



Responsible investment annual report 2017



The progress of Evli’s responsible investment in 2017

Transparency and openness are the cornerstones of Evli Bank’s responsible investment. The progress of responsible investment is annually reported both to the Evli Executive Group and our clients. The responsible investment annual report contains the main themes and key figures of Evli’s Wealth Management’s responsible investment in 2017.

- Responsibility factors were integrated more systematically into investment operations: the portfolio managers’ ESG database was developed and a completely new climate-change data set was introduced.
- Climate change gained an even more important role: Evli’s two factor funds became low-carbon and Evli signed the Climate Action 100+ collaborative engagement initiative where investors engage with 100 of the world’s largest corporate greenhouse gas emitters to mitigate climate change.
- ESG reporting was expanded: regular ESG reporting on Evli’s funds and portfolio-specific ESG reporting on the portfolios of the largest institutional clients were started.
- Engagement related to responsibility factors continued actively and Evli took part for the first time in collaborative engagement through the CDP, writing investor letters to more than 200 companies.
- Active development of responsible investment was continued and Evli’s Principles for Responsible Investment were updated to better match existing practices.

22 FUNDS COVERED BY COMPREHENSIVE RESPONSIBILITY REPORTING

ENGAGEMENT DISCUSSIONS WITH COMPANIES **9**

226 CDP’S COLLABORATIVE ENGAGEMENT LETTERS

In surveys conducted by **TNS Sifo Prospera** and **SFR Scandinavian Financial Research** clients evaluated Evli’s responsible investment as the best.*



* TNS Sifo Prospera External Asset Management 2017 Finland and SFR Scandinavian Financial Research Institutional Investment Services, Finland 2017

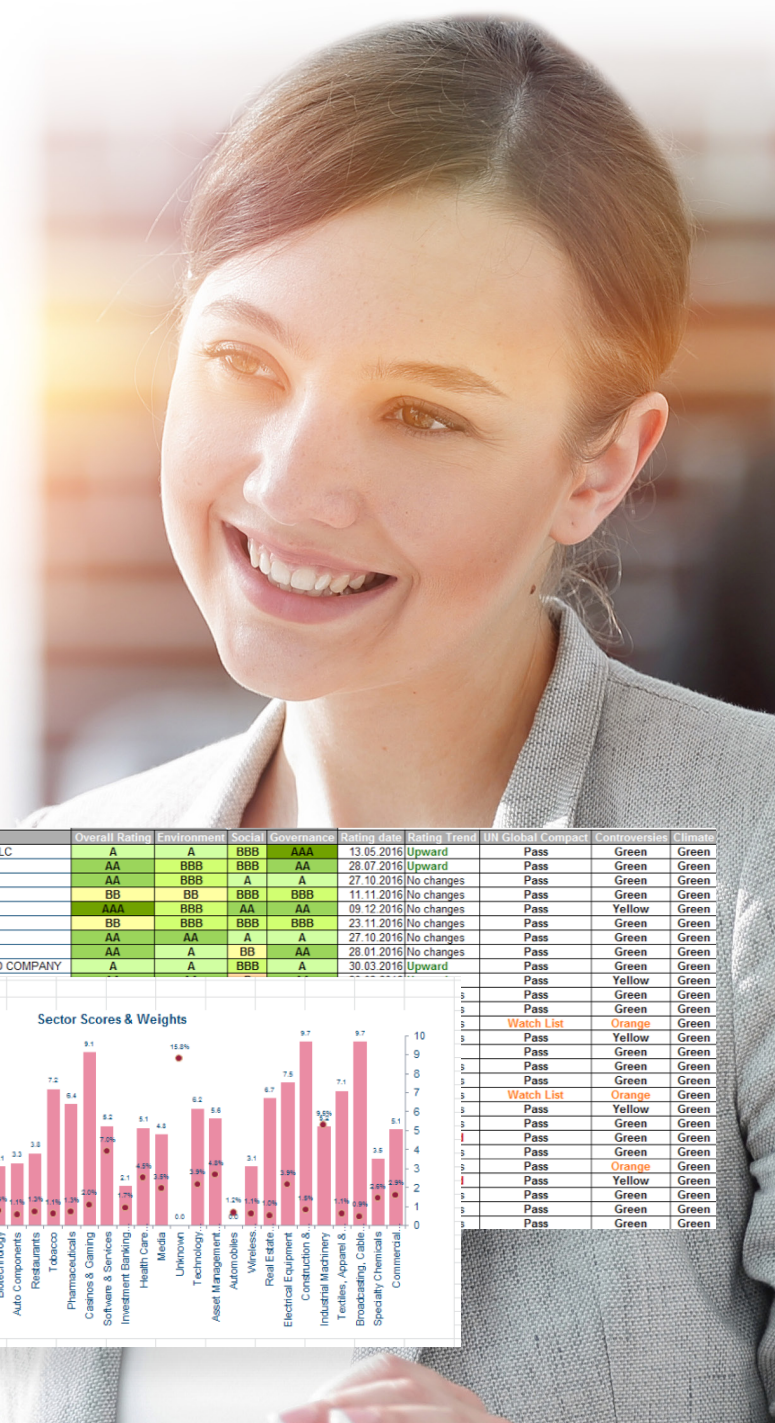
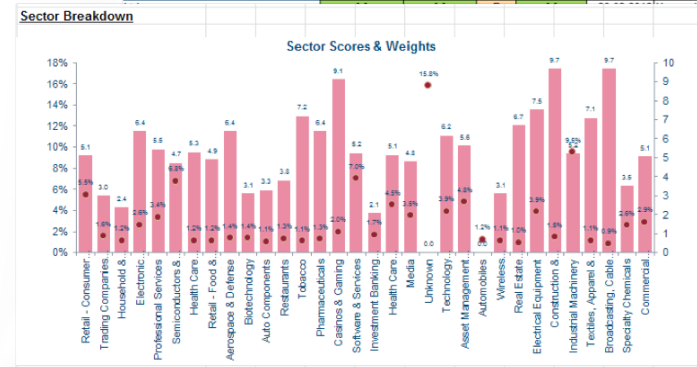
Systematic integration of responsibility into investment operations is a fundamental requirement

