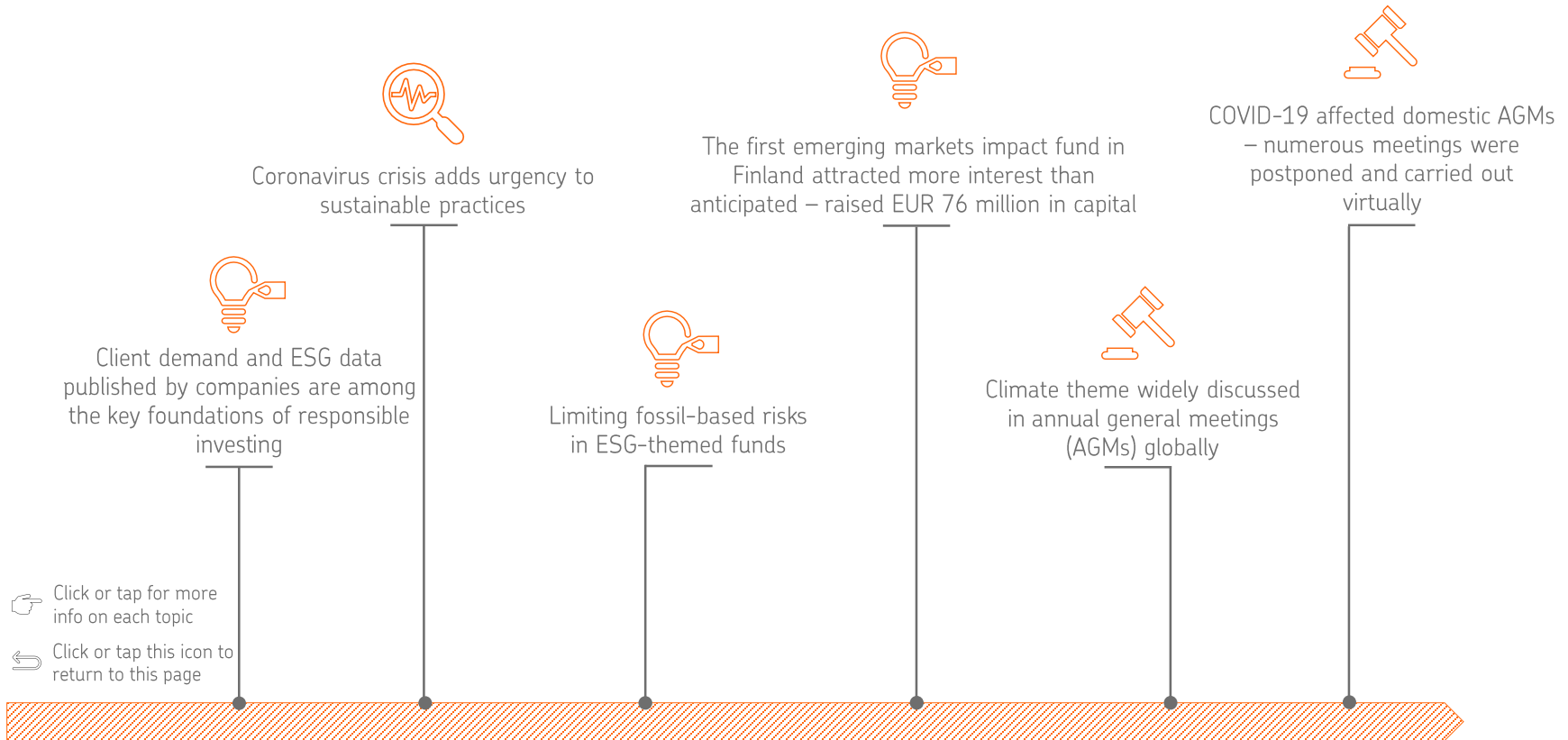




Responsible Investing Bi-Annual Report

January–June 2020
OP Asset Management

Responsible investing – highlights of spring 2020





Client demand and ESG data published by companies are among the key foundations of responsible investing

One important driver in the evolution of responsible investing is client demand. At the end of 2019, we conducted a large survey in Finland about preferences regarding responsible investing. According to our survey, about 75% of Finnish private investors are interested in responsible investing. Another important driver in responsible investing is the availability of comparable ESG data about companies. In collaboration with its partners, OP Financial Group put together a joint EU initiative in the autumn of 2019. The following spring, OP played a role in advancing and promoting the idea of collecting and distributing ESG data published by companies in the EU through a public data register. Our initiative was widely supported by organisations within the European financial sector, and our international cooperation continues in this respect.

