



2022

Responsible investment at
Tradeka-sijoitus Oy

1. Responsible investment at Tradeka-sijoitus Oy

For Tradeka-sijoitus, responsible investment is a combination of risk management and selection of progressive investment opportunities. Tradeka-sijoitus is an active investor with a long-term outlook. The company applies environmental (E), social (S) and governance (G) aspects to its ownership policies, investment analyses and investment decisions, in both direct investments and in its cooperation with asset managers.

60% of Tradeka-sijoitus' assets are invested in the global equity and fixed income market. The remaining 40% are long term investments in, primarily, real estate, equity, infrastructure and loan funds. Actively managed, liquid and well diversified, the investment assets are used to fund Tradeka Group's operations and new investments. The expected real rate of return is set at 4%.

Tradeka-sijoitus applies responsible practices that comply with international standards. The level of responsibility for each investment is analysed in connection with investment-related preparation, decision-making and follow-up. Corporate governance, dialogue with asset managers and other investors along with further advocacy also play a key role in Tradeka-sijoitus' responsible investment operations.

Tradeka-sijoitus raises awareness on responsible investment by ensuring transparency of operations, sharing information on various forums and engaging in cooperation with other investors. Tradeka-sijoitus is a founding member of FINSIF (Finland's Sustainable Investment Forum), established in 2010.





Tradeka has signed and committed to the UN Principles for Responsible Investment (PRI), refraining from making investments in countries in EU's list of non-cooperative jurisdictions for tax purposes or in other countries the company deems as tax havens. Tradeka-sijoitus reports on the performance of its responsible investment each year.

Tradeka-sijoitus thinks that responsible practices lead to better investment returns and help manage investment-related risks in the long term. By adhering to carefully structured investment processes and principles we can minimise miscalculations. Tradeka-sijoitus constantly develops its risk assessment related to investments and investment portfolios. Tradeka-sijoitus is engaged in continuous development of its portfolio and ESG reporting with Investment Research Finland (Suomen Sijoitustutkimus Oy), its primary external partner.

Application of Tradeka-sijoitus' general principles for responsible investment varies by asset category. We achieve the best efficiency and coverage in the monitoring of responsible investment for liquid assets. For long-term investments, such as private equity funds, asset managers' work is off to a good start. 2022 is the first year we will report on the status of responsibility measures for these funds. Guidelines for responsible investment are updated each year. See Tradeka's website for more information on corporate responsibility at Tradeka Group and Tradeka-sijoitus.

2. Cooperation with asset managers

Each year, Tradeka-sijoitus assesses the extent to which its asset managers take responsibility into account with regard to UN's Principles for Responsible Investment. Asset manager assessment is conducted on the basis of the ESG survey and the UN PRI Assessment Reports.

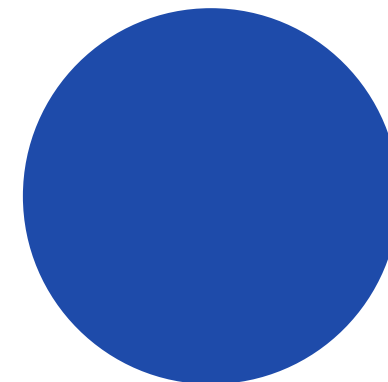
In terms of responsibility, asset manager activities are also monitored by engaging in active and regular dialogue concerning the current state and development of operations. Ongoing dialogue is maintained with all asset managers and investment representatives on corporate responsibility in general and on the ESG profiles of Tradeka-sijoitus' products. Tradeka-sijoitus also regularly participates in ESG meetings and training events organised by its asset managers.

Active asset managers participate in responsible investment initiatives or forums for the purpose of networking and uncovering new investment ideas. Tradeka-sijoitus encourages asset managers to take part in investment initiatives as this enables Tradeka-sijoitus' assets to positively contribute to development of responsible investment. Many asset managers employed by Tradeka-sijoitus are commendably proactive pioneers in sustainability and climate issues.

With the majority of Tradeka-sijoitus assets invested in various funds, asset managers play a particularly important role. Tradeka-sijoitus expects all its asset managers to commit to UN's Principles for Responsible Investment, requiring them to consider ESG aspects in their investments processes and develop their responsible investment policies.

