



# Shareholder Engagement Principles for Funds Managed by OP Fund Management Company Ltd

Approved by the Board of Directors of OP Fund Management Company  
Ltd on 19 June 2023

June 2023

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## 1 Exercising shareholder rights to promote more responsible business

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Active ownership is an essential part of the responsibility of OP funds because it allows funds to exercise their shareholder rights to promote more responsible business and ensure investment returns. OP funds exercise active ownership in three ways:

1. **by voting at general meetings,**
2. **through direct dialogue with investee companies and**
3. **through collaborative engagement initiatives with other investors.**

OP funds comprehensively utilise all the above-mentioned active ownership methods, and the methods also play an important role in the work towards our various responsibility targets.

Portfolio managers appointed by OP Fund Management Company Ltd implement shareholder engagement principles in the funds on behalf of OP Fund Management Company Ltd. OP Asset Management Ltd's responsible investing team specialists (later "ESG specialists") participate in the implementation and monitoring of the shareholder engagement principles.

OP Fund Management Company Ltd is a wholly owned subsidiary of OP Cooperative. It manages OP Financial Group's own mutual funds and alternative funds (both later referred to as "OP fund" and "fund"). OP Fund Management Company Ltd's investment activities seek to ensure that the company's investments enjoy good long-term performance relative to risk. The assets of funds managed by OP Fund Management Company Ltd are invested in compliance with the principles of regulation governing funds and the principles of risk diversification based on the fund rules.

### 1.1 Attending and exercising voting rights at general meetings

#### 1.1.1 Finland

The shares of ownership of OP funds are typically among the largest in Finnish companies, and the funds actively participate in the general meetings of listed companies. At Finnish general meetings, the funds observe the Finnish Corporate Governance Code of the Securities Market Association. The criteria for participating in the general meetings of Finnish companies are the size of the stake in the companies in question, their portion of the fund's investments and the general significance of the meetings. The actions of OP funds in the general meetings of companies listed in Finland are approved according to the procedure approved by the Board of Directors of OP Fund Management Company Ltd. If a matter discussed in a general meeting is in breach of the shareholder engagement principles of OP funds, we will express our view to the company's board of directors before the general meeting and expect our view to be taken into account in future. If necessary, we will object to the agenda item at the general meeting.

OP Asset Management's ESG specialists carry out company-specific background research and prepare a background report and draft decision regarding the general meeting participation and voting instructions. OP Fund Management Company Ltd's Board of Directors has authorised the portfolio managers responsible for the fund's investments to decide on the exercising of OP funds' voting rights at general meetings. If necessary, the draft decisions are also discussed with OP Fund Management Company's CEO, who will then bring the draft decisions up for discussion with OP Fund Management Company's Board of Directors if necessary. If a conflict of interest between a specific company's general meeting and OP Financial Group's other entities is discovered, decisions on the exercising of voting rights are made by an independent member of OP Fund Management Company's Board of Directors. The implementation of the principles of shareholder engagement, including any general meeting actions,

is reported to the Board of Directors at least twice per year.

The most important matters on the general meeting agendas of companies listed in Finland include:

#### *1.1.1.1 Composition of the board of directors*

The composition of the board of directors must be diverse and encourage the expression of different views. When new board members are proposed to be appointed, the person making the proposal must be able to justify the added value provided by the new member from the perspective of the company's shareholders. A majority of the board members must be independent of the company and at least two independent members must also be independent of the company's significant shareholders. Board members must have sufficient time to perform their duties, so individual members must not have too many demanding board memberships. The CEO must not be appointed chair of the board of directors, as supervising the CEO is the responsibility of the board of directors. Appointing the CEO to their company's board of directors in general should also be assessed critically. When evaluating the diversity of the board of directors, it is good to take into consideration the members' nationality, broad work experience and gender. At a minimum, we expect the board members of our portfolio companies to represent both genders.

#### *1.1.1.2 Remuneration*

The remuneration paid to board members is decided at the general meeting. The remuneration may alternatively consist of company shares, but special care must be taken to ensure that the remuneration of board members outside the company is arranged separately from the remuneration schemes of the company's management and personnel's remuneration schemes. The amount of remuneration must be specified when deciding on remuneration. A remuneration scheme with a final amount that depends on matters such as share value development is not recommended as it may influence the implementation of the board's control duty and create conflicts of interest. The board of

directors is responsible for deciding on the CEO's remuneration. The CEO's remuneration must be based on a remuneration policy presented to the general meeting and approved by it.

The remuneration must provide the CEO with an incentive to work with a long-term focus on increasing the company's value. The remuneration criteria must be clear, sufficiently long-term, demanding and motivating. The remuneration may incorporate various share-based elements and elements based on the company's performance. The performance should also be compared with benchmark companies in the same industry. We also expect companies to incorporate indicators related to responsibility in their remuneration schemes. Companies listed in the OMX Helsinki 25 index in particular are expected to follow a good European level in their remuneration practices.

