


Responsible Investing Bi-Annual Report

Year 2020

OP Asset Management

A person in a dark jacket and shorts is running away from the camera on a wide, modern bridge with white railings. The bridge spans a body of water under a cloudy sky.

Year 2020 will surely be remembered as a year that has forced every one of us to look at things from a new perspective.

With all its challenges, we have also seen a positive shift bringing responsibility and sustainability closer to the core of our clients' decision making. The demand for sustainability-themed funds soared during spring, and the OP Climate fund is one of the most popular funds in our fund offering.

If 2020 strengthened the topic of responsibility in the minds of our customers, it surely became even more integral to the daily work of our portfolio managers. In the beginning of the year, our ESG team was reorganised and each ESG specialist was repositioned into different investment teams and closer to the investment decision making. This has not only deepened our ESG specialists' knowledge on specific asset classes, but also provided closer support for the portfolio managers when analysing sustainability issues. This closer collaboration resulted in our own ESG analysis tool that allows us to build our own view on the companies ESG level and momentum.

During 2020, we were actively following and commenting the development of the EU Sustainable Finance regulations. We do believe that better transparency on how environmental, social and governance issues are considered in investment decision making and investment products will support the end investors' ability to follow and reach their sustainability goals. Transparency and comparability of sustainability metrics are also key for the information received from

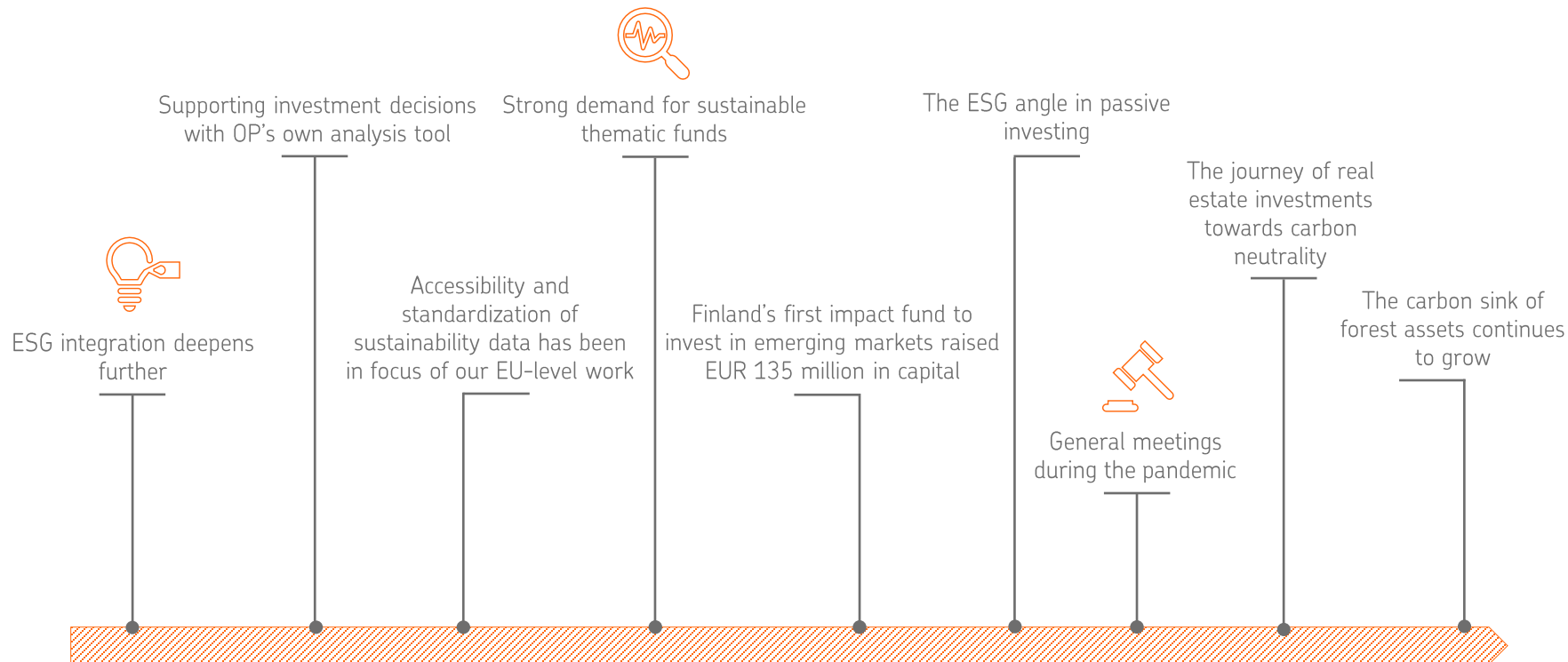
investee companies. Hence, one of our portfolio managers has participated in the work of an EU-level task force to prepare advice on this topic for the European Commission.

