

# Responsible investment annual report

2018



RESPONSIBILITY

# Responsibility as a competitive advantage

In Evli Bank responsible investing means in practice that environmental, social and governance factors have been integrated into portfolio management. Transparency and openness are the cornerstones of Evli's responsible investment. The progress of responsible investment is reported annually to both Evli's Executive Group and clients. The responsible investment annual report contains the main themes and key figures of Evli Wealth Management's responsible investments in 2018.

Signatory of:  
 **PRI** Principles for Responsible Investment

 **Climate Action 100+**  
Global Investors Driving Business Transition

 **CDP**  
DRIVING SUSTAINABLE ECONOMIES

# Responsible investment highlights 2018

Engagement discussions with

10

companies

Comprehensive ESG reporting of

24

mutual funds

Institutional investors awarded Evli's responsible investment best in Finland in a client survey by KANTAR Sifo Prospera.

The Evli Global X fund was launched in 2018 in response to client demand for a fund operating with a wider exclusion strategy.

Participating in the CDP investor letters sent to

419

companies

Evli participated in many initiatives to combat climate change, for example Climate Action 100+, PRI's engagement on oil and gas sector and the Investor Agenda Statement to Governments on Climate Change.



# Combatting climate change is increasingly important

Combatting climate change through investments made by Evli's wealth management gained an even more important role, when active engagement together with other investors grew in significance. Evli joined many investor initiatives in order to engage with companies that are susceptible to climate change-related risks.

Through the Climate Action 100+ initiative Evli will engage with major greenhouse gas emitters between 2018 and 2022 to combat climate change and attain the targets of the Paris Agreement. By the end of 2018, 310 investors had joined the Climate Action 100+ initiative, with total investment assets of some USD 32 trillion. The aim is to achieve better climate change management in these companies, to reduce greenhouse gas emissions and improve the transparency of reporting on climate impacts. In 2018, there was engagement with 162 companies through the initiative.

In February 2018 Evli joined PRI's\* collaborative engagement activities that aim to engage with 39 oil and gas sector companies to improve management of so-called transition risks that are associated with climate change. Tran-

sition risks are financial risks that are caused by the transition to a low-carbon economy. For instance, changes in technology or climate policy may lead to a revaluation of assets when costs and opportunities associated with a low-carbon economy become reality.

In November 2018 Evli joined 415 other investors to become a signatory of the Investor Agenda Statement to Governments on Climate Change, a letter sent to governments urging them to promote the targets of the Paris Agreement, to increase private-sector funding for the transition to a low-carbon society and to commit individual companies to improve their financial reporting related to combatting climate change.

In addition, Evli continued its engagement in cooperation with the CDP\*\*. In the engagement coordinated by CDP investor letters were sent to companies with the highest climate change-related risks. The investment letters are a tool for investors to encourage companies to report on their operations and associated climate risks. In 2018, 75 investors were part of CDP's collaborative engagement. Letters were sent to a total of 419 companies,

of which approximately 13 percent indicated that they would report to the CDP on their climate impact in 2019.

In addition to collaborative engagement, Evli actively continued its work on assessing the climate impact of its funds. In 2017-2018, Evli monitored the carbon footprint of its funds using portfolio weighted carbon intensity, and it analyzed potential investments in companies holding fossil reserves. In 2018, Evli also began to monitor companies that gain a significant part of their revenue (more than 30

percent) from coal mining or using coal to produce energy. In addition, wealth management uses a separate climate change database which enables them to continually monitor the carbon footprint, fossil reserves and the proportion of fossil-fuel generated revenue of investments. In 2018 a training was held for employees on climate change, led by an external trainer. In addition, Maunu Lehtimäki, Evli's CEO, was invited to a climate action seminar hosted by the Finnish Prime Minister, where Lehtimäki represented asset managers in a panel discussion on climate change.

\*PRI stands for Principles for Responsible Investment and it is a responsible investment umbrella organization supported by the UN. Evli has been a signatory of PRI since 2010.

\*\*CDP is an independent organization whose aim is to encourage companies to report on and manage their impact on the environment. Evli Bank has been an investment member of CDP since 2007.



# Development of the sustainable investments reporting

At Evli, responsibility factors have been integrated into the investment operations of wealth management, which means that responsibility is an automatic consideration in portfolio management. In practise this is done through the internal ESG\* database, which is based on responsibility data produced by MSCI ESG Research. The purpose of the ESG database is to give portfolio managers easy access to companies' responsibility data when making equity and fixed income fund investments. Portfolio managers can for example search for responsibility assessments on a company (so-called ESG scores), data on how much controversial activities contribute to the company's revenue and any ESG violations. In 2018 the portfolio managers' ESG database was developed and its data was imported to a new portfolio management system.

The ESG database is also used in reporting. Evli publishes ESG reports on all of its equity and corporate bond funds. These enable anyone to monitor the responsibility of Evli's investments. Client-specific ESG reporting was expanded in 2018 and semi-annual ESG reporting on the portfolios of the largest institutional clients was started. The reports analyze the responsibility of investments in the portfolio, including any norm violations.

\*ESG stands for Environmental, Social and Governance criteria.



