

Church Pension Fund's Guidelines for Responsible Investing

Approved by the Board of Directors of the Church Pension Fund on 30 May 2024

Contents

1 Introduction	3
2 Starting points for investment activities.....	3
3 The Principles of Responsible Investment as a framework	6
4 Responsible companies as investment objects	7
5 Approaches to responsible investing.....	9
5.1 Sustainability analysis	9
5.2 Active ownership and engagement	10
Direct engagement	10
Indirect engagement.....	11
5.3 Impact investing.....	12
6 Selection and monitoring of asset managers	13
7 Responsible investing in practice.....	15
7.1 Equity investments	15
7.2 Fixed-income investments.....	16
7.3 Illiquid investments.....	16
8 Reporting	18
9 Decision-making process	19

1 Introduction

The Church Pension Fund is committed to responsible investing, as it ensures a good return on investments and manages investment risks efficiently. The Pension Fund considers sustainability aspects, i.e. environmental, social and good governance issues, in all its investment activities.

Today, responsible investing is comprehensively integrated into investment processes both in Finland and internationally. The Church Pension Fund wants to play an active role in raising awareness of responsible investing by being open, sharing information and good practices in different forums and cooperating with other investors. These guidelines are intended to provide an outline for the Pension Fund's responsible investment activities, and to clarify the Pension Fund's expectations for asset managers and companies.

The Church Pension Fund's guidelines for responsible investing are primarily applicable to the investment activities of the Pension Fund. The guidelines also serve as an example for parishes and other investment entities within the sphere of the Church. The Pension Fund last updated its guidelines for responsible investing in 2018. Since then, the Pension Fund has published a separate climate strategy in 2021 and a active ownership policy in 2022.

The ethical values of the Evangelical Lutheran Church of Finland serve as the foundation for the responsible investment activities of the Church Pension Fund. The Pension Fund focuses particularly on favouring responsible investment objects and influencing corporate behaviour. The selection of asset managers and development of this co-operation are key aspects of the Pension Fund's responsible investment activities.

The guidelines for responsible investing were approved by the Board of Directors of the Church Pension Fund on 30 May 2024. The guideline update was carried out by the Responsible Investment Work Group appointed by the Board. The guidelines will be updated as necessary, and the Board will monitor the development of the activities by publishing an annual report on responsible investing. Additionally, the Pension Fund includes its objectives for responsible investments in its annual investment plan.

2 Starting points for investment activities

The Church Pension Fund is responsible for financing the pensions paid to Church personnel and for the investment of pension funds. Pensions are financed by contributions from employers and employees and from the Church Pension Fund. The Act on the Evangelical Lutheran Church Pension Fund (656/2023) entered into force on 1 July 2023. The Act replaced the previous Act on the Financing of Pension Security of the Evangelical Lutheran Church (68/2016). The Church Pension Fund acts as the church's pension institution and is responsible for financing the pension cover of Evangelical Lutheran Church of Finland personnel.

The Church Pension Fund as an investor

The operative investment activities of the Church Pension Fund are handled by the Investment Unit, whose activities are overseen by the Board of the Pension Fund. As with other pension investors, the Pension Fund is a long-term investor, whose investments may experience significant value changes over the short term. Despite the long investment horizon, the Pension Fund must continuously maintain sufficient control of all investment risks. The investments must be consistently allocated to different asset classes, geographical regions, sectors, asset managers and investment styles at all times.

As determined in the Pension Fund's strategy, the long-term real return target is 3.5 per cent with a 10.5 per cent risk level. The Pension Fund has distributed its investments to listed equity, fixed-income and alternative investments.

The Pension Fund primarily uses investment funds in its investment activities. The role of the Pension Fund Investment Unit is to select successful, responsible funds and asset managers as partners and to work with them to comply with the principles of responsibility and to develop related activities. In terms of the portfolio's responsibility screening and engagement activities, the Pension Fund may use external experts.

Values and ethics

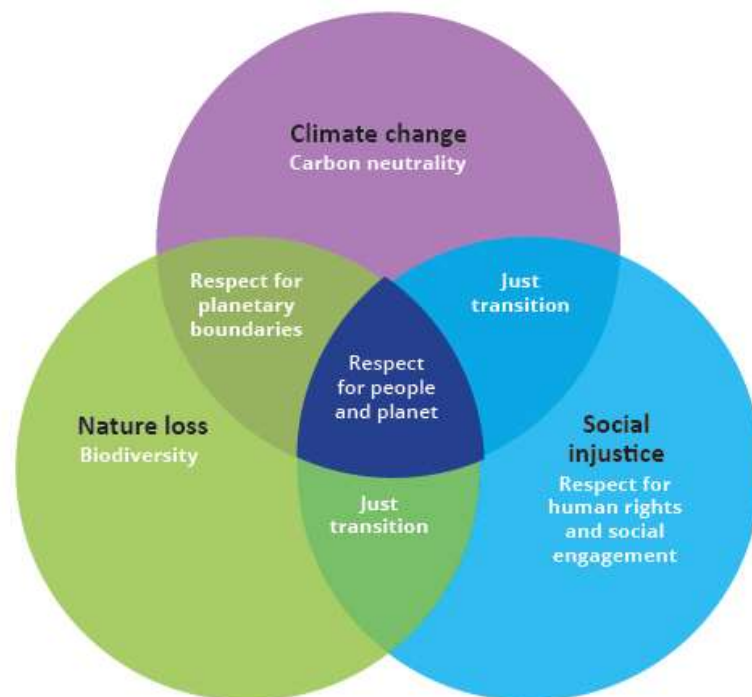
The values listed in the Strategy of the National Church Council are reflected in the basic task of the Church Pension Fund to manage pension assets profitably, securely and responsibly. The Investment Unit shall respond openly to all questions put forth by the personnel, pension recipients, parishes and the media. In its role as a public actor, the Pension Fund feels it is important to ensure that its investment activities are transparent and fair. The Investment Unit complies with the guidelines for responsible investing and the UN supported Principles for Responsible Investment (PRI).

