

Responsible Investment transparency report

At Evli, we believe that responsible investment means transparency and openness. For this reason, we have published our first Responsible Investment transparency report.



Responsible Investment

THE DEVELOPMENT IN RESPONSIBLE INVESTMENT AT EVLI

- We defined principles of responsible investment covering the whole of Evli's Asset Management that we apply to all our active investments.
- We started using the MSCI ESG database, which covers both our equity and our corporate bond funds. The database allows us to analyze our investments from the perspective of responsibility, in other words ESG (Environmental, Social, Governance), factors.
- Evli's funds have good ESG ratings and there are very few investments in companies violating norms. Evli's Responsible Investment Steering Group monitors the ESG ratings of Evli's funds and deals with all norm violations. During 2016 we contacted a total of 10 companies with the aim of promoting responsible procedures.
- In January 2017, we started publishing ESG reports for our funds. We are the first asset manager in Finland to publish such extensive reports on its funds. In addition, our factor funds became low-carbon in January 2017, which means that coal mining companies and high carbon stocks have been excluded.
- Evli's responsible investment is actively developed, and its progress is reported annually to the Executive Group.



Responsible Investment

Evli's responsible investment is based on awareness of the ESG risks associated with investments.

Systematic approach to responsible investment

In order to provide its clients with an even better service also in the area of responsible investment, Evli appointed a responsible investment coordinator at the end of 2015. The responsible investment coordinator is based in Evli's Asset Management unit and is responsible for analyzing the responsibility factors in asset management's portfolios and funds, developing responsible investment processes and creating the conditions that allow all portfolio managers to take into consideration responsibility factors in their work. The responsible investment coordinator is also responsible for the engagement activities targeted at companies.

At the beginning of 2016, principles of responsible investment were created for Evli's Asset Management operations and Evli's Executive Group approved these on March 23, 2016. The principles of responsible investment define Evli's Asset Management's approach to responsible investment and the practices used. The principles are applied to direct investments in discretionary asset management and to Evli's own funds. Index funds and passive exchange-traded funds are not covered by the principles. The progress made in Evli's responsible investment is reported annually to the Executive Group, and the RI transparency report for 2016 was discussed by the Executive Group in April 2017.

Reliable responsibility data forms the basis for ESG analysis

From the beginning, we decided to make the reporting of the responsibility factors of our portfolios

and funds to our clients one target of responsible investment. However, it is a challenge to find comparative data related to responsibility factors. For example, globally, only about 20% of all listed companies report the greenhouse gas emissions of their operations, so investors have to rely extensively on estimates. In spring 2016, we compared the ESG (Environmental, Social, Governance) data of various service providers and selected MSCI's ESG data and analysis service.

The main reason for selecting MSCI was that they currently have the best coverage among all ESG service providers. Some investors only report the responsibility factors for their equity investments, but from the beginning it has been important for Evli to be able to report the ESG factors also for its corporate bond investments. MSCI has over 180 analysts who evaluate companies purely from the perspective of responsibility factors, and this data is used globally by many large asset management companies, such as BlackRock, J.P. Morgan, Morgan Stanley and Deutsche. MSCI's ESG data is indeed becoming the standard in the evaluation of companies from the perspective of responsibility factors.

During 2016 we constructed an ESG database for Evli which is based on MSCI's data. The benefit of having our own database is that we are able to carry out even more extensive responsibility reporting for clients. We have also created a separate ESG analysis tool for our fund portfolio managers, which allows them to comprehensively evaluate their investments based on responsibility factors and to monitor whether the companies in the funds observe the UN Global Compact principles, which is a corporate sustainability initiative.

What does responsible investment mean in practice?

Evli's responsible investment is based on awareness of the ESG risks associated with investments, which is why we regularly analyze our active investments from the perspective of ESG factors and calculate an ESG rating for them. A fund's rating is based on its investments, and the higher the rating the better the companies in the fund have, on average, been able to consider the key ESG risks and opportunities. Thus, a fund's ESG rating does not form an opinion on the ethical nature of an individual sector. Instead, it evaluates the fund's investments by sector from the perspective of the risks and opportunities related to the responsibility factors.