Tradeka-sijoitus reports on compliance with UN's Principles for Responsible Investment in accordance with international PRI cooperation. The reporting also includes information on asset managers. The 2020 report saw a significant upgrade, and it is therefore not comparable to previous years' reports. The two-part PRI Assessment and Transparency Report was published in 2022. Tradeka-sijoitus received an overall score of three stars (out of five). Assessment of both active and passive equity and fixed income funds and real estate fund investments were areas where Tradeka-sijoitus rated highest (four stars). Areas with room for improvement included direct fixed income investments.





ESG-survey

The volume of collected ESG data is constantly increasing, and using MSCI ESG Research databases is increasingly common. A step towards standardising investment-related market policies, this helps make portfolio information more comparable. Many asset managers also use other external service providers to help improve coverage and their ability to consider different approaches. Investment Research Finland, a Tradeka-sijoitus partner, uses a database maintained by MSCI ESG Research.

Tradeka-sijoitus monitors how and how often asset managers report on their activities related to responsible investment and its outcomes. During the financial year, monthly reporting on funds



has significantly improved; Tradeka-sijoitus currently gets a responsibility overview of its investments up to every month.

With its own ESG survey, Tradeka-sijoitus is able to determine any responsibility aspects relevant in an asset manager's investment analysis. Asset managers are also expected to provide tangible examples on the impact of responsible investment principles on individual investment decisions, on both company and industry level. Along with questions on ESG approach and environmental aspects, Tradeka-sijoitus has supplemented its survey with questions on social responsibility. The purpose is to have asset managers review e.g. equality aspects and employee circumstances when exploring investment opportunities.

2022 ESG survey results

Based on a survey for asset managers that managed listed instruments during 2022, documentation of asset manager's own principles and policies has significantly increased and they have the same ESG targets as the investments themselves. This is a new market policy.

Exclusion lists have been amended over the course of the year, particularly in terms of coal use: the share of coal use was limited to 15–20% of total revenue, down from 25%. Ownership policy programs are now better focused. We aim to increase investor involvement in annual general meetings with the help of e.g. ISS, an international proxy voting service provider. Likewise, PRI-related research increasingly highlights the importance of active investor involvement in annual general meetings.

SFDR article classifications and taxonomy have kept asset managers busy, and now the work has expanded to fund management. According to asset managers, they will be starting with Principal Adverse Impact reporting – with some already using the appropriate analysis models. The reporting begins in 2022 or early 2023.

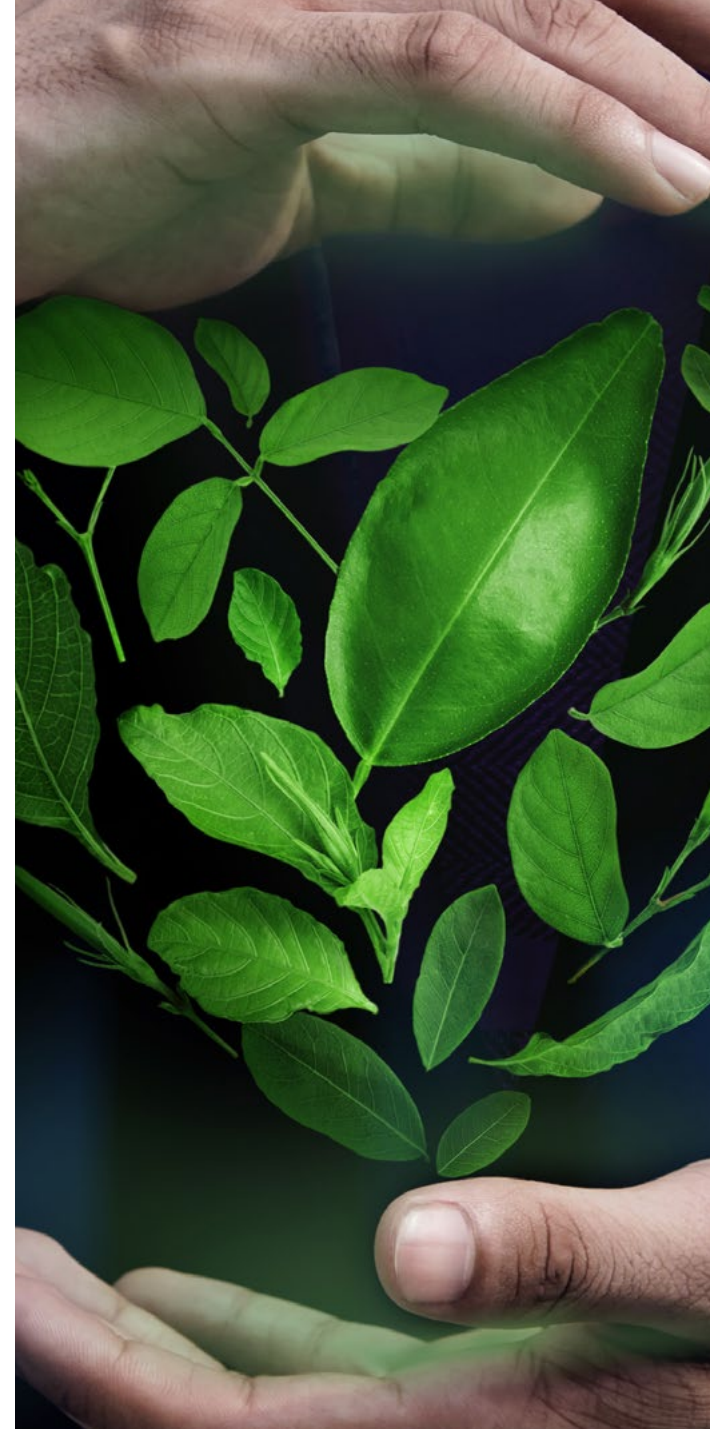
In autumn 2022, all asset management companies used by Tradeka-sijoitus were invited to complete a survey regarding their funds or the funds they broker. As all asset managers responded, all the company's

