

Active ownership policy 5 October 2022

BOARD OF DIRECTORS OF THE CHURCH PENSION FUND

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1 Introduction

The Church Pension Fund serves as the pension institution of the Evangelical Lutheran Church of Finland. The Fund is responsible for financing the pensions paid to Church personnel and for the investment of pension funds. The Fund is committed to the principles of responsible investment and takes ESG (Environment, Social and Governance) issues into account in all its investment activities.

The principles of active ownership have been drawn up in accordance with section 9 of the Church Pension Fund Act ¹, and the Board of Directors of the Pension Fund has approved the principles on 5 October 2022. The principles cover the Church Pension Fund's listed equity investments in Finland and abroad. For other investments, the principles shall apply where applicable. Active ownership practices vary depending on whether the investment is direct or indirect (fund investment).

The most important premises for the Church Pension Fund's active ownership principles are responsibility, transparency, promotion of good governance and equal treatment of shareholders. The Church Pension Fund implements active ownership mainly in three ways: by participating in the general meetings of the companies it owns, through dialogue with the companies and by influencing the active ownership principles and practices of its asset managers. Active ownership is primarily carried out in cooperation with asset managers, other investors and service providers. When implementing active ownership, related party and insider regulations must always be taken into account.

An annual report on the implementation of the active ownership policy will be published as part of the Church Pension Fund's annual report on responsible investment.

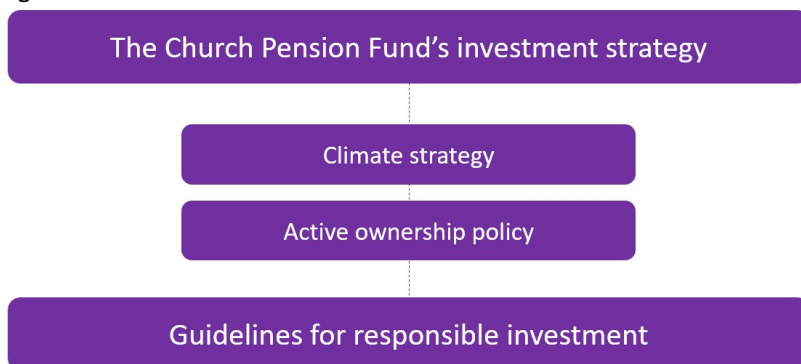
2 Active ownership as part of the investment strategy

The strategic objective of the Church Pension Fund's investment activities is to increase the assets to cover pension liabilities in a productive, secure and responsible manner. Active ownership plays a key role in meeting the strategic objective. The aim of the active ownership policy is to be transparent about the Church Pension Fund's expectations as an owner and to encourage companies to develop their operations. This ensures the long-term sustainable value development of investment objects. In order for this to be possible, investee companies must act on a long-term basis, taking sustainable development into account, and manage risks in the interests of the owners.

The active ownership policy is part of the documentation related to the Church Pension Fund's investment activities and responsible investment, which is illustrated in Figure 1.

¹ The adoption of the Church Pension Fund Act is still pending. The Act is expected to enter into force in 2023.

Figure 1.



3 Methods of active ownership of the Church Pension Fund

3.1. Key expectations of the Church Pension Fund

The Church Pension Fund expects Finnish companies to comply with the Finnish corporate governance code, which is maintained and updated by the Securities Market Association. In general, at general meetings, the Church Pension Fund supports proposals made by the boards of directors of companies if they do not conflict with the interests of shareholders. In matters related to good governance, the Church Pension Fund would like to highlight the following issues in particular:

Equality between shareholders is realised when companies act in the interests of all their shareholders. The clearest aspect for a shareholder is that one share entitles to one vote and one dividend. Different types of voting restrictions or consent clauses may diminish the company's value.

The composition of the Board of Directors must be versatile, competent, sufficiently independent and encouraging in presenting different views. Dependencies must also be communicated in a transparent manner. The elected member of the Board of Directors must have the expertise required for the task and the opportunity to spend sufficient time on managing the task. As a rule, the CEO should not sit on the Board of Directors. The activities of the Board of Directors should be assessed annually.

