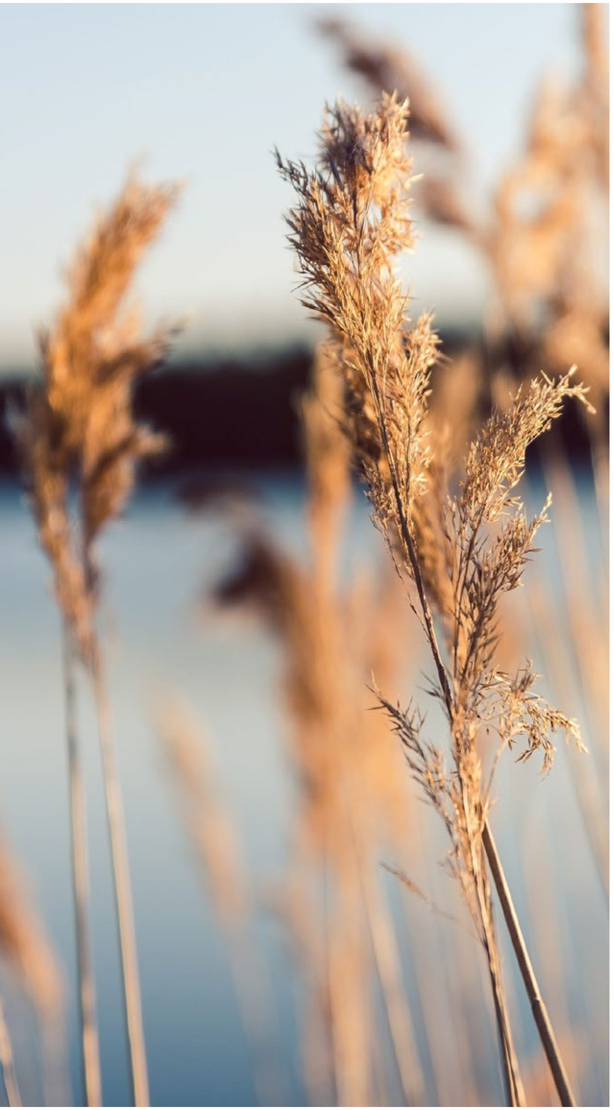
Responsible Investment Annual Report 2019

EVLI BANK PLC



Responsibility is an important part of portfolio management at Evli. Systematic processes have been established for responsibility in order to ensure that responsibility is an integrated part of Evli's investment operations. The Responsible Investment Annual Report covers the main themes and practical measures carried out in Evli's responsible investments in 2019.

The importance of climate change mitigation further increased in investments

In May 2019, Evli published its Principles for Climate Change, complementing the Principles for Responsible Investment. One of the aims of the Principles for Climate Change is to specify Evli's work on climate change mitigation and provide systematic approaches to address climate change in the investments. The Principles for Climate Change consist of four practices:

- Analyzing and monitoring greenhouse gas emissions from investments
- Monitoring thermal coal and peat companies and excluding them from investments
- Engaging with companies
- Evli's own climate risk reporting

With the publication of the Principles for Climate Change, Evli began a systematic public reporting of its funds' carbon footprints (the reports are available at www.evli.com). The table to the right shows the carbon footprints of Evli's funds and the proportions of companies that own fossil fuel reserves, as compared to the funds' benchmark indices.