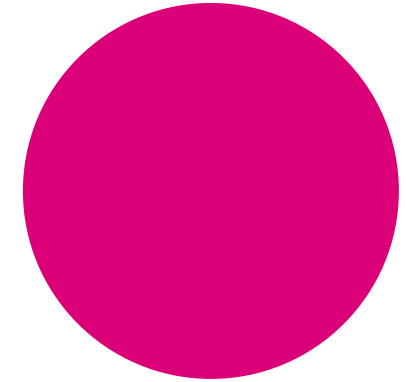
investments were covered. The answers in the most recent survey clearly indicate the extent of ESG activities both deepening and expanding over the recent years. We can therefore be happy with the level of competence in responsible investment among domestic operators.

2022 saw the first ESG survey for asset managers that manage long-term investments (such as private equity and real estate funds). The survey particularly highlighted carbon footprint calculation.

Based on the survey, fund managers recognise the need to apply practices for responsible investment in both investments and funds, and to report on them. While goals are nearly identical, the level of effort and the means employed vary – often correlating with asset management company's size, but asset category also has an effect.

The survey provided a detailed picture of fund management companies' genuine contributions to responsible investment. Areas of improvement included the coverage of carbon footprint calculation as well as taxonomy where measures were often still in planning. With new funds, ESG aspects naturally come into play at the fund-raising stage.





3. EU taxonomy classification of investment products

According to the Sustainable Finance Disclosure Regulation (SFDR) that entered into force in the EU in 2021, investment products marketed in the EU have to be labelled under one of the following three classifications:

- **Article 6** (grey)
The fund is not marketed as a sustainable fund or does not consider EU's criteria on environmentally sustainable economic activities in its investment process.
- **Article 8** (light green)
The fund promotes environmental and/or social characteristics with their investment decisions, and companies in which the investments are made follow good governance practices.
- **Article 9** (dark green)
The fund has a sustainable investment objective in accordance with EU criteria.

Classification of Tradeka-sijoitus funds by article as of Dec 31, 2022

Article	Equity funds			Fixed income funds			Total		
	pcs	million €	% share	pcs	million €	% share	pcs	million €	% share
6	2	10,7	8	0	0	0	2	10,7	5
8	25	119,1	89	16	82,1	94	41	201,2	91
9	2	3,8	3	1	5	6	3	8,8	4

Majority of the index funds used by Tradeka-sijoitus have switched over to indexes that emphasise environmental aspects. With the exception of two investments, index funds have also been classified under article 8. Investments in funds classified under article 9 have a particularly strong emphasis on companies that meet sustainability criteria.