Companies must also provide transparent reporting on their remuneration. In listed companies, decisions on the remuneration of board members and the CEO are based on a remuneration policy presented to the general meeting. The policy also defines procedures for exceptional situations. If the company deviates from their remuneration policy, the company's annual remuneration report must specify the detailed reason for the deviation. In unclear situations, we request additional information from companies and object to agenda items at general meetings if necessary.

#### *1.1.1.3 Changes in capital structure*

The company's financial situation and the consequential need for new capital may sometimes change rapidly. Therefore, it is justified to seek a moderate share issue authorisation from the general meeting, but excessive, unclearly justified or unjustified share issue authorisations should be avoided.

#### *1.1.1.4 Selection of auditor and auditor's fees*

We expect companies to periodically change their auditor. If the fees for non-audit services exceed the standard audit-related fees or form a significant

portion of the total fees paid to the auditor, we expect the company to report on the details.

#### 1.1.1.5 Reporting

The reporting of listed companies must be open and transparent. The reporting must be up-to-date and cover financial matters, a description of the company's governance, and reporting on responsibility matters relevant to stakeholders and the company's strategy.

#### 1.1.2 Abroad

The general meeting practices of foreign listed companies vary from country to country in terms of how participation is managed. With respect to foreign companies, OP funds participate and vote at general meetings in the markets where participation is cost-effective relative to the usually small share of ownership of OP funds. In addition to the cost-effectiveness of participation, OP funds also consider the general significance of the meetings and the companies' proportional significance in the fund's total investments as participation criteria.

Participation in the shareholder meetings of foreign listed companies is carried out in accordance with the principles of shareholder engagement approved by OP Fund Management Company's Board of Directors. The Board has authorised OP Asset Management's ESG specialists to send the voting instructions to international general meetings. Any actions taken at foreign general meetings is reported to the Board of Directors of OP Fund Management Company Ltd at least twice per year.

With respect to foreign companies, OP funds expect companies to comply with local governance codes and facilitate the development of local operating methods towards international corporate governance recommendations, such as those of the OECD. With respect to foreign general meetings, OP funds primarily vote based on the sustainability-focused [Sustainability Proxy Voting Guidelines](#) of proxy advisor Institutional Shareholder Services Inc. (ISS).

#### 1.1.2.1 Environmental and social matters at foreign general meetings

There are local 'best practice' operating models for corporate governance and decision-making that are fairly comprehensively defined and are in the shareholders' best interests. For environmental and social matters, such standardised policies for general meeting proposals do not yet exist, but the significance of such proposals is increasing, especially abroad. As a rule, OP funds take a positive stance towards general meeting proposals promoting good corporate citizenship because we consider good corporate citizenship a long-term factor for success and believe it increases the value of companies. The decision to vote for or against a general meeting proposal depends on matters such as an assessment of the decision's effect on the company's business. Matters such as how much of the company's business is affected by the decision are also considered. Other important factors for decision-making include measures and policies previously implemented by the company related to the decision at hand and whether we considered the company's voting recommendation and its justifications convincing. We also pay attention to how other similar companies act. The stipulations of local regulation are also taken into account when considering the proposal.

**Example: Climate target setting and reporting are increasingly present on the agendas of foreign general meetings**

- OP funds support proposals that aim to require companies to set science-based emissions reduction targets, increase the transparency of reporting on potential climate change impacts and risk management methods, or otherwise contribute to companies reducing greenhouse gas emissions.
- As a rule, OP funds vote on 'Say on Climate' resolutions proposed by the company's management on a case-by-case basis when the purpose of the resolution is to seek the shareholders' approval for the emissions reduction targets and plans

created by the company. The scope and level of ambition of the emissions reduction plan proposed by the company are considered in the decision-making.

- With respect to the Climate Action 100+ initiative for the companies producing the most emissions in the world that have not yet taken the necessary actions to meet their emissions reduction targets, OP funds apply stricter voting instructions whereby they vote against the appointment of board members.

## 1.2 Direct dialogue with companies

### 1.2.3 Violations of international norms

For active and direct investments, portfolio managers and ESG specialists monitor that the investments comply with international norms such as the OECD Guidelines for Multinational Enterprises or the UN Global Compact. The UN Global Compact principles are about human rights, labour, the environment and anti-corruption measures. International norms define the minimum level for responsible business. The aim is for the owners/holders of shares or promissory notes to exercise influence so that non-compliant companies change their practices and comply with international norms in their operations in future. Suspected and confirmed norm violations by companies are based on the analyses of two external service providers and OP Asset Management. If an active norm violation is found, we primarily engage with the company that has violated the norms, and only secondarily divest our holdings. We do not make active direct investments in companies that have been involved in a confirmed norm violation and where engagement has been unsuccessful.