Our report on climate-related risks and opportunities, published in the summer, presents the baseline on which we are building our climate strategy in the coming years. We have considered climate risks and opportunities in our investments already for several years, through carbon intensity reporting, exclusions, active ownership and innovative fund products. In addition, OP Real Estate Asset Management's sustainability work in 2020 culminated in a recently published roadmap to carbon neutrality. One of the key themes for the coming year will indeed be strengthening and developing our climate strategies within OP Asset Management.

Tuomas Virtala
CEO
OP Asset Management



Responsible Investing – Highlights from 2020



ESG integration deepens further

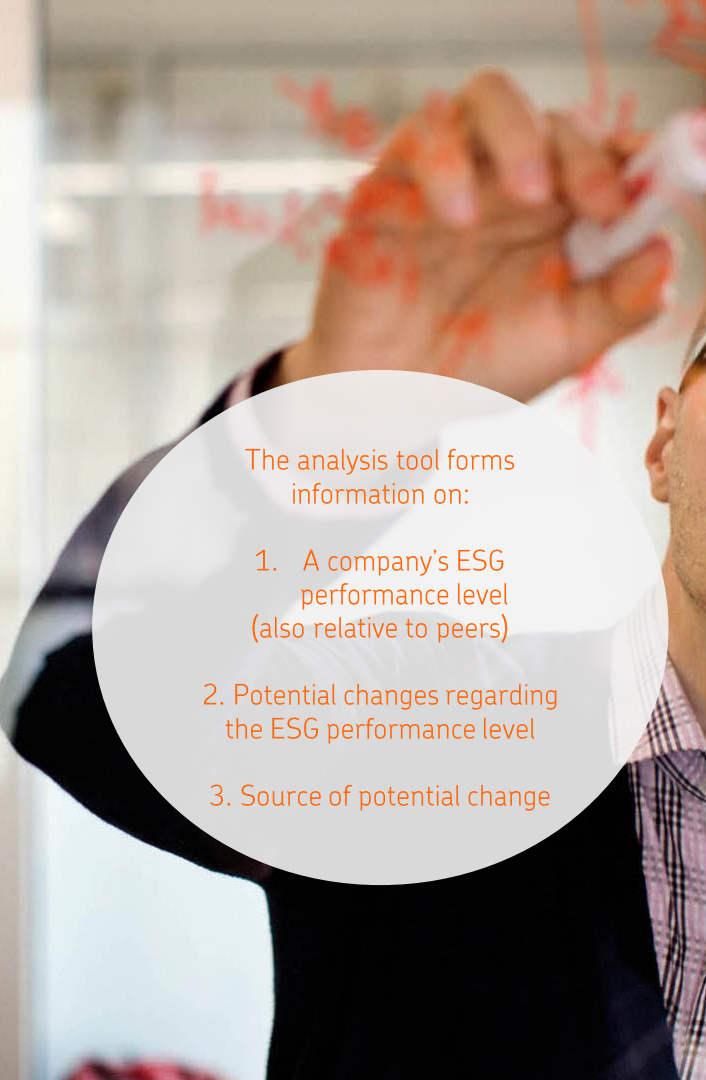
Environmental, social and governance (ESG) issues have long played an essential role in investment decision-making at OP Asset Management. We continuously develop ESG integration and it continues to play a material part in the everyday work of all our employees.

The number of sales staff in cooperative banks with **specific ESG knowledge** has increased
50 > 70

New portfolio manager covering our sustainability themed funds and **deepened company specific ESG analysis**

ESG Specialists no longer form a team of their own but are **integrated into investment teams**

New **ESG analysis tool** to support portfolio managers in company specific ESG analyses



Supporting investment decisions with OP's own analysis tool

Integrating ESG into investment decision making can nowadays be viewed as staple, especially in the Nordics, and it is growing in importance all over the world. In its earlier stages, exclusions and ESG Ratings were the most utilised aspects and forms of ESG investing. These still carry important roles, but the field has developed and more detailed information is required in order to fully understand risks, opportunities and changes to make wholly informed decisions. In order for us to fully understand ESG aspects, portfolio managers must have access to data and tools which enable drilling down to more specific details. We at OP Asset Management have developed an internal tool to help with this.

The analysis tool forms information on:

1. A company's ESG performance level (also relative to peers)
2. Potential changes regarding the ESG performance level
3. Source of potential change

Our ESG solution combines raw data reported by companies with financial materiality. Financial materiality is an essential layer which enables picking out the most material indicators into further analysis of companies and industries, as it's not worthwhile analysing all data points for every industry. The tool formulates an overview of each company's ESG level based on financially material ESG indicators. The tool is transparent as the portfolio manager is able to for example drill deeper after realising there's been a change on the company level ESG score and track the change all the way to the indicator level, thus understanding exactly where the change comes from. Identifying the source of change also helps to further discuss matters directly with companies when necessary. Picking up on positive and negative signals early on can help with mitigating risks or discovering new investment opportunities. In addition, the model takes the industry level into consideration which helps to also understand how a company is performing in relation to its peers.