	Carbon intensity (1) (t CO_2e / USD million)	Compared to benchmark (2)	Weight of companies owning fossil fuel reserves (3) (%)	Compared to benchmark (2)	Coverage / Fund (4)	Coverage / Benchmark index (4)
Equity Funds						
Evli Emerging Frontier B	353.9		0.0%		41.2%	
Evli Equity Factor Europe B	218.8	46.3%	4.5%	-6.0%	99.4%	99.7%
Evli Equity Factor USA B	251.9	46.9%	4.4%	-0.8%	99.7%	99.6%
Evli Europe B	114.6	-23.4%	0.0%	-10.5%	100.0%	99.7%
Evli Finland Mix B	416.0		0.0%		56.9%	
Evli Finland Select B	414.1	6.9%	0.0%	0.0%	80.0%	90.3%
Evli Finnish Small Cap B	72.7	-28.7%	0.0%	0.0%	36.3%	55.2%
Evli GEM B	725.2	131.3%	17.0%	5.5%	97.0%	99.5%
Evli Global B	56.9	-66.2%	0.0%	-7.2%	100.0%	99.7%
Evli Global X B	57.9	-65.6%	0.0%	-7.2%	100.0%	99.7%
Evli Japan B	63.4	-31.9%	0.0%	-5.9%	95.7%	99.9%
Evli Nordic B	90.8	-30.8%	2.0%	-0.9%	93.0%	98.1%
Evli North America B	101.5	-43.0%	0.0%	-5.8%	100.0%	99.7%
Evli Sweden Equity Index B	39.7	0.0%	0.0%	0.0%	100.0%	100.0%
Evli Swedish Small Cap B	31.2	-56.4%	0.0%	0.0%	85.7%	90.8%
Fixed Income Funds						
Evli Nordic Corporate Bond	295.4	87.8%	2.8%	-6.3%	71.8%	96.5%
Evli Corporate Bond B	281.5	55.4%	3.4%	-4.8%	82.9%	93.7%
Evli Euro Liquidity B	188.3		9.1%		66.3%	
Evli European High Yield B	265.2	49.2%	0.8%	-1.0%	66.2%	84.7%
Evli European Investment Grade B	253.1	20.9%	3.1%	-9.1%	85.4%	95.8%
Evli Short Corporate Bond B	235.5		3.1%		85.1%	
Evli Emerging Markets Credit	919.8	18.1%	13.2%	-5.5%	84.4%	88.2%
Evli Target Maturity Nordic Bond B	187.6		0.0%		52.5%	

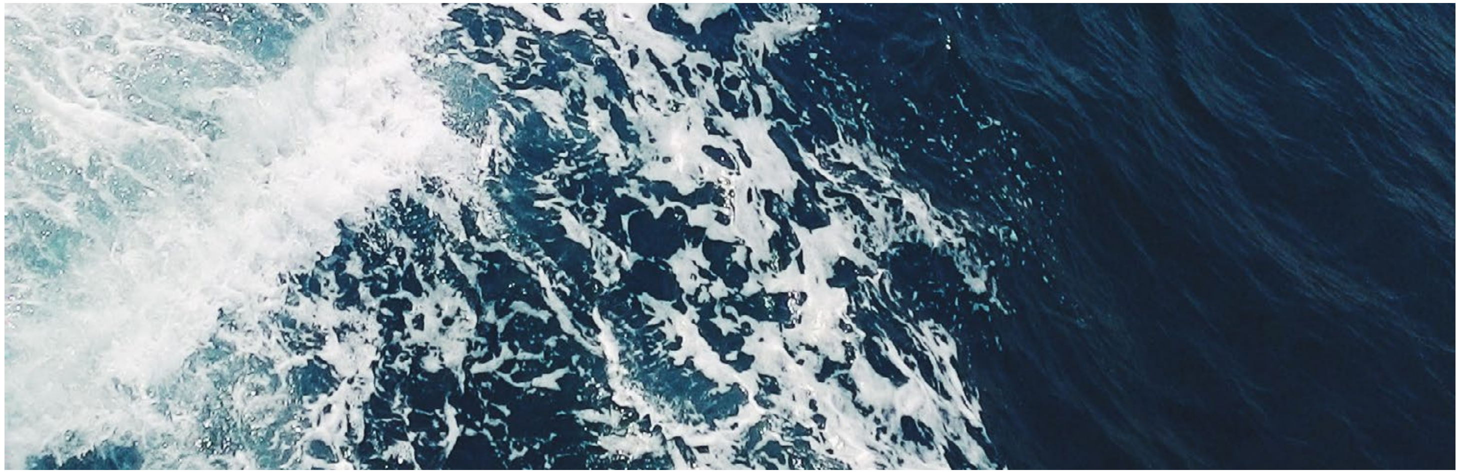
Sources: Evli, MSCI ESG Research.

1) Evli uses weighted average carbon intensity to measure carbon footprint. A fund's weighted average carbon intensity is calculated by dividing the company-specific scope 1 and scope 2 greenhouse gas emissions by the company's revenues. After that, company-specific carbon intensity is multiplied by the company's portfolio weight. The fund-specific carbon footprint is a sum of company-specific carbon intensities apportioned based on portfolio weights. Scope 1 greenhouse gas emissions refer to emissions directly occurring from sources that are owned or controlled by the company. Scope 2 greenhouse gas emissions refer to indirect emissions generated in the production of electricity purchased by the company.

