Keva's investment beliefs on climate change

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Keva's investment objective is to generate real investment returns required to meet our long-term pension liabilities. The pension liability covered by the Fund extends decades ahead. The Act on Keva determines that Keva must ensure the security of and sufficient return on investments.

Keva, as an universal owner and long-term asset allocator, is dependent on the sustainability of the global economy. Long-term economic growth drives investment returns, which need to be sustainable to meet our long-term pension liabilities. The long strategic time horizon and the need for future returns require an in-depth understanding of the long-term risks and opportunities associated with investment decisions.

Climate change is an example of such risks as it is one of the most significant and challenging investment considerations of our time. The far-reaching effects of climate change will impact long-term economic growth.

As a universal owner, Keva's investment portfolio is dependent on the global economy. According to scientific data, the uncontrolled progress of climate change will endanger the growth of the global economy. Therefore, our portfolio exposures are affected by the risks and opportunities presented by climate change.

A broad range of actions is taken to fight climate change. On the global scale, one of the most important actions is the Paris agreement that came into force in 2016 to limit global warming preferably to below 1.5 degrees Celsius, compared to pre-industrial levels. Signatory countries aim for a climate-neutral world, where greenhouse gas emissions and carbon sinks are in balance by mid-century to achieve this long-term temperature goal.

Keva is a strong supporter of an orderly transition in line with the Paris agreement.

The means used to assess the effects of climate change on investment portfolios are constantly developing. Still, it proves a challenge to analyse the long-term impacts of climate change for a global investor like Keva, with thousands of investments.

A forward-looking analysis of the economic effects of climate change relies on a multitude of assumptions spanning decades into the future. The assumptions entail, among others, how different scenarios for climate change and their effects channel through to socio-economic pathways, how corporations change during the period in question, as well as pricing of financial assets and emissions, to name a few.

Investors carry a great deal of responsibility in assessing the credibility of the methods used, whether it concerns data comprehensiveness, calculation methodologies, or various analysis provided by service providers. The phenomenon can appear very different depending on the method used. As time passes, the outcome may change, although the same method is used. Relying solely on one approach can prove precarious, favouring several calculation methods.

The economic effects of climate change may present themselves in multiple ways: through cost increases due to changes in emission prices, in revenue due to, e.g. customer's perception of brand value, on the balance sheet through changes in asset values as well as through increases in the cost and availability of debt financing. These effects make it hard to perform a correct assessment on the corporate level. The regulatory changes on corporations' operational environment may prove a complicated task to analyse correctly.

Keva seeks to be aware of the improving methodologies for analysing climate change to make well-founded investment decisions considering climate change in the future.

Keva is committed to continually developing the analysis of climate change, tools, indicators, and understanding of the opportunities and risks of climate change for our investments.

Corporations have, through time, been founded to and evolved to provide solutions for the individual's and society's challenges. Climate change poses a similar challenge, pushing corporations to change and adapt and opening opportunities for new innovators.

The potential speed and scale of climate change may in many ways affect the operational environment of corporations and industries. Some companies providing solutions to climate change may prove successful, whereas others may fail and be replaced. Entire industries can be revalued due to, e.g. emissions, and may highlight the divide between the winner and loser companies. Some of today's perceived losers may become winners in the long term.

The different outcomes and their interaction are not a foregone conclusion as the changes may simultaneously impact a corporation or industry positively and negatively. The effects of climate change will ultimately unfold to the investor as asset value changes.

In Keva's opinion, climate change will represent both investment opportunities and risks in the long term.

Climate change may be a risk that an investor cannot mitigate with increased diversification or by disposing of individual investments. This highlights the importance of engagement.

The equity owner is in the best position to engage with a company. The most important means of engagement are discussions and meetings with the management and voting in the general meetings of investee corporations. In regular meetings with management, the focus lies on essential long-term strategic issues. Keva encourages corporations to improve disclosure on other relevant business-related matters in addition to financial disclosure.

Keva votes annually in thousands of general meetings globally. In 2021 Keva voted in close to 100 per cent of all investee companies and participated in close to 9 000 general meetings. In addition to voting, Keva has carried out goal-oriented engagements with investee companies. These engagements can occasionally take years to reach a positive outcome. In 2021 Keva had over 1500 engagements ongoing with investee companies. About one-third of these engagements concerned environmental themes such as carbon emissions and other environmental impacts during a product’s entire life cycle as well as sustainability reporting

Collaboration with other investors increases the potential for successful engagement. As a signatory of CDP’s Non-Disclosure Campaign, Keva calls for improved disclosure from companies on climate, forestry, and water resources. With the Climate Action 100+ initiative, Keva takes part in the systematic engagement with companies that account for over 80 per cent of the world's industrial emissions. Keva is also a member of IIGCC, the largest European membership body for investor collaboration focused on climate change. The membership in IIGCC enables Keva to engage with corporations and policymakers in reaching set targets for climate change.

In direct real estate investments, Keva typically is the sole or majority owner, which allows for a straightforward opportunity to impact emissions from the real economy. Keva has set a goal to halve the carbon emissions from the energy utilised in real estate by 2025 and become carbon neutral by the end of 2030. It will require a large number of practical actions. Keva has e.g. made a ten-year commitment to buy a share of the power produced by a wind farm, ensuring carbon-neutral electric power to Keva's residential and commercial properties starting in 2023. This commitment will cover over 70 per cent of the current electricity needs of Keva's properties. **Keva has also initiated a vast energy conservation program to achieve a 20 per cent reduction in energy utilisation in Keva's property investments by 2030.**

Infrastructure investments play a critical role in achieving the targets set to mitigate climate change. In direct infrastructure investments, Keva is typically one of the majority owners enabling strong influence on governance. Recently Keva has acquired partial ownership of district heating companies in Finland and abroad, where the heat and power productions are mainly generated from renewable energies. In infrastructure fund investments, Keva's engagement is through dialogue with the fund's management company.

Keva looks for opportunities within debt financing to invest in businesses where mitigating climate change takes a prominent role. The investments cover many projects providing solutions to climate change, such as hydroelectric energy, zero-emission transportation, reforestation, and sustainable packaging. The financing is channelled through green and social bonds and conventional bonds.

> **Keva engages and acts with stewardship responsibility in portfolio companies by different means in each asset class, intending to protect the portfolio's long-term investment value.**

Understanding the phenomenon of climate change and its influence on the development of our investments requires us to be informed of the research and progress made. Keva formed an internal climate group in 2019 with representatives from portfolio management, the strategy team, and the responsible investment team to keep ourselves aware of new research. The group's primary purpose is to increase knowledge on investment-related research on climate change and share best practices.

› **Keva will strengthen its knowledge of climate change with the help of the internal climate group. Keva reports annually on the sustainability of the Fund's investments and progress made in issues concerning sustainability in the organisation. Keva will aspire to increase the amount of publicly available quality information on the sustainability of the Fund's investments.**