Lutheran ethics are based on the Golden Rule of humanity, which is accepted worldwide. It is expressed in the words of Jesus as written in the Gospel of Matthew: "In everything, do to others what you would have them do to you." (Matthew 7:12) When God created man, he instilled in him the knowledge of how we should treat one another. Translating the Golden Rule into practice is not straightforward but involves putting oneself in the shoes of other people and groups and trying to think about what is truly good for them from their own perspective. As an owner and investor, the Church Pension Fund considers its key stakeholders, namely those affected by investment policies, and considers the realisation of their benefit.

Responsible investing in the Church Pension Fund

1. Strategy and guidelines defining the minimum level	Lutheran ethics	Strategy of the Church Pension Fund	Church Pension Fund's guidelines for Responsible Investment
2. Guiding principles and objectives that we have signed and to which we commit	UN Principles for Responsible Investments (PRI)	Church Pension Fund's carbon neutral investment portfolio 2035	
3. Risks and opportunities	Better return on investments and positive impact on the environment and society. Better risk management and reduction of negative impacts on the environment and society.		

4. Our framework Interdependencies, aiming for respect for people and planet



5. How we achieve our goals



A just transition means an environmentally friendly and socially just transition from fossil fuels to renewable energy and a sustainable economy. This concept underlines the need to mitigate the effects of climate change while ensuring that the transition does not undermine the position of the most vulnerable members of society.

Respect for planetary boundaries is a prerequisite for life on Earth. Our planet is not an inexhaustible stock of raw materials. Global warming and increased biodiversity loss can have irreversible impacts on the ecosystems and ecosystem services on which people depend.

3 The Principles of Responsible Investment as a framework

The Church Pension Fund's responsible investment principles are at the core of its investment activities. As of 2008, the Pension Fund has undertaken to comply with the UN supported Principles for Responsible Investment and has built its responsible investment activities around these principles. The PRI helps the Pension Fund to carry out responsible investment activities.

As a signatory of the Principles for Responsible Investment (PRI), the Church Pension Fund has committed to the following:



1. We will incorporate esg issues into investment analysis and decision-making processes.

- We draw up an annual responsible investment plan, investment strategy and risk management plan that include the goals for responsible investment. In addition, in our longer-term strategies, we have made esg aspects part of our goals.
- A separate Climate Strategy guide the climate work of the Pension Fund.
- All members of the Pension Fund team work on developing responsible investment activities within their own area of responsibility.
- We apply esg criteria to our selection of and in the agreements with asset managers.
- We only work with asset managers who have committed to the Principles of Responsible Investment.

2. We will be active owners and incorporate esg issues into our ownership policies and practices.

- The Active ownership policy steer ownership practices and engagement activities.
- We engage in continuous dialogue about responsible business activities with domestic and foreign companies.
- We participate in the annual general meetings of domestic companies.
- In European companies, we vote through an external proxy voting service provider.
- We regularly monitor the content of our investment portfolio and any possible norm violations.
- We require our asset managers to have an active ownership policy and report on their stewardship activities.

3. We will seek appropriate disclosure on esg issues by the entities in which we invest.

- We support initiatives that aim to promote coherent sustainable reporting practices of companies.
- We continuously monitor the development of the responsible investment activities of our asset managers and encourage them to report on the material esg impacts of their investment activities.

4. We promote the acceptance and implementation of the Principles within the investment industry.

- We raise ESG issues at the request for tender phase and in annual esg-questionnaires. We provide feedback to asset managers based on responses to esg-questionnaires. In the feedback, we highlight our expectations regarding development targets related to sustainability.
- We favour asset managers that comply with the Principles.
- We participate in relevant seminars and hold lectures on responsible investing for other investors and students.
- We support initiatives and practices that help strengthen the position of responsible investment in the investment industry.
- We keep information on responsible investments updated on our website.

5. We will work together to enhance our effectiveness in implementing the Principles.

- We actively participate in the activities of forums and networks promoting responsible investment, such as Finsif ry, and comply with the PRI principles.
- We collaborate with other investors and share best practices. We encourage market participants to invest responsibly.
- We share information with the parishes and maintain regular contact with other investors within Church organisations.

6. We will report on our activities and progress towards implementing the Principles.

- We regularly report on the progress of responsible investment to the Board of the Church Pension Fund.
- We publish an annual report on responsible investments.
- We report on the carbon footprint of our equity and fixed-income investments according to TCFD recommendations.
- We report to PRI, on an annual basis, on the progress of the implementation of the Principles.

4 Responsible companies as investment objects

Through its investment activities, the Church Pension Fund wants to advance responsible business practices and the success of responsible companies. The following operational policies describe the Pension Fund's view of corporate responsibility:

Compliance with laws and international norms is the minimum requirement for corporate responsibility. The Church Pension Fund recommends that companies commit to the *UN's Global Compact* initiative and comply with both the *OECD Guidelines for Multinational Enterprises* and *UN Guiding Principles on Business and Human Rights*. Corporate responsibility forerunners exceed the requirements of the norms and laws and create a foundation for future regulations.

