Adopted by VER's Board of Directors on 27 March 2025

VALTION ELÄKERAHASTO
STATENS PENSIONSFOND I FINLAND
THE STATE PENSION FUND OF FINLAND

Climate report 2024

Contents

Climate report

1. Introduction

The State Pension Fund (VER) is a state-owned pension investor which is tasked to contribute to future pensions and equalise the cost arising out of pension expenditure. VER's activities are based on long-term objectives, and responsible investing and sustainability lie at the core of VER's investment operations. Under the Act on the State Pension Fund, VER is required to ensure that the investments it makes are secure, profitable, easily convertible into cash and sufficiently diversified. As a state-owned institution, VER must give due consideration to climate change as part of its long-term investment activities.

As VER finds it necessary to develop its sustainability reporting in response to the evolving operating environment, it releases its own climate report annually. VER's climate reporting is based to the recommendations of The Task Force on Climate-related Financial Disclosures (TCFD), where applicable. TCFD is an expert group appointed by the G20 Financial Stability Board and has issued global reporting guidelines for financial reporting by companies and investors on climate-related risks and opportunities faced by companies and/or investors. The TCFD's reporting guidelines cover climate-related topics in areas such as corporate governance, strategy, risk management, financial indicators and objectives. A common reporting framework contributes to a better understanding of climate risks and facilitates comparison across industries, increasing business owners' understanding of the impacts of climate change on their operations.

2. Corporate governance

This section provides a description of how VER's management assesses and manages climate-related risks and opportunities at the portfolio level. Additionally, it defines the Board of Directors' responsibility for climate-related issues.

VER's executive management and management team monitor the various themes related to responsible investing and sustainability while developing VER's responsible investment activities. VER's executive management determines the execution policies serving as a basis for issuing instructions and developing practical procedures. A few times a year, VER's management holds extensive discussions on sustainability matters, followed by practical implementation by teams tasked to improve performance in the various areas.

Portfolio managers monitor the sustainability performance of their portfolios in accordance with VER's principles for responsible investment. A Portfolio and Risk Management Committee reviews the climate report prepared by an external service provider on a quarterly basis. VER's portfolio management engage in a dialogue with companies and asset managers on sustainability-related matters.

VER's long-term investment policy is determined by VER's Board of Directors. The Board approves an investment plan and a risk management plan annually. Additionally, the Board adopts the principles for responsible investment which are updated, if needed, at the same time as the investment and risk management plans. VER's Principles for Responsible Investment address not only the climate risk but also other sustainability risks. The principles are also submitted to the Investment Consultative Committee for the review of the investment plan. Issues related to responsible investment and sustainability are addressed by the Board at least every quarter. The last update to VER's Principles for Responsible Investing was made in 2024. The principles, together with VER's Ownership Policy, are the primary tools that VER uses to steer responsible investment activities and climate action.

3. Strategy

This section outlines the impact of current and future climate-related risks and opportunities on VER's operating environment, strategy and financial planning.

Climate change will have a range of material economic impacts on markets and industries. VER sees that climate change will prove to be one of the biggest global megatrends in the near term. Climate change affects all asset classes, creating risks and opportunities. Climate change risks are the most critical in sectors with high greenhouse gas emissions, such as basic industry, energy production and community services.

Climate-related risks will have a significant effect on the future investment environment and the impact of these risks will be reflected in policy decisions and market reactions. VER's mission as an investor responsible for investing pension assets securely and profitably compels it to consider climate change as part of the big picture.

The TCFD divides the risks caused by climate change into transition risks and physical risks. Transition risks are risks associated with the transition to a low-carbon economy as a result of regulatory changes, technological advancement, market behaviour and reputational risks. Physical risks are risks caused by climate change directly. The physical risks are subdivided into chronic and acute risks. On the flip side of risks, there are also opportunities for generating returns. Companies that develop technologies to mitigate and adapt to climate change will benefit from it.

Companies with high carbon intensity have a higher carbon risk, which means that they face a higher transition risk in pursuing a carbon-neutral economy. Transition risks will materialise if climate policy, changes in consumer behaviour and technological advancement make high-emission business models economically unviable. VER uses the carbon footprint and carbon intensity to identify transition risks. Of the companies operating in high carbon-intensive sectors, it is important to identify those with potential to reduce carbon intensity. One long-time risk identified by VER is the increasing cost of using coal.

VER's first carbon footprint target was set in 2019, after which it has been reviewed annually. Additionally, in 2020, the Government adopted a roadmap for achieving the national carbon neutrality target. At this conjunction, VER mapped out the carbon footprint of its investments and drew up a plan for measures to reduce the carbon risk of its investments.

In 2022, VER set a new climate target to achieve a fully carbon-neutral portfolio by 2050. Efforts are being made to reduce the carbon footprint of the portfolio in order to improve long-term returns and diminish risks. VER's another objective is to reduce the carbon intensity of its entire equity portfolio by 30% by the end of 2025, and by 50% by the end of 2030 relative to the 2019 level. Steps will be taken to keep the carbon intensity of the liquid corporate bond portfolio below the benchmark index. As part of its objective to reduce the carbon footprint of its entire portfolio, VER will explore the possibility of measuring and setting a target for the carbon intensity of illiquid investments. New reduction goals will be examined during 2025.