At Evli, responsible investment has been integrated into the investment operations of Wealth Management, which means that responsibility is a systematic part of portfolio management. Evli believes that the investors and companies that take responsibility issues into consideration will benefit in the long term.

Since 2016, Evli has used its own internal ESG (Environmental, Social, Governance) database which is based on the database from MSCI ESG Research. MSCI's database has detailed responsibility analyses of 6,500 companies and data on potential ESG violations and controversial sectors concerning 8,500 companies. Evli's own internal ESG database allows portfolio managers to systematically analyze responsibility factors. In 2017, portfolio managers' ESG tools were developed, and company-specific ESG ratings and norm violation data were also included on portfolio managers' Bloomberg terminals. Also, a new climate-change related data set was purchased to enhance the use of the ESG database. The new data set enables us to analyze climate-change related factors more extensively during the investment process.

Example views of portfolio manager tools

Issuer	Overall Rating	Environment	Social	Governance	Rating date	Rating Trend	UN Global Compact	Controversies	Climate
OG SEMICONDUCTOR PLC	A	A	BBB	AAA	13.05.2016	Upward	Pass	Green	Green
Kymmene Oyj	AA	BBB	BBB	AA	28.07.2016	Upward	Pass	Green	Green
RAM S.A.	AA	BBB	A	A	27.10.2016	No changes	Pass	Green	Green
ea 7 S.A.	BB	BB	BBB	BBB	11.11.2016	No changes	Pass	Green	Green
c Hydro ASA	AAA	BBB	AA	AA	09.12.2016	No changes	Pass	Yellow	Green
IRIS S.A.	BB	BBB	BBB	BBB	23.11.2016	No changes	Pass	Green	Green
I WOOD GROUP P.L.C.	AA	AA	A	A	27.10.2016	No changes	Pass	Green	Green
Copco Aktiefelag	AA	A	BB	AA	28.01.2016	No changes	Pass	Green	Green
SIMMON PUBLIC LIMITED COMPANY	A	A	BBB	A	30.03.2016	Upward	Pass	Green	Green



Climate change an increasingly important theme

Climate change has become an increasingly important theme in responsible investment, which is why two of Evli's factor funds, Evli Equity Factor Europe and Evli Equity Factor USA, were converted to low-carbon funds at the beginning of 2017

The low-carbon factor funds exclude major coal mining companies and companies that produce the highest amount of greenhouse emissions, which is why Evli's factor funds have a significantly smaller carbon footprint than the market-weighted index.

