EVLI'S WEALTH MANAGEMENT'S CLIMATE AND NATURE PRINCIPLES

Under the Paris Climate Agreement signed in 2015, the goal is to keep the increase in average global temperatures at less than two degrees, aiming at limiting the increase to 1.5 degrees, and increase the ability to adapt to the impacts caused by climate change. This requires achieving a global balance between greenhouse gas emissions and sinks by 2050, as well as making financial flows consistent with a pathway towards low greenhouse gas emissions development. Evli's Wealth Management's Climate and Nature Principles strengthen the actions of Evli's Wealth Management to consider climate and biodiversity in investment operations. In addition, Evli takes into account the principal adverse sustainability impacts of its investments on climate and nature. Evli's climate work is supported by Evli's Climate Targets which are reviewed and updated at least every five years.

Incorporating biodiversity into investing is fast emerging as a significant area of responsibility alongside climate change. More than half of the world's gross domestic product is moderately or heavily dependent on nature and the services it provides[1]. In the worst-case scenario, biodiversity loss could lead to significant losses for companies and investors alike. IPBES[2] has identified five drivers of biodiversity loss as the 1) changes in land and sea use, 2) direct exploitation of organisms, 3) climate change, 4) pollution and 5) invasive alien species. These biodiversity loss drivers, for example, can be used to examine the negative impacts of corporate actions. While climate change is a key driver of nature loss, biodiversity also protects against the harmful effects of climate change. For example, preventing deforestation and strengthening aquatic ecosystems support carbon sinks and the ability to prepare for impacts of climate change[3]. Climate and nature-related work are therefore linked to each other, and it is important to promote them simultaneously and combined, considering their double materiality.

Climate change mitigation and preventing nature loss are also essential for the realization of human rights. Evli strives to consider Just transition as part of its climate and nature work. Just transition refers to recognizing the uneven distribution of the potential adverse impacts of climate change and its mitigation measures, so that human rights and particularly vulnerable groups are taken into account as part of climate change mitigation.

According to the Climate and Nature Principles, impacts of climate change and nature loss on investments are observed using four procedures:

1. Analysis and monitoring of investments

We monitor the emissions of companies in Evli's equity and fixed income funds by analyzing company and fund-specific carbon footprints, companies' emission reduction targets and readiness for transition to low-carbon economy. We also follow company and fund-specific scenario analysis. PAI indicators describing the main adverse sustainability impacts of investment targets are also regularly monitored, which include also indicators related to climate and nature. The PAI analysis includes companies' greenhouse gas emissions, operations in biodiversity-sensitive areas, emissions to water, and the amount of hazardous waste. Evli's responsible investment team regularly reviews companies identified through PAI monitoring and may, for example, initiate engagement with a company if its activities have negative impacts on the climate or nature, or otherwise present significant risks. In alternative asset classes, climate and nature-related metrics relevant to each asset type are monitored, such as carbon footprint, the amount of renewable energy produced, the carbon dioxide sequestered by forestry investments, environmental certifications and recycling rates of real estate holdings, or climate targets and biodiversity considerations set by external fund managers.

[1] World Economic Forum
[2] Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES)
[3] United Nations Climate Action

Evli utilizes available tools and data to identify the nature-related risks, dependencies, and impacts of its investments. For investments, it is possible to examine, for example, on which ecosystem services different sectors may depend, what nature-related impacts these sectors may have, and how material these dependencies or impacts are. Sector-level analysis can then be followed by company-specific analysis, in which the company's practices, objectives, and various metrics in use are assessed.

As a fund-specific carbon footprint metric, we use the weighted average carbon intensity in accordance with the guidelines of the Task Force on Climate-Related Financial Disclosures[4] (TCFD) framework. TCFD is an international climate risk reporting framework that incorporates the financial impacts of climate risks into official financial reporting. We report the carbon intensity figures for equity and corporate bond funds in fund-specific ESG reports, which are published on Evli's website.

We utilize the metrics recommended by the Taskforce on Nature-related Financial Disclosures[5] (TNFD) framework for financial sector actors as indicators for measuring nature-related risk: 1) companies operating in sectors that are significant for nature, or 2) companies operating in nature-sensitive areas. TNFD is a market-driven, science-based framework for nature-related reporting designed for financial institutions and organizations. Evli reports in accordance with the TNFD framework as part of its annual reporting.