At the beginning of 2024, a new ESG transition portfolio consisting of global active funds was added to VER's portfolio. The aim of the funds is to change the way companies operate through the exercise of influence, and in doing so to influence their carbon emissions, among other things. VER also looks at ways to increase the positive effects of the portfolio and reduce its negative effects.

In 2024, VER participated in an investor initiative to influence companies with significant methane emissions. The climate-warming effect of methane is about 25 times stronger than that of carbon dioxide. Reducing methane emissions is an important way to reduce greenhouse gas emissions from the energy sector, for example. VER also participated to CDP's Non-Disclosure Campaign.

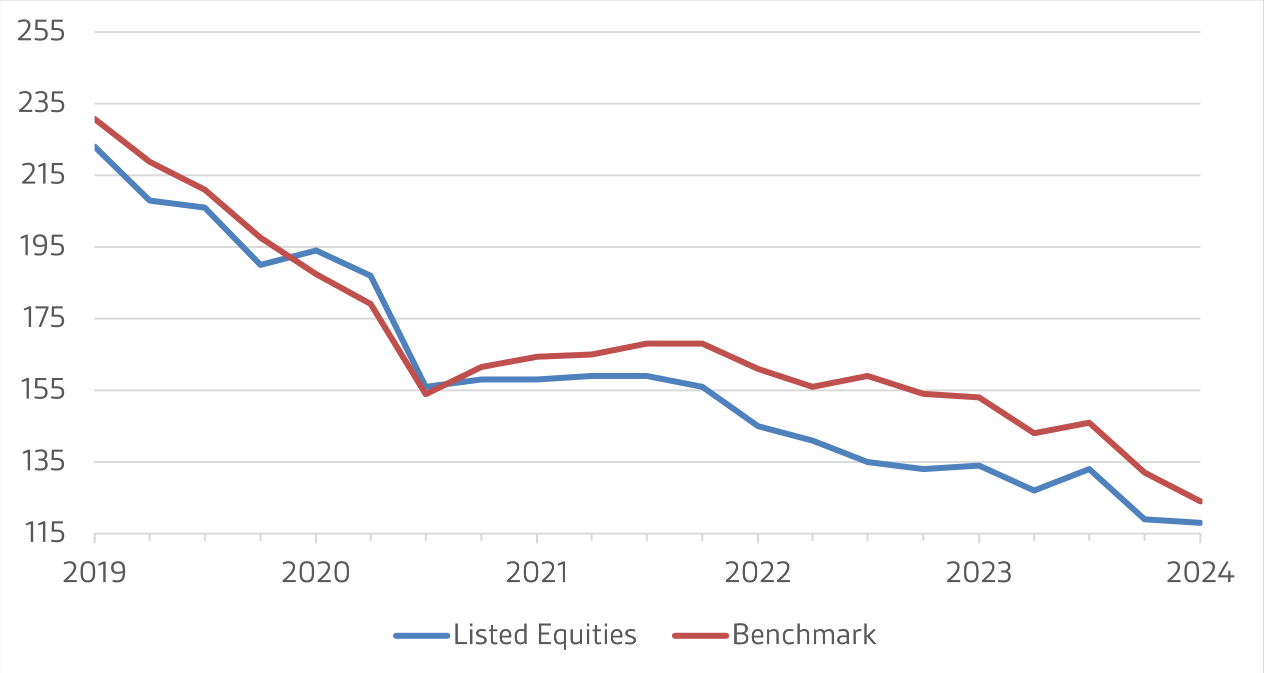
4. Indicators and objectives

This section describes the indicators used by VER and the progress made in attaining the climate targets.

VER finds it important to establish tangible and measurable targets. VER recognises the climate risk as a significant sustainability risk, which it monitors by following various climate indicators. VER is seeking to extend reporting to other asset classes beyond listed equities and liquid corporate bonds at the same pace as emission data evolves.

VER receives regular reporting on different climate indicators from an external service provider. Reporting includes information also on the carbon footprint of the portfolio. The carbon footprint of VER's portfolio has been determined separately for listed equities and liquid corporate bonds. In setting climate targets, VER uses the weighted carbon intensity recommended by the TCFD. VER's long-term objective is to achieve carbon neutrality in the entire portfolio by 2050. The timeframe for attaining this objective was chosen in view of the globally dispersed nature of VER's portfolio and the geographical diversity of each country's carbon neutrality goals. More detailed information on targets and limitations is provided in VER's principles for responsible investment.