# Engaging with companies to promote more responsible practices

Evli analyses its equity and corporate bond funds that make active investment choices and wealth management's direct investments quarterly for any UN Global Compact violations. The UN Global Compact is an international corporate social responsibility norm that requires companies to respect human rights, take action against corruption and consider environmental matters.

Evli's funds' norm violation monitoring is based on data from MSCI ESG Research, an external service provider, which is based on reports and announcements from companies, news and data from non-governmental organizations. All norm violations associated with a fund are openly reported to clients in the funds' ESG reports. In 2018, there were very few violations of norms in Evli's active funds and in relative terms, Evli's funds had less norm violations than their benchmarks.

Each norm violation initiates a predetermined process at Evli. The case is first discussed with the portfolio manager who then explains the investment decision to the Responsible Investment Steering Group.

In case of a breach of norms, the steering group has three options:

1. Monitor the situation
2. Start engagement activities
3. Sell the holding.

Norm violations are usually far-reaching cases and it is difficult to gain independent information on them. Through the monitoring of violations and discussions with companies concerning these violations, Evli has discovered that the companies' assessments and opinions of the cases may differ substantially from those of other parties. Furthermore, while multinational organizations such as the OECD may absolve a company regarding suspected violations, this may not necessarily remove the company from the list of violating companies kept by MSCI ESG Research. Therefore Evli considers it vital to actively monitor suspected violations in its funds and to discuss them with portfolio managers, the company in question and in Evli's Responsible Investment Steering Group.

In 2018, Evli sought to engage with ten companies, which included both Finnish and other European companies. The engagement operations concerned, for example, environmen-

tal problems, human rights, employee rights, reporting of responsibility factors and matters related to corporate governance. Evli does not publicize the names of individual companies subjected to engagement measures, as Evli believes the procedures are more effective when they take place as confidential discussions with the companies. In 2018, one company that Evli engaged with was excluded from Evli's wealth management's investments due to a suspected norm violation.

In 2018, Evli also attended general meetings in Finland. The meetings were chosen based on their agenda and Evli's ability to influence decisions. Evli's representatives attended the annual general meetings of Amer Sports, Asiakastieto, Cargotec, Caverion, Consti, Cramo, Kotipizza, Oriola, Outokumpu, Pihlajalinna, Restamax, Revenio, Sanoma, Silmäasema, Valmet and Verkkokauppa.com.

## YK Global Compact

The UN Global Compact consists of ten principles which are derived from the UN's Universal Declaration of Human Rights, the ILO's Declaration on Fundamental Principles and Rights at Work, the UN's Rio Declaration on Environment and Development and the UN's Convention Against Corruption.

### GENERAL PRINCIPLES:

#### Human rights

1. Businesses should support and respect the protection of internationally proclaimed human rights.
2. Businesses should make sure that they are not complicit in human rights abuses.

#### Labour

3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
4. Businesses should uphold the elimination of all forms of forced and compulsory labour.
5. Businesses should uphold the effective abolition of child labour.
6. Businesses should uphold the elimination of discrimination in respect of employment and occupation.

#### Environment

7. Businesses should support a precautionary approach to environmental challenges.
8. Businesses should undertake initiatives to promote greater environmental responsibility.
9. Businesses should encourage the development and diffusion of environmentally friendly technologies.

#### Anti-Corruption

10. Businesses should work against corruption in all its forms, including extortion and bribery.

Source: Evli, YK Global Compact


# Evli continued to develop its responsible investment procedures



It is vital for Evli to continuously develop its responsible investment operations and to listen to feedback from its clients and other stakeholders. The new Evli Global X fund was launched in 2018 in response to client demand for funds operating with a wider exclusion strategy. The fund's investment principles comply with Evli's responsible investment policies. In addition, the fund excludes companies that operate in controversial sectors. The exclusion criteria of the Swedish Small Cap fund and factor funds were also made more specific.

In 2018, Evli was ranked best by clients in responsible investment in a survey directed at institutional clients conducted by KANTAR Sifo Prospera.

In the coming years, the goal is to further develop the funds' ESG reporting to even better align with clients' and other stakeholders' needs, and to develop the funds carbon footprint reporting and the factors that help to curb climate change.



## Engaging with companies - Suspected human rights violation

Evli had invested through a corporate bond fund in a company that MSCI ESG Research, which produced responsibility data for Evli, did not classify as a company that violates norms. Yet Evli received information from a client that another party providing responsibility data had classified the company as a norm violator with regard to its activities in certain controversial areas. Following a report from the portfolio manager the case was taken to the Responsible Investment Steering Group where it was decided that the company should be contacted for clarification. The Responsible Investment team spoke to the company's investor relations staff on the telephone and the company emailed material related to the case to

Evli. However, after this, it became apparent that the company should have a separate human rights evaluation with regard to its activities in controversial areas or the company would be considered to be in violation of international agreements. The company was contacted again to find out whether it had produced such a report. The company did not respond despite several attempts to contact it, so no clarification of the issue was received. Since there remained a suspicion that the company was in violation of international agreements, the Responsible Investment Steering Group decided to exclude it from Evli's wealth management investments.



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