



ELO'S PRINCIPLES FOR RESPONSIBLE INVESTMENT



ELO MUTUAL PENSION INSURANCE COMPANY



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ELO'S PRINCIPLES FOR RESPONSIBLE INVESTMENT

The responsibility for pension assets extends forward for decades. Elo creates lifelong security for its customers and makes sure that customers receive the pensions they have earned - today and in the future. Elo's principles for responsible investment are also based on corporate social responsibility: our accountability to policyholders and the insured.



The responsibility for pension assets extends decades into the future. As a long-term investor, we believe that responsibility strongly integrated into the investment process plays an essential role in risk management, ensuring good returns and identifying societal changes and systemic risks.

SUSTAINABLE INVESTMENT

Responsibility is an essential part of Elo's strategy and values. Earnings-related pension assets are invested in a profitable and secure way in compliance with Elo's strategy and policy. We ensure adequate solvency in all market environments and manage pension assets in a cost-effective and responsible manner.

Responsible investments at Elo are based on the view that only by operating sustainably can companies generate sustainable results over the long term and responsible investors generate sustainable returns. As a long-term investor, we believe that responsibility strongly integrated into the investment process plays an essential role in managing the risks associated with investments and achieving good and sustainable returns on investments. Thus, sustainability issues have an impact on investment returns and, on the other hand, Elo's investments have an impact on the environment and society ("double materiality"). Through responsible investment, we also aim to identify societal changes and systemic risks that may affect companies' business models. Investment decisions and engagement activities also consider the material aspects of ESG, i.e. environmental responsibility (E), social responsibility (S) and governance (G). Elo's principles for responsible investing are applied to all investment assets and they are implemented taking into account different asset classes and investment styles.

Elo has signed and is committed to the UN-supported Principles for Responsible Investment (PRI) since 2008. Elo became a member of Finland's responsible investment forum, Finsif, in 2010, the same year it was established. Elo is also involved in enhancing responsible investment in various asset class-specific networks and international institutional investor collaborations.

Responsible practices

Elo's investment process is independent and focus is on the long term. The aim of investment operations is achieving good, sustainable and sufficient returns through the selected strategic allocation and success in the internal choice of asset classes. Responsibility is integrated in the valuation and the entire investment process. Elo's investment portfolio is widely diversified to various asset classes to ensure sufficient returns and manage risks related to the financial markets.

Investment operations across different asset classes are implemented cost-efficiently and transparently throughout the investment process. In our investment activities, we use tools and systems that enable high-quality analysis and deliberate investment decisions. Elo makes broad equity index investments that seek market returns largely directly itself. This is supported by Elo's own trading function, which ensure a transparent and cost-effective way to execute investment decisions. We also apply to these index investments exclusions, constraints, priorities and engagement measures in accordance with our responsibility principles and policies.

We continuously develop the functioning of the investment process and risk management. Internal audit, including compliance, is also an important part of Elo's responsibility.

Governance for responsible investment

At Elo, responsible investment is guided by Elo's strategy and investment plan, the principles for responsible investment and ownership, as well as the climate policy for investments, all approved by the Board of Directors. Elo's engagement policy for



investments, biodiversity roadmap for investments and asset type-specific guidelines complement our principles for responsible investment.

Elo's management regularly discusses responsibility issues at its meetings and outlines responsible investment in line with the company's strategy.

The management and operational investment activities are supported by the responsible investment and ownership steering groups. The task of the responsible investment steering group is to develop Elo's responsible investment process, align activities and share information and best practices between asset types. The steering group also monitors the achievement of the targets set in the principles for responsible investment and climate policy. The members of the Responsible Investment Steering Group are investment directors, representatives of asset classes and the responsible investment team. The ownership steering group is responsible for the preparation and implementation of Elo's ownership steering policies. The steering group consists of members from Elo's management, investment directors and investment professionals.

Responsible investment is developed by the responsible investment team in collaboration with portfolio management, financial department and the risk management. Each employee of the investment organisation applies the responsible investment practices in their day-to-day work.

Reporting

Openness is one of Elo's values and it also applies to the transparency of reporting. We publish information on the investment allocation and return on a quarterly basis. We report on our responsible investment activities and results on an annual basis. As a signatory to the United Nations-supported Principles for Responsible Investment, we also report to PRI.