The increasing demand for responsible investments, upcoming EU regulation and our own level of ambition guarantee that our progress in responsible investing will not stop here. We published our first climate report in June and in it our roadmap for future climate work.

In this report, we tell about our impact fund, the corona spring from the perspective of responsible investing, our engagement activities and the new policies of our ESG-themed funds.



Press release: [Demand for responsible investing on the rise during the corona crisis](#)

Blog: [Majority of Finns believe in the profitability of ESG investing – ethically unsound investments not attractive](#) (in Finnish)





Coronavirus crisis adds urgency to sustainable practices

This spring has been exceptional due to the restrictions and challenges brought on by the coronavirus pandemic. During the spring, there was a lot of talk about what will happen to corporate sustainability targets and programmes during a period of severe challenges being posed on companies regarding the very continuity of business itself. The good news is that on a general level, it seems as though the significance of sustainability has not faded, on the contrary, its importance has become even more evident.

The challenging situation of the past spring has provided evidence that during bad times ESG investments are relatively more resilient. At the moment, it appears that ESG-linked stock prices have not declined as steeply as those of their conventional peers, and so sustainability has yielded added value. ESG indexes have also outperformed their peers this spring. OP's ESG-themed funds also performed well amid the turbulence of the corona spring. Clients' interest in themed funds kept increasing both in absolute terms and in relation to other fund products. In addition, we noticed that ESG-themed funds attract longer-term investments and investors have trust in their positive progress.

As far as the three pillars of ESG investing (environmental, social and governance) are concerned, the pandemic has served us with a heightened awareness of social responsibility. During the crisis, responsible companies i.a. took to the challenges faced by personnel. Responsible companies have also demonstrated a certain kind of solution-oriented mindset, seeking to utilise their products and services as means to help overcome the crisis.



Blog: [Post-corona world – towards a sustainable future?](#) (in Finnish)

Press release: [Demand for responsible investing on the rise during the corona crisis](#)