Positive influence. In their use of natural resources, responsible companies consider the needs and rights of future generations and consciously minimise the harmful impacts of their operations on the environment and society at large. Forerunner companies harness market forces to create solutions for the challenges of sustainable development.

Focusing on stakeholders. A company that is acting responsibly incorporates the expectations of its stakeholders into its own activities and business development. The basis for corporate responsibility is an understanding that the company has other tasks and obligations in society besides making a profit for the shareholders. Stakeholder-based management involves the perspectives of all stakeholders, as this is beneficial, in the long term, for the shareholders as well. As part of a stakeholder-oriented approach, the principle of double materiality should be considered. According to the principle, companies assess the impact of sustainability issues on their own activities. This assessment will consider, for example, the impact of climate change on the performance and activities of a company (outside-in). The company must also consider the positive and negative impacts of its activities on the environment and society (inside-out). The company is also responsible for the actions of its co-operative partners, such as its network of subcontractors.

Commitment of management. Corporate responsibility relies on a strategy in which responsibility is incorporated into the company's management system and, through that, into the operational guidelines, job descriptions and, when necessary, profit steering and bonus systems. The commitment of the Board and top management is essential for the responsibility to penetrate the entire organisation. Training and internal communications ensure that the entire personnel are familiar with and recognises the requirements for responsible practices within the company and their own jobs.

Climate change. Climate change is a global phenomenon that has an impact on the world's societies and businesses. To slow down climate change, companies must reduce the production of greenhouse gases in the atmosphere. Responsible companies prepare in advance for the risks and possibilities brought on by climate change and include the related actions into their overall strategy. The Pension Fund encourages companies to create science-based emission targets (SBTs) as well as carbon neutrality targets in line with the Paris Agreement on Climate Change.

Biodiversity. Together with climate change, accelerating biodiversity loss and species extinction is a global change phenomenon that has irreversible impacts on societies and businesses. Biodiversity loss is a risk to the business operations of companies, as all business activities are either directly or indirectly dependent on nature. A responsible company is aware of the impacts of its own activities on biodiversity, takes this into account in risk management and integrates it into its strategy work.

Human rights. Human rights are equal rights for every member of humanity. Their purpose is to guarantee a decent life for all. Human rights are defined in international agreements. Every individual has the right to freedom, dignity, and peace. A responsible company takes human rights into account both in its own operations and in its supply chains.

Fiscal responsibility. A responsible company complies with legislation and its objectives when carrying out tax planning. The Church Pension Fund views it as important that tax payments reflect a company's financial activities and that taxes should be paid within the different countries of operation in accordance with the actual activities taking place there. We encourage companies to report on their tax policy and tax footprint.

Open communications. Corporate responsibility is credible if the company can prove that the requirements for responsibility have led to actual strategic changes. Words complement deeds: transparency and communications that meet the needs of the stakeholders create trust. A company's ability to hold tight to its values, correct its operations as needed and anticipate the risks related to the social, environmental, and political conditions indicates good corporate governance and management practices.

Reporting. Sustainability reporting is at a turning point globally. More information is required from investment object companies about the impact of their business, their objectives, and their level of ambition. In addition, asset managers are required to be more transparent about the responsibility of their investment products. In Europe, the EU's Sustainable Finance Regulation (SFDR) and disclosure requirements have imposed new requirements on asset managers. As a result of the regulation, the Pension Fund receives better reporting from asset managers on the sustainability of investments.

The Church Pension Fund monitors the development of reporting legislation and encourages companies to be open and transparent in reporting. In addition, the Pension Fund encourages companies to report on climate issues in accordance with the TCFD¹ and on biodiversity with the TNFD² reporting frameworks.

¹ The TCFD (Task Force on Climate-related Financial Disclosures) reporting framework provides recommendations on reporting climate-related economic risks and opportunities. There are four areas of reporting: governance, strategy, risk management and measurement and metrics and targets. In October 2023, the ISSB has taken over the monitoring and further development of the TCFD. In 2024, the name will change from TCFD to ISSB S2.

² The TNFD (Task Force on Nature-related Financial Disclosures) reporting framework provides recommendations on reporting biodiversity-related economic risks and opportunities. There are four areas of reporting: governance, strategy, risk and impact management, and metrics and targets.

5 Approaches to responsible investing

The Church Pension Fund applies several different approaches to responsible investing and combines them in different ways. The different approaches to responsible investing are not mutually exclusive, but rather look at the issue from different perspectives. In the case of the Pension Fund, the use of approach depends on the asset class in question and whether the investment is direct or indirect. The responsible investment approaches of the Pension Fund include responsibility analysis, active ownership and engagement, and impact investing.

	SUSTAINABILITY ANALYSIS				ACTIVE OWNERSHIP		IMPACT INVESTING
	Norm-based screening	ESG-integration	Sustainability theme	Exclusion	Engagement discussions	Annual General Meeting participation	Impact investing
Direct equity investments	●	●		●	●	●	●
Equity funds	●	●	●	●	●	●	●
Fixed-income funds	●	●	●	●	●		●
Alternative investments		●	●	●	●		●

Image: A summary of the Church Pension Fund’s responsible investment approaches and their application within the different asset classes. This entry indicates that the approach is used for the asset class concerned. The use and form of different approach methods vary by fund type.