Steered by EU regulations, classification of fund products under the EU taxonomy is likely to come into further focus in the next few years. In Tradeka-sijoitus' opinion, classification of funds has been somewhat inconsistent in the past. This is why it is possible for some investment funds to switch classifications in the future.



4. Climate strategy

Tradeka-sijoitus is building an investment portfolio consistent with the net zero global emissions by 2050 objective. We will be taking measures that will reduce the carbon risk of the portfolio in the long term while keeping profits in line with the objectives of the investment plan.

For 2022, the weighting of strategic allocation in the investment portfolio was changed to reduce the carbon footprint of our investments. In practice, investments have increasingly been allocated to companies that are already capable of environmental efficiency. The transition was funded by reducing investments in areas where investment opportunities matched the company's climate goals poorly. We will continue to implement this policy in 2023.

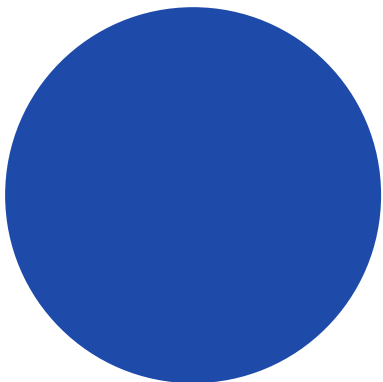
The work to reduce carbon risk begun in the spring of 2020. We regularly commission an ESG report from Investment Research Finland. The report includes carbon risk assessments for listed companies. The calculations are based on data provided by MSCI ESG Research. Average carbon intensity is the metric used for the company's carbon risk assessment, i.e. company's CO₂ emissions in proportion to its revenue in dollars.

The portfolio's average carbon intensity is calculated by weighing company figures against the investment's market value.

When selecting investments, it is important to identify how asset managers take carbon risk into consideration in their investment process and reporting. With funds, Tradeka-sijoitus strives to strengthen investor cooperation for the purpose of mitigating climate change. Funds are, among other things, encouraged to report on potential financial risks or opportunities related to climate change in the portfolio, in accordance with the TCFD reporting framework.

While various carbon sequestration methods are still quite expensive, the pace of development is fast, meaning that Tradeka-sijoitus will actively look for opportunities to invest in carbon sequestration or its development. Forest assets are also a target of our fund investments.

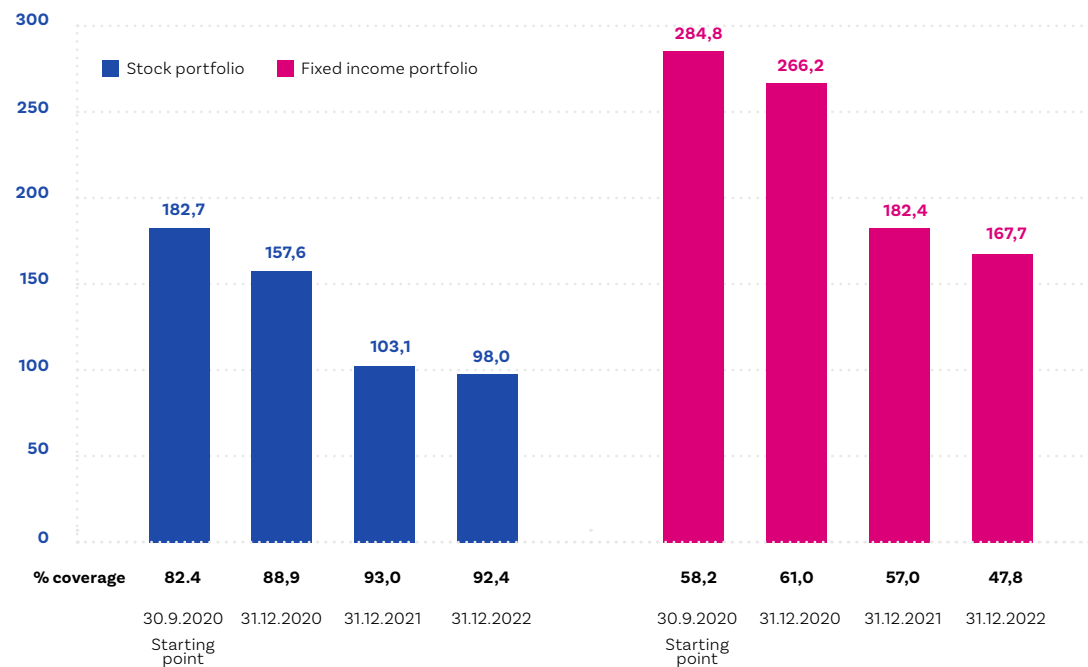
Tradeka-sijoitus keeps track of the latest climate change research and the effect current data has on the company's own climate targets. Our climate strategy is updated regularly.



