



# **Climate strategy**

# **Church Pension Fund**

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 **KIRKON ELÄKERAHASTO**  
SUOMEN EV. LUT. KIRKKO

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## Introduction

Climate change is a global phenomenon that affects individuals, societies, economies, and the environment. In order to slow down climate change, humanity must reduce the production of greenhouse gases into the atmosphere. The Paris climate conference set the goal of limiting global warming to well below 2°C and making every effort to keep it below 1.5°C by 2050.

Achieving the goals of the Paris Agreement will require significant efforts, both locally and globally. According to the Intergovernmental Panel on Climate Change (IPCC) synthesis report published in 2023, between 2011 and 2020 the average global temperature increased by around 1.1 degrees compared to pre-industrial times. According to the World Meteorological Organization (WMO), 2024 was the first year when the average temperature for the entire year exceeded the 1.5°C warming threshold set in the Paris Agreement.

Investors play an important role in the efforts to mitigate and adapt to climate change. Investors can direct their funds to climate-friendly objects, finance the green transition, and encourage companies to adopt more sustainable business practices. The Church Pension Fund actively implements these policies in its investment activities.

Biodiversity is also a vitally important theme to climate change – while climate change is one of the main drivers of biodiversity loss, biodiversity loss also accelerates climate change. Climate change and biodiversity loss pose systemic risks to the global economy and our investment environment. Nature-related dependencies, impacts, risks, and opportunities can also be taken into account in investment activities. Investors can direct their capital to sustainable objects and safeguard biodiversity. The goal of the Church Pension Fund is to promote the consideration of nature-related topics as part of its investment activities.

The Pension Fund's investment activities are guided by its Guidelines for Responsible Investing. The Church Pension Fund uses its framework for responsible investing to take biodiversity, carbon neutrality, respect for human rights, and social impact into account in its investment activities. One of the objectives of the Church Pension Fund is to respect the Earth's planetary boundaries, which refer to the limits of global sustainability. If these boundaries are crossed, the Earth's natural systems may change unpredictably and permanently, which could endanger the preconditions for life on our planet. Living within planetary boundaries is an approach that respects sustainable development.

The Church Pension Fund published its first Climate Strategy in 2016, and it has since worked consistently to reduce the carbon footprint and climate risks of its portfolio. The Pension Fund has invested in climate solutions and promoted the climate work of its asset managers and investments through active ownership and engagement.

The Climate Strategy complements the Pension Fund's Guidelines for Responsible Investing. The Guidelines for Responsible Investing comprehensively describe how environmental, societal, and governance issues are taken into account in the Church Pension Fund's investment activities. The Climate Strategy describes in detail how the Pension Fund's investment activities manage climate-related impacts and risks, while also taking any related opportunities into account. The Climate Strategy defines the climate objectives for the Pension Fund's investment portfolio and the measures for achieving these objectives. The Climate Strategy also includes nature-related perspectives and objectives. The examination of climate change and

biodiversity must also focus on double materiality, which takes into account the impacts of investment objects on society and the environment, as well as the impacts of sustainability factors on investment objects, and thus the impacts of sustainability factors on the Pension Fund's investment portfolio. Biodiversity loss and climate change pose sustainability risks, and similarly, the activities and investments of the Pension Fund can impact society and the environment.

The Church Pension Fund's climate strategy is linked to the climate work of the Evangelical Lutheran Church of Finland. The Church strives to fulfil its responsibility for mitigating climate change. The Church's Energy and Climate Strategy, the Carbon Neutral Church by 2030, sets concrete goals for the Church and its congregations to mitigate climate change and promote a more sustainable way of life. The Church Pension Fund works actively with the Church's environmental working group and has, for example, participated in the preparation of the Church's environmental diploma.

The following principles and recommendations apply to the Church Pension Fund's responsible investment activities: The UN's Sustainable Development Principles, the Principles for Responsible Investment (PRI), the Institutional Investors Group on Climate Change (IIGCC), the Net Zero Investment Framework (NZIF) recommendations of the Paris Aligned Investment Initiative (PAII), and the reporting recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), i.e. the current International Financial Reporting Standards (IFRS) of the International Sustainability Standards Board (ISSB).

The Pension Fund reviews its Climate Strategy regularly and adjusts its climate work policies in relation to how rapid and critical climate measures are required for a sustainable future, along with developments in climate-related discussions, research data, and operating environments. The Board of Directors of the Church Pension Fund approved the Pension Fund's updated Climate Strategy on 3 September 2025. The Church Pension Fund's working group on responsible investments and the Pension Fund's stakeholders participated in the strategy's preparation.

# 1. Climate and nature – risks and opportunities

The climate- and nature-related work done by the Pension Fund is part of its investment strategy and risk management. The key task of the Pension Fund is to finance the pensions of the Church’s employees, both today and in the future.

The Pension Fund identifies the risks and opportunities related to nature and the climate in its investment activities. These risks and opportunities are taken into account in the Church Pension Fund’s investment strategy, strategic allocations, and investment object selections, and the Pension Fund also discusses these matters with companies, investment objects, asset managers, and decision-makers. The framework described below can be used to identify the financial impacts and risks related to the climate and nature, and it can also be used to define the appropriate risk management methods. The framework details both physical and transition risks, and we can also identify so-called liability risks that may expose operators to legal liabilities in the event of environmental damage. The realisation of these risks may lead to significant financial losses. The framework below was also used to identify the Pension Fund’s climate risks and the related management methods, which are presented in more detail later in this document.

## Identification framework for nature and climate risks

RISK TYPES	FINANCIAL IMPACT	FINANCIAL RISKS
<p><b>Physical risks</b></p> <p>Disruptions in natural systems can weaken ecosystem services and natural capital, thus impacting financial activities. Physical risks can be divided into acute and chronic risks.</p> <p>Ecosystem services and natural capital may be compromised due to various factors, such as climate change, biodiversity loss, invasive alien species, changes in land and sea use, overuse of natural resources, and pollution.</p>	<p>Disruptions in activities or value chains</p> <p>Changes in raw material availability and price fluctuations</p> <p>Adaptation or transfer of activities</p> <p>Pricing of externalities</p> <p>Loss of value (stranded assets)</p> <p>Deterioration or loss of capital</p>	<p>Credit risk</p> <p>Market risk</p> <p>Liquidity risk</p> <p>Business risk</p>
<p><b>Transition risks</b></p> <p>The transition of society towards a nature- and climate-positive economy may result in risks for actors that do not adapt to new regulations or market conditions.</p> <p>Transition risks may arise from e.g. policy and regulatory risks, technology risks, market risks, and reputational risks.</p>		

Source: University of Cambridge, Institute for Sustainability Leadership, Handbook for Nature-related Financial Risks Key concepts and a framework for identification 2021 & TNFD Recommendations of the Taskforce on Nature-related Financial Disclosures 2023. These sources were utilised and supplemented at the Pension Fund’s own discretion.

Climate change and biodiversity loss are examples of sustainability risks. The Church Pension Fund takes sustainability-related risks and impacts into account in its investment activities and risk management. Similarly, the Pension Fund expects its asset managers to take the risks and impacts of sustainability into

account as part of their investment processes, risk management, and reporting. Sustainability risks refer to environmental, societal, or governance-related events or circumstances where their realisation could have a material or potentially negative impact on the value of an investment. The effective management of sustainability risks can help reduce the overall risk of the Church’s portfolio. In addition, taking sustainability risks into account may have a positive impact on the conditions for returns. The Pension Fund utilises various monitoring methods, tools, and means of active ownership and engagement to examine and manage sustainability-related risks and impacts.