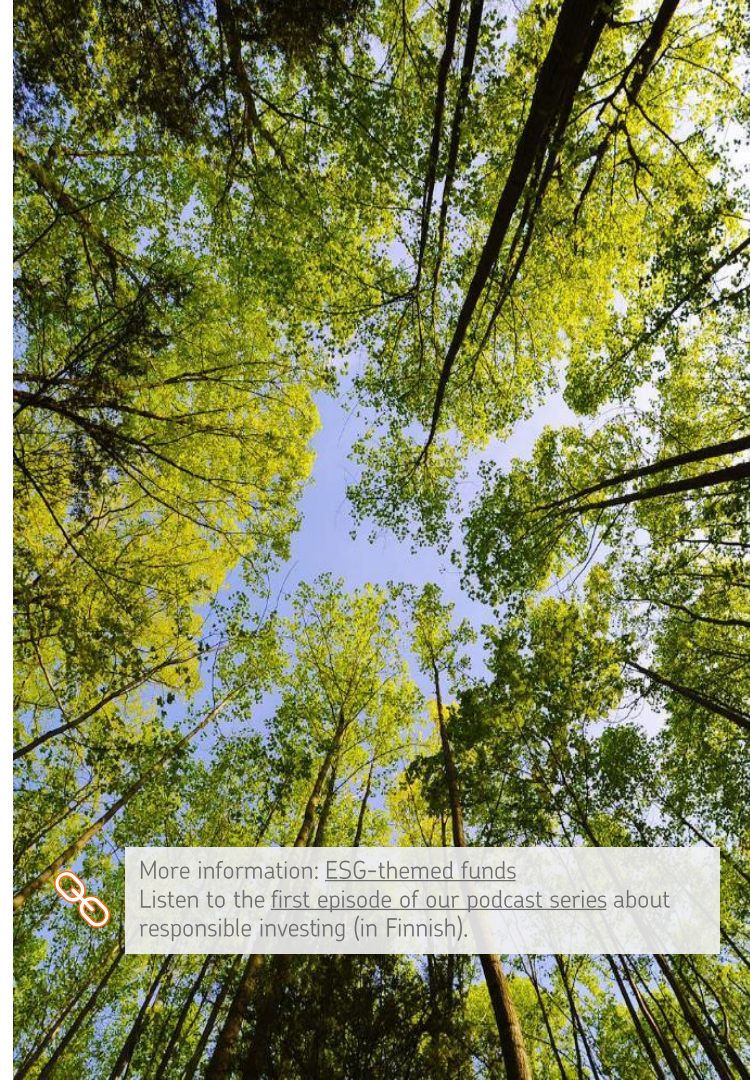


Limiting fossil-based risks in ESG-themed funds

We have recently adopted a new policy for limiting fossil-based business in our ESG-themed funds to reduce the climate risks of the funds. We will implement this change during Q3 2020. In practice, we will make OP-Low-carbon World and OP-Sustainable World entirely fossil-free funds. This means that these funds will not invest in producers of fossil fuel or electricity companies that use fossil fuels. We will exclude fossil fuels and producers of fossil-based electricity from OP-Climate and OP-Clean Water funds if their total fossil-based sales exceed the limit of 50% or if sales are less than 50% but there is no credible evidence of the companies' transition to fossil-free operations. We want to support companies in their gradual transition away from fossil fuels, whether they are already running environmentally friendly operations to a significant degree or increasing the environmental focus of their operations.

Our decision is based on investors' decreasing interest in fossil-based energy which poses an investment risk. Demand for coal peaked globally in 2014, and we anticipate that the demand for other fossil fuels (oil, natural gas, peat) will peak in the next 10–15 years or at least the increase in demand will clearly level off. In addition, the global overall demand for energy is expected to peak in the future due to energy efficiency measures.

Fossil-based business has always accounted for only a minor share of our ESG-themed funds: in H1, it constituted less than 1% of the weighted sales of the funds' investments. Due to excluding and limiting fossil energy, this share will decrease even further, and at the same time, the funds' carbon intensity will decrease markedly.



More information: [ESG-themed funds](#)
Listen to the [first episode of our podcast series](#) about responsible investing (in Finnish).





The first emerging markets impact fund in Finland attracted more interest than anticipated – raised EUR 76 million in capital

OP Finnfund Global Impact Fund I raised EUR 76 million in the first round of funding. This is the first Finnish impact fund to invest in emerging markets, seeking significant sustainability effects in addition to profits. The fund seeks large-scale positive impacts on, for instance, climate change, food security, gender equality and the availability of financing. OP Finnfund Global Impact Fund I focuses on three main industries in developing countries: renewable energy, financial institutions and sustainable agriculture.

The first investments under consideration will target innovative food production in East Africa and funding businesses owned by women in Asia. The fund monitors the impact indicators which are shared by all of the investments and based on, among other things, greenhouse gas emissions, jobs, tax income and equality. In addition, the reporting monitors sector-specific impact indicators.

Press release: [The first emerging markets impact fund in Finland attracted more interest than anticipated – raised EUR 76 million in capital](#)

Blog: [At the core of impact investing: accumulating wealth through promoting wellbeing of nature and people](#) (in Finnish)

Blog: [Let impact investing impact you](#) (in Finnish)





Climate theme widely discussed in annual general meetings (AGMs) globally

Exercising voting rights at annual general meetings (AGMs) of foreign companies is an important part of OP Fund Management's shareholder engagement. The number of global meetings attended in the spring of 2020 declined slightly due to COVID-19, as meetings were postponed. In addition, we experienced some technical issues with voting in regards to the US market. In total, we attended **792** meetings globally (excluding Finland) during the first two quarters.

Climate as a theme has been actively discussed in AGMs this spring. We play an active role in the [Climate Action 100+](#) initiative regarding i.a. the engagement dialogue with Volvo. Volvo is among the initiative's signatories, but the company is still lacking scientific targets compliant with the Paris Agreement. Together with eight other investors, OP Fund Management co-submitted a proposal to the AGM in which the company was requested to set science based climate targets and to specify plans on how to achieve them. At the AGM, BlackRock voted against the re-election of Volvo's Chairman due to the lack of climate targets. Currently OP funds do not vote in the Swedish market due to administrative issues.



More information: [attendance at AGMs](#) and [Global AGMs](#)

More information on shareholder engagement: [OP Fund Management Ltd's Shareholder Engagement Principles](#) (in Finnish)

Mizuho Financial Group

A climate-related shareholder proposal was put to a vote for the first time in Japan this spring at Mizuho Financial Group's AGM. A Japanese NGO Kiko Network filed a motion calling for Mizuho to insert in its articles of association a provision setting forth its commitment to disclose a plan to align its investments with the goals of the Paris Agreement.