5.1 Sustainability analysis

The sustainability analysis is used to assess the level of sustainability of investment objects in terms of the different ESG criteria, and this information can then be used to either favour or avoid the companies in question. The working methods used in the sustainability analysis vary according to the fund in question. The following are a few examples of different methods:

Norm-based screening. The investor assesses corporate responsibility through compliance with the international norms of UN and OECD. These norms include UN conventions on human rights, labour rights, corruption, and environmental protection. The Pension Fund regularly reviews that its portfolio is compliant with the norms. If infringements are found during this monitoring, corrective action will be taken.

ESG integration. The investor integrates ESG issues into the investment analyses along with traditional economic indicators. The Pension Fund favours asset managers that actively monitor the ESG issues in companies as part of their investment activities and show by their actions that they are forerunners.

Thematic investing. The investor favours companies within a specific sector or companies that offer products or services that support sustainable development. The Pension Fund focuses on sustainable development themes that include climate change, forests, renewable forms of energy and changes brought on by demographic change in society.

Exclusion of companies. The investor excludes from the investment universe any companies that provide products and services that are determined to be controversial or unethical in nature. The Pension Fund avoids direct investments in companies that manufacture alcohol, tobacco, cannabis, or weapons or provide gambling services, adult entertainment, or fossil fuels.

5.2 Active ownership and engagement

In engagement with companies, the Church Pension Fund wants to bear responsibility as an owner by promoting responsible business practices, thereby ensuring long-term value for its investment objects. For this to be possible, investee companies must operate on a long-term basis and manage risks in the interests of the owners.

The Pension Fund initiates a dialogue with a company to change corporate practices. Divesting from a security rarely leads to changes in company practices, and in such a case, the investor also forfeits all rights of ownership. If the engagement dialogue has proven unsuccessful, the decision can be made to divest.

The Pension Fund is involved in both *direct* and *indirect* engagement. In direct engagement, the Pension Fund attends annual general meetings and participates in company dialogue. In indirect engagement, an asset manager or consultant carries out the dialogue with the companies and participates in the annual general meetings on behalf of the Pension Fund. Direct engagement is primarily used with domestic companies since the close proximity makes it easier to connect for discussions. The Pension Fund uses external experts to carry out its engagement on the international level.

Direct engagement

A representative of the Church Pension Fund can utilise voting rights in the annual general meetings of companies or enter dialogue with company representatives at corporate events or seminars.

Participation in annual general meetings. The Pension Fund participates in the annual general meetings of domestic listed companies in co-operation with asset managers of direct equity investment mandates. The Pension Fund annually negotiates with the asset managers regarding the upcoming general annual meeting season and related themes. The Pension Fund has drafted separate guidelines for the annual meeting representative. A report covering the most critical observations shall be drafted at the end of the general meeting season.

The Church Pension Fund updated its principles of active ownership in October 2022. This document is based on the *OECD Principles of Corporate Governance (2015)*. In addition, the Pension Fund supports the Code of Corporate Governance for listed companies, adopted on 19 September 2019 and maintained by the Securities Market Association, and recommends that non-listed companies also follow its principles where applicable.

Meetings with company representatives. Personal meetings with company management or other representatives provide a good foundation for dialogue in a way that is not possible within the context of annual general meetings. The Pension Fund can participate in such meetings together with a consultant, asset managers or other owners. Dialogue can also be initiated with companies as part of other events.

Indirect engagement

The indirect engagement of the Church Pension Fund involves the selection of international engagement cases, thematic proactive engagement, and participation in investor initiatives.

Selection of international engagement cases. The Pension Fund reviews all its equity and fixed-income investments biannually to generate a current overall picture of the content of the investment portfolio. With the help of an external screening and engagement service, the Pension Fund can identify, within its own investment portfolio, international norm violations concerning UN conventions related to human rights, labour law, anti-corruption and anti-bribery activities and environmental protection.

The screening results serve as the foundation for indirect engagement activities. Through screening and engagement service providers, the Pension Fund participates in engagement discussions concerning the most serious norm violations. Several dozen engagement discussions take place each year, with other investors taking part as well. The impact of the dialogue is enhanced as the number of investors and share of ownership increase. For an investor with limited resources, the use of external engagement services is a cost-efficient means of implementing engagement dialogues with international companies.

The dialogue with companies is conducted through letters, videoconferences, and face-to-face meetings. In the planning phase of the engagement dialogue, the screening and engagement service provider drafts a list of measures which the company shall complete to remedy the shortcomings in their operations and to avoid new problems. The realised measures serve as signs of progress for the purpose of the engagement discussions. The company is removed from the monitoring list and the engagement dialogue ends once all measures have been completed.

Engagement activities require consistency and patience. All cases are different, and the achievement of positive results can take years. Occasionally, engagement efforts fail to change the company's operations, and, in these cases, there shall be a consideration as to whether the investment should be divested from entirely. The Church Pension Fund invests in international markets via mutual funds, so it is not always possible to divest from individual holdings. For this reason, the screening results and their processing are a permanent part of the asset manager meetings.

Thematic proactive engagement. The Pension Fund participates in proactive engagement activities intended to influence companies in a constructive manner while considering the sustainability challenges of the future and the UN'S Sustainable Development Goals. Engagement activities can be carried out with external experts and through investor initiatives. Special themes of sustainability are selected for engagement activities, the aim of which is to develop the operating methods of companies. Examples include themes related to biodiversity loss and access to clean water. These thematic dialogues usually last several years and involve several institutional investors.

