OWNERSHIP POLICY 2022

The State Pension Fund of Finland (VER) exists for the purpose of paying out state pensions and balance state pension expenditure. VER invests pension assets and helps the state to prepare for financing future pensions. The Fund's investment decisions are primarily based on the required and potential returns on investments, with due regard to risk levels (including principles for responsible investing).

VER's investment objectives are set out in the annual investment plan, which is subject to approval by VER's Board of Directors. The investment plan is constructed taking into account the performance targets and operational constraints set out in the Ministry of Finance's directive concerning VER.

The Ownership Policy applies to all VER's investment activities, but their practical implementation depends on the asset class involved. While the mandate is the most straightforward with direct listed equity investments, matters are also assessed from the point of view of debt and fund investors. With fund investments, the ownership policy targets asset managers. The Policy covers VER's key alignments and expectations regarding the investments. In its investment activities, VER seeks to achieve the objectives established by its Board of Directors.

VER's activities in portfolio companies

Primarily, VER exercises influence by engaging in a dialogue with the portfolio companies and participating in the general meetings of shareholders.

VER's approach to ownership policy is based on sustainability and risk management criteria. VER finds it important that companies' corporate governance practices comply with the relevant codes and recommendations for good governance and that they meet VER's sustainability expectations.

One of the key missions of a company is to ensure a long-term increase in share value, and an investment is deemed successful if the sustained return on the investment relative to risk outperforms that of other similar companies.

Annual general meeting

The annual general meeting serves as the main mean to use ownership rights. Hence, active exercise of voting rights is the key tool for a shareholder to influence. VER may participate in the general meetings of its portfolio companies or vote by proxy. At the general meetings, VER exercises voting rights and supports the position that it considers best for the long-term development of the investment portfolio, with due regard to this Ownership Policy.

Dialogue with portfolio companies

VER monitors the operations of its portfolio companies and engages in a dialogue with them. This allows VER to formulate a view on portfolio companies' business and adopt a position on the key issues addressed by the general meeting or otherwise, if necessary. Additionally, VER may liaise with other institutional investors on company-related matters, and so contribute to the attainment of the objectives more effectively.

Appointment of board members

The Ministry of Finance's directive regarding VER stipulates that no member of VER's management or staff may join the board of directors or nomination committee of VER's portfolio companies.

In selecting board members, VER values professionalism, experience and the complementary expertise of the appointees. Successful candidates must have sufficient time at their disposal to to perform board duties, and some of the board members must be independent.

As a rule, chief executive officers should not be appointed to boards of directors to ensure that the roles of the chair of the board and the CEO are clearly separated. Portfolio companies are required to define the key terms and conditions of employment of the CEO and members of the executive management, and disclose their remuneration, severance packages and pension benefits transparently and in sufficient detail in the annual reports. Additionally, any incentive plans and distribution of share-based incentives between the members of executive management should be disclosed.

Companies' dividend policy

While dividend policies should improve efficiency of capital allocation, they may not jeopardise the long-term viability of the business. As a rule, companies should have in place a publicly disclosed dividend policy, which is active and goal-oriented in respect of the shareholders.

Executive remuneration

Ideally, from the shareholders' point of view, the interests of corporate management and shareholders should be as much aligned as possible. Such an alignment of interests serves as an incentive for the executive management to take into account the shareholders' objectives. VER finds it advisable for members of the executive management and boards of directors to hold shares in the companies they manage.

It is up to the board of directors to develop and monitor the incentive plans. The aim of the incentive plans is to motivate the executives to advance and create long-term shareholder value. Any incentive plan must be based on a long-term approach covering a time span of several years. A description of the incentive plan should be included in the annual report.

VER as a debt investor

VER seeks to serve as an investor that provides debt capital for companies, while avoiding situations where it would have to exercise its voting rights as a major creditor in bankruptcy or similar restructuring proceedings.

VER as a fund investor

In fund investments, VER implements its ownership policy by engaging in an active dialogue with asset managers. A member of VER's staff may serve as a board member in investment club structures (unlisted firms owned by two or more investors) focusing on property and infrastructure investments. Where appropriate, VER may appoint its representative to the investment committee or similar body of a fund in which it holds long-term interests, if this is deemed advisable for the exercise, supervision and performance of investment activities.

Corporate social responsibility and sustainability criteria

VER expects its portfolio companies to act responsibly as outlined by the board of directors in its sustainability goals. A high level of sustainability performance contributes to companies' long-term success, while giving due consideration to shareholder interests and value creation in the long run. As part of the monitoring of its own investment strategy, VER seeks to ensure that its portfolio companies duly take into account the sustainability expectations included in VER's objectives.

VER's sustainability expectations for portfolio companies, as applicable:

Direct investments:

1. Human rights
   a. The portfolio company respects human rights.
   b. The portfolio company recognises material human rights risks, reports potential violations and takes appropriate remedial action.
2. Climate change
   a. The portfolio company integrates climate change into its strategy and risk management policy.
   b. The portfolio company reports on material climate risks in accordance with the TCFD framework[1].
3. Tax responsibility
   a. The portfolio company does not engage in aggressive tax planning at variance with the spirit of international tax laws.
   b. The portfolio company reports on its tax practices on a country-by-country basis.

Fund investments:

1. Active ownership
   a. Where appropriate, the fund management company exercises its voting rights at general meetings of shareholders and promotes its sustainability objectives through a dialogue with its portfolio companies.
2. Reporting
   a. Fund management companies are expected to develop their reporting procedures to comply with the TCFD framework and report on their advocacy activities and related outcomes.

[1] TCFD (Task Force on Climate-Related Financial Disclosures). The TCFD is an international reporting standard that focuses on the threats and opportunities associated with climate change.

3. Management of sustainability risks
    a. Fund management companies are expected to integrate the key ESG considerations into their decision-making processes.