Remuneration is a key part of the commitment of management, the Board of Directors and personnel. Remuneration must create an incentive for the CEO to work on a long-term basis to increase the company's value. The grounds for remuneration must be clear and sufficiently long-term, demanding and encouraging. The Church Pension Fund also encourages the inclusion of key sustainability aspects relevant to the business in remuneration. The remuneration must be reported clearly so that its success can be assessed from the perspective of the shareholders. In the remuneration of the Board of Directors, the compensation must be compared to previous years and relevant peer groups. Share-based remuneration schemes are a good way to engage the members of the company's Board of Directors, senior management and the entire personnel. Such remuneration schemes must always be well-founded and in the interests of a minority investor.

The *share issue authorisations* must be reasonable in size. If the authorisations provide an opportunity to deviate from the shareholders' right to subscribe, they must be well justified and in the interests of the minority investor. Share issue authorisations that last several years is not to be supported.

The Church Pension Fund expects open and versatile *reporting* from companies. The reporting must be up-to-date and include, in addition to financial matters, a description of corporate governance and reporting on the company's various sustainability issues that are essential for the company's various stakeholders and its strategy. The Church Pension Fund encourages companies to report on climate change issues in line with the recommendations of the TCFD (Task Force on Climate-Related Financial Disclosures).

In addition to issues related to governance, *environmental and social* issues are important for the Church Pension Fund. Companies must comply with international standards and agreements in their operations. The principles of the United Nations Global Compact² are a good basis for this review. In its investment activities, the Church Pension Fund also strives to promote the UN Sustainable Development Goals.

In addition to complying with international standards and agreements, the Church Pension Fund expects companies to carry out an assessment of the company's social and environmental impacts (e.g. in terms of human rights and biodiversity) and a sustainability review of its supply chains. The Church Pension Fund encourages the companies it owns to develop climate change strategies and set emission reduction targets. Issues related to climate change are discussed in more detail in the climate strategy of the Church Pension Fund.

3.2. Monitoring the activities of investee companies in matters relevant to the investment strategy

The Church Pension Fund mainly invests through external asset managers, so monitoring the activities of the investee companies is mainly the responsibility of asset managers. The Church Pension Fund is in close contact with its asset managers, who provide information about the activities of companies. Asset managers, on the other hand, obtain their information from, for example, reporting by companies (e.g. corporate social responsibility reports and annual report), investor meetings organised by companies, and the asset manager's own databases and those of external data providers. In addition, asset managers meet investee companies as part of their daily analysis work.

The Church Pension Fund also receives information about the investee companies during engagement activities in accordance with paragraph 3.4. The information is utilised in the dialogue with asset managers.

3.3. Voting rights and other rights related to shares

The company's highest decision-making body is the general meeting where the shareholders exercise their decision-making power. The decision-making powers of the General Meeting include matters laid down in law or the Articles of Association, such as the remuneration and election of the members of the Board of Directors and the auditors, the adoption of the financial statements and the decision on the distribution of funds, the granting of discharge from liability to the management, the decision on amendments to the Articles of Association, and decisions related to the company's shares or share capital. The remuneration policy and the remuneration report of the institutions referred to in the governance code are also discussed at the General Meeting.

² The United Nations Global Compact is based on the Universal Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development and the United Nations Convention against Corruption.

Participation in and voting at the General Meeting are an essential part of active ownership for the Church Pension Fund. As the Church Pension Fund primarily invests with external asset managers, cooperation with asset managers plays a key role. The Church Pension Fund directly owns shares through segregated mandates in Finland and elsewhere in Europe.

With regard to Finnish shareholdings, the Church Pension Fund participates in general meetings in cooperation with the asset manager responsible for the mandate. Before the AGM season, practical matters are agreed upon with the asset manager and a division of duties is made on who will participate in which General Meeting. Separate practical instructions have been drawn up for asset managers of mandates. If the presentations of the General Meeting are inconsistent with the principles of the Church Pension Fund, or if additional information is needed on them, the Church Pension Fund, assisted by the asset manager, will contact the company before the General Meeting. If necessary, the Church Pension Fund may also participate in proposals made by the shareholders to the General Meeting.

For other European shareholdings, the Church Pension Fund uses an external proxy voting service provider. Voting practices comply with the principles of active ownership of the asset manager responsible for the mandate and are in line with the Church Pension Fund's objectives. The asset manager's voting policy is based on internationally accepted best practices and recommendations for good governance, such as the principles of good governance of the Organisation for Economic Cooperation and Development (OECD) and the global principles of good governance developed by the International Corporate Governance Network (ICGN). In addition, the requirements of national legislation and regulation as well as local market standards and governance codes are taken into account.