2) Compared to benchmark figure shows how the fund compares to corresponding figures for the benchmark index. As it is not possible to calculate this figure to all benchmark indices, some sections are left blank.

3) Weight of companies owning fossil fuel reserves shows the share of companies owning coal, gas or oil reserves in the portfolio. In this report coal reserves refer to the use of coal in energy production (thermal coal).

4) Coverage indicates the share of a portfolio's holdings (measured by market value) for which emissions data is available. The emissions data is based on emissions reported by the companies or other publicly available emissions data (e.g. CDP) and the data provider's estimate of emissions.



In addition to carbon footprints, Evli monitors its funds' holdings in thermal coal and peat companies. Monitoring thermal coal companies and excluding them from investments means that Evli avoids investing in companies if a significant part of their revenue (at least 30%) comes from thermal coal mining or the use of thermal coal in energy production. An exception to this exclusion rule related to coal can be made in the case of individual companies based on a decision from the Responsible Investment Steering Group.* Every investment in a company that exceeds the thermal coal revenue limit is discussed with the portfolio manager, who gives his own comments on the investment to the Steering Group. There need to be very good reasons for making an exception to the exclusion, such as a clear strategy by the company to reduce its use of thermal coal in the coming years.

Based on the analysis of thermal coal and peat companies carried out in the spring of 2019, Evli decided to directly withdraw from three investments in its equity and bond funds, to start directly engaging with two companies, and to monitor the measures that two other companies are taking to stay on track with their goals to reduce the use of thermal coal.

In the excluded companies, a significant part of their revenue (over 30%) was from thermal coal mining or the use of thermal coal in energy production. In addition, these companies did not have a plan to phase out thermal coal. The exclusions were implemented over a six-month period during 2019.

Of the companies that were subject to the engagement process, over 30 percent of the revenues originated from electricity produced with thermal coal, but the companies exhibited a positive development in reducing the use of thermal coal. The Responsible Investment team approached the companies during the summer of 2019 to focus in more detail on their plans for reducing the use of thermal coal. Since the companies were unable to provide adequate evidence of the reduction of thermal coal use, the Responsible Investment Steering Group decided in November 2019 to exclude the companies in question. The exclusions are being carried out during the first half of 2020.

In cases in which the companies exceeded the revenue limit set for thermal coal (30%) but had a clear plan to reduce thermal coal use, Evli decided to wait and monitor the implementation of the plans. In addition to excluding thermal coal companies, Evli does not make investments in companies that produce peat for energy production.

To ensure the implementation of the Principles for Climate Change, Evli has a systematic process, and the Responsible Investment team monitors Evli's investments regularly. During 2019, a total of seven companies were excluded in accordance with the Principles for Climate Change, and Evli is monitoring the implementation of improvement plans in three companies.

In addition to carbon footprints and the monitoring and exclusion of thermal coal and peat companies, Evli has been engaging with companies regarding climate change for several years. In practice, engaging with companies means that, together with other investors, Evli encourages companies to report the climate impacts of their operations and to describe how they control and benefit from the risks and opportunities related to climate change. Additional information on collaborative engagement on page 7-8 New collaborative engagement projects and encouraging results from previous projects.

In conjunction with the Principles for Climate Change, Evli decided to start reporting on climate risks in accordance with the TCFD's** recommendations regarding the functions of Evli Bank as a whole. The TCFD is an international climate risk reporting framework in which the economic impacts of climate risks are part of the official financial reporting. In 2019, Evli analyzed its current situation in accordance with the TCFD's recommendations and provided a relevant statement as part of Evli's annual report. In the coming years, Evli will continue to develop its TCFD reporting to better correspond with the official instructions. In August 2019, Evli also became an official supporter of the TCFD.

*The Responsible Investment Steering Group is composed of executives of the Wealth Management unit and the Responsible Investment team.

**Task Force on Climate-related Financial Disclosures.

Additions to exclusion criteria

In early 2019, Evli carried out a review regarding its clients' exclusion criteria. The purpose of the review was to gain a better understanding of which sectors Evli's clients would like to have excluded. As a result of the review, a decision was made to exclude companies that produce nuclear weapons from Evli's equity and fixed-income funds. Companies that produce controversial weapons such as land mines, cluster munitions, depleted uranium and chemical and biological weapons have previously been excluded from Evli's funds. The list of excluded companies is based on an analysis carried out independently by Evli and on information provided by MSCI ESG Research.