Investment carbon risk

Since our climate strategy was created, our liquid portfolio has seen positive developments, and both liquid investment portfolios reached their 2022 targets; our stock portfolio in particular is well ahead of schedule. The values for fixed income investments have also improved, but further improvement of their coverage still requires some work.

Carbon risk of investments (tCO₂e/revenue, M€)



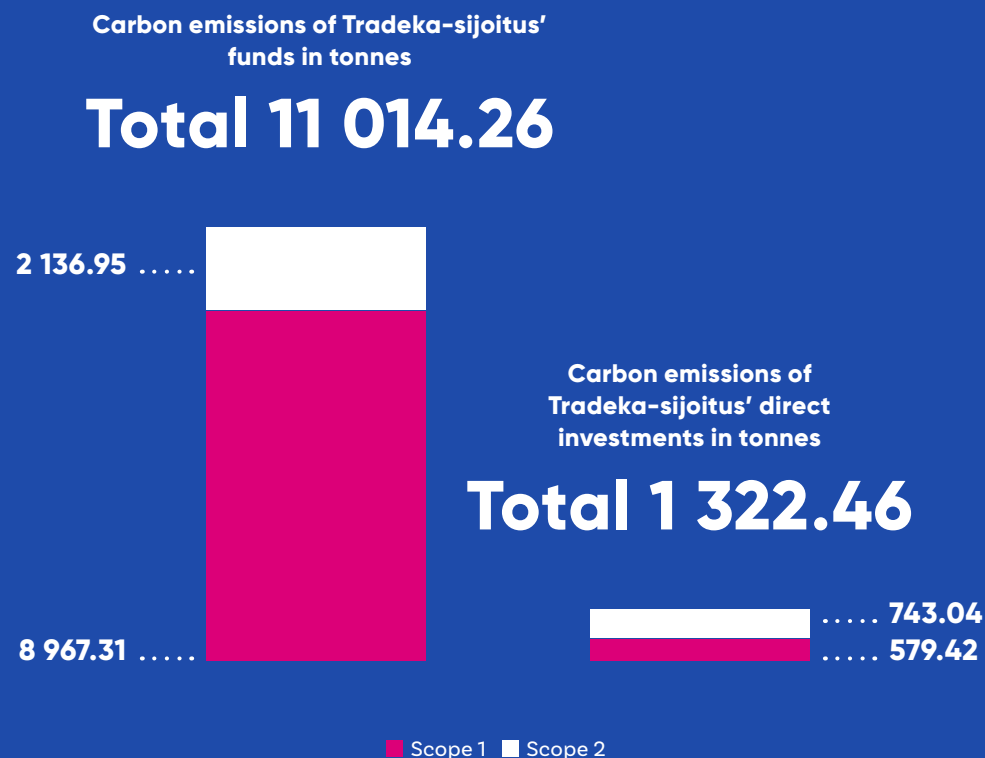
Target	Stock portfolio	Fixed income portfolio
-15 % by 2022	155,3	242,1
-30 % by 2023	127,9	199,4
-40 % by 2025	109,6	170,9
-50 % by 2027	91,4	142,4

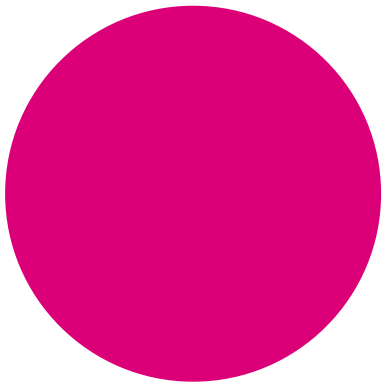
Climate impact

In addition to the carbon intensity described above, Scope 1 and Scope 2 carbon emissions within the SFDR framework regulation have been calculated for Tradeka-sijoitus' liquid stock and fixed income investments since 2022. They indicate our total tCO₂e per euros invested. Scope 1 represents emissions induced by the investment itself, and Scope 2 indicates the emissions induced by the production of the energy used by the investment. The carbon emission figures (Scope 1 + Scope 2) that can be calculated from the investment portfolio as of Dec 31, 2022, are reported in conjunction with Tradeka Group's figures.