Participation in investor initiatives. In an investor initiative, a group of investors combines its resources to present a joint message to a company. The investor initiative is open to many 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.

For example, through international investor initiatives, the Pension Fund is involved in influencing the largest companies that cause emissions and loss of biodiversity. Since 2007, the Pension Fund has supported the *CDP Carbon Action* initiative and since 2017 the *Climate Action 100* initiative. In 2023, the Pension Fund joined the supporters of the *Nature Action 100* initiative. Through these initiatives, the Pension Fund is involved in

developing companies' work on climate change and biodiversity. These initiatives aim to ensure quality corporate sustainability reporting and to establish corporate objectives related thereto. The purpose of the initiatives is also to advise companies in the sustainable use of natural resources and energy, and to provide information about the climate impacts of greenhouse gas emissions.

The themes, duration and resource requirements for investor initiatives vary greatly. Some initiatives deal with corporate responsibility on a general level, such as compliance with international agreements and norms. Initiatives can also focus on a select corporate grouping, an individual company case or a theme, as a means of shifting the company's current method of operations into a more responsible direction. Participation is generally free, but it does require a certain amount of work input from the investor. The results of investor initiatives can be measured, for example, by looking at the target companies' response rate or by assessing the measure performed by the companies based on various recommendations.

The Pension Fund's objective is to participate in 2-4 initiatives each year as suits its available resources.

5.3 Impact investing

Impact investing refers to investments in companies, organisations or funds, whose purpose is to make investment returns along with a significant social or environmental impact. The Pension Fund actively monitors impact investing and the development of its different forms. Impact investments in the Church Pension Fund include various types of microloans, green bonds, renewable infrastructure investments and forest investments. The Pension Fund actively monitors the indicators of impact in these investment objects. For example, in the case of forest investments, we can see how much carbon dioxide the forest binds and how the figure has evolved over time. The Pension Fund actively monitors impact investing and the development of its different forms.

6 Selection and monitoring of asset managers

The selection of asset managers is a critical phase in terms of responsible investment activities. ESG issues and related requirements should be thoroughly assessed when selecting a co-operative partner.

The Pension Fund encloses its guidelines for responsible investing in all requests for tenders, so that asset managers participating in the bidding are aware of the Pension Fund's expectations in relation to the offered investment strategy. The Pension Fund strives to assess the asset manager's responsible investment philosophy and whether the product being offered can be approved as part of the Pension Fund's investment portfolio.

The Pension Fund assesses and monitors the following aspects of the asset manager's responsible investing capacity:



1. ESG profile of asset manager

A responsible investor also manages its own corporate responsibility issues well. The Pension Fund requires its asset managers to have responsible environmental and personnel policies, as well as an effective corporate governance approach. The call for tenders and the annual ESG surveys contain a separate section assessing the asset manager's own responsibility.

2. Principles and internal processes

The Pension Fund determines how responsible investment fits into the asset manager's investment philosophy. As a result of legislation, the guidelines for responsible investment, active ownership policy and consideration of sustainability risks in investment activities have become mandatory publications. Having a climate strategy, a biodiversity roadmap and human rights principles are indications of a higher level of ambition, which the Pension Fund would like to see from its chosen asset managers. The Pension Fund is also interested in knowing how compliance with the guidelines is monitored within the organisation and who undertakes to ensure their implementation. An audit carried out by an external evaluator on sustainability issues in investment activities provides assurance that matters are carried out as they are communicated.

A committed asset manager communicates its responsible investment approaches to its personnel, customers, co-operative partners, and other stakeholders. Active asset managers also participate, to the extent allowed by their resources, in different responsible investing initiatives or forums that facilitate networking and inspire new investment ideas.

3. Resources and know-how

The Pension Fund is particularly interested in how the division of tasks within the investment team works in relation to the ESG analysis, what the team's level of expertise is and in what manner this expertise is further developed. Many asset managers use external ESG service providers, and the Pension Fund examines how the ESG information is used as part of the investment activities. The aim of the Pension Fund is to ensure that all ESG issues serve as the foundation for all investment analyses, not simply as a separate assessment phase. The portfolio managers and analysts should have their own views about the essential sustainability issues for different sectors and companies – and the asset manager should encourage its personnel to integrate the ESG issues into their investment analyses. Making sustainability part of the reward system demonstrates the organisation's commitment to continuous improvement.

4. ESG integration

The Pension Fund wants to know which ESG issues are relevant to the asset manager's investment analysis. The next step is to clarify the way in which the ESG issues are involved in the investment decision-making process, and how this affects the asset manager's investment performance. One method to determine this is to ask the asset manager for concrete examples of how the ESG issues have impacted on individual investment decisions, both in terms of specific companies and sectors.

5. Active ownership and engagement

The Pension Fund wants to understand the content and practical realisation of the asset manager's ownership policy. The Pension Fund determines, by requesting detailed examples of realised ESG dialogues and other engagement processes, how the asset manager combines its engagement activities with its investment decision-making process. The Pension Fund favours asset managers that take advantage of their shareholder rights and consistently discuss ESG issues in corporate meetings and events. It should be noted that active ownership practices, such as participation in general meetings, are resource intensive and specific to each asset class.

