



Elo's climate strategy 2020–2025

**Elo commits to an investment portfolio
that is compliant with the objectives
of the Paris Agreement**

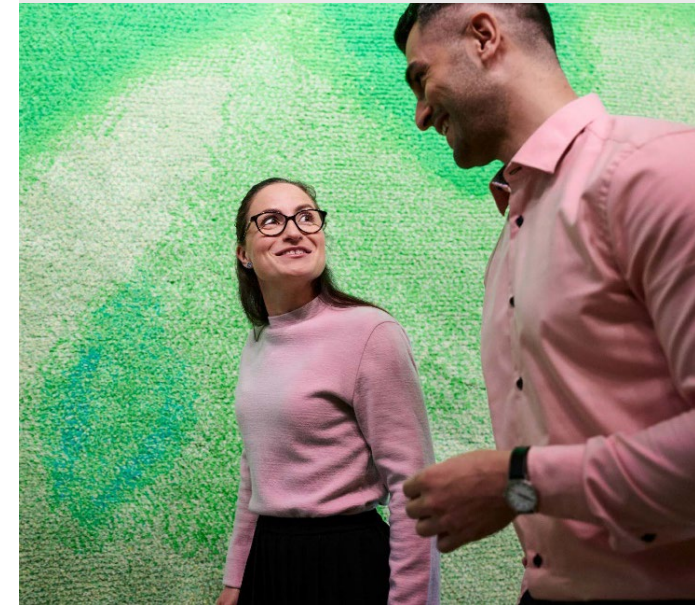
**In addition, Elo commits to measures required
to reduce climate risks and to climate change
mitigation and adaptation measures**

The transition to a low-carbon society requires strong measures

- Climate change is a **major systemic risk for the global economy and investment environment**.
- However, the magnitude of the impacts to the economy and humans depend on the degree to which the climate warms and on the success of the active climate change mitigation and adaptation measures.
- In the short and medium term, risks resulting from the **transition** to a low-carbon society are highlighted. **Physical** risks play an increasingly important role if the transition fails.
- The Paris Agreement's objective of keeping the global temperature rise this century well below two degrees Celsius requires **determined measures and cooperation from all actors in society**.
- For companies and investors, the transition phase to a low-carbon society involves **financial risks** as well as **opportunities**.



Operational changes in companies and cooperation between various actors in society are necessary in order to achieve objectives.



An investment portfolio complying with the Paris Agreement is implemented by

Reducing the portfolio's carbon risk by reducing the weighted average carbon intensity of the portfolio

Equity and corporate bond investments: Weighted average carbon intensity reduced by 25% from 2019 to 2025

Real estate investments:

- Energy efficiency targets that take actual use into account
- Transfer to green electricity in properties fully owned by Elo

Increasing investments in solutions aiming at climate change mitigation and adaptation

Objective setting for increased investments in climate solutions

Equity and corporate bond investments: Finding cleaner investments

Infrastructure investments: Investments in renewable energy play a key role

Considering climate change risks and opportunities in the investment strategies for various asset classes and in the strategic asset allocation

Scenario analysis development

Reporting the financial effects of climate risks and opportunities in accordance with **TCFD**

Through our active engagement and in cooperation with other parties

Updating the engagement strategy to comply with the climate strategy policies

Active role

Identification of new cooperation partners

Continuous development steers operations

Challenges to estimate the total effects of climate change on risk and return developments in the investment markets



Uncertainty related to tools and methods

- calculating carbon neutrality at the level of the entire investment portfolio
- measuring climate risk (especially investments other than equity and corporate bonds)



Lack of comprehensive, high-quality and uniform company-specific data

- objective setting and the related follow-up
- implementation of requirements stemming from regulation