The Pension Fund has used the aforementioned framework to define its climate change-related risks and risk management methods. According to the definition formulated by the Task Force on Climate-related Financial Disclosures (TCFD), climate change risks can be divided into physical risks arising from global warming and transition risks related to the transition to a low-carbon economy. Physical risks are risks directly caused by climate change, and they are divided into acute and chronic risks. Transition risks include political risks, regulatory risks, technology risks, market risks, and reputational risks.

**Climate risks and risk management in the Church Pension Fund’s investments.**

	<b>RISK TYPES</b>	<b>FINANCIAL IMPACT</b>	<b>RISK MANAGEMENT METHODS</b>
<b>PHYSICAL RISKS</b>	<p><b>Acute risks</b></p> <p>Sudden or long-lasting extreme weather phenomena. E.g. heat waves, heavy rainfall, floods, storms, forest fires, drought.</p>	<p>Decrease in turnover due to loss of production capacity</p> <p>Decrease in turnover and increase in costs due to negative impact on personnel</p> <p>Asset write-downs and early depreciations</p> <p>Increase in operating costs</p> <p>Increase in capital costs</p>	<p>Identification of sectors and investment objects exposed to physical risks</p> <p>Investment portfolio-related risk identification, monitoring, and measures, particularly for investments in real estate, infrastructure, and forests</p> <p>Monitoring and implementation of data availability for the investment process, monitoring, and reporting</p>
	<p><b>Chronic risks</b></p> <p>Long-term changes in the climate. E.g. rising temperatures, rising sea levels, long periods of drought, changes in rainfall, loss of ecosystems and biodiversity, melting glaciers and permafrost, ocean acidification and warming.</p>	<p>Decrease in turnover due to sales or a decrease in production</p> <p>Increase in insurance premiums and possible deterioration in the availability of insurance for assets located in high-risk areas</p>	<p>Examination of the risks in the supply chains of investment objects</p> <p>ESG Due Diligence prior to investment decisions</p> <p>Regular monitoring via climate analysis and the Pension Fund’s ESG survey</p> <p>When necessary: supplementary analyses to identify risks and exposures in the portfolio</p> <p>Active ownership- and engagement-related means for risk management and measures</p> <p>Market and media monitoring</p>

(table continues)

	<b>RISK TYPES</b>	<b>FINANCIAL IMPACT</b>	<b>RISK MANAGEMENT METHODS</b>
<b>TRANSITION RISKS</b>	<p><b>Political and regulatory risks</b></p> <p>Introduction of carbon taxes or emission limits</p> <p>New climate reporting requirements</p> <p>Regulations and legislation on products and services</p> <p>Exposure to legal proceedings</p>	<p>Write-downs or early depreciation of existing assets</p> <p>Decreased demand for products and services</p> <p>Costs incurred by fines and legal proceedings</p>	<p>Exclusion of sectors from the investment portfolio</p> <p>Additional analyses related to specific sectors (due diligence)</p> <p>Investment portfolio scenario analysis</p> <p>Monitoring, reporting, and measures related to the investment portfolio's climate indicators and risks</p>
	<p><b>Technology risks</b></p> <p>Replacement of existing products and services with low-emission alternatives</p> <p>Failed investments in new technologies</p> <p>Costs of transitioning to low carbon activities</p>	<p>Asset write-downs and early depreciations</p> <p>Reduced demand for products and services</p> <p>Research and development costs of new and alternative technologies</p> <p>Investments in technology development</p> <p>Costs related to the implementation of new operating methods and processes</p>	<p>Investment portfolio sustainability screening</p> <p>When necessary: supplementary analyses to identify risks and exposures in the portfolio</p> <p>Increasing green thematic investments in the investment portfolio</p> <p>Climate objectives and monitoring of investment objects and asset managers</p> <p>Monitoring and acknowledgement of evolving regulations as part of the investment process</p>
	<p><b>Market risks</b></p> <p>Changes in consumer behaviour</p> <p>Uncertainty in market signals</p> <p>Increase in raw material costs</p>	<p>Reduced demand for goods and services due to changing consumer preferences</p> <p>Increased production costs due to variable input prices and end-product requirements</p> <p>Sudden and unforeseen changes in energy prices</p> <p>Decrease in revenue due to change in turnover structure and sources</p> <p>Revaluation of assets</p>	<p>Monitoring of exposures to fossil fuels and non-conventional fossil fuels at the portfolio and investment object level</p> <p>Analysis of investment objects in relation to the green transition and net-zero pathway, including measures and investments that promote their realisation</p> <p>ESG Due Diligence prior to investment decisions</p>
	<p><b>Reputational risks</b></p> <p>Changes in consumer preferences</p> <p>Negative branding of a sector</p> <p>Increased stakeholder concerns or negative feedback from stakeholders</p>	<p>Declining turnover as a result of reduced demand for goods/services</p> <p>Decrease in turnover due to decrease in production capacity</p> <p>Reduced turnover due to HR management and planning issues</p> <p>Loss of access to capital</p>	<p>Monitoring of the investment portfolio via the Pension Fund's ESG survey</p> <p>Active ownership- and engagement-related means for risk management and measures</p> <p>Monitoring and implementation of data availability for the investment process, monitoring, and reporting</p> <p>Market and media monitoring</p>

Source: IPCC, Sixth Assessment Report, 2022 & TCFD: Recommendations of the Task Force on Climate related to Financial Disclosures, 2017. These sources were utilised and supplemented at the Pension Fund's own discretion.

In addition to risks, the Pension Fund identifies opportunities related to climate change. The opportunities presented by climate change provide businesses and society with ways to adapt to climate change, reduce greenhouse gas emissions, and create new business and jobs. These include solutions that promote climate change mitigation, the transition to a low-carbon economy, carbon sequestration, carbon capture and

storage, the recovery and treatment of other greenhouse gas emissions (such as methane), energy efficiency, and the circular economy.

## 2. Climate Strategy – objectives

The aim of the Church Pension Fund is to consistently reduce the negative climate impacts of its investment activities over time. Since the beginning of its climate work, the Church Pension Fund has aimed to achieve a carbon-neutral investment portfolio by 2035, provided that its investment environment will support this objective. The Pension Fund reviews its Climate Strategy regularly and adjusts its climate work policies in relation to how rapid and critical climate measures are required for a sustainable future, along with developments in climate-related discussions, research data, and operating environments. The Pension Fund’s updated long-term climate target is a carbon-neutral and net-zero investment portfolio by 2035, provided that its investment environment supports this objective.