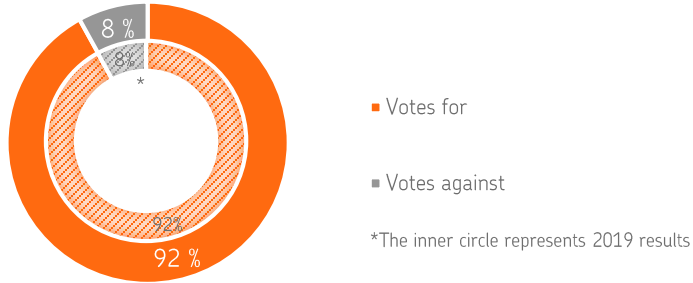
Kiko's proposal was seconded by more than one-third of voters (incl. OP funds). However, the proposal was not passed as its approval was conditional to obtaining a two-thirds supermajority. The board viewed the proposal as unnecessary and recommended voting against it, as environmental opportunities and risks are already included in Mizuho's strategy as well as information on initiatives proactively disclosed.

Even though the proposal was not passed, it did encourage the lender to announce in April 2020, that it would no longer finance new coal power projects and would end all coal loans by 2050. This is significant, as Mizuho has been amongst the top three coal power and mining lenders during the past five years, on a global scale.

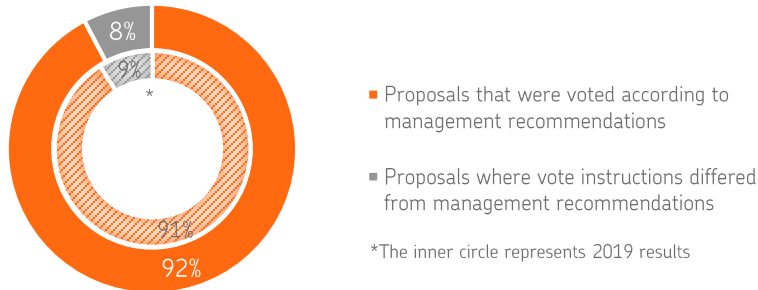


Global AGMs in H1 2020

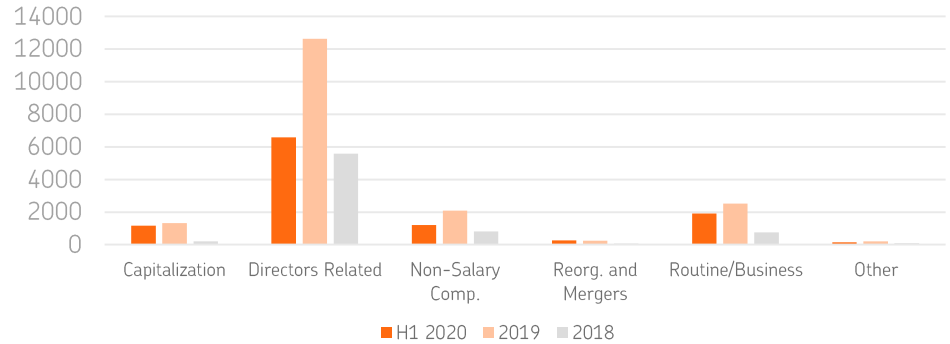
VOTE INSTRUCTIONS



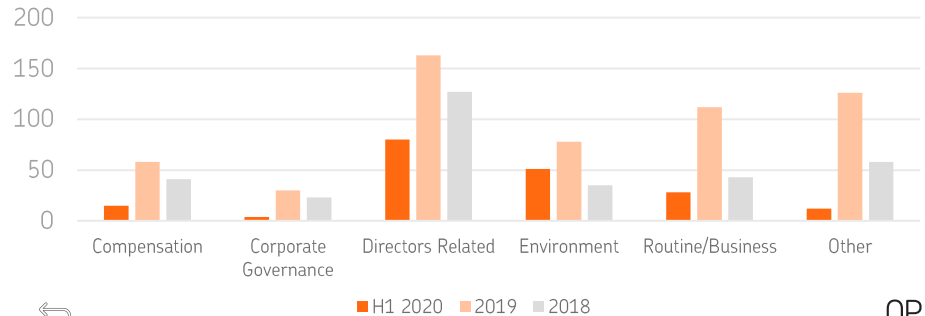
VOTES VS. MANAGEMENT'S VOTING RECOMMENDATIONS