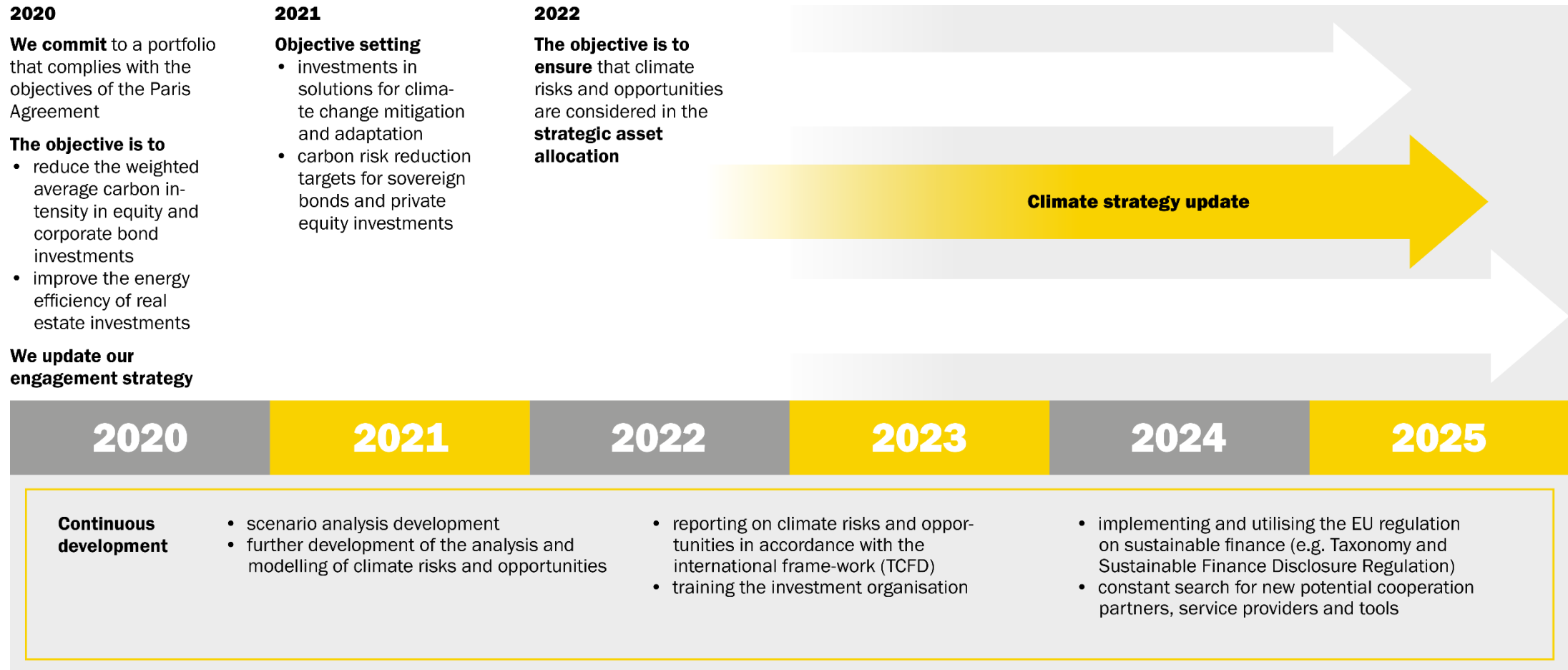
Difficult to estimate the rate of climate-related changes in politics, legislation, technologies and companies



We continuously investigate available tools and develop methods for more detailed modelling and determination of climate risks and opportunities

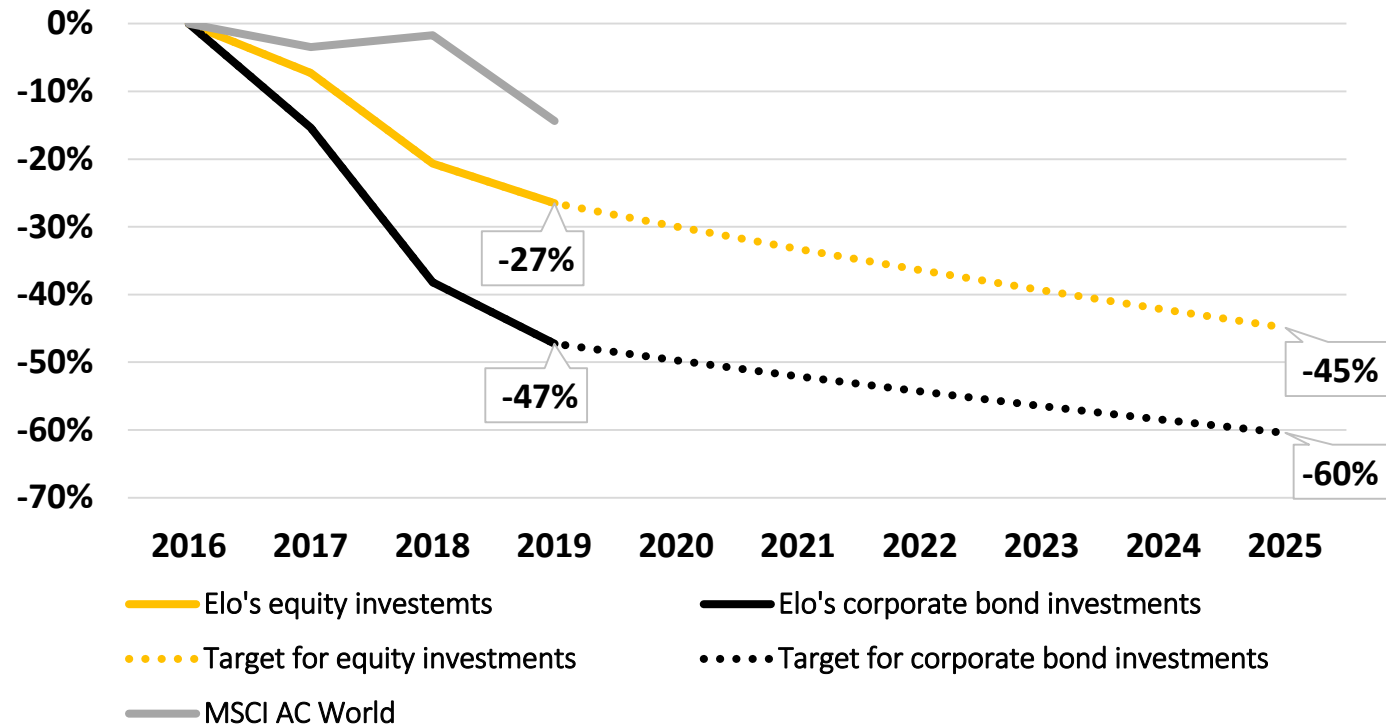
Continuous development of personnel's competence plays an important role in the implementation of climate strategy