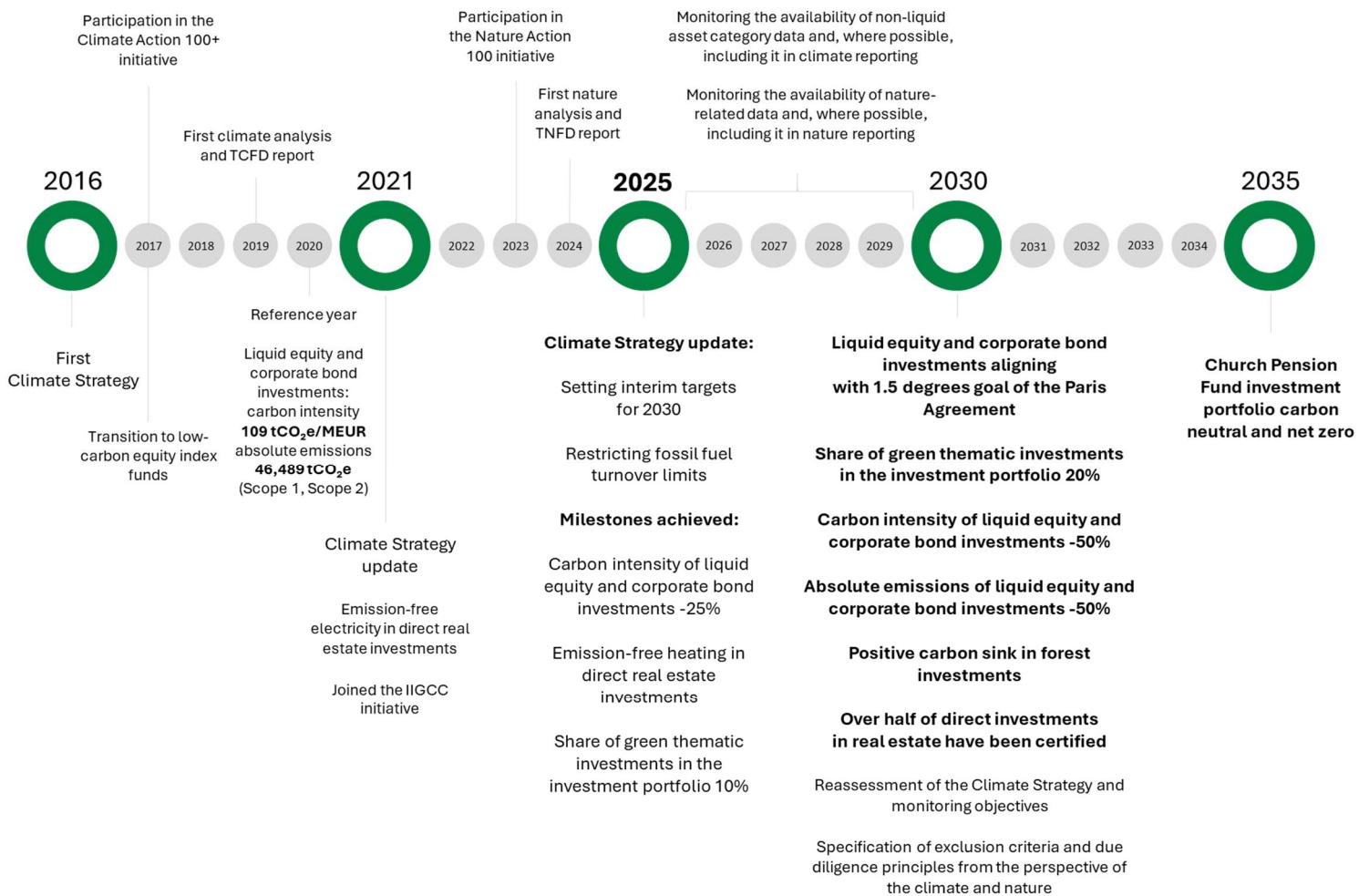
The update to the Pension Fund's Climate Strategy includeincluded the addition of the net-zero target alongside the portfolio’s carbon neutrality target. Net zero refers to the reduction of greenhouse gas emissions as a whole, while carbon neutrality refers to the reduction of carbon dioxide emissions. The net-zero concept has replaced carbon neutrality in climate discussions, or the concepts are used synonymously. For the sake of clarity, the Pension Fund will not remove its carbon neutrality target, but it will instead include its new net-zero target alongside its previous target. Please note that these concepts are used synonymously in the Pension Fund’s Climate Strategy. Overall, these objectives seek to offset greenhouse gas emissions with equal reductions, to ensure that there is zero impact on the climate. The aim of the Pension Fund is to reduce the maximum amount of greenhouse gas emissions from the Pension Fund’s investments. In practice, the carbon-neutrality and net-zero targets of the Pension Fund’s investment portfolio may include emission compensation for emissions that cannot be reduced, or the utilisation of carbon sinks and carbon storages in its investments.

To support these long-term objectives, the Pension Fund has set interim targets for its climate work, with 2020 as its reference year.

### CLIMATE STRATEGY OF THE CHURCH PENSION FUND – INTERIM TARGETS 2030

<p><b>Liquid equity and corporate bond investments aligned with the Paris Agreement.</b></p>	<p><b>Share of green thematic investments in the investment portfolio 20%</b></p>	<p><b>Carbon intensity of liquid equity and corporate bond investments -50% compared to the reference year.</b></p>
<p><b>Absolute emissions of liquid equity and corporate bond investments (Scope 1, Scope 2) -50% compared to the reference year.</b></p>	<p><b>Over half of direct real estate investments have been certified.</b></p>	<p><b>Positive carbon sink in forest investments.</b></p>

## THE CHURCH PENSION FUND'S CLIMATE ROADMAP



The Church Pension Fund aims to implement its Climate Strategy throughout its various asset categories, based on the available data and opportunities. The coverage of its reporting will be improved as reliable data on investments is made available. The Pension Fund's liquid equity and fixed-income investments have featured good data coverage, making it possible to implement their monitoring and reporting over the long term. The availability of climate data for non-liquid asset categories remains poor, and therefore no more specific climate targets have been set for them. The Pension Fund monitors the availability of climate data for non-liquid asset categories and, where possible, includes this data in its climate reporting.

The interim targets set by the Church Pension Fund for 2030 is to ensure that its liquid equity and corporate bond investments align with 1.5 degrees goal of the Paris Agreement. This means that the climate impact of its investments must be in line with the 1.5 degree target and that the carbon budget allocated to its investments is not exceeded. This target is measured by means of a scenario analysis provided by the service provider. This scenario analysis is used to analyse the current and potential future emissions of the Church Pension Fund's portfolio and compare them with the 2050 climate scenarios provided by the International Energy Agency (IEA). The scenario analysis includes forward-looking alternative pathways to assess how policies, technological developments, and economic and social trends can impact the energy system and greenhouse gas emissions. The scenario analysis takes into account the different scenarios and carbon

budgets presented by the IEA and how the investment portfolio's projected emissions can be compared to these.

In addition, two interim targets have been set for liquid equity and corporate bond investments for 2030: a 50% reduction in carbon intensity and a 50% reduction in absolute emissions compared to the reference year (2020). Carbon intensity is monitored using the Weighted Average Carbon Intensity (WACI) metric. This figure depicts the greenhouse gas emissions of the Pension Fund's investment objects in tonnes, in proportion to their turnover per EUR million (tCO<sub>2</sub>e/MEUR sales). The CO<sub>2</sub>-equivalent serves as a combined measurement of greenhouse gas emissions and describes the combined climate warming effect of different greenhouse gas emissions, such as carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>) and nitrous oxide (N<sub>2</sub>O). The WACI figure also takes into account the weights of investment objects in the Pension Fund. For absolute emissions, the objective is to reduce emissions by 50% in relation to the reference year, including Scope 1 and Scope 2 emissions. Scope 1 emissions cover emissions directly caused by business activities. Scope 2 emissions cover the indirect emissions caused by a company's use of energy and electricity. Scope 3 emissions cover the emissions from the end-use of sold products and the purchase of goods and services. Scope 3 emissions are monitored in connection with the Pension Fund's annual climate reporting, but they are not included in the target, as their data is limited and challenging to estimate. In addition, the coverage of Scope 3 emissions is not comparable between different years.