Taxation

We follow the principles of responsible taxation in our investment operations. Elo is committed to compliance with the tax laws and regulations of Finland and other investment countries. We require that the companies and funds we invest in comply with local legislation and international tax treaties. Moreover, we emphasize transparency in our ownership steering and encourage

companies to report on their tax policy and tax footprint.

The starting point of the income taxation of private sectors' employment pension system in Finland is to avoid multiple taxation on employment pension assets so that future pensions can be secured in the best way possible by accumulating the pension funds. We do not accept aggressive tax planning, but we try to avoid international double taxation, which is also a fundamental principle of international tax regulation and the starting point of the international tax treaties signed by Finland.

We require that the tax domicile of the funds commits to the exchange of tax information between the authorities. We also require that the investment management companies used by Elo seek to reporting and the payment of taxes.

SUSTAINABILITY RISKS IN INVESTMENT PROCESSES

Elo's objective is to ensure sustainable returns for investments, taking into account the impacts of sustainability risks on the financial markets and investee companies. In legislation, sustainability risk is defined as an environmental, social or governance event or condition which, if it occurs, could cause an actual or potential material negative impact on the value of an investment. In its investment process, Elo has identified sustainability risks that may have a negative impact on investments. In addition, Elo has identified material sustainability risks per asset class and the responsible investment tools and approaches to manage them. These are updated annually. Material sustainability risks are also discussed in Elo's annual risk assessment.

Sustainability risks related to environment

Human beings and the economy depend on nature. For investors, biodiversity loss is an economic systemic risk similar to climate change, and it is necessary to identify its risks and opportunities. Biodiversity is significantly affected by climate change, overexploitation of natural resources, invasive species, changes in land use, and pollution of air, water and soil. According to studies, we consume nature unsustainably and burden the environment with waste. The circular economy, among other things, allows us to reduce negative effects.



In recent years, Elo has focused particularly on identifying and assessing climate risks and opportunities of investments. Related to climate change mitigation, investments are guided by Elo's climate policy for investments. We prepared the first climate policy for investments in 2017 and it is updated regularly. Elo has set interim targets for 2025 and 2030.

The frameworks and data for assessing risks and opportunities related to biodiversity are still under development. In particular, Elo monitors the completion of the Taskforce on Nature-related Financial Disclosures (TNFD) reporting recommendations. Elo will further refine its investment approaches to nature and biodiversity and proceed in accordance with the biodiversity roadmap for investments.



According to economist Dasgupta's report, biodiversity and ecosystem services are now declining faster than at any time in human history. The report highlights the concept of natural capital, in which biodiversity is taken into account in businesses and social decision-making. The report emphasises that, from the point of view of economics, the balance of supply and demand is at the heart of the issue.

Sustainability risks related to human and labour rights

Human rights are an integral part of corporate responsibility. They should be reviewed extensively in terms of labour rights, HR policy and the well-being of employees, as well as children's rights. The impacts on the local community and society, as well as cyber security, are also part of human rights. The UN Universal Declaration of Human Rights of 1948 has been used as the basis for subsequent international human rights treaties.

Elo is committed to respecting and observing human rights. Practical guidelines and principles, such as Elo's Code of Conduct and human rights policy, describe how they are followed.

We require our investee companies to comply with international norms and standards in addition to national legislation. Elo's investment activities are based on the premise that the investee companies comply with human rights, children's rights and essential labour rights. In certain sectors and geographical areas, the risk of human rights violations is higher. As part of the norm-based screening, Elo monitors how its investee companies respect human rights as well as other human rights impacts and the risks arising from them.

Sustainability risks related to governance

Elo's internal corporate governance and its guidelines are based on the recommendations of the Finnish Corporate Governance Code for listed companies 2020, which Elo observes as such or where applicable to earnings-related pension companies. Elo's own practices are also described by, for example, Elo's anti-bribery and anti-corruption principles, insider guidelines, data protection practices, principles concerning conflicts of interest as well as related party guidelines. Elo has a whistleblowing channel through which employees can report in confidence and anonymously any violations they find.

Elo expects good governance and responsible business operations from its investee companies. The operations of the companies must be transparent and openly reported. As a long-term owner, our goal is good value development of our investments in the long term. Elo is also a significant and active owner of Finnish listed companies.

