for example, for lighting, telematics, measurements and automation.



Private equity fund investments

We monitor the climate change aspects of our investments as part of their environmental reporting. We strive to influence fund managers to take climate-related risks and opportunities into consideration in their investments.

Government bond investments

Our key goal is to recognise investment risks related to climate change. We pursue to assess the impact of climate change on the creditworthiness of individual governments both the short term and long term. Furthermore, we pursue to evaluate the effects of climate change mitigation on the economy and competitiveness of individual governments.

Hedge fund investments

The key goal is to recognise investment risks related to climate change and influence the investment activities of hedge funds' portfolio managers. We pursue to increase the fund's awareness about climate aspects with respect to their investment activities. This especially concerns those funds whose balance sheet contains a lot of long-term investments. Additionally, we integrate climate perspectives at the beginning of investment analyses by inquiring from the funds about their ability and willingness to take climate change into consideration in their investment decisions.

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