During 2019, companies with over 30 percent of business operations coming from thermal coal mining or the use of thermal coal in energy production, and companies that produce peat for energy production, were also excluded from Evli's equity and fixed-income funds' investments on the basis of the Principles for Climate Change. Additional information on the Principles for Climate Change on page 3-4 The importance of climate change mitigation further increased in investments.

Engagement with companies continued

Evli considers engagement to be an important part of responsible investment. Evli engages directly with individual companies and participates in collaborative engagement with other investors. The themes of Evli's engagement are mitigating climate change, respecting human rights, taking action against corruption and considering environmental matters. Evli also encourages companies to have good governance and to report responsibility factors.

In accordance with its Principles for Responsible Investment, Evli monitors the observance of the UN Global Compact principles in its equity and fixed-income funds. 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. 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 the case of a breach of norms, the Steering Group has three options:

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

In 2019, Evli contacted a total of 14 companies in Europe and the emerging markets. The engagement operations concerned environmental issues, workers' rights, measures to mitigate climate change, the reporting of responsibility factors and matters related to corporate governance. In addition to engaging with companies, Evli excluded two companies based on strong suspicions of violations of international norms and seven companies based on their thermal coal-related business.

Evli attends general meetings in Finland. The meetings were chosen based on their agendas and the fund management company's ability to influence decisions. In 2019, Evli's representatives attended the annual general meetings of Cargotec, Caverion, Consti, Cramo, Detection Technology, DNA, Glaston, NoHo Partners, Oriola, Outokumpu, QT Group, Revenio, Sanoma, Talenom, Valmet, Verkkokauppa.com, and VMP.

Engagement with

14

companies in Europe and the emerging markets.

2

companies excluded based on violations of international norms.

7

companies excluded based on their thermal coal-related business.

Climate Action 100+:

Engagement with

161

companies that contributed a combined 80% of global greenhouse gas emissions.

Investor letters coordinated by the CDP:

Engagement with

508

companies, of which 15% (78 companies), indicated they would report their climate impact to the CDP in the following year.

New collaborative engagement projects and encouraging results from previous projects

In addition to engagement carried out independently, Evli has participated in collaborative engagement initiatives for several years. The purpose of these initiatives is to gather a larger group of investors behind the same objectives, allowing for a more extensive engagement with the companies.

Collaborative engagement projects in which Evli is involved:

Climate Action 100+

Evli has been part of the Climate Action 100+ initiative since 2017. The objective of the initiative is to engage with major greenhouse gas emitters between 2018 and 2022 in order to mitigate climate change and attain the targets of the Paris Agreement. At the end of 2019, the Climate Action 100+ initiative had 373 participating investors (2018: 310 investors) with total investment assets of approximately USD 35 trillion (2018: USD 32 trillion). The objective of the initiative is to improve climate change management in companies, reduce greenhouse gas emissions and enhance the transparency of reporting on climate impacts. In 2019, the initiative engaged with a total of 161 companies that contributed a combined 80 percent of global greenhouse gas emissions.

Investor letters coordinated by the CDP

In 2019, Evli participated in the investor letters program coordinated by the CDP* for the third consecutive year. The investment letters are directed at companies that pose the greatest risks regarding climate change. The letters are a tool for investors to encourage companies to report on their operations and associated climate risks. In 2019, 88 investors contributed to the CDP's collaborative engagement (2018: 75 investors). Letters were sent to a total of 508 companies (2018: 419), of which approximately 15 percent, or 78 companies (2018: 13%), indicated that they would report their climate impact to the CDP in the following year.

*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 investor member of CDP since 2007.

Engagement coordinated by PRI in relation to the oil and gas sector

In 2018, Evli joined, for the first time, the PRI's* collaborative engagement activities, which aim to engage with oil and gas sector companies in order to improve the management of transition risks associated with climate change. Transition 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 a reality. During 2019, acts of engagement were made with a total of 28 oil and gas companies through this PRI-led project.

Investor Agenda Statement to Governments on Climate Change

In November 2018, Evli and 415 other investors signed a letter addressed to governments, entitled Investor Agenda Statement to Governments on Climate Change. In 2019, 100 more investors joined the initiative. The letter encourages the governments of various countries to commit to measures to limit global warming to 1.5 degrees, to further the objectives of the Paris Agreement and to take active steps to reduce the use of coal in energy production.