The calculations are based on data provided by MSCI ESG Research. The tCO₂e figures for Scope 1 and Scope 2 of each company are adjusted in relation to the company's enterprise value (EV) which includes both equity and debt. The allocated emissions for an asset are calculated by multiplying the quantity of Tradeka-sijoitus' assets with this relative emission figure.

Carbon emissions of liquid Tradeka-sijoitus' investments



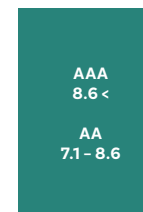
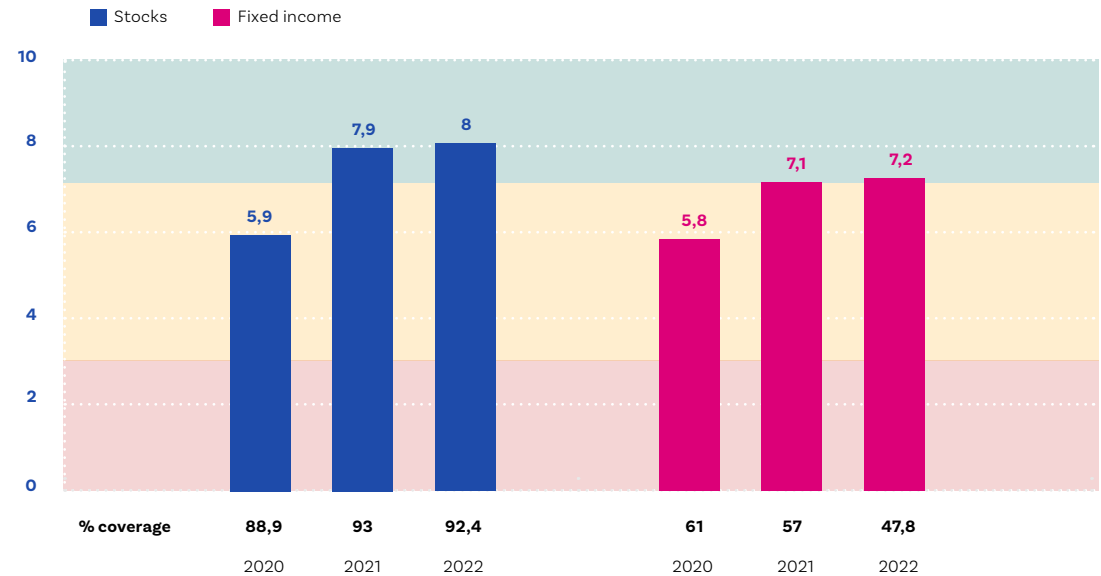


Trends in ESG rating

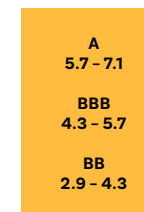
The ESG ratings of liquid stock and fixed income investments received the Leader rating on the MSCI ESG Research scale. The coverage of calculations for stock investments is at a very good level. The coverage of calculations for fixed income investments has declined as the share of fixed income fund investments of all fixed income investments has decreased during the review period.

The coverage of ratings calculated from the entire Tradeka-sijoitus portfolio improves as the reporting of unlisted investments is further refined in the coming years.

Trends in ESG rating



LEADER



AVERAGE



LAGGARD

5. Measures for 2023

Tradeka-sijoitus is committed to investing responsibly in the long term. It develops its operations to reflect new and constantly evolving practices for responsible investment. Cooperation with asset managers is the most important channel through which to operate. Tradeka-sijoitus advances Tradeka Group's sustainability and climate targets within what is possible in our investment activities.

Tradeka-sijoitus continuously improves its reporting, primarily in cooperation with Investment Research Finland. Monitoring for our investment portfolio is being developed into a comprehensive system that both indicates the financial status of the portfolio and provides information on related ESG indicators. Tradeka-sijoitus is prepared to use