In the case of real estate investments, the 2030 targets cover direct real estate investments and forest investments. The aim is to ensure that more than half of direct real estate investments are certified and that forest investments can serve as the portfolio's carbon sink.

The Pension Fund's interim targets guide the Pension Fund's climate work towards long-term climate targets. The Pension Fund's updated long-term climate target is a carbon-neutral and net-zero investment portfolio by 2035, provided that its investment environment supports this objective. The objectives of the Pension Fund can be considered highly ambitious, and the achievement of the objectives for its investment portfolio naturally depends on the Pension Fund's investment environment. In general, the net-zero target means reducing emissions by at least 90% and offsetting or eliminating any remaining emissions from the atmosphere. It should also be noted that the concepts of "carbon neutrality" and "net zero" are still under development.

The Pension Fund applies a mitigation hierarchy, i.e. it aims to avoid and reduce emissions to the fullest extent possible within the investment portfolio. It is not possible to exclude all investment objects in hard-to-abate sectors from the investment portfolio. The Pension Fund does not aim to use exclusion as its primary tool for climate action. According to the Pension Fund's view, cooperating with asset managers, engaging in active ownership, and exerting engagement can lead to positive developments in asset managers and investment objects. This is also a more effective way of bringing about positive change at the societal level when compared to the exclusion of investments. It should also be noted that, when we examine today's technology and operating environments, achieving full carbon neutrality in all economic activities and an entirely net-zero portfolio remains an unlikely prospect. The coverage and comparability of climate data remains limited, increasing uncertainty factors in both the short and medium term.

The Pension Fund's investments take comprehensive diversification by asset class and geographical area into account. The majority of investments are implemented through fund investments. The controlled

reduction of the Pension Fund’s carbon footprint and carbon risk, as well as the adequate diversification of its investments, are an essential part of the Pension Fund’s risk management. In practice, a carbon-neutral and net-zero investment strategy is based on an uncertain future. The achievement of this target depends on the investment environment and the progress made in climate work across different asset categories and geographical areas. The Finnish government aims to achieve carbon neutrality by 2035. The carbon neutrality target and ambitions expressed by states differ from one another, and some states have yet to set any targets. National targets and operating environments guide the climate targets set by corporations. The regular examination of the objectives and measures of the Pension Fund’s Climate Strategy is essential in a developing and changing world.

### 3. Climate strategy tools

To achieve its carbon neutrality and net-zero objective, the Pension Fund has identified three main tools for its Climate Strategy: carbon footprint reduction, climate solution investments, and active ownership and engagement. The tools and their implementation and monitoring methods vary by asset class.

<b>CLIMATE STRATEGY TOOL: CARBON FOOTPRINT REDUCTION</b>		
<b>MEASURES</b>	<b>IMPLEMENTATION METHODS</b>	<b>IMPLEMENTATION TOOLS AND MONITORING</b>
<b>Monitoring the portfolio’s climate indicators</b>	Annual climate analysis of liquid equity and corporate bond investments  Semi-annual responsibility screening of liquid equity and corporate bond investments  Annual ESG survey for asset managers and funds	Scenario analysis  Climate indicators  Climate targets for investments  Net-zero compliance of investments  Climate risks of investments  Environmental norm violations  Exposures to fossil fuels  Exposures to unconventional fossil fuels
<b>Asset manager, fund selection and monitoring</b>	Favouring asset managers and funds that have integrated climate- and nature-related risks and opportunities into their activities, target setting, and reporting  ESG Due Diligence prior to an investment decision  Annual ESG survey for asset managers and funds	Asset managers’ climate strategy/policy  Net-zero target setting by asset managers  Climate and nature reporting by asset managers
<b>Exclusion criteria Due diligence</b>	Exclusion of fossil fuels and unconventional fossil fuels in direct investments  Additional analyses related to defined sectors (due diligence principle implementation)  Semi-annual responsibility screening of liquid equity and corporate bond investments	Exposures to fossil fuels  Exposures to unconventional fossil fuels  Sectors and activities that comply with due diligence principles

(table continues)

CLIMATE STRATEGY TOOL: INVESTING IN CLIMATE SOLUTIONS		
MEASURES	IMPLEMENTATION METHODS	IMPLEMENTATION TOOLS AND MONITORING
<b>Green thematic investments</b>	Implementation of green thematic investments	Share of green thematic investments in the investment portfolio and different asset categories
<b>Sustainable business</b>	Investing in sustainable business companies or equity funds  Encouraging asset managers and funds to invest in companies engaged in sustainable business  Annual ESG survey for asset managers and funds	Sustainable business figures for direct equity investments and environmentally sustainable economic activity figures in accordance with the EU taxonomy  Monitoring and implementation of sustainable business indicators
CLIMATE STRATEGY TOOL: ACTIVE OWNERSHIP AND ENGAGEMENT		
MEASURES	IMPLEMENTATION METHODS	IMPLEMENTATION TOOLS AND MONITORING
<b>Companies</b>	Encouraging businesses to set science-based climate or nature targets and issue reports that are in line with climate and nature reporting frameworks or recommendations  Engaging environmental themes directly with asset managers and through service providers	Ensuring that investment objects comply with climate and nature strategies, targets, and the net-zero pathway  Engagement methods
<b>Asset managers</b>	Encouraging asset managers to take climate and nature risk into account in their investments, engage companies' climate work, and set climate and nature targets  Annual ESG survey for asset managers and funds	Climate-related active ownership and engagement implemented by asset managers
<b>Other engagement and cooperation</b>	Participating in climate- and nature-related initiatives and discussions with partner organisations, public authorities, decision-makers, organisations, and other investors	Engagement methods  Monitoring and participating in new means of exerting engagement

### 3.1. Climate strategy tool: Carbon footprint reduction

Reducing the Church Pension Fund's carbon footprint includes monitoring the climate indicators of its portfolio, selecting and monitoring asset managers, and making use of exclusion criteria for fossil fuels and unconventional fossil fuels. The Pension Fund has also introduced the application of due diligence principles to defined sectors and functions as a new method.

The carbon footprint is an established concept, both in its definition and in its measurement methods. The Pension Fund is also monitoring the evolution of the concept of the nature footprint and its indicators. The nature footprint refers to the overall impact of a person, organisation, product, or service on biodiversity, i.e. the harm that a matter or activity can cause to nature.

### 3.1.1. Carbon footprint reduction: Monitoring the portfolio's climate indicators

The Pension Fund carries out an annual climate analysis of its liquid equity and corporate bond portfolio together with its service provider. This analysis includes, for example, a scenario analysis, climate indicators (such as emission figures and carbon intensity), climate risk indicators, and the development of the climate objectives of investment objects. The monitored data points may be changed, deleted or added due to changes in the service provider or regulation, or as a result of other developments. In particular, the climate indicators focus on the carbon dioxide figures of greenhouse gases. For other greenhouse gases, such as methane, the reporting process will be developed according to the available data. The results of the climate analysis will be reported annually as part of the Church Pension Fund's annual report on responsible investing.

In addition, the service provider will conduct a semi-annual responsibility screening of the Pension Fund's liquid equity and corporate bond portfolio. The responsibility screening process examines the investment objects' compliance with the UN Global Compact principles and the Church Pension Fund's exclusion criteria.