Accessibility and standardization of sustainability data has been in focus of our EU-level work

In 2020 we actively advanced our sustainability data accessibility related initiative together with [Finance Finland](#), [Hanken](#), [Aalto University](#) and the European Association of Co-operative Banks (EACB). We proposed that corporate environmental, social and governance (ESG) data needs to be collected in the EU into a public database, where it could be stored in a standardised electronic format, in order for all stakeholders to be able to produce the analysis and reports required by the EU legislation. In June our initiative got [EU-wide support](#) and the EU included it into strategic planning: the Capital Markets Union [16 action points](#) were released in September and listed the creation of the "single access point" for corporate financial and non-financial data in the EU as action point number one.

As part of advancing our initiative we took part in the WU-level [webinaar](#) hosted by Finance Finland and Hanken and cooperated with [South Pole](#) on a research project during which the background of extant public corporate ESG databases globally was collected and the EU Taxonomy was compared to the Sustainability Accounting Standards Board (SASB).

Finally, we advanced also the sustainability data standardization. Our ESG specialist Kristiina Vares-Wartiovaara participated in the fall in the EU-level multi-stakeholder [Project Task Force](#) (PTF), which prepared advice for the European Commission on what issues should be considered by the future EU non-financial reporting standard. The Final report is available [here](#) and a related blog is available [here](#).



Blog (in Finnish) 14.2.2020: "[Miten mitataan kestäävyyden?](#)"
("How can I measure sustainability?")



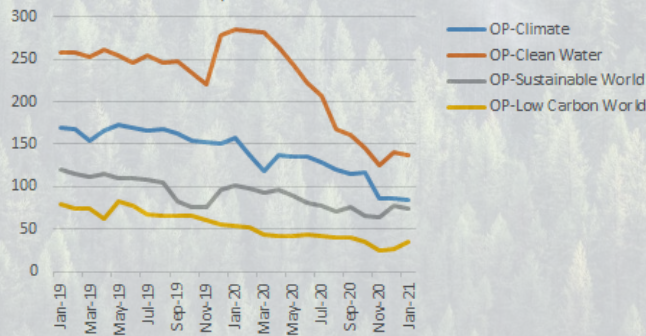
Strong demand for sustainable thematic funds

The demand for sustainable thematic funds OP-Climate, OP-Clean Water, OP-Low Carbon World and OP-Sustainable World grew strongly throughout 2020. Out of the 115 000 new clients of OP Asset Management, almost 96% chose to invest either in a thematic sustainable fund or in an index fund. All in all, clients invested 80% more in these funds compared to the previous year. OP-Climate was the single most popular fund.

In 2020 we developed the sustainable thematic funds in the following ways:

- A responsible portfolio manager specializing in sustainability issues was dedicated to the funds. Her task is to analyze both financial and non-financial data of the companies in more detail and to keep active contact with the companies.
- We fully excluded (OP-Low Carbon and OP-Sustainable World) and limited to below 50% (OP-Climate and OP-clean Water) companies' revenue exposure to fossil fuels. As a result of this change the carbon emissions of the fund fell sharply and considerably more than the level of global reduction: OP-Climate -42%, OP-Clean Water -50%, OP-Sustainable World -20% and OP-Low Carbon World -52%.
- The reference index of the OP-Climate fund was changed at the end of 2020 to MSCI World Climate Paris Aligned index, which is committed to decarbonization in line with the Paris climate agreement so that it contributes to a maximum of 1,5C degrees global warming by 2050.

Carbon intensity of sustainable thematic funds
Scope 1 and 2, tons/mEUR revenue



Additional information: [sustainable thematic funds](#)



Finland's first impact fund to invest in emerging markets raised EUR 135 million in capital

OP Finnfund Global Impact Fund I raised a further EUR 58 million at the end of 2020, in addition to the first round of funding in the summer, which raised EUR 76. The fund seeks positive impacts on, for instance, climate change, food security, gender equality and the availability of financing. The fund focuses on three main industries in developing countries: renewable energy, financial institutions and sustainable agriculture. This impact fund is for professional investors and seeks an internal rate of return (IRR) of approximately 8–12 per cent.

OP Finnfund Global Impact Fund I made its first investment in the autumn. The fund contributed USD 12.5 million towards a loan package to a company called Net1 Indonesia. Net1 Indonesia is building internet connections in the world's fourth most populous country, focusing on areas where there are either no or limited internet access alternatives available. Its goal is to provide access to fixed broadband connectivity to over 300,000 households. The importance of reliable internet access has grown especially during the coronavirus pandemic.

News article: [The second round of funding for the first Finnish impact fund to invest in emerging markets raised a further EUR 58 million in capital – the total fund size now stands at EUR 135 million](#)

News article: [OP Finnfund Global Impact Fund I to join a financing package to improve broadband access in rural Indonesia](#)

Blog: [Viisi väitettä vaikuttavuussijoittamisesta – totta vai tarua](#) (In Finnish)

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



Passive investing continues to grow in popularity – what about the ESG angle?