Identifying and managing material sustainability risks in different asset classes

With regard to direct equity and corporate bond investments, sector-specific and geographical material impacts are identified in sustainability risks. They are managed by various tools and approaches, such as exclusions and active selection. Especially in index investments, diversification reduces individual concentrations of sustainability risks. Engagement and active ownership are central to managing sustainability risks.

In sovereign bond investments, sustainability risks are managed through portfolio diversification as well as country and instrument selection. In emerging market debt, the aim is to emphasise countries where development is positive in responsibility issues. With regard to sovereign debt investments, Elo has



developed an ESG analysis tool that, in addition to climate risks and climate policy, takes into account themes related to the living environment and natural resources, the respectation of human rights, equality and human basic needs, as well as the functioning of governance, institutions and legislation.

Real estate investments play an important role in managing risks related to climate change. The decisions on new investments (such as location, material choices and the life cycle of materials) develop the entire building stock. However, the greatest potential lies in the existing building stock and its efficient use and development. Real estate investments also have an important role in promoting the living and working conditions of people and the healthiness and safety of premises. Real estate investments can contribute to sustainable urban development and the preservation of biodiversity. In addition, the real estate sector plays an important role in the development of good governance, the fight against the shadow

economy and the responsible management of the partner network. At Elo, the sustainability work of direct Finnish real estate investments is managed and monitored in accordance with the targets and indicators of the real estate sustainability programme.

In fund investments, Elo focuses in particular on issues related to the governance of fund managers. It is essential to assess the ESG practices, policies and reporting of asset managers. In addition to the above principles, taking sustainability risks into account in the practical investment processes of asset managers is very essential.

TOOLS AND APPROACHES FOR RESPONSIBLE INVESTMENT

Elo has several ways to approach sustainable investment and manage sustainability risks. They vary depending on the asset type and investment method.

The below table shows Elo's asset-class specific approach to responsible investment. Indirect investment (fund investments) approach is based on asset managers' approaches and choices and thus might limit Elo's integration of responsible investment (marked in gray). Infrastructure investments include both direct and fund investments.

		Engagement & Collaboration	Climate policy for investments	Norm-based screening	Sustainable solutions	Ownership policy	Exclusions
Equity investments	Direct equity investments	✓	✓	✓	✓	✓	✓
	Fund investments	✓	✓	✓		✓	
Fixed-income investments	Direct corporate bonds	✓	✓	✓	✓		✓
	Direct sovereign bonds	✓	✓				✓
	Fund investments	✓	✓	✓			
Other investments	Direct real estate	✓	✓	✓	✓	✓	
	Infrastructure	✓	✓	✓	✓	✓	
	Other fund investments (incl. Hedge Funds)	✓	✓	✓	✓		



Norm-based screening

In determining the responsibility of investments, national legislation as well as international standards concerning businesses, the environment, human rights and corruption are taken into account as a starting point. We expect investments to comply with the following international norms and standards, among others:

- The UN Global Compact initiative, based on the UN declarations of human rights, the environment and corruption
- OECD Guidelines for Multinational Enterprises
- ILO labour conventions and recommendations
- The UN Guiding Principles on Business and Human Rights (UNGP)

We follow the activities of the investee companies on the basis of an external service provider and other analysis services, as well as public sources of information, for example. When noticing a violation, we find out how serious and extensive the effects are and how the company reacts to them. We are in contact with the company alone, or in collaboration with others, or monitor the situation through our service provider. We can divest if the company in question fails to take credible action to improve its practices. In fund investments, the monitoring of violations and addressing them mainly takes place through the fund manager, with whom we engage in regular dialogue.

We have divided violations, monitoring and measures into three different categories: exclusions, and engagement and monitoring processes. Companies with an alleged or verified significant violation will be added to the exclusion, engagement or monitoring list. We do not invest in companies on the exclusion list. Companies on the engagement list are contacted either by us or in collaboration with other investors. The engagement can be a dialogue, a collaboration engagement project or voting at general meetings. We follow the companies on the monitoring list mainly through the service provider's analysis and dialogue.

Engagement and collaboration

Engagement and collaboration are Elo's key ways of implementing responsible investment. We engage the investee companies both by ourselves and in collaboration with other investors and stakeholders.

Elo's ownership policy contains more detailed practical guidelines for engagement and active ownership.