For the time being, the Pension Fund's climate analysis covers liquid equity and corporate bond investments. In line with the Climate Strategy's interim target, efforts will be made to include other asset categories in this monitoring and reporting process, as the sector's analysis tools and indicators develop further. So far, the Pension Fund monitors the climate work and reporting of other asset categories through its ESG survey.

### 3.1.2. Carbon footprint reduction: Asset manager, fund selection and monitoring

The Pension Fund invests mainly through external asset managers, which emphasises the work done by asset managers in climate and nature-related issues. As a rule, the Pension Fund does not analyse individual companies, and the evaluation of climate-related risks and opportunities are handled at the investment strategy, asset manager, and fund level. Before making an investment decision, the Pension Fund will commission an ESG Due Diligence report for the asset manager and fund in question. The report examines the asset manager's responsibility work and the integration of responsibility into investment activities on a fund-by-fund basis. The Pension Fund favours asset managers and funds that have integrated climate-related risks and opportunities into their activities. The selection of asset managers and funds focuses on various factors, such as the Climate Strategy, climate reporting that complies with reporting recommendations or frameworks, and public commitment to carbon neutrality or the net-zero target. The Pension Fund has also begun taking nature-related matters increasingly into account in its selection of asset managers and funds. The Pension Fund monitors the climate and nature work of its asset managers through an annual ESG survey.

### 3.1.3. Carbon footprint reduction: Exclusion criteria and due diligence

As part of its efforts to reduce its carbon footprint, the Pension Fund applies specific exclusion criteria and due diligence principles to certain sectors and activities.

### 3.1.4. Carbon footprint reduction: Exclusion criteria

The Pension Fund avoids investing in companies whose activities have an accelerating effect on climate change or pose a significant transition risk in the shift to a low-carbon economy. The Pension Fund has defined a set of exclusion criteria for direct investments in fossil fuels and unconventional fossil fuels. The exposure of the Pension Fund's investments is monitored semi-annually through responsibility screenings carried out by the Pension Fund's service provider. These exclusion criteria will also be made stricter in accordance with the objectives of the Pension Fund's Climate Strategy.

The Pension Fund's exclusion criteria for direct investment in fossil fuels and unconventional fossil fuels:

- Companies with more than 10% of their turnover coming from coal and oil.
- Companies with more than 30% of their turnover coming from natural gas.
- Companies involved in the production or trade of unconventional fossil fuels, i.e. with more than 0% of their turnover coming from peat, hydraulic fracturing, arctic oil drilling, shale oil, shale gas, or oil sand.

Deviations may be made to these limits if the management of the investment object's transition risk is at an adequate level, taking into account the portfolio level's risk and return profile. Factors supporting an investment can include: a credible climate strategy; science-based targets (SBT) for the short, medium and long term; an emission reduction target that complies with the Paris Agreement; a net-zero pathway or adaptation to a net-zero pathway; or a pioneering approach when compared to the relevant reference group. This assessment is carried out on a case-by-case basis.

The majority of the asset managers and funds used by the Pension Fund make use of exclusion criteria for fossil fuels and/or unconventional fossil fuels. The Pension Fund monitors the exclusion criteria of asset managers and funds and their development through an annual ESG survey. The Pension Fund has an opportunity to engage the investment criteria of asset managers through active ownership and the means of engagement at its disposal.

### 3.1.5. Carbon footprint reduction: The due diligence principle

The Pension Fund has identified sectors and activities that are subject to the so-called due diligence principle when making investment decisions. These sectors and activities are associated with increased risks and dependencies as well as negative impacts on the climate and nature.

Sectors that depend on natural resources, energy-intensive or sensitive to weather conditions are particularly exposed to climate risks. Some sectors are also exposed to so-called transition risks, in particular those sectors that are dependent on fossil fuels or whose business is based on obsolete technologies or business models. The Pension Fund has also identified high-emitting sectors that emit significant amounts of greenhouse gases. The sectors that have been identified as being exposed to climate risks and having a negative impact on the climate include the following: energy, fossil fuels, mining and quarrying, steel, cement, aluminium, road transport, transport, air transport, maritime transport, agriculture, forestry, fishery, food, real estate, construction, infrastructure, logistics, transport, textiles, water, and the chemical industry.

Sectors that depend on natural ecosystem services or whose activities can cause significant environmental harm are particularly vulnerable to nature risks, which are related to biodiversity loss, weakening ecosystem services, and changes in regulation and consumer requirements. The sectors that have been identified as being exposed to nature risks and having a negative impact on nature include the following: food, beverages, agriculture, forestry, real estate, construction, infrastructure, medicine, cosmetics, water, and the textile industry.

The Pension Fund aims to conduct more detailed analyses of the aforementioned sectors when making its investment decisions and monitoring risks. The factors that can support making an investment include the following: business strategy or products based on green themes; company-level climate or nature strategy; integration of sustainability risks into risk management; science-based climate or nature targets (SBT, SBTN) for the short, medium and long term; an emission reduction target that complies with the Paris Agreement; a net-zero pathway or adaptation to a net-zero pathway; a pioneering approach when compared to the relevant reference group; reporting on the impacts of activities, risks and dependencies, including indicators for verifying these reports.

## 3.2. Climate strategy tool: Investing in climate solutions

The Church Pension Fund invests in climate solutions, including green thematic investments and investments in sustainable business activities.

### 3.2.1. Investing in climate solutions: Green thematic investments

Green thematic investments are related to the environment. They promote and safeguard environmental sustainability through climate- and nature-related themes. The Pension Fund invests in activities that promote climate change mitigation and adaptation as well as the green transition, while also creating new avenues for generating profits. Green thematic investments can also be related to biodiversity and other nature-oriented themes. Potential green themes include: renewable energy, forests, ecosystems, biodiversity, climate change, water, energy efficiency, resource efficiency, sustainable construction, green transport, sustainable agriculture, and the circular economy. Green thematic investments can be made in all asset categories. Green thematic investments can meet the relevant criteria immediately at the investment stage, or an existing investment can develop into a green thematic investment over the course of its investment period. An individual investment can either be a completely green thematic investment, or a share of said investment can be considered a thematic investment.

The Pension Fund reports annually on the total investment assets and different asset categories of its green thematic investments. In connection with its reporting, the Pension Fund reviews how it defines green thematic investments and the applicable themes. The definition of green thematic investments makes use of regulatory definitions, such as the Taxonomy Regulation and the Sustainable Finance Disclosure Regulation(SFDR), or other general definitions. The aim of the Pension Fund is to increase the share of green thematic investments among its different asset categories – the Pension Fund’s goal is to make green thematic investments account for 20% of its total investment portfolio by 2030.

### 3.2.2. Investing in climate solutions: Sustainable business

As part of its work on responsible investing, the Pension Fund encourages asset managers and investment funds to invest in companies that are pioneers in environmentally sustainable business in their respective sectors. The Pension Fund also aims to invest in sustainable business companies or equity funds where possible. The Pension Fund monitors sustainable business figures and environmentally sustainable economic activity figures that comply with the EU taxonomy, especially for its direct equity investments. The availability of data is expected to develop as companies begin reporting their data more systematically, as required by regulation or on a voluntary basis. In addition, the Pension Fund will continue to survey and, if necessary, adopt the sustainable business indicators for companies that have been developed by data service providers. The Pension Fund also monitors the development of concepts such as the carbon handprint, the nature footprint, and other related indicators. The carbon handprint refers to e.g. the climate benefits, or emission reduction potential, of a product, process, or service. The nature footprint refers to the overall impact of a person, organisation, product, or service on biodiversity, i.e. the harm that a matter or activity can cause to nature. A nature footprint can also be positive, in which case it can be referred to as a nature handprint.