6. Reporting and communications

The Pension Fund clarifies the manner and frequency in which the asset manager provides reports on its responsible investment activities and results. The Pension Fund also monitors the reporting of the asset managers on the realisation of the UN's Sustainable Development Goals and emphasises the measurement of the ESG impacts of the investment activities. Since the entry into force of the legislation on sustainable finance, sustainability reporting has become mandatory for actors in the financial sector. Reporting on sustainability issues in more detail and in greater detail than required by regulation is a good way to demonstrate the importance of sustainability in its investment activities to the Pension Fund.

The Pension Fund opens the content of its equity and fixed-income investments biannually for screening. Hence, the holdings of the mutual funds should be available when necessary. The Pension Fund also expects active communication from all the asset managers if, for example, it is discovered that the investment portfolio contains investment objects that operate in conflict with the investment principles of the Pension Fund.

The Pension Fund monitors the development of the responsible investment activities of its investment funds, in all asset classes, with the help of an annual ESG survey. The Pension Fund shares the survey results with its asset managers and discusses the development targets related to their responsible investment activities, if necessary.

7 Responsible investing in practice

The Church Pension Fund takes sustainability factors into consideration in all asset classes. Every asset class involves different methods and possibilities to include sustainability factors as part of the investment process.

Sustainability issues are considered in the investment activities of the Pension Fund as part of investment decisions. Often, the ideal moment to influence the operational principles of an asset manager and the investment fund in question, is during the investment phase and related negotiations. During the investment phase, it is also important to identify the legal form and country of registration of the investment object. For example, the tax liability of the asset manager is assessed by examining whether the country of registration of the fund is committed to joining the OECD's Agreement on Automatic Exchange of Information (AEOI).

After the investment phase, the Pension Fund continuously seeks to promote the knowledge and skills of asset managers by enquiring on and discussing their sustainability practices at meetings. The annual ESG survey of the Pension Fund serves as a monitoring and feedback tool and covers investments in all asset classes. If the asset manager or investment fund does not meet the sustainability requirements set by the Pension Fund, or if there are open questions related to sustainability work, the Investment Unit will initiate an engagement dialogue with the asset manager.

7.1 Equity investments

The listed equity portfolio of the Pension Fund contains both direct equity investments and equity mutual fund investments.

Direct equity investments. The Church Pension Fund owns direct Finnish and European equities through discretionary agreements. A discretionary agreement means that the Church Pension Fund is listed as an owner in the shareholder register, but a mandate manager is authorised to make the investment decisions on behalf of the Pension Fund. The agreement specifies the limitations of investment activities, including the criteria for responsible investment, and the asset manager must manage the investments of the Pension Fund in accordance with the agreement. In the agreement, the asset manager commits to taking ESG issues into account in investment decision-making, to acting as an active owner and to reporting on their activities.

The Pension Fund participates in the annual general meetings of domestic listed companies in co-operation with its asset managers. The Pension Fund participates in the annual general meetings of European listed companies through an external proxy voting service provider.

Indirect equity investments. In addition to the discretionary agreements, the Pension Fund holds equity funds that invest in different geographical areas. The Pension Fund selects asset managers that have proven their commitment to responsible investing by signing the Principles for Responsible Investment (PRI) and by drafting their own responsible investment policies. Such asset managers consistently incorporate ESG issues into their investment analyses through different methods, take advantage of their shareholder rights at annual general meetings and discuss responsible practices with companies. The Pension Fund carries out a biannual, norm-based screening of all its equity investments and participates in engagement activities.

Equity index investments. To achieve a tactical allocation, the Pension Fund uses so-called passive investment methods such as equity index funds. Equity index funds offer the Pension Fund a liquid and cost-efficient means of participating in different equity markets. They facilitate the smooth change in allocation

between the different market areas within the stock portfolio. The purpose of index funds is to acquire market-specific emphasis, not to focus on individual companies.

The asset manager that administers the Pension Fund's equity index funds complies with a broad set of sustainability criteria. All index funds use norms-based screening. No investments are made in companies that violate international norms concerning human rights, labour law, corruption, and the environment. In addition, investments are not made in companies that produce tobacco, alcohol, cannabis, weapons, or that offer gambling or adult entertainment activities. Investments are also not made in companies extracting fossil fuels (coal, oil, and natural gas) or in oil sands. Companies with large fossil fuel reserves are also excluded. All index funds have a defined climate objective. In addition, all index funds actively exercise their voting rights at annual general meetings and engage in active dialogue with the investment object companies.

7.2 Fixed-income investments

The fixed-income investments of the Pension Fund are generally managed through mutual funds.

Government bonds. The Pension Fund favours asset managers that evaluate ESG issues in target states. Asset managers investing in emerging market sovereign debt should take into account these countries' compliance with international human rights, environmental and other sustainable development agreements and recommendations. For sovereign debt in emerging countries, asset managers continuously monitor the development of these countries from an environmental, social and governance perspective and engage in active dialogue with the countries' decision-makers on these issues. Asset managers also typically maintain their own rating system for eligible countries, in which ESG factors play an important role.

Corporate bonds. The Pension Fund selects asset managers that have proven their commitment to responsible investing by signing the Principles for Responsible Investment (PRI) and by drafting their own responsible investment policies. Such asset managers consistently incorporate ESG issues into their investment analyses through different methods and discuss responsible practices with companies. The Pension Fund favours, and monitors, funds that allocate share of their capital to green and sustainability-linked bonds in the corporate loan portfolio.

The Pension Fund carries out a biannual, norm-based screening of all its equity and fixed income investments and participates in engagement activities.