During 2017, Evli also calculated the carbon footprints of Evli's funds and monitored any investments in companies holding fossil reserves. The carbon footprints of Evli's funds are mostly below that of their benchmarks and there are very few investments in companies that have fossil reserves.

Evli has been an investment member of the CDP since 2007. The CDP (previously Carbon Disclosure Project) is an independent organization whose aim is to encourage companies to report on and manage their impact on the environment. In 2017, Evli also joined the CDP's water and forest initiatives in addition to the climate initiative. In December 2017, Evli also signed the Climate Action 100+ initiative, in which investors act together to influence the top 100 greenhouse gas emitting companies to mitigate climate change. During the next five years, a total of 256 investors, with total investment assets of some USD 28 trillion, aim to achieve better climate change management in these companies, the reduction in greenhouse gas emissions and more transparent reporting on climate impacts. The goals of the Climate Action 100+ initiative are in line with Evli's own responsibility principles and they also continue to have an influence on the improvement of climate impact reporting, which Evli has been working on in the CDP for more than 10 years.



Factor funds were converted to low-carbon funds and we joined the Climate Action 100+ collaborative engagement initiative.

More transparent reporting for clients

In January 2017, as the first asset manager in Finland, Evli started to publicly report the ESG rating of its funds, which represents a significant leap forward in transparency and openness. Thanks to the reporting, anyone can evaluate the responsibility of Evli's funds. The funds' ESG reports are based on data produced by MSCI ESG Research and include, for example, the funds' responsibility ratings, the distribution of their ESG responsibility ratings and any violations of the UN's Global Compact principles.

In summer 2017 Evli expanded the ESG reporting to also cover the asset management portfolios of our largest institutional clients and received positive feedback on the uniqueness and clarity of the report. The goal is to continue expanding ESG reporting on institutional clients in 2018. In addition, Evli's first responsible investment annual report was published in 2017.

An example: the ESG report of the Evli Europe fund



To make companies' practices more responsible as a goal

At Evli Wealth Management, the engagement practices are carried out independently and in collaboration with other investors. Most engagement cases start with a suspected violation of the UN's Global Compact principles. The UN Global Compact is an international corporate social responsibility norm that requires companies to respect human rights, to take action against corruption and consider environmental matters. The UN Global Compact is made up 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.



Evli analyzes those of its funds that make active investment choices and direct asset management investments at roughly three-month intervals for any UN Global Compact violations. Evli's norm violation monitoring is based on data from MSCI ESG Research, which is based on reports and announcements from companies, news and data from NGOs. Norm violations are usually far-reaching cases and it is difficult to gain independent information on them. Monitoring of violations and discussions with companies concerning these violations, have revealed that the companies' assessment and opinion of the cases may differ substantially from those of other parties. In addition, even though 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. For these reasons Evli considers it vital to actively monitor suspected violations in Evli's funds and to discuss them with portfolio managers and in Evli's Responsible Investment Steering Group and with the company in question.

In fact, each violation case will initiate a systematic process at Evli. The case is first dis-

cussed with the portfolio manager who will then explain his investment decision to the Responsible Investment Steering Group. The Steering Group has three options for further measures when a violation has occurred:

1. To monitor the situation
2. To start engagement activities
3. To sell off the holding.

On the whole, there have been extremely few norm violation cases in Evli's active funds, and Evli's funds have less norm violation cases than their benchmarks.

In 2017, Evli sought to engage with nine companies. These engaging activities concerned environmental problems, respect of the rights of indigenous peoples, workers' rights, suspected violation of human rights, reporting of responsibility factors and matters related to corporate governance. Evli doesn't publicize the names of individual companies subjected to engagement activities as Evli believes the procedures are more effective when they take place as confidential discussions with the companies. Geographically, Evli engaged with companies in Finland, elsewhere in Europe and in the United States.