New collaborative engagement initiatives

In 2019, Evli joined two new collaborative engagement initiatives. In the first half of 2019, Evli joined the PRI-coordinated collaborative engagement with a company called Vale, which has had two severe mine accidents. In September 2019, Evli joined the PRI's Investor Statement on Deforestation and Forest Fires in the Amazon initiative, which calls for corporate action to curb forest fires in the Amazon, because more sustainable land use also supports efforts to mitigate climate change.

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

Outperformance through responsibility

In April 2019, **Tiina Landau** and **Hanna Silvola** published a book on responsibility and outperformance entitled Vastuullisuudesta ylituottoa sijoituksiin (Outperformance through responsibility), which provides a comprehensive explanation of responsible investment. The book contains research data, practical examples and tacit industry knowledge on responsible investment.

The book includes examples that were chosen to illustrate best practices in the field. Two examples of Finnish asset managers were highlighted in the book, and Evli was one of these. Evli's example looks at the responsibility of Evli's investment operations and how ESG data is integrated into Evli's portfolio managers work. The book goes into detail about the ESG tool Evli built for portfolio managers and how it is used.

Evli's inclusion in the book supports the company's aim to communicate openly and transparently about responsibility. Through the example in the book, Evli was able to present its practices to a wider public.

The authors of the book have extensive experience in responsible investment: Tiina Landau (M.Sc. (Econ.), CEFA) is a responsible investment professional whose work has been widely recognized internationally, and Hanna Silvola (D.Sc. (Econ.), Associate Professor) studies and teaches responsible investment at Hanken School of Economics in Helsinki and in management education programs.

Continuous development and improvement of know-how

Evli's Responsible Investment team is composed of the Head of Sustainability and the responsible investment analyst. In the fall of 2019, the Responsible Investment team had its own trainee for the first time, who, after the internship, continued in the Responsible Investment team as an analyst, focusing especially on developing the responsibility analysis of the fixed-income funds. The portfolio managers' skills were developed by organizing training sessions on information about responsibility and future legislation. Moreover, each portfolio manager participated in workshops, held in two stages, in which the objective was to find tangible measures for continuously developing Evli's responsible investment.

In 2019, the ESG* process for equity factor funds was revised by tightening the funds' exclusion criteria and adding a best-in-class approach to the funds' investment processes. Under the approach, only companies with the high ESG scores are selected from within each sector.

In addition, Evli's Principles for Responsible Investment were expanded to include real estate and private equity funds and the engagement policy was updated. Furthermore, Evli organized the first-ever issue of a structured Green Note in the Finnish market. The proceeds from the issue will be used to finance sustainable development projects.

*ESG stands for Environmental, Social and Governance, and it means factors related environmental, social and governance issues.

Success in client surveys

Evli's way of carrying out responsible investment is evaluated annually through two client surveys.

In 2019, Evli was ranked best in responsible investment by clients for the third consecutive year in a survey conducted by KANTAR Sifo Prospera.* Evli's responsible investment activities were also highly ranked in the client survey carried out by Scandinavian Financial Research (SFR),** in which Evli received the second-highest score among all of the asset managers.

Evli was ranked best in responsible investment by clients for the third consecutive year.

*KANTAR Sifo Prospera External Asset Management Institutions Finland 2017, 2018, 2019 surveys.
**SFR Institutional Asset Management 2019 survey.

Responsibility as a strategic focus area

Evli wants to increasingly focus on responsibility and its active development. Therefore, Evli has made responsibility one of its strategic focus areas for the coming years. Although responsibility has been an essential part of Evli's portfolio management for years, this decision places an even greater emphasis on the importance of responsibility.

It is vital for Evli to continuously develop its responsible investment operations and to listen to feedback from its clients and other stakeholders in order to be better able to serve its clients and mitigate climate change. Over the next few years, the goals include improving ESG reporting, deepening ESG integration in portfolio management, launching new sustainability funds and establishing climate targets.

Evli Pankki_WM (in Finnish)
Evli Research (in Finnish)
Evli Fund Management Company (in English)

Evli - Sijoittajan Pankki (in Finnish)
Evli Fund Management Company (in English)
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