Another procedure in responsible investment is the monitoring of violations of UN Global Compact's principles. The UN Global Compact is an international corporate sustainability initiative that requires companies to respect human rights, to implement anti-corruption activities and take environmental issues into account. It is made up of ten principles, which

Source: Evli

	1. Analysis of responsibility factors and calculation of ESG score	2. Monitoring of UN Global Compact principles	3. Active ownership and influence
Direct investments	×	×	×
Evli's own funds	×	×	×
Third party funds	×		
Index funds and passive ETF's			

Responsible investment

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.

In spring 2016 Evli started calculating ESG ratings for its funds and monitoring UN Global Compact violations in the funds. In fall 2016 the monitoring was extended to cover direct equity investments. For partners' funds, we started calculating ESG ratings in summer 2016.

The majority of Evli's funds and model portfolios have an AA or A grade, which means that the investments in Evli's funds and portfolios have focused on investment instruments that are more successful than average in managing the risks and opportunities arising from ESG factors within their own sector. There are very few investments in companies that have violated UN Global Compact's principles. During the past year, the ratings of funds and model portfolios have remained pretty much unchanged.

Responsible Investment Steering Group has been active

The implementation of the responsible investment principles is monitored by Evli's Responsible Investment Steering Group, which includes Asset Management unit executives and the responsible investment coordinator. The Steering Group convenes regularly, about once every three months, and discusses the development of the ESG ratings of Evli's funds and model portfolios and any violations of the UN Global Compact's principles. In addition to this, the Steering Group convened several times during the past year in relation to ESG reporting. Other topical ESG matters are also dealt with in Steering Group meetings. The Steering Group's operations have accelerated the introduction of responsible investment principles in Asset Management. In the Steering Group meetings there is often varied discussion with challenging perspectives, which is a basic requirement for the development of responsible investment at Evli.

We want to promote responsible procedures with our own actions

One of the cornerstones of Evli's responsible investment is the UN Global Compact's 10 principles. Evli's own funds and direct equity investments are regularly monitored to find out whether they contain companies that violate the principles of the UN Global Compact.

The monitoring of UN Global Compact violations is carried out roughly every three months and each violation launches a systematic process. The responsible investment coordinator first discusses with the port-

In some cases, the engagement work ended in the portfolio manager's decision to sell off the holding in that company.

folio manager and we aim to gain a comprehensive picture of what has happened. UN Global Compact violations are most often complex events and it is difficult to find independent information on them. Evli's monitoring is based on MSCI's data, which uses as its source companies' reports and releases, news feeds and information from NGSs, for example.