Regarding fund investments, the management company is responsible for active ownership. As fund investments form a significant part of the Church Pension Fund's investment assets, the principles and practices of the asset manager must be carefully assessed at the selection and monitoring stage of the fund. The most important monitoring method for the Church Pension Fund is the annual ESG survey, which asks separately for statistics, information and examples of the voting activities of the funds. In addition, asset managers are annually asked to provide ownership policy documents, which, slightly depending on the geographical area, also contain important information on active ownership practices. The PRI³ reports of asset managers also contain extensive information on the practices of active asset manager ownership.

3.4. Dialogue with investee companies, their other shareholders and stakeholders

In addition to the General Meetings, the Church Pension Fund and its asset managers engage in a significant amount of other dialogue with the investee companies they own, other shareholders and stakeholders.

The Church Pension Fund meets Finnish companies that it owns annually, especially in matters related to responsibility. The target companies are chosen together with the asset managers of the segregated mandates, and they usually take into account observations received through other analysis, for example, related to the companies' climate work. In addition, asset managers engage in discussions with companies directly without the presence of the Church Pension Fund as part of their analytical work.

With regard to fund investments, the Church Pension Fund monitors the activities and practices of the funds through regular portfolio manager meetings and an annual ESG survey. During the portfolio manager meetings, matters related to active ownership are discussed as part of the responsibility discussion. In

³ Principles for Responsible Investment

addition, the ESG survey scores the activities of asset managers in terms of active ownership and engagement, of which ownership steering is a part, and provides feedback to asset managers on the Church Pension Fund's expectations.

The Church Pension Fund carries out engagement, especially with regard to international companies, with external service providers. Taking into account the Church Pension Fund's resources, this kind of cooperation is efficient, as it combines the needs, resources and objectives of many investors. This engagement focuses especially on UNGC norm violations (reactive) and thematic engagement (proactive), in which the Church Pension Fund selects important sustainability themes for its operations.

Various investor initiatives are an important tool in the Church Pension Fund's engagement activities. The investor initiative is open to a large number of owners and is designed with the widest and most influential ownership base possible to get the company's management to change the way the company operates.

4 Participation of employees of the Church Pension Fund in the administration of other entities

4.1. Entities owned by the Church Pension Fund

In order to avoid conflicts of interest, senior management or employees of the Church Pension Fund do not participate in the boards of directors or supervisory boards of listed companies. The Church Pension Fund may cooperate with other owners and owner groups to promote the election of high-quality boards of directors of companies, for example in the nomination committee. In addition to listed companies, the Church Pension Fund may directly own real estate and housing companies, as well as companies that directly serve its real estate operations, in which it exercises direct ownership.

In investment funds and illiquid fund investments, the Church Pension Fund strives to monitor the performance and success of its investment targets, just as in its direct investments. In so-called club funds for illiquid investments (an unlisted company jointly owned by two or more investors), a member of the Church Pension Fund's personnel may also act as a board member. If necessary, the Church Pension Fund may appoint a representative to the Advisory Board or similar expert bodies of a long-term investment fund, if this is deemed necessary for the conduct, supervision and performance of investment activities.

4.2. Ancillary activities and positions of trust

The purpose of this paragraph is to review the approach to the involvement of the Church Pension Fund employees in the boards of directors, supervisory boards or comparable bodies of other entities or foundations. This section does not deal with memberships in the boards of directors of housing companies or other positions of trust that are not related to the duties of the Church Pension Fund employees.

If an employee of the Church Pension Fund participates in the governing bodies of other entities, it must not jeopardise the performance of the employee's duties in the Church Pension Fund, hinder investment decisions or endanger independence. The Director of the Church Pension Fund decides on the participation of the Church Pension Fund employees in the governing bodies of other entities. The Secretary General of the Church Council decides on the participation of the Director of the Church Pension Fund in the governing bodies of other entities. Participation in the governing bodies of other entities always requires the decision-maker to assess insider, related party, disqualification and conflict of interest issues.

The Church Pension Fund maintains an up-to-date public list of positions of trust.