Investing in cost-efficient passively managed funds has grown popular through i.a. index funds and passively managed ETF funds. ESG views can be taken into consideration in two ways when it comes to passive investing:

1. Choose index funds and ETFs that emphasise ESG aspects

For example, the benchmark indexes of OP's international index funds were switched from the MSCI market-weighted all-share indexes to the suite of MSCI ESG Universal indexes. This means that in future the weighting of companies conducting their business in a responsible manner will increase in these funds. OP index funds also vote General Meetings, taking sustainability perspectives into account.

2. Make sure the portfolio manager uses its voting rights and engages with companies in order to foster change in companies when it comes to sustainability issues

For example, we at OP Asset Management surveyed around ten external index fund and ETF managers regarding active ownership policies from a responsibility point of view. According to our research, all managers vote in at least half of the General Meetings available, but there is clear deviation when it comes down to voting for aspects related to environmental and social issues. More than half of the managers engage with investee companies on sustainability matters also outside of General Meetings.



News article: [New benchmark indexes for OP index funds](#)

General Meetings

Finnish GMs

Funds managed by OP Fund Management attended **53 GMs of Finnish listed companies** during the spring. Our personnel did not attend GMs 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 GMs, **we engaged with 26 companies directly prior to their meetings**. Our feedback related to issues such as executive remuneration, share issuance sizes and audit fees. Management remuneration policies were on the agenda of Finnish GMs for the first time in spring 2020. We publish information on all casted votes in GMs for funds managed by OP Fund Management on our [Responsible investing](#) webpage.

In addition, an OP Fund Management representative was elected to shareholders' nomination committees, 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.

Global GMs

Exercising voting rights at GMs on a global scale is an important part of OP Fund Management's shareholder engagement. The number of global meetings attended in 2020 declined slightly due to some technical issues with voting in regards to the US market. In total, we attended **1080 meetings** globally (excluding Finland) during the whole year.

Going forward, we are optimizing our participation in global GMs. Our goal is to focus more on voting in meetings where we have the best chances of having an impact. Thus the total amount of attended GMs will decrease in the future.



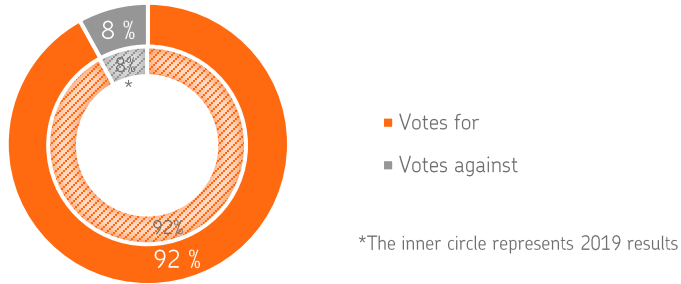
More information available in this report: [Global General Meetings](#) and [General Meeting Attendance](#)

More information on shareholder engagement: [OP Fund Management Ltd's Shareholder Engagement Principles 2019](#) (in Finnish)

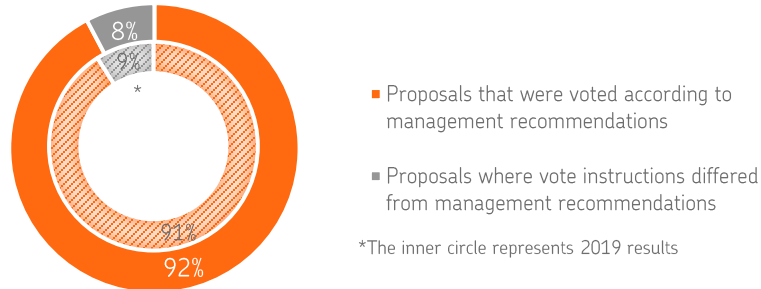
More information on voting: [OP-Rahastoyhtiön hallinnoimien rahastojen yhtiökokoukset](#) (in Finnish)