7.3 Illiquid investments

The illiquid investments of the Pension Fund include real estate and forest investments, private equity investments, infrastructure investments, illiquid fixed income investments and absolute return investments.

Real estate and forest investments. The Church Pension Fund is a long-term real estate investor that complies with the principles for responsible investing and requires responsible and socially acceptable practices from its co-operative partners as well.

Responsible real estate investing places an emphasis on environmental issues. This is because property and construction play a significant role in the consumption of energy and natural resources, the creation of emissions and, thereby, have an impact on climate change. The construction sector also has a positive impact on employment, and the condition of the properties has a direct influence on the lessees and the attraction of the surrounding areas. The Church Pension Fund considers ESG issues in both direct real estate investments and property fund investments.

In direct real estate investments, the Pension Fund considers the responsibility angle by, among other actions, maintaining the condition of its real estate properties and developing them in an environmentally responsible manner. The Pension Fund constantly monitors the electricity, water, and energy consumption of the properties it owns. In addition to continuous consumption monitoring, the environmental impacts of buildings during use are managed, for example, by developing waste management and recycling. Especially energy efficiency, sustainable development and ecological aspects are considered. Attention will also be paid to the responsibility of the entire life cycle of the real estate, to ensuring that subcontractors fulfil their obligations and to occupational health and safety. Energy issues in real estate are considered, especially in connection with renovations. Sustainable development solutions play a central role in the acquisition of new properties.

Responsible real estate investing involves a great deal of interaction: co-operative companies are encouraged to act responsibly, and efforts are made to motivate the managing directors of the real estate companies to incorporate responsibility into the management of properties. The Pension Fund takes responsibility issues into account in rental agreements and monitors the development of responsibility in its regular tenant satisfaction surveys.

Within its *property fund investments*, the Pension Fund selects asset managers who are committed to responsible investment. When selecting asset managers, it is important to assess the responsible investment principles and practices of the actor. Asset managers are also encouraged to sign the PRI principles. The responsibility of the real estate fund is ensured by a side letter to the fund contract, in which the management company commits to taking the ESG criteria into account in its investment decisions and aims to integrate responsibility criteria into its investment choices and reporting. Real estate funds consider, for example, energy efficiency, the use of renewable energy, public transport solutions, participation in GRESB assessment³ and property certificates. As part of its ongoing monitoring, the Pension Fund conducts an annual ESG survey for all real estate funds. In addition, an ESG survey is conducted for all new funds when investing.

In forest fund investments, the Pension Fund also takes biodiversity-related issues into account in accordance with the recommendations of the Natural Resources Institute Finland (Luke).

Private equity investments. Private equity is interesting from a responsible investment perspective: the private equity investor, as the owner, can influence company operations at an early phase, thereby helping to construct a sustainable corporate culture. The private equity investor can also support new domestic innovations and entrepreneurship and invest in renewable energies and clean technologies.

The private equity investments of the Church Pension Fund consist of private equity funds, which have many other investors in addition to the Pension Fund. Some of the funds are so-called fund of funds, which invest in other private equity funds.

The Church Pension Fund has outsourced the monitoring and administration of its private equity fund investments to an external co-operative partner. The co-operative partner conducts an ESG evaluation of new private equity funds as part of a more comprehensive investment assessment. The responsibility of a private equity fund is assured with side letters that are appended to the fund agreement. In the side letters, the management company undertakes to take responsibility criteria into account in its own investment

³ GRESB is a global sustainability reporting and assessment tool for real estate companies, real estate investment companies and funds as well as for other real estate investors.

activities. As part of its ongoing monitoring, the Pension Fund's co-operative partner conducts an annual ESG survey for all private equity funds.

The Pension Fund requires that the fund management companies for private equity funds meet their tax obligations in the manner intended by the valid laws and decrees, both in terms of their own activities as well as that of the portfolio companies within their authority. The Pension Fund views it as important that the fund management companies and portfolio companies pay their taxes to the administrative district in which they operate and in which the revenue-generating financial activities or work are understood to take place.

Infrastructure investments. Infrastructure investments consist of the services and structures that enable society to function. Infrastructure includes transport networks, energy supply networks, waste management, water supply, telecommunications networks, ports, airports, and health care buildings.

The focus of the Pension Fund's infrastructure investments is on renewable energy investments. The Pension Fund's climate strategy aims for a carbon-neutral portfolio by 2035. One of the tools to achieve carbon neutrality is to increase so-called green thematic investments, which include renewable energy infrastructure investments.

Illiquid fixed-income investments. Illiquid fixed-income investments are alternative funding channels offered alongside traditional bank loan funding. Illiquid fixed-income investments include, for example, private credit and microloan funds. The Pension Fund only invests in funds that have a good reputation and act in a responsible manner. As part of its fund selection process, the Pension Fund requires potential investment objects to commit to the ESG principles, to integrate sustainability issues into investment decisions and to provide regular reporting to investors. In illiquid fixed-income investments, the asset manager may include sustainability metrics as part of the calculation of the credit risk margin, and if the company achieves the targets, the margin will be lowered. The asset manager also undertakes to respond to the Pension Fund's annual ESG survey.