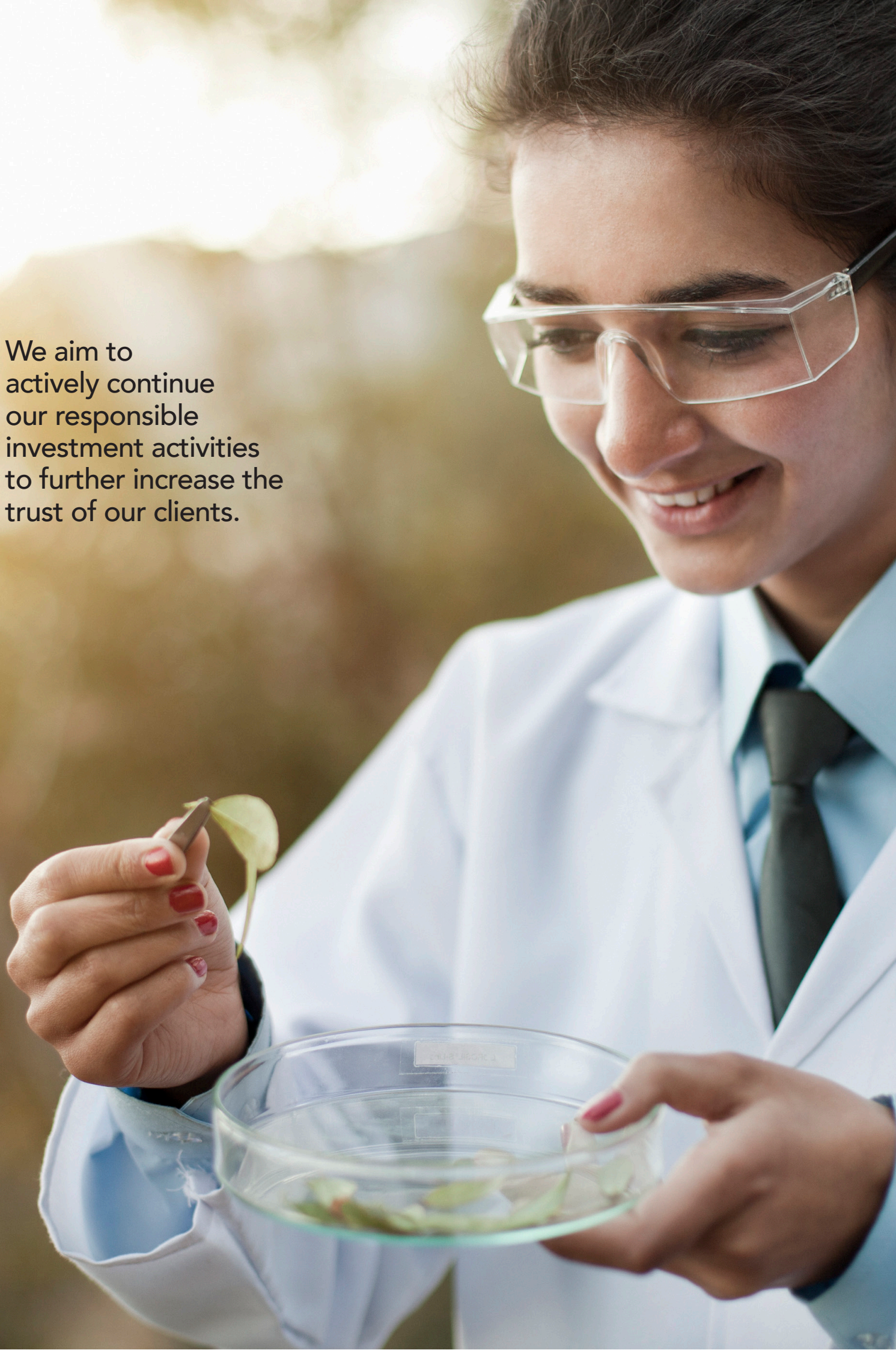
Each UN Global Compact violation is also discussed by the Responsible Investment Steering Group and the portfolio manager must provide an explanation for the investments to the Steering Group. The Steering Group has three options for further measures: to monitor the situation, to start influencing measures or to sell off the holding. The decision on further measures is affected, among others, by the size of the stake, whether Evli owns the company's equities or corporate bonds (corporate bonds do not give entitlement to vote or speak at the general meeting) the type of UN Global Compact violation in question and the actions implemented by the company to rectify the situation. Possible violations of UN Global Compact in the Sweden index and equity factor funds are being monitored by the Steering Group, but no influencing measures or exclusion will be launched related to these as the funds track certain indexes, which means that it is not possible to exclude individual companies.

During 2016, engagement work was carried out with a total of ten companies and the measures concerned, among other things, environmental problems, suspected use of forced labour, subcontracting chains, reporting of responsibility factors and factors related to corporate governance. Some of the influencing measures ended in the portfolio manager making a decision to sell off the holding in the company. Some of the measures are still under way: we carried out discussions with the companies in question during 2016 regarding more responsible procedures, and we will continue to monitor the situation and conduct discussions with the companies also this year. We have not publicized the names of individual companies subjected to influencing measures as we believe the procedures are more effective when they take place as confidential discussions with the companies.

During spring 2016 we participated in thirteen general meetings of shareholders: we attended the meetings of Affecto, Amer Sports, Asiakastieto, Basware, Cargotec, Exel Composites, Glaston, Huhtamäki, Lassila & Tikanoja, Neste, Oriola-KD, Revenion and Tieto.