MANAGEMENT PROPOSAL TOPICS

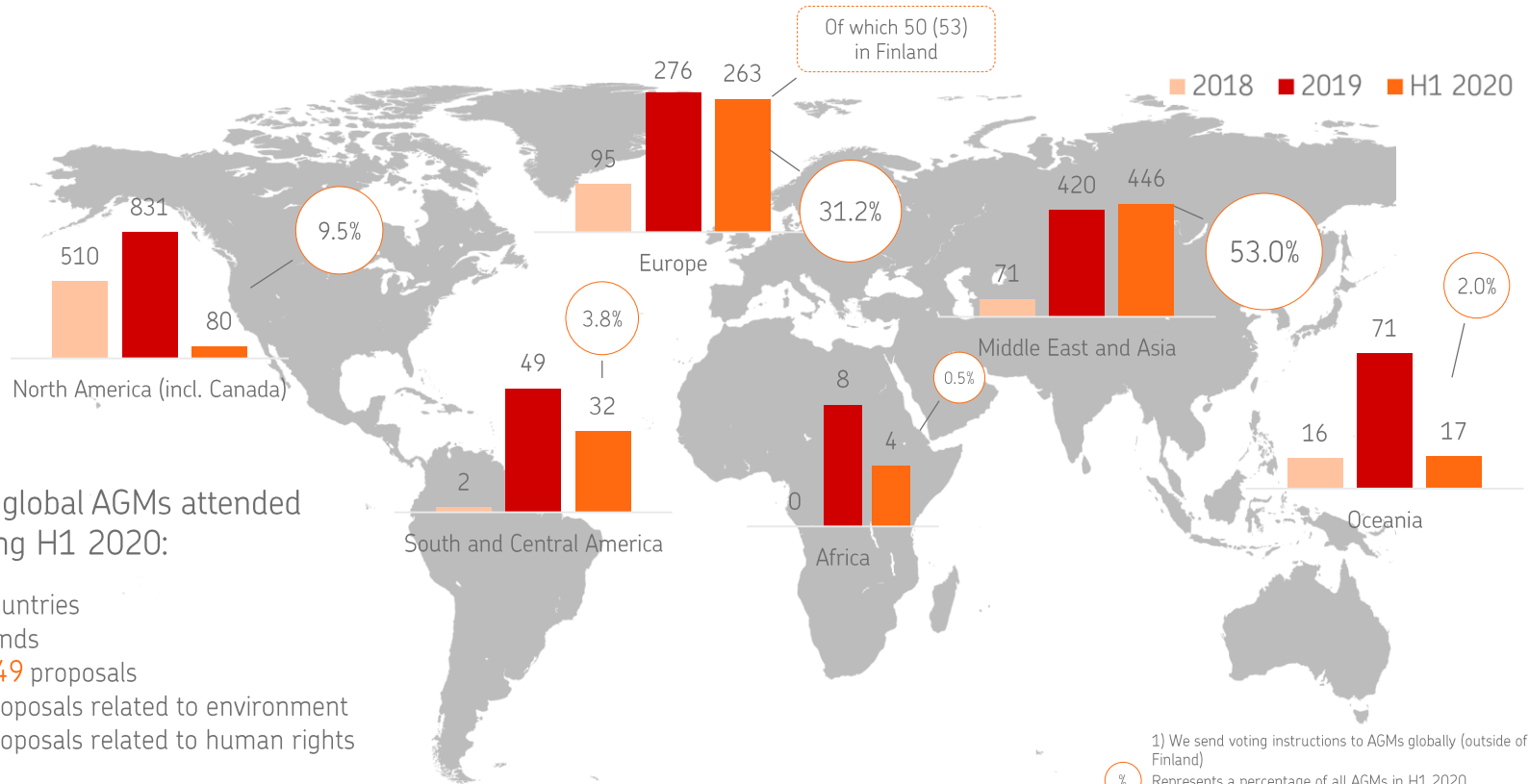


SHAREHOLDER PROPOSAL TOPICS





Attendance at AGMs: H1 2020 and 2018–2019 ¹⁾



792 global AGMs attended during H1 2020:

- 27 countries
- 19 funds
- 11,449 proposals
- 51 proposals related to environment
- 11 proposals related to human rights