We engage in regular dialogue with our investee companies and fund managers, and encourage them to integrate sustainability into their strategy, operations and management remuneration, and to transparently report on them.

We prefer engagement projects involving a significant number of other investors. We believe that engaging with investee companies is more effective this way and thus we are most likely to achieve the desired result. Public commitments and declarations are a visible way of attracting attention to important matters. Target-oriented collaboration can significantly increase the value and possibilities of success of engagement. In recent years, we have been particularly involved in collaboration projects related to climate and human rights. You can read more details about our engagement measures in Elo's annual and responsibility reports.

Ownership policy

Elo's ownership policy communicates matters that we consider important in the companies in which we are shareholders and when analysing new investments. In terms of good governance, the minimum requirement is compliance with the currently valid recommendations with regard to steering and management systems. Elo primarily exercises its shareholder rights in three ways: by attending the general meetings of the companies in which it is a shareholder, by participating in nomination committees and by engaging in regular dialogue with the management and, if necessary, boards of directors of the companies. In participating in and discussing matters at general meetings, Elo pays particular attention to the composition and remuneration of the Board of Directors, changes in the capital structure and remuneration of the management. In principle, we welcome responsibility-related proposals to annual general meetings that promote the principles followed at Elo.

With regard to direct real estate investments, Elo actively participates in the work of its associated companies' boards of directors and management teams, annual general meetings and investor committees of indirect real estate investments.



Climate policy for investments

Elo is committed to a Paris-aligned investment portfolio. In 2021, Elo joined the Net Zero Asset Owner Commitment of the Paris Aligned Investment Initiative (PAII), and the related commitments and goals are integrated into Elo's climate policy. The recommendations of the framework and the coverage of different asset classes are constantly developed.

Elo's carbon-neutral investment portfolio will be achieved

- by decarbonising the investment portfolio
- by increasing investments in sustainable solutions
- by reducing the share of fossil fuel production in investments
- by assessing the climate risks and opportunities in all asset classes and in the investment strategy and allocation work
- by assessing how the targets and strategies of the investees are aligned with the Paris Agreement
- by engaging companies and other stakeholders, both individually and in collaboration, in line with the climate policy.

Elo has set decarbonisation targets for its investment portfolio and reports extensively on various carbon footprint indicators. For listed equity and corporate bond investments, the objective is to reduce the weighted average carbon intensity (WACI¹) by 25 per cent by 2025 and by 60 per cent by 2030 (compared to the 2019 level). With regard to the energy-use emissions of direct domestic real estate investments, our goal is to be carbon-neutral by 2027.

The climate targets and the roadmap are described in more detail in Elo's climate policy for investments.

Sustainable solutions related to the environment and society

Sustainable development is development that meets the needs of the present, without compromising the ability of future generations to meet their own needs. In autumn 2015, the UN published the Sustainable Development Goals (SDGs), which aim to find solutions

to the world's biggest environmental and social challenges. The SDGs comprise 17 Sustainable Development Goals (SDGs), where development must balance social, economic and environmental sustainability.

Elo strives to promote the implementation of the UN Sustainable Development Goals. Our target is to increase investments in sustainable solutions. Sustainable solutions refer to activities that aim to respond to significant societal and ecological challenges. These may include products and services related to energy efficiency, alternative energy, pollution reduction, health care, waste management or education, for instance.

For listed equity and corporate bond investments, our target is to double the investments in sustainable solutions by 2030 compared to the 2021 level. Investments in renewable energy is a key part of Elo's infrastructure investments, and our target is to increase such investments. In fund investments, we aim to invest in funds that comply with Elo's sustainability goals.

Exclusions

Elo has excluded certain sectors from its direct investments on ethical or climate basis

- tobacco manufacturers,
- companies producing controversial weapons (cluster bombs, land mines, biological and chemical weapons, nuclear weapons and depleted uranium),
- companies that derive more than 15 per cent of their revenue from activities related to coal production or the use of coal in energy production, without a clear strategy for reducing the use of coal, or companies that are planning new coal-based investments, and
- energy companies that derive more than five per cent of their revenue related to arctic oil or arctic gas production or oil sands extraction.

We analyse the sovereign bond investment universe annually and exclude countries that have a weak performance weakly on responsibility and are not expected to achieve a turn for the better. ●

Approved by Elo's Board of Directors on 22 January 2024

1 Weighted Average Carbon Intensity



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