Diagram 1. Weighted carbon intensity of VER's listed equity portfolio 2019-2024

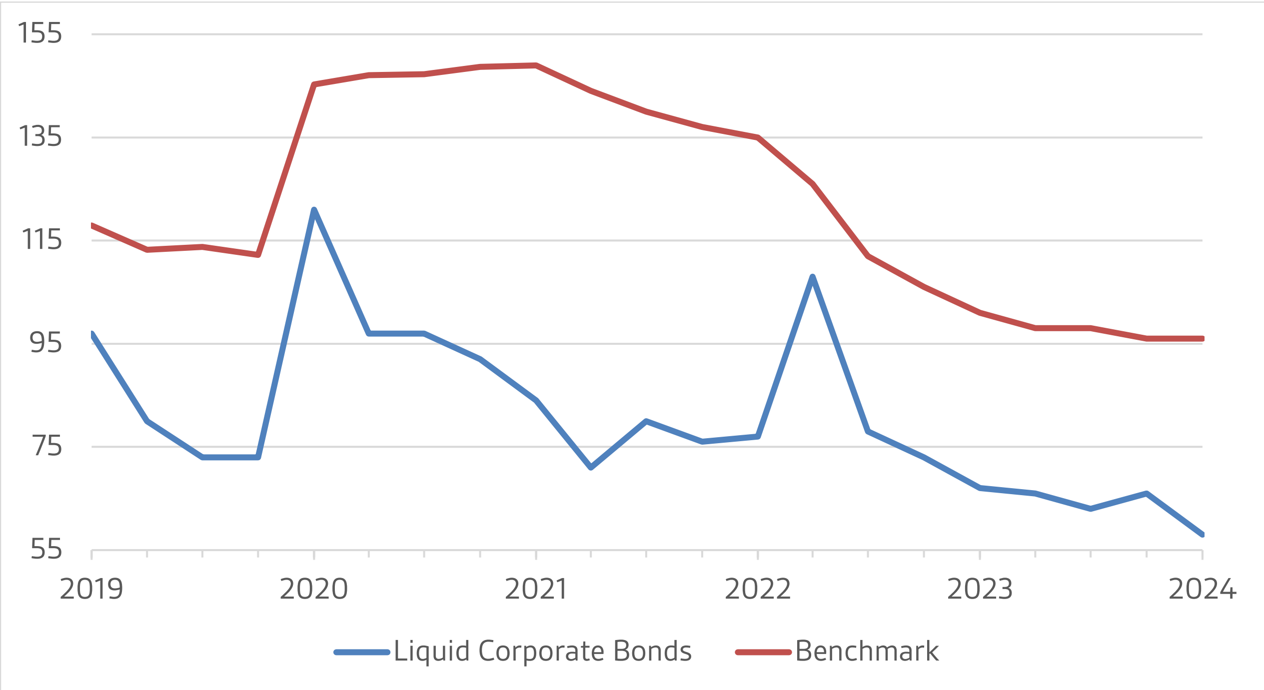


Carbon Intensity	2019	2020	2021	2022	2023	2024	Δ (2024 - 2019)
Listed Equities	223	194	158	145	134	118	-47,1 %
Benchmark	231	187	164	161	153	124	-46,3 %

VER's short-term objective is to reduce the carbon intensity of its listed equity portfolio by 30% by the end of 2025 relative to the 2019 level, while the medium-term objective is to reduce it by 50% by the end of 2030. From 2019 to 2024, the weighted carbon intensity of VER's listed equities decreased by 47.1%.

The 2025 emission reduction target was already met in 2022. However, it is important to note that in the short term, weighted carbon intensity is particularly sensitive to changes in sector weights, so if carbon-intensive sectors perform well, the carbon intensity of the portfolio may increase relative to the benchmark index.

Diagram 2. Weighted carbon intensity of VER's corporate bond portfolio 2019-2024



Carbon Intensity	2019	2020	2021	2022	2023	2024	Δ (2024 - 2019)
Liquid Corporate Bonds	97	121	84	77	67	58	-40,2 %
Benchmark	118	145	149	135	101	96	-18,6 %

With regard to liquid corporate bonds, VER's goal is to keep the overall carbon intensity below the benchmark index. The carbon intensity of corporate bonds fell by 40.2% relative to 2019. The weighted carbon intensity of the liquid corporate bond portfolio is almost 40 % less than the benchmark index, so the emission reduction target for corporate bonds was met in 2024.

As weighted carbon intensity fails to capture all the climate risks of an investment portfolio, VER also looks at other climate indicators. Table 1 shows the absolute emissions and carbon footprints of VER's listed equities and liquid corporate bonds, along with carbon intensities. The figures include Level 1 and Level 2 emissions.

For the past few years, carbon coverage in listed equities has exceeded 95 per cent, whereas the coverage in corporate bonds is still undermined by the low level of reporting by the issuers of high-yield loans.

Table 1. Climate indicators of VER's portfolio

Climate indicators	Listed Equities	Liquid Corporate Bonds
Absolute Emissions, tCO_2e	641 691	80 339
Carbon Footprint, tCO_2e / Invested MEUR (EVIC)	64	32
Carbon Intensity, tCO_2e / Revenue MUSD	118	58
Market Capitalization, MEUR	10 098	2 508
% of VER's Total Assets	41,6 %	10,3 %
Emissions Coverage (Absolute Emissions), %	96,7 %	72,0 %
Emissions Coverage (Carbon Intensity), %	98,1 %	73,8 %