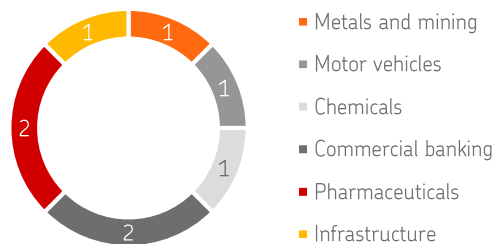
¹⁾ We send voting instructions to AGMs globally (outside of Finland)
 % Represents a percentage of all AGMs in H1 2020
 Bars show number of AGMs



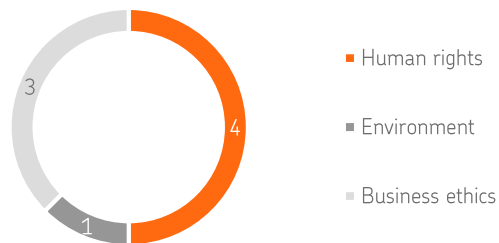


Addressing international norms violations in the spring of 2020

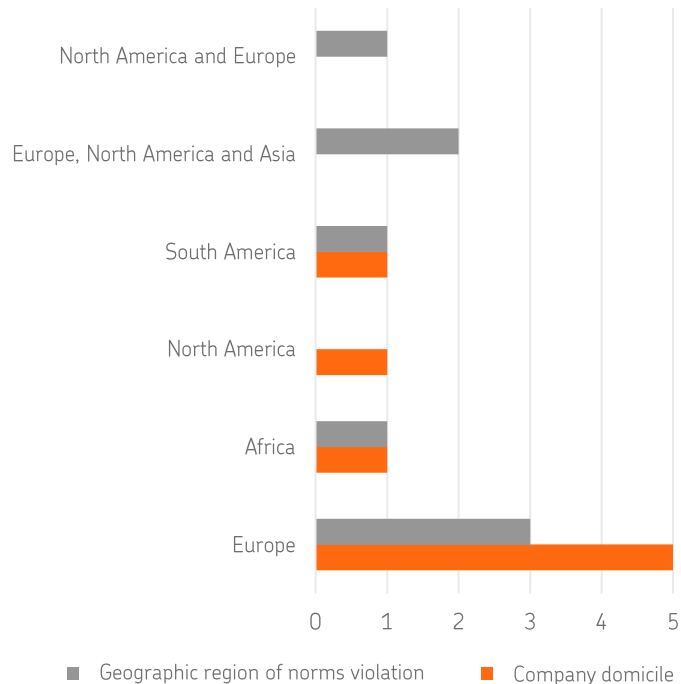
INDUSTRY



TYPE OF VIOLATION



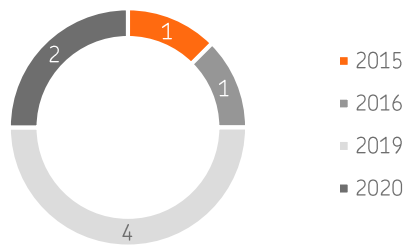
GEOGRAPHIC REGION OF NORMS VIOLATION AND COMPANY DOMICILE



COMPANIES' PROGRESS FROM THE BEGINNING OF ENGAGEMENT



INITIATION OF ENGAGEMENT





COVID-19 affected domestic AGMs – numerous meetings were postponed and carried out virtually

Despite COVID-19, the funds managed by OP Fund Management attended over **50 AGMs of Finnish listed companies** during the spring. Our personnel did not attend AGMs in situ after mid-March due to the risk posed by COVID-19. The majority of meetings were carried out virtually with shareholders providing vote instructions in advance.

In addition to attending AGMs, **we influenced 25 companies directly prior to their meetings.** Our feedback related to issues such as executive remuneration, share issuance sizes and auditing fees. Management remuneration policies were on the agenda of Finnish AGMs for the first time this spring. In our view, especially OMX-25 companies, but also other Finnish companies where possible, should pursue a decent European level in their remuneration policies. For long-term incentives, this would mean that remuneration would be based on performance measures of a of three-year period. We will release the positions of funds managed by OP Fund Management at this year's AGMs in due course on our [Responsible investing](#) webpage.

In addition, an OP Fund Management representative has been elected to the shareholders' nomination committee, thus participating in the preparation of the 2020 proposal for composition of the Board, in the following companies: Detection Technology, Robit Plc, Hoivatilat and Exel Composites.



More information available in this report: [attendance at GMs](#)

More information on shareholder engagement: [OP Fund Management Ltd's Shareholder Engagement Principles](#) (in Finnish)