### 3.3. Climate strategy tool: Active ownership and engagement

By wielding its engagement, the Church Pension Fund can bear its responsibility as an owner and ensure the long-term sustainable development of the value of its investment objects. The companies that the Pension Fund invests in must act in a long-term-oriented manner and manage their risks according to their owners' interests. If the Pension Fund's engagement does not produce the desired result with a company or asset manager, the Pension Fund may, as an escalation strategy, add the investment object to its monitoring list, reduce its investments, or sell the object. The purpose of this escalation strategy is to draw the target's attention and have them enact the measures related to the reason for which the Pension Fund is exerting its engagement.

The starting point for the Pension Fund is to push companies, investment objects, asset managers, and decision-makers towards advancing the Pension Fund's global climate efforts and nature-oriented approach.

#### 3.3.1. Active ownership and engagement: Companies

As a responsible investor, the Pension Fund finds it essential that companies take their climate and nature-related dependencies, impacts, risks, and opportunities into account. The Pension Fund encourages businesses to set science-based climate or nature targets and issue reports that are in line with climate and nature reporting frameworks or recommendations. The Pension Fund's methods for leveraging its active ownership in and engagement over companies include:

- engagement based on climate analysis results
- engagement based on breaches of environmental standards
- engagement environmental themes through a service provider

- participating in investor-related climate and nature initiatives and cooperation forums, such as IIGCC, Paris Aligned Investment Initiative Net Zero Asset Owner Commitment, CDP, Climate Action 100+, Nature Action 100
- voting at general meetings, in cooperation with asset managers
- discussing environmental themes
- encouraging the creation of reports that comply with climate and nature reporting frameworks or recommendations
- encouraging double materiality analyses
- encouraging science-based climate and nature targets (SBT, SBTN)

### 3.3.2. Active ownership and engagement: Asset managers

The Pension Fund uses various means to encourage asset managers to take climate and nature risk into account in their investments, engage companies' climate work, and set climate and nature targets. The Pension Fund's methods for leveraging its active ownership and engagement with asset managers include:

- engagement based on climate analysis results
- engagement based on breaches of environmental standards
- engagement based on the results of the annual ESG survey
- discussing environmental themes at asset manager meetings
- encouraging the creation of reports that comply with climate and nature reporting frameworks or recommendations
- encouraging double materiality analyses
- encouraging science-based climate and nature targets (SBT, SBTN)

### 3.3.3. Active ownership and engagement: Other engagement and cooperation












The Pension Fund participates in climate- and nature-related initiatives and discussions with its partner organisations, public authorities, decision-makers, organisations, and other investors. In this context, the Pension Fund's methods for leveraging its active ownership and engagement include:

- participating in responsible investment forums, such as Finsif and PRI
- participating in cooperation organisations working on climate themes such as IIGCC, Paris Aligned Investment Initiative Net Zero Asset Owner Commitment
- participating in investor-related climate and nature initiatives, discussions, and statements, such as CDP, Climate Action 100+, and Nature Action 100
- contributing to the development of the investment sector in climate and nature issues together with cooperation organisations, forums, and other stakeholders
- participating in climate- and nature-related discussions with the investment organisations of pension investors, churches, and church investment organisations

## 4. Climate work in asset classes

The climate tools defined by the Church Pension Fund are applied to all asset categories where possible. As a rule, the Pension Fund uses investment funds in its investment activities, meaning that the Pension Fund relies on external asset managers to assess and select the companies it invests in. The duty of the Pension Fund’s Investment Unit is to select successful and responsible asset managers and funds as its partners and work together with them to achieve the objectives of the Pension Fund’s Climate Strategy and develop the related activities. The Pension Fund favours funds and asset managers who have set climate and nature targets for their investment activities. A key part of the process for selecting asset managers and funds is the ESG Due Diligence process, which must be implemented before any investment decision can be made. The Pension Fund carries out its annual monitoring with the help of an ESG survey.

### The Church Pension Fund’s climate tools by asset class

ASSET CLASS	CLIMATE STRATEGY TOOL		
	Carbon footprint reduction	Investing in climate solutions	Active ownership and engagement
Liquid equity and fixed-income investments			
Non-liquid equity and fixed-income investments			
Real estate and forest investments			
Absolute return investments			

The presence of an entry indicates that the tool can be used in the asset class in question. The use and format of a given tool varies by investment.

### 4.1. Climate work: Liquid equity and fixed-income investments

A significant part of the Pension Fund’s investments are in liquid equity and fixed-income investments. These include pension fund mandates and fund investments. While each asset class can make versatile use of the Pension Fund’s climate tools, their approaches differ between liquid equity, corporate bond, and sovereign bond investments.

#### 4.1.1. Liquid investments in equities and corporate bonds

The Climate Strategy’s interim targets for 2030 in the case of liquid equity and corporate bond investments are: ensuring that liquid equity and corporate bond investments are aligning the Paris Agreement, and achieving a 50% reduction of carbon intensity and absolute emissions (covering Scope 1, Scope 2) compared to the reference year (2020).

A vital task of the Church Pension Fund and its asset managers is to assess corporate climate targets and to monitor and support the transition targets of these companies. As a rule, the Pension Fund favours companies that are on a Paris Agreement aligned net-zero pathway to 2050 and that encourage other companies to develop their climate-related work.

The assessment of the climate work of companies can include the following criteria, taking into account any sectoral and geographical differences: the company's climate objectives and actions in the short, medium and long term; the credibility of its climate objectives; the development of its climate work; the reporting of absolute and relative emissions and other climate indicators; linking climate objectives to management incentives; the clear allocation of objective-related responsibilities in the organisation; including other themes, such as biodiversity, in the company's sustainability-related work and reporting.

In addition, the Pension Fund aims to increase its investments in companies engaged in sustainable business and in equity funds, and to grow the share of sustainable and green corporate bonds.

The Pension Fund excludes direct investments in companies that benefit significantly from fossil fuels and their use. The Pension Fund regularly monitors the fossil fuel exclusion criteria for its equity and corporate bond investments. If a fund holds investments related to fossil fuels, the asset manager must be able to provide a clear account of how the investment complies with the net-zero pathway and how it will transition to this path. In passive equity index investments, the Pension Fund uses funds that, in addition to other responsibility criteria, take into account companies' transition targets as part of climate change. For equity index funds, EU Paris-Aligned Benchmark (EU PAB) or EU Climate Transition Benchmark (EU CTB) benchmarks are preferred.

Engagement is a key climate tool in the Pension Fund's liquid equity and corporate bond investments. The Pension Fund encourages asset managers to take climate and nature risk into account in their investments and to contribute to the climate and nature work done by corporations.

The Pension Fund aims to have a direct impact on companies and sectors that are not yet on a net-zero pathway. In addition, the Pension Fund uses various methods to encourage companies to develop their activities in a more sustainable direction, set science-based targets, and report on climate and nature themes. The Pension Fund carries out its engagement in cooperation with its asset managers, through investor initiatives, or through thematic engagement. A key part of the Pension Fund's engagement-related planning is setting goals and considering possible escalation strategies. In its engagement activities, the Pension Fund primarily strives to focus on sectors and industrial sectors with elevated climate risks and negative climate impacts. The Pension Fund may also direct its engagement to selected companies that represent a significant portion of its investment portfolio, or to companies whose climate impacts or climate risks have otherwise been highlighted in climate analyses.