Elo's climate strategy roadmap 2020–2025



Elo has systematically reduced the carbon risk of its portfolio since 2016

Weighted average carbon intensity development for Elo's listed equity and corporate bond investments



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Elo has long considered climate risks and opportunities in its investment operations

Elo initially started to monitor and report carbon intensity in 2016

Elo has systematically reduced the carbon risk of its investment portfolio already since 2016.

Considering the new target, the total reduction in weighted average carbon intensity during 2016–2025 is

 approx.
45% Equity
investments

 approx.
60% Corporate bond
investments

We are an active operator in the decarbonisation of the economy

while considering the requirements of the basic mission of a pension company and the changes in the investment markets



Decarbonisation of the real economy is the key objective of the climate strategy



Mere **portfolio changes relevant to the prevailing situation** reduce the current climate risk of investments **but not necessarily in the future**



Operational changes in companies and cooperation between various actors in society are necessary in order to achieve the objectives of the Paris Agreement



Companies must ensure **that the transition is socially sustainable** as they transform their operations towards a low-carbon society

Engaging by ourselves or in cooperation

- **WE ENGAGE** with companies so that they **reduce their emissions** while developing **solutions for climate change**
- **WE REQUIRE** that carbon-intensive companies present **reduction plans for emissions** and report on their progress
- **WE RECOMMEND** that both **companies** and **fund managers** report on their climate risks and opportunities in accordance with **TCFD's** reporting recommendations
- **WE RECOMMEND** committing to the objectives of the **Science Based Target** initiative



MEASURES

- **Updating Elo's engagement strategy** in accordance with the climate strategy's focus areas
- **Active voting** at shareholders' meetings
- Together with cooperation partners, we participate in initiatives that we feel are important (IIGCC, CA100+) and actively take part in **engagement projects**
- Identification of new **cooperation partners**
- **Cooperation** with **managers** and **market parties**

Asset class-specific objectives

Objectives set in the first phase in 2020

Listed equities and corporate bonds

- Reducing the weighted average carbon intensity by 25% during 2019–2025
- Identifying cleaner investments and reducing the largest emitters
- Increasing investments in climate solutions, low-carbon index funds and green bonds

Direct real estate investments

- Energy efficiency savings target that takes into account the actual property use -10% for district heating and -5% for electricity during 2019–2025
- Transfer to green electricity in properties fully owned by Elo by 2022
- Increasing the use of renewable energy sources and recycling of material

Asset class-specific objectives

Climate risks and opportunities are considered for all asset classes

Sovereign bonds

- Geographic location and the structure of the economy are factors contributing to the vulnerability of a country and its economy in terms of the actualisation of physical risks resulting from climate change
- Areas to be analysed include, among others, environmental policies, economic vulnerability in extreme circumstances, the degree to which the country economy is dependent on the production and export of fossil energy and the possibilities and ability to successfully transition to a low-carbon society

Private equity investments

- Investments in renewable energy are a key part of Elo's infrastructure investments
- Regarding fund selection, we favour managers whose investments typically focus on sectors with restricted or minor climate risks
- Considering climate change in the funds' investment strategy becomes a more integral part of our own due diligence process



We investigate available tools and develop methods for more detailed modelling and determining of climate risks and opportunities before actual objective setting

Asset class-specific objectives

*Climate risks and opportunities
are considered for all asset classes*

Hedge fund investments

- We use the industry's best practices
- When making investment decisions, we analyse the managers' responsibility practices regarding both the manager's own internal actions (good governance) and the funds' investment operations

Corporate finance

- Identifying investments that mitigate climate change
- We aim to actively highlight themes we consider important and engage with companies so that they would consider climate risks in relation to their operations
- In the future, considering climate change in the company's strategy may become a competitive factor, as global companies plan their own subcontracting chains



We investigate available tools and develop methods for more detailed modelling and determining of climate risks and opportunities before actual objective setting