Absolute return investments. The Church Pension Fund is looking for reputable and responsible funds for its absolute return investments. The Pension Fund requires its asset managers to commit to the ESG principles, to integrate sustainability issues into investment decisions and to provide regular reporting to investors. The Pension Fund has conducted a broader fund search for absolute return investments that integrate the principles of responsible investment into their investment process. The challenge is that it is much more difficult to include responsible investing in absolute return funds than in traditional fixed income and equity funds. However, the sector is constantly developing, and it is possible to find actors who are committed to responsible investment. The objective of the Pension Fund is to improve the transparency of investments from the perspective of responsible investment and to continue the development of the portfolio in this respect.

8 Reporting

The Church Pension Fund describes the results of, and actions related to its responsible investment activities in its *annual report*. The annual report covers the following activities:

- Monitoring and annual comparison of tools related to the climate strategy.
- Carbon footprint, climate analysis and TCFD reporting of equity and corporate bond investments.
- Consideration of biodiversity in different asset classes, TNFD reporting
- Results of the ESG survey targeted at asset managers.
- Norms-based screening of the portfolio and related engagement discussions

- Participation in annual general meetings
- Investor initiatives and their progress.

Another important reporting tool is the *annual PRI report*, which details the realisation of the PRI principles within the Pension Fund’s activities. The Pension Fund’s annual PRI report and responsible investments are public reports.

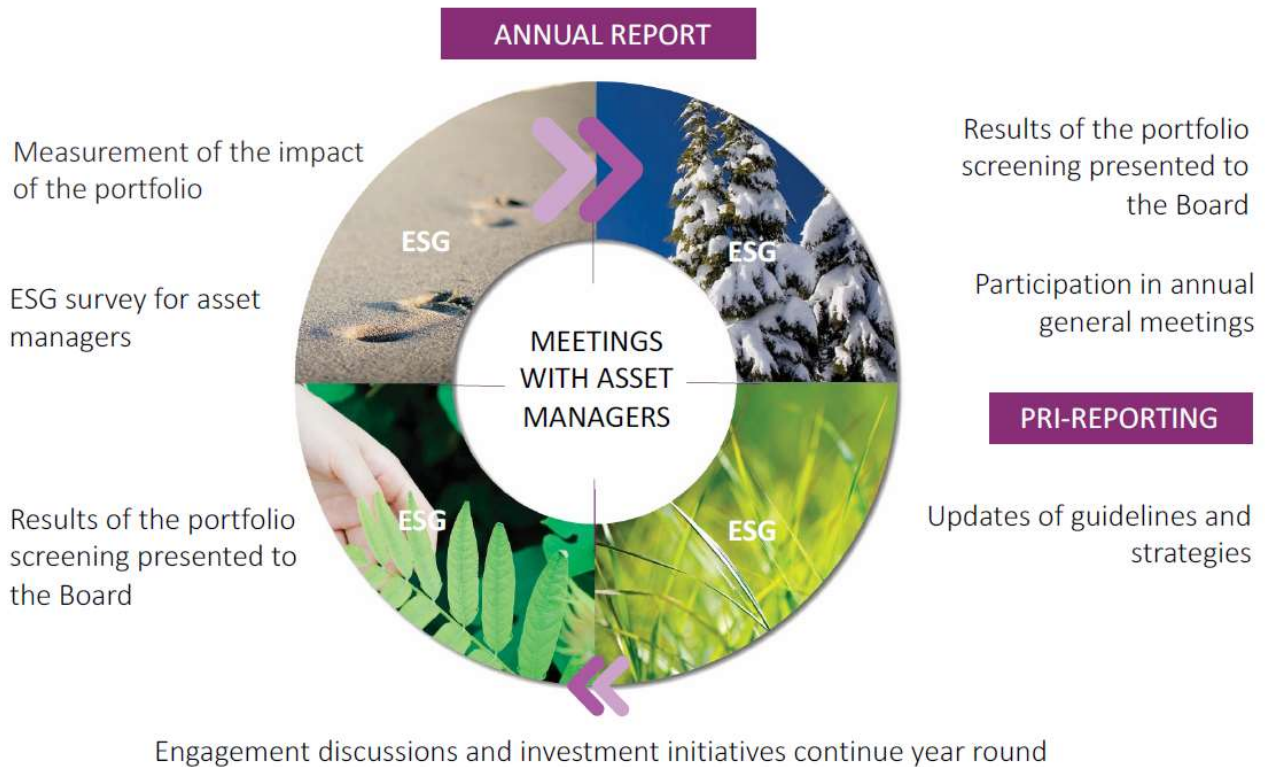


Image: Annual schedule for the responsible investment activities and related reporting of the Pension Fund

9 Decision-making process

The responsible investment activities of the Church Pension Fund are prepared and executed in four different stages:

- The **Board of the Pension Fund** approves the responsible investment guidelines, the Climate Strategy and the annual reports. Support for the responsible investment activities is included in the Board’s tasks, and all related activities are discussed regularly in the meetings of the Board.
- The **Responsible Investment Work Group** is an expert body that advises the Board of the Pension Fund on responsible investing and in matters related to corporate responsibility. The Work Group

prepares the responsible investment guidelines, the Climate Strategy and principles of active ownership, and makes recommendations to the Board with regard to issues related to responsible investing.

- The **Director of the Church Pension Fund** approves participation in international investor initiatives and the decision is reported to the Board.
- The **Pension Fund's Investment Unit** is responsible for all investment activities and related reporting. The Investment Unit handles, on a case-by-case basis, any news that arises regarding the responsible practices of companies and communicates with the different relevant stakeholders.

THE CHURCH PENSION FUND 

Eteläranta 8
P.O. Box 210
00131 Helsinki
exchange 09 180 21