The Pension Fund exercises its ability to participate in and vote at general meetings that are related to its direct shareholdings. The Pension Fund's participation in and voting at general meetings are conducted in cooperation with the asset managers responsible for share mandates. As a rule, all decision concerning how the Pension Fund will vote at general meetings are made by its investment team. For Finnish listed companies, the Pension Fund reports on its participation and voting decisions at general meetings on a semi-annual basis.

The tool most used in liquid corporate bond investments is reducing the carbon footprint and investing in climate solutions. In accordance with its Climate Strategy, the Pension Fund can use sustainable and green bonds to invest in green thematic investments as part of its corporate bond investments. The Pension Fund encourages asset managers to increase the share of these investments in their funds.

#### 4.1.2. Sovereign bond investments

Sovereign bond investments are part of liquid fixed-income investments. Sovereign bond investments are implemented through the funds managed by the Pension Fund's asset managers, in which case the asset managers' work plays a key role in these endeavours. Climate targets in sovereign bond investments refer to the commitment of governmental and public issuers to reducing emissions according to the objectives of the Paris Agreement. So far, few countries have committed themselves to these objectives, which limits the investment universe available to the Pension Fund. Climate targets can vary between developed and developing countries, or may not yet be established.

The aim is to encourage asset managers to introduce climate considerations to their investment processes and to take the impacts of climate targets on issuers' long-term risk profiles into account. Public data sources can be used in the assessment of governmental climate targets and other nature themes. The ways in which we assess climate and nature themes, as well as the related tools and data, are constantly evolving. The Pension Fund encourages asset managers to adopt different ways of examining the climate and nature perspectives of sovereign bond investments. The coverage and up-to-dateness of data from developing economies is not yet at the level of the data provided by developed economies. The Pension Fund monitors the development of the tools and data at its disposal.

In accordance with its Climate Strategy, the Pension Fund can use sustainable and green bonds to invest in green thematic investments as part of its corporate bond investments, and it encourages its asset managers to increase the share of these investments in their funds. The Pension Fund's climate tools also include engaging asset managers and, through investor initiatives, state decision-makers.

## 4.2. Climate work: Non-liquid equity and fixed-income investments

The Pension Fund's non-liquid equity and fixed-income investments include private equity investments, alternative fixed-income investments, and infrastructure investments. The Pension Fund applies its climate tools comprehensively across all asset categories.

In the case of non-liquid equity and fixed-income investments, the Church Pension Fund aims to achieve its climate objectives by favouring asset managers who include climate and nature risks and the opportunities presented by these in their investment processes. As an active owner, the Pension Fund discusses environmental issues at asset manager meetings and encourages reporting in accordance with climate and nature-related reporting frameworks or recommendations. In addition, the Pension Fund encourages the setting of science-based climate or nature targets. The Pension Fund monitors the progress of its asset managers through an annual ESG survey.

### 4.2.1. Private equity investments

Private equity investments are part of non-liquid equity investments. These investments are used to channel capital through funds to unlisted equity markets worldwide. Some of the funds are so-called fund of funds, which invest in other private equity funds.

In its role as an owner, a private equity investor has an opportunity to engage early-stage businesses and, consequently, the creation of sustainable business practices. For example, investors can support and encourage companies to take sustainability factors into account as part of their business activities, or finance new innovations related to climate solutions, the circular economy, or nature.

The Church Pension Fund has outsourced the monitoring and management of its private equity investments to an external partner. This partner conducts ESG Due Diligence on new private equity funds as part of its investment process. The private equity fund's responsibility is ensured in the fund agreement, where the fund manager undertakes to take responsibility criteria into account in their investment activities. As part of its continuous monitoring, the Pension Fund's partner conducts an annual ESG survey for all private equity funds, and this survey is also used to assess climate and nature-related themes and their development.

### 4.2.2. Alternative fixed-income investments

Alternative fixed-income investments are used to channel debt financing to enable the development and growth of unlisted companies. The companies financed under this scheme are often small or medium-sized enterprises. As a result of tightened bank regulation, the alternative fixed-income market has become a source of financing for many companies, alongside the traditional bond market and syndicated loan market. In alternative fixed-income investments, funding can be directed to companies whose business is based on climate- and nature-related topics – for example, companies that support the transition towards a low-carbon economy. In addition, this type of funding can be used to support investments in more environmentally sustainable activities, for example through green bonds.

Out of all alternative fixed-income investments, impact investments are a particularly important tool for the Pension Fund's efforts to take climate and nature perspectives into account as part of its investment activities. Impact funds target investments that aim to achieve a measurably positive impact on the environment or society, in addition to investment returns. For example, part of a fund's effectiveness may be related to climate change mitigation and adaptation. Impact investments can be used to allocate funding especially to developing countries and projects that promote local climate and nature solutions and a just transition. The Pension Fund actively seeks interesting impact investments, and it has served as an anchor investor in several impact investments.

### 4.2.3. Infrastructure investments

Infrastructure investments are part of non-liquid equity investments. The investment objects in these investments are physical and feature long lifecycles, which is why these investments focus on the climate- and nature-related work and reporting of asset managers and target companies. In accordance with the Pension Fund's investment strategy, infrastructure investments focus on green thematic investments,

including renewable energy. Renewable energy investments include e.g. energy efficiency (buildings, communities, industrial processes), clean energy production (solar and wind), and the transfer, distribution and storage of energy.

As part of its infrastructure investments, the Pension Fund aims to achieve its climate objectives by favouring asset managers who recognise the risks and opportunities associated with climate change mitigation and adaptation. The Global Real Estate Sustainability Benchmark (GRESB) is used to measure and assess the responsibility of infrastructure companies and investment funds. The GRESB assessment and environmental certificates are considered positive factors in the selection of asset managers and funds for infrastructure investments. The physical risks caused by climate change, such as extreme weather phenomena, may have an impact on these projects and their value. The Pension Fund aims to place increasing emphasis on physical risks in its investment process, and it encourages its asset managers to also take physical risks into account.

### 4.3. Real estate and forest investments

The Pension Fund makes active use of climate tools in its real estate and forest investments. The investment objects in these investments are physical and feature long lifecycles, which is why these investments emphasise the work of asset managers and their climate- and nature-related reporting. As an active owner, the Pension Fund discusses environmental issues at asset manager meetings, encourages reporting on climate and nature themes in accordance with the relevant reporting frameworks or recommendations, and sets science-based climate and nature targets.

The built environment plays an important role in climate change mitigation and adaptation. Environmentally sustainable solutions in real estate investments mean improving the energy efficiency of real estate, finding circular economy and green construction solutions, using renewable energy, and taking nature into account. In new construction, sustainable development factors must be taken into account throughout the building's lifecycle. Environmental certificates for real estate, such as BREEAM and LEED, support sustainable construction. The Global Real Estate Sustainability Benchmark (GRESB) is used to measure and assess the responsibility of real estate companies and investment funds. Both environmental certificates and the GRESB assessment are considered positive factors in the selection of asset managers and funds for real estate investments. The physical risks caused by climate change, such as extreme weather phenomena, may have an impact on real estate assets and their value. The Pension Fund aims to place increasing emphasis on physical risks in its investment process, and it encourages its asset managers to also take physical risks into account when considering real estate investments.