From 2023, we use engagement services based on international norms and provided by Sustainalytics, an external service provider. Sustainalytics coordinates engagement dialogues and provides

monitoring and reporting on companies that have been found to violate international norms or that are on their watchlist due to suspected norm violations. OP Asset Management's ESG specialists and portfolio managers participate in the company-specific calls coordinated by the service provider. We regularly receive status reports on the service provider's discussions and the companies' statuses. These status reports allow us to monitor and ensure that our portfolio companies improve their operations with respect to potential violations. If we find that a company violating international norms does not improve its operations despite engagement measures, we will divest our holdings.

### 1.2.4 Climate engagement

From 2023, we conduct targeted climate engagement actions for our direct equity and bond funds' investments that have been identified as having a high climate risk<sup>1</sup>. The goal of the engagement is for these companies to have an emissions reduction plan based on the Paris Agreement. This targeted climate engagement is conducted through either (1) voting at general meetings, (2) direct dialogue or (3) collaborative engagement initiatives we actively participate in with respect to the companies in question. The goal is that by the end of 2025, all companies on the targeted engagement list that have been identified as having a high climate risk are covered by at least one of the engagement measures mentioned above. The list of companies for the targeted engagement actions is defined and updated annually if necessary.

### 1.2.5 Portfolio managers' discussions with companies

Using public data sources, the portfolio managers follow changes in the financial standing of companies the funds invest in and compare the market price of the company's share to the company's financial standing and outlook. Portfolio managers may meet representatives of companies to obtain additional information on matters such as the

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<sup>1</sup> Companies whose emissions make up 70% of the financed emissions in direct equity and bond funds managed by OP Fund Management Company Ltd.

company's strategy implementation, operations and key ESG issues in meetings with the companies. If OP funds own a significant share of the company or are major creditors, the portfolio managers can present their views to the company on matters such as strategic choices, investments or capital structure. Portfolio managers also make use of external investment research.

### 1.3 Collaborative engagement initiatives with other investors

General meetings usually discuss only a fairly limited subsection of the company's matters, such as the financial statements, capital structure, composition of the board, remuneration and acquisitions and, in certain markets, ESG issues. To promote the positive development of shareholder value, it may be appropriate to also seek to influence companies' activities outside of general meetings.

Our responsible investment team seeks to have an influence on topical and material ESG issues in the companies which OP funds either have invested or might invest in. In thematic engagement, our goal is to identify significant risks associated with the environment, social aspects and corporate governance that are similar for broader groups of companies. Our ESG specialists or our service provider engage in simultaneous dialogue with various companies exposed to similar risks. Our aim is to simultaneously encourage clear change in several companies while identifying best practices.

The responsible investment team and portfolio management also participate in various collaborative engagement initiatives with other investors. Collaborative investor engagement initiatives may present companies with demands such as setting science-based emissions reduction targets or other sustainability issues.

#### Examples of collaborative investor engagement initiatives:

- Climate Action 100+
- CDP Science-Based Targets

- Investor Policy dialogue on deforestation (IPDD)
- Various public statements

## 2 Other engagement and dialogue with stakeholders

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Persons designated by OP Fund Management Company Ltd's Board of Directors represent OP funds in the nomination committee work of certain Finnish listed companies. Shareholders' nomination committees are established to appoint board members and prepare remuneration proposals, and they usually consist of the company's largest shareholders or members designated by the largest shareholders.

OP Asset Management's portfolio managers meet with other investors at events such as companies' Capital Markets Days, and our ESG specialists engage in dialogue with various domestic and global responsible investment stakeholders such as service providers, national and international responsible investment forums and participate in public responsibility discourse.

## 3 Identifying, avoiding and preventing conflicts of interests related to shareholder engagement

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OP Financial Group entities comply with Group-level guidelines for avoiding and preventing conflicts of interest. Furthermore, a separate conflict of interest policy will be drafted for OP Fund Management Company. The guidelines on managing and preventing conflicts of interests are applied in influencing through shareholder engagement and in participating in general meetings. If a conflict of interest cannot be prevented and managed with the measures presented in the guidelines, it will be discussed by the Board of Directors of OP Fund Management Company Ltd, which will decide on the practices to be employed in individual cases.

To avoid conflicts of interest, OP Fund Management Company Ltd's management and specialists will not participate in the board work of listed companies we invest in. However, they can participate in

nomination committee work. Participation in nomination committee is subject to a decision by OP Fund Management Company's Board of Directors.

#### 4 Publishing the shareholder engagement principles and annual reporting on implementation

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OP Fund Management Company Ltd publishes its shareholder engagement targets in OP funds' fund prospectus, which is published on OP Financial Group's website.

In addition, OP Fund Management Company Ltd publishes information on the implementation of shareholder engagement and any actions taken in OP funds' half-year and annual reports.