Evli's Responsible Investment team regularly monitors climate and nature-related metrics and reports on their development to the Responsible Investment Management Team. In addition to the CEO, the Responsible Investment Management Team includes leaders from business operations, portfolio management, the responsible investment team, and the legal and compliance functions. We recognize that there are certain limitations associated with climate and nature-related investment metrics, but we believe that increased transparency through open reporting enhances accountability. As data and metrics continue to evolve, we closely monitor their development as well as changes in reporting practices, with the goal of identifying the highest quality metrics for assessing the climate and nature impacts of investments across different asset classes.

2. Monitoring and excluding sectors from investments

We monitor Evli's equity and fixed income funds and direct investments to identify companies that earn a significant part of their revenue (10% or more) from thermal coal or oil sands extraction. Business operations related to thermal coal means thermal coal mining and the use of thermal coal in energy production. Some of Evli's funds follow a wider exclusion criterion and exclude companies manufacturing fossil fuels or thermal coal with a 5% revenue threshold. In addition to revenue restrictions, Evli does not finance new coal-fired power plants, coal mines or oil sands projects that are in the planning or construction stages. Possible investments in thermal coal and oil sands companies are assessed in Evli's Responsible Investment team. We avoid investing in thermal coal and oil sands companies, but we can depart from the exclusion if the company has a concrete plan to change its procedures and/or the company supports Just transition. In addition, we have excluded companies manufacturing peat for energy production from our investment universe.

3. Engaging with companies

Together with other investors, we encourage companies to report on the climate and nature-related impacts of their operations and describe how they control and benefit from the risks and opportunities related to climate change and nature loss. Evli works actively to identify the most emission-intensive companies and engages with the companies in accordance with its Climate and Nature Principles and Climate Targets.

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[4] Task Force on Climate-Related Financial Disclosures
[5] Taskforce on Nature-related Financial Disclosures

In addition to its independent engagement activities, Evli participates in collaborative engagement initiatives and investor statements when the target and objectives of such collaboration align with Evli's Responsible Investment Principles, Climate and Nature Principles, and Climate Targets. The purpose of these collaborative initiatives and statements is to gather a wider group of investors behind the same goals, thereby making engagement efforts more extensive. The topics of these initiatives and statements include, among others, climate change mitigation, human rights, and biodiversity. We report on the outcomes of our engagement activities as part of our annual reporting.

We also monitor, as part of the process related to international norms (the UN Global Compact's corporate social responsibility principles, UN Guiding Principles on Business and Human Rights and OECD guidelines for multinational enterprises) our direct equity and fixed income investments and equity and fixed income funds to identify companies committing serious environment violations. If we discover such companies in our investments, we first analyze the situation with the portfolio manager, after which the Responsible Investment team decides on further action. There are two options for further action: to start engagement activities or to place the company on the list of excluded investments. The purpose of engagement activities is to change the company's practices so that they become more responsible. The engagement can last for a maximum of two years, and after that there must be clear justifications for keeping the investment or the company must be excluded.

Evli can also use voting at general meetings as a means of engagement. Evli utilizes a proxy advisor as part of its voting analysis at general meetings of domestic companies, and in selected international general meetings also for voting (so-called proxy voting). By participating in and voting at general meetings, Evli is able to take a stand on issues related to climate and nature as well.

4. Reporting on climate and nature

Evli reports on its climate risks and climate work in accordance with the TCFD framework as part of its annual reporting. TCFD is part of the reporting recommendations of the International Sustainability Standards Board's (ISSB) IFRS S2. For biodiversity, Evli reports in line with the TNFD recommendations, also as part of its annual reporting. Evli aims to develop its reporting to cover all asset classes and all Evli's operations. In addition, Evli reports at both fund and client portfolio levels using climate- and nature-related metrics.

In addition to the practices mentioned above, Evli's Wealth Management is committed to continuously developing its approach to responsible investing and the related processes, including the integration of climate change and biodiversity considerations into investment activities. In practice, this means we regularly evaluate our methods, closely monitor the market as well as discussions related to climate and nature, and actively engage with our stakeholders and various companies to promote the advancement of responsibility.