We aim to actively continue our responsible investment activities to further increase the trust of our clients.



Responsible Investment

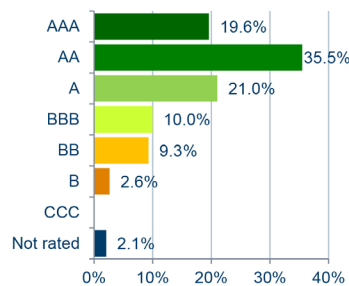
The funds' ESG reports enable everyone to evaluate Evli's funds on the basis of responsibility factors.

EVLI EUROPE FUND -ESG REPORT

Fund's Responsibility Scores



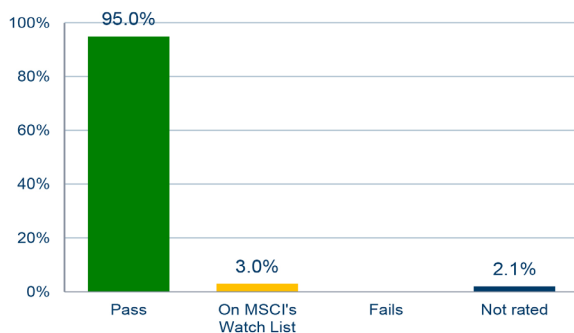
ESG Rating Distribution of the Fund's holdings



The Fund's ESG Rating is A, based on an assessment of the Fund's holdings from a responsibility perspective. The A rating means that, as a whole, the companies in the Fund's portfolio take responsibility issues well into account relative to their industry peers. The Fund's rating scale from best to worst is AAA, AA, A, BBB, BB, B and CCC. Of the Fund's holdings, 98% is covered by MSCI's ESG Research.

In addition, the Fund's holdings are screened to determine if they comply with the UN Global Compact's principles. The principles require companies to respect human rights, to work against corruption and to take environmental issues into account. The UN Global Compact screening covers 98% of the Fund's holdings.

UN Global Compact Classification



ESG factors: a subset of non-financial performance indicators which include environmental, social and governance issues

ESG rating: companies are analyzed and measured by how well they manage key risks and opportunities arising from ESG factors

Fund's ESG rating: a market value-weighted average of the Fund's individual companies' ESG ratings

The UN Global Compact principles: UN Global Compact has ten principles, which are derived from the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.

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Transparency and openness through funds' ESG reporting

During 2016 we constructed an ESG database for Evli based on MSCI's data. This database allows us to report the responsibility factors of portfolios to clients. The first step in the reporting is the funds' ESG reports, which we published in January 2017. The funds' ESG reports can be found in the My Evli service and on our website. The funds' ESG reports mean that anyone can evaluate Evli's funds from the perspective of responsibility factors. The funds' ESG reports are updated four times a year. We are the first in Finland to publish such extensive ESG reports on our funds.

The ESG report of the Evli Europe fund is provided here as an example.

Factor funds became low carbon

During 2016, climate change became an increasingly important theme in responsible investment, and several pension companies in Finland, for example, started dealing with climate change as an entirely separate area.

In January 2017, two of Evli's factor funds investing in Europe and the USA became low carbon. In practice, this means that the equity factor funds started to track the ERI Scientific Beta Low Carbon factor index. The ERI Scientific Beta Low Carbon index is composed by excluding the most significant coal mining companies and high carbon stocks, based on carbon emission data from the South Pole Group. This results in a low carbon factor index that has a substantially lower carbon footprint than the market weighted index (63% in Europe and 29% in the USA). In our view, low carbon factor investing combines the benefits of factors and the considerations of climate risks in a cost-efficient way. In addition, the low carbon factor index is efficiently diversified and it has a higher expected return (back-test 2002–2016).

Our goal is to continuously develop our responsible investment activities

To summarize Evli's responsible investment, we can conclude that during the year our responsible investment was active and we were able to develop our procedures. At the same time, it is very important for us to continuously develop our way of conducting responsible investment and the related processes. Thus, we aim to actively continue our work in responsible investment to further increase the trust of our clients. ■

Responsible Investments



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