Global General Meetings in 2020

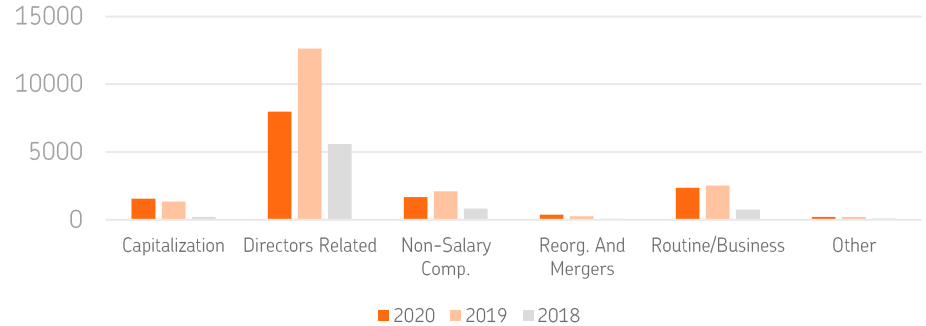
VOTE INSTRUCTIONS



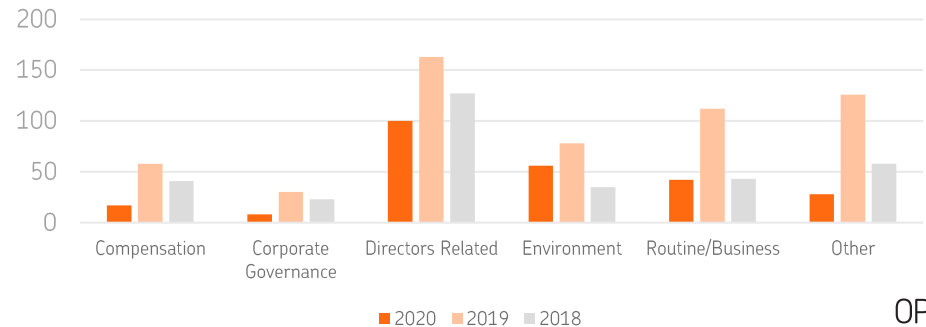
VOTES VS. MANAGEMENT'S VOTING RECOMMENDATIONS



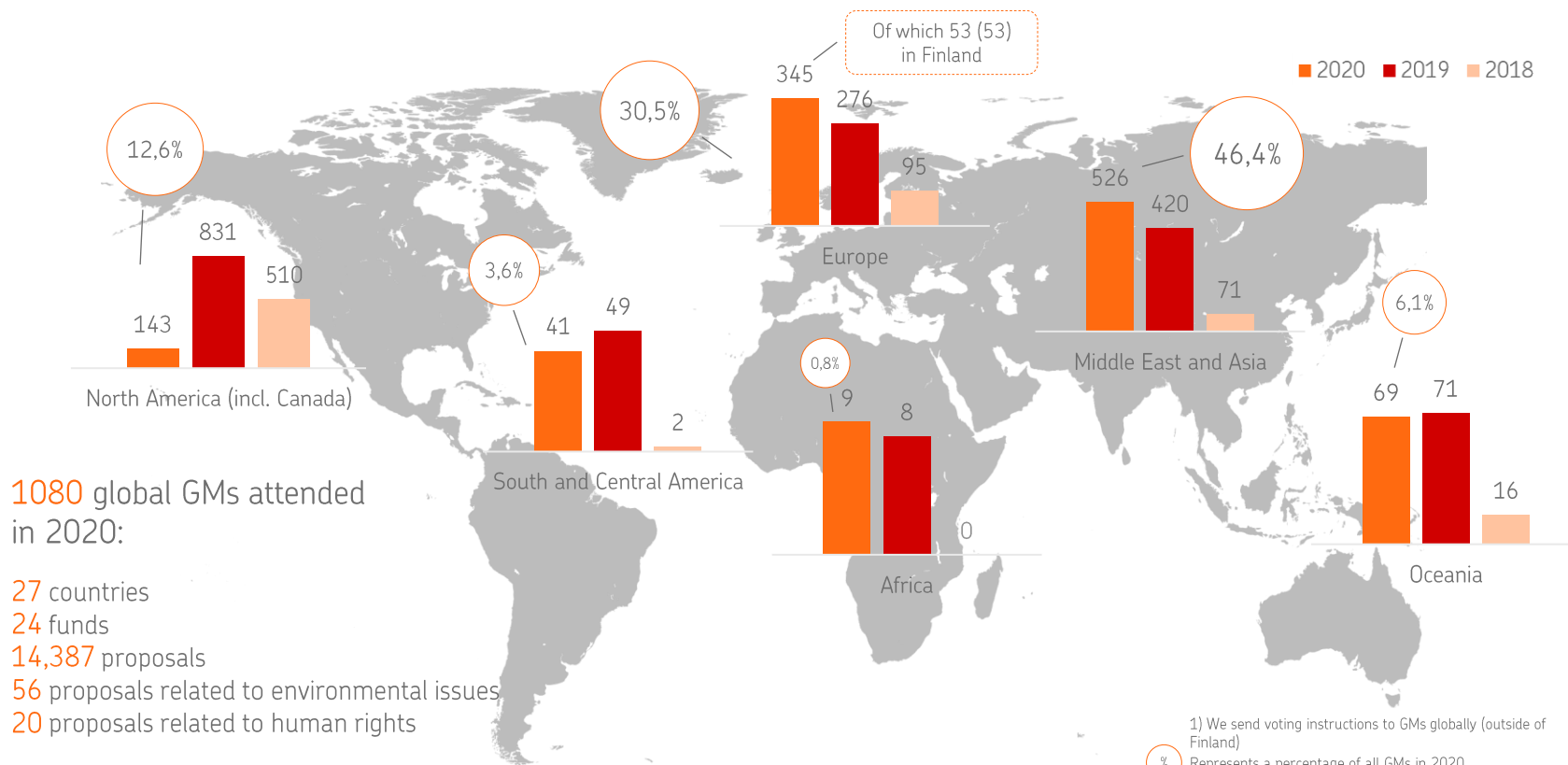
MANAGEMENT PROPOSAL TOPICS



SHAREHOLDER PROPOSAL TOPICS



General Meeting Attendance during 2018-2020 ⁽¹⁾



1080 global GMs attended in 2020:

27 countries

24 funds

14,387 proposals

56 proposals related to environmental issues

20 proposals related to human rights

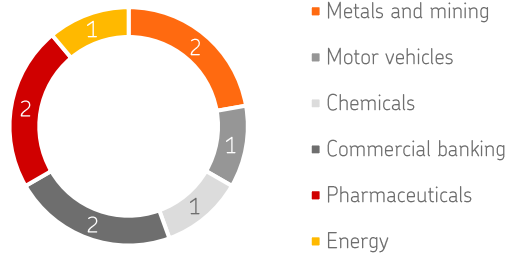
1) We send voting instructions to GMs globally (outside of Finland)

% Represents a percentage of all GMs in 2020

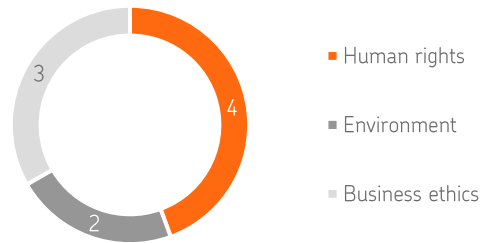
Bars show number of GMs

Addressing international norms violations in 2020

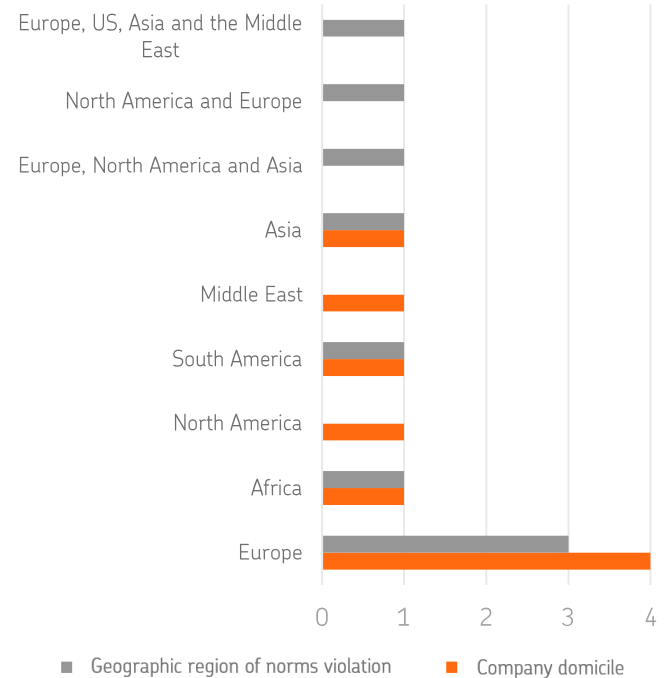
INDUSTRY



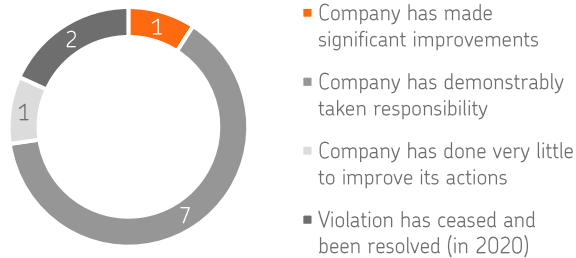
TYPE OF VIOLATION



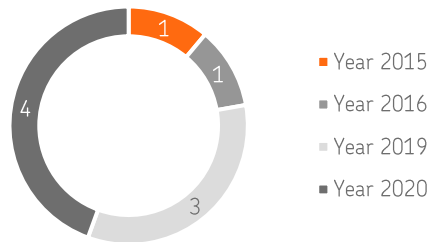
GEOGRAPHIC REGION OF NORMS VIOLATION AND COMPANY DOMICILE



PROGRESS FROM THE BEGINNING OF ENGAGEMENT



INITIATION OF ENGAGEMENT





News article: [OP Real Estate Asset Management Ltd installs 12 new solar power stations for its properties](#)

News article: [OP Vuokratuotto converts first residential property to ground source heat](#)

News article: [Properties managed by OP Real Estate Asset Management use renewable electricity](#)

News article: [OP Real Estate Asset Management to engage in Net Zero Carbon Buildings commitment](#)



The journey of real estate investments towards carbon neutrality

OP Real Estate Asset Management Ltd's AUM was approximately EUR 4 billion in the end of 2020. The company is Finland's fourth largest real estate investor*. Real estate accounts for about 40% of Finland's energy consumption, so we can naturally see that, as a major player, we have the opportunity and responsibility to take action to mitigate global warming.