In 2017, in addition to engaging with individual companies, Evli took part in the CDP's investor letters for the first time. The investment letters are a tool for investors to encourage companies that create a high risk of climate change to report on their operations and associated climate risks. In 2017, 57 investors took part in the CDP's collaborative engagement. Their total investment assets came to roughly USD 3.6 trillion. Letters were sent to a total of 226 companies, of which 11 companies (approx. 5%) indicated that they would report to the CDP on their climate impact in the next year.

In 2017, Evli also attended AGMs in Finland. The AGMs were chosen due to their agenda and the engaging possibilities of Evli Fund management Company. The representative of Evli attended the AGMs of Affecto, Cargotec, Caverion, Detection Technology, DNA, Glaston, KONE, Kotipizza, Metsä Board, Oriola-KD, Outokumpu, Revenio, Verkkokauppa.com and YIT.

The 10 principles of the UN Global Compact

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.

At Evli Wealth Management, the engagement practices are carried out both independently and in collaboration with other investors.

The continuous development of responsible investment procedures

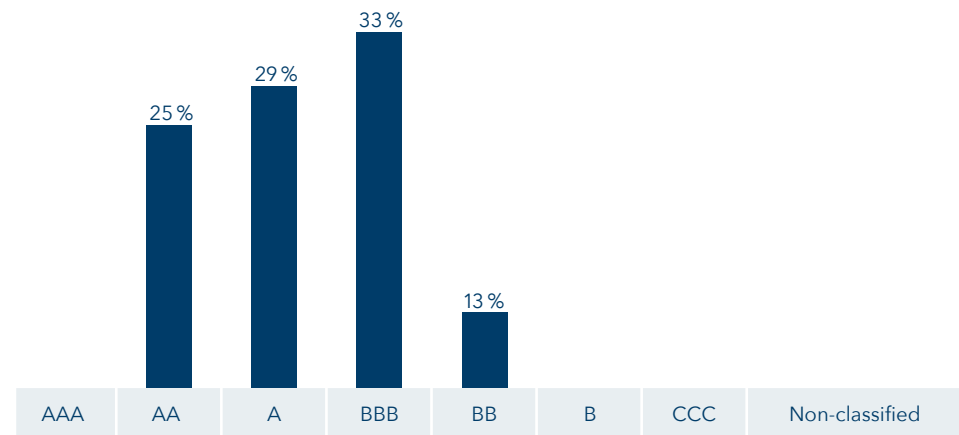
Compliance with the principles of responsible investment at Evli is supervised by the Responsible Investment Steering Group, which monitors the ESG ratings of Evli’s funds and processes any norm violation cases. The members of the Steering Group include the management of the Wealth Management unit and the portfolio management teams and it meets approximately every three months.

The majority of Evli’s funds have an AA or A ESG rating, which means that the investments in Evli’s funds have focused on investment instruments that manage better than average the risks and opportunities arising from ESG factors within their own sector. The funds’ ratings have been quite steady in the past two years. Moreover, there are very few investments in companies that have violated norms.

In 2017, the Steering Group also discussed Wealth Management’s responsible investment strategy and its focus areas for the future. Evli’s principles for responsible investment were updated to better match existing practices. The exclusion of companies manufacturing controversial weapons and public ESG reporting were added to the principles as new procedures.

Responsible investment progressed well at Evli in 2017. In fact, in surveys conducted by TNS Sifo Prospera and SFR Scandinavian Financial Research, Evli’s responsible investment was ranked best by institutional clients. In accordance with its strategy, Evli wants to offer its clients a level of service that is simply unique, and the goal of Evli’s responsible investment is to generate added value for its clients. Evli will actively continue to improve its responsible investment procedures during 2018.

The ratings distribution of Evli’s funds



Evli’s responsible investment practices

	Analysis of responsibility factors and calculation of ESG ratings	Compliance with the principles of the UN’s Global Compact and engagement activities	Exclusion of controversial weapons	ESG reporting
Direct investments	✓	✓	✓	✓
Evli funds	✓	✓	✓	✓
Partner funds	✓			✓
Index funds and passive ETFs				

*The ESG rating scale from best to worst is AAA, AA, A, BBB, BB, B and CCC

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