Real estate investments can be used to identify opportunities for reconciling the built environment with natural values. Various means can be used to support natural values during the construction and use of real estate. By taking natural values into account, we can achieve benefits for both users and the environment. For example, in urban areas, maintaining and increasing the availability of green spaces plays an essential role in supporting and preserving biodiversity, and they are also a significant factor in improving people's comfort. In addition, green spaces support energy efficiency – preserving nature, green spaces, and plantings can help even out thermal loads, and they also function as habitats for various species.

Forests play an important role in mitigating climate change and safeguarding biodiversity. Forests and other such biomasses bind carbon dioxide from the atmosphere and act as carbon sinks. Global deforestation, for example due to the expansion of agriculture and construction, is a significant source of greenhouse gas emissions and undermines biodiversity. The physical risks caused by climate change, such as extreme weather phenomena and changes in average temperatures, can have an impact on forests assets and their value.

#### 4.3.1. Direct real estate investments

The carbon footprint of the Pension Fund's real estate includes carbon dioxide emissions resulting from the heat, electricity, cooling and water consumed by its buildings and the waste generated by them. The carbon dioxide emissions of real estate are primarily the result of electricity use and heating. These emissions can be reduced by improving the energy efficiency of buildings. The Pension Fund was able to achieve its climate target for reducing the carbon dioxide emissions from its direct real estate investments ahead of schedule. All of the electricity and heat used by the Pension Fund's real estate are emission-free. The Pension Fund aims to environmentally certify over half of its direct real estate investments by 2030. The Pension Fund also intends to monitor the carbon dioxide emissions resulting from the waste produced by its real estate, as well as the related compensation opportunities.

During the procurement phase of real estate, the Pension Fund commissions the necessary reports that also take climate perspectives into account. These reports assess various factors, such as location, energy efficiency, administration, and the backgrounds of primary tenants. The reports also assess sustainable modes of transport, the location of the site from the perspective of public transport, and the management of lifecycle costs. In the case of new construction, it is also possible to utilise innovative solutions that take the climate and nature into account and prepare lifecycle calculations for real estate.

The Pension Fund consistently promotes the responsibility and climate aspects of its real estate investments. The starting point is that each property is in good condition in terms of its basic systems and adjustments and works efficiently and according to plan. The aim of the Pension Fund is to monitor the consumption data of its real estate (electricity, heat, water) and the amount of waste produced by them on a regular basis. If deviations are observed during monitoring, the reasons for the deviation and the measures that can be taken to reduce consumption will be examined. Environmental certifications are favoured if they can be implemented, for instance, in the case of a new construction project. Engaging tenants is also key to reducing emissions, and all new lease agreements must include provisions on responsibility aspects. Each year, the Pension Fund commissions a tenant survey as part of its active ownership activities.

#### 4.3.2. Real estate fund investments

Most of the Pension Fund's real estate investments are made through real estate funds. Through these funds, the Pension Fund can engage in real estate investments across the globe. When selecting and monitoring real estate funds, the Pension Fund takes into account how the asset manager has applied climate- and nature-related aspects in its investment process and real estate sites. The Pension Fund encourages asset managers to set climate targets that contain concrete measures for e.g. reducing carbon dioxide emissions from real estate sites and improving energy efficiency. The Pension Fund encourages asset managers to

participate in GRESB assessments and annually monitors the progress of the climate and nature work done by its asset managers through ESG surveys and the funds' GRESB reports.

### 4.3.3. Forest investments

The objective of the Pension Fund's Climate Strategy is to increase the Pension Fund's investments in green thematic investments, including forest investments. The aim is to achieve a positive carbon sink through the Pension Fund's forest investments. This means that the carbon stock of the Pension Fund's forest investments increases as more trees are grown instead of being cut down.

The Church Pension Fund invests in forests through mandates and funds. The selection of asset managers emphasises the work done by asset managers, their commitment, and the scope and quality of their responsibility reporting. In the management of forest assets, the Pension Fund emphasises management models that support both climate and biodiversity objectives. The aim is to maintain a high level of tree capital and secure the soil-based carbon stock. When planning the management of forest sites, the focus must be on the starting points of each forest site – both even-aged and uneven-aged silvicultural methods can be utilised on a site-specific basis.

The carbon sink of forests is affected by the available trees and soil. From the perspective of climate change mitigation, the carbon sink-related impact of forests must be increased. In practice, the quantity of soil carbon sinks and tree growth must exceed the number removed trees. Forest sites that feature little growth can be afforested, while the soil's ability to sequester carbon can be promoted through various means. In addition, sustainable forest management and continuous cultivation methods can improve the carbon balance of commercial forests and promote biodiversity. A forest that grows sustainably can bind more carbon dioxide from the atmosphere. The preservation of natural values is part of overall sustainable forestry. Forest certificates, such as FSC® and PEFC, can be used to ensure responsible forest management and the promotion and preservation of natural values.

Forest properties can also be used for other purposes, such as recreational use or land leasing. For example, the production and storage of green energy can be promoted by leasing forest properties to renewable energy operators. In addition, forests play a role in promoting human well-being, and the possibilities for their recreational use can be realised in a multitude of ways.

The Pension Fund aims to act as a long-term forest owner and manage its forests responsibly. The Pension Fund also places great emphasis on the biodiversity of its forest holdings. The Pension Fund holds discussions with its asset managers and visits its forest holdings on a regular basis. The responsibility of forest investments is also monitored through reports prepared by the Pension Fund's asset managers. The Pension Fund carries out forest growth and carbon calculations annually, and it applies the current recommendations and research data provided by the Natural Resources Institute Finland to its carbon calculations. In addition, the Pension Fund can make use of regulatory calculation methods, such as those under the EU Taxonomy for environmentally sustainable economic activities. The monitoring and reporting of biodiversity are constantly being developed, and the Pension Fund participates actively in their development work. The Pension Fund and its asset managers follow the recommendations for increasing biodiversity in forest holdings. This can include e.g. the preservation of natural areas, the permanent

preservation of living trees, buffer zones, and the preservation and creation of decayed wood. In its annual report on responsible investing, the Church Pension Fund describes the climate and nature themes of its forest investments, based on the reporting done by its asset managers.

#### 4.4. Absolute return investments

The Pension Fund intends to implement the principles of responsible investing and climate work in asset categories where the integration of said themes may be more demanding when compared to traditional asset categories. In addition to shares and interest products, absolute return investments can include investments in currencies, derivatives, and raw materials. The Pension Fund has conducted a broader search for absolute return investment funds that integrate the principles of responsible investment into their investment process. Green thematic investment opportunities can also be found in absolute return investments, for example when a fund's investment objects are related to e.g. the green transition. The Pension Fund encourages asset managers and their funds' investment objects to report on climate- and nature-related risks, impacts, and opportunities in accordance with general reporting frameworks and recommendations. The responsibility of the funds and their asset managers is monitored annually through an ESG survey.

### 5. Climate and nature reporting

The Church Pension Fund reports annually on the progress of its activities and objectives, in accordance with its Climate Strategy. This reporting is part of the annual report on the Pension Fund's responsible investing. The scope of the Pension Fund's reporting depends on the available data. The Board of Directors of the Church Pension Fund approves the annual report on responsible investing, and it is published on the Pension Fund's website. The Pension Fund's climate and nature reporting applies general reporting frameworks and recommendations, such as the TCFD climate reporting recommendations/ISSB IFRSs, the guidelines of the Net Zero Investment Framework (NZIF), and the TNFD nature reporting recommendations.