In 2020, our most significant emission reduction measure was the purchase of renewable electricity. Our purchased electricity is generated by hydropower in 2020 and 2021. From 2022 onwards we will switch to electricity generated by wind power. As part of construction and renovation projects, we always assess the production potential of renewable energy, and implement geothermal, solar or air-to-water heat pump solutions whenever possible. By the end of 2020, we had built 18 geothermal power plants and 32 solar power plants.

Another major leap towards carbon neutrality in 2020 was taken when switching to carbon-neutral waste management for waste managed by Lassila & Tikanoja. Emissions from waste management are especially reduced by providing good recycling opportunities for users, but we also wanted to offset the emissions through Gold Standard certified afforestation projects. The compensation corresponds to approximately 70% of the amount of waste generated in our properties.

In 2020, OP Real Estate Asset Management reassessed and developed the company's sustainability program for its real estate investment operations, and a roadmap to carbon neutrality was built. For the roadmap, we performed a comprehensive site-specific emission calculation, which includes not only the energy consumption of the properties but also the annual emission estimate for new construction and repairs, as well as the carbon footprint of waste. In this way, we gained valuable additional information on our emission sources and can target measures where emission reductions are greatest. We are committed to carbon neutrality in terms of energy consumption in buildings by 2030. As proof of this, we joined the World Green Building Council's Net Zero Carbon Buildings commitment in December.

*) KTI market review spring 2021

The carbon sink of forest assets continues to grow

At the end of 2020, we managed more than 96,000 hectares of forest properties through the OP Forest Owner Fund. The fund is Finland's fifth largest forest owner.

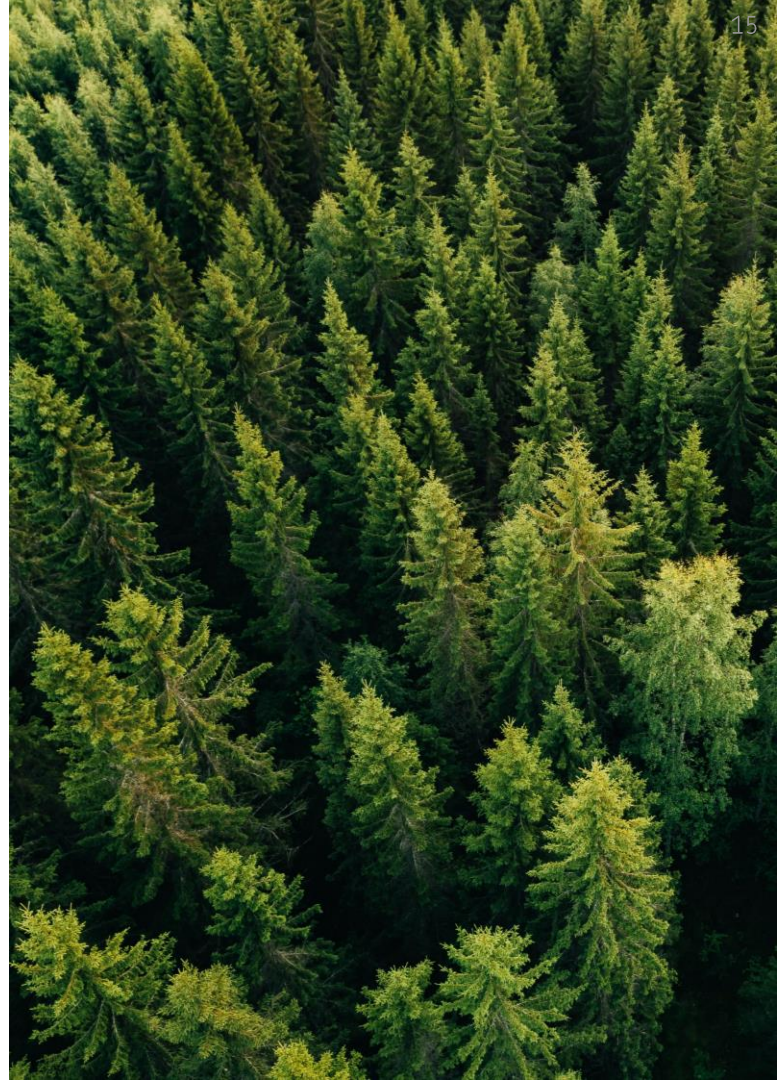
Forests act as carbon sinks when the felling is less than the annual growth. Part of the harvested wood is used for wood structures, making it a long-term carbon storage. This, too, has a positive effect on combating climate change.

At the end of 2020, the fund launched projects for forest fertilization, wasteland afforestation and mire restoration. These measures will have a positive impact on carbon sequestration and the protection of biodiversity. When the fund carries out new felling, the felling areas are cultivated with suitable tree species and the seedling care is carried out in accordance with good forest management recommendations. From the point of view of carbon sequestration, timely felling and maintenance work are essential for the growth of the stand.

Increasing renewable forms of energy production is key to combating climate change. OP Forest Owner promotes the construction of wind power in Finland by leasing land for wind power construction. In 2019, four project contracts were signed for the construction on the fund's properties, and in 2020, nine new projects have been agreed on. The mapping of new properties is continuing.



Blog post: [Vihreästä kullasta oma koti kullan kallis](#) (in Finnish)
(Home sweet home made of green gold)



Fund carbon intensity and exposure to green revenues

Fund	Carbon intensity coverage % 2019	Carbon intensity coverage % 2020	Carbon intensity 2019	Carbon intensity 2020	% change in carbon intensity 2019-2020	Green revenues % 2019	Green revenues % 2020	Change in green revenue 2019-2020
OP-Aasia Indeksi	96	97	148	114	-23 %	5,2	5,2	+0,0
OP-Amerikka Arvo	83	92	139	106	-24 %	3,8	2,5	-1,4
OP-Amerikka Indeksi	91	95	169	147	-13 %	3,0	5,4	+2,3
OP-Amerikka Kasvu	94	92	108	61	-44 %	2,8	4,0	+1,2
OP-Amerikka Pieniyhtiöt	91	97	84	77	-9 %	2,5	3,3	+0,9
OP-Eurooppa Indeksi	89	87	130	124	-5 %	3,2	4,9	+1,7
OP-Eurooppa Nousevat Tähdet	89	97	134	88	-34 %	4,0	7,3	+3,2
OP-Eurooppa Osinkoyhtiöt	93	90	87	110	27 %	4,4	3,3	-1,2
OP-Ilmasto	97	95	151	87	-42 %	54,9	53,1	-1,7
OP-Intia	75	89	895	614	-31 %	1,4	1,2	-0,3
OP-Japani	100	99	35	34	-3 %	0,5	1,7	+1,2
OP-Japanin Tähdet	100	98	80	74	-8 %	5,3	5,2	-0,0
OP-Kehittyvä Aasia	70	73	208	262	26 %	0,7	1,6	+0,9
OP-Kehittyvät Osakemarkkinat	89	89	349	246	-29 %	2,5	3,6	+1,0
OP-Kestävä Maailma	86	96	96	77	-20 %	6,3	6,2	-0,0
OP-Kiina	74	84	46	71	54 %	3,6	6,8	+3,2
OP-Kiinteistö	84	96	51	55	8 %	15,2	15,8	+0,5
OP-Korkotuotto	54	86	129	160	24 %	3,5	5,0	+1,5
OP-Latinalainen Amerikka	83	85	216	219	2 %	1,4	4,8	+3,3
OP-Maailma	97	90	165	122	-26 %	3,1	4,1	+1,0
OP-Maailma Indeksi	91	94	159	133	-16 %	3,3	5,5	+2,2
OP-Maltillinen	67	76	165	149	-9 %	4,2	5,3	+1,2
OP-Pohjoismaat Indeksi	94	93	130	90	-31 %	4,8	10,8	+6,0
OP-Private Osakestrategia	93	94	180	129	-29 %	3,8	5,4	+1,6
OP-Private Strategia 50	66	75	164	141	-14 %	3,6	4,9	+1,4
OP-Private Strategia 75	81	84	165	133	-20 %	3,8	5,2	+1,3
OP-Puhdas Vesi	96	95	279	140	-50 %	20,3	21,8	+1,5
OP-Rohkea	83	86	159	139	-12 %	4,5	6,0	+1,5
OP-Suomi	89	91	341	293	-14 %	5,7	10,9	+5,2
OP-Suomi Indeksi	94	95	241	245	1 %	5,1	7,9	+2,8
OP-Taktinen Salkku	87	83	156	130	-17 %	4,4	4,6	+0,2
OP-Vaurastuva Keskiluokka	59	73	39	71	84 %	0,1	0,3	+0,2
OP-Venäjä	80	97	1215	651	-46 %	0,1	0,2	+0,0
OP-Vähähiilinen Maailma	91	93	56	27	-52 %	3,0	3,4	+0,4
OP-Yrityslaina	66	89	222	172	-23 %	3,3	3,5	+0,2
OP-Yrityslaina Amerikka	67	88	89	126	41 %	2,7	4,4	+1,7

Historical carbon intensity numbers for all OP's mutual funds are available at <http://op.fi/responsible-investing>

Fund exposure to green revenues is the weighted average of each issuer's percent of revenue generated by goods and services, including alternative energy, energy efficiency, green building, pollution prevention and sustainable water.

Fund specific ESG analysis available in each fund's monthly review.

See more information on climate-related risks and opportunities in our [Climate Report 2020](#).



Read more about responsible investing at OP Asset Management: <https://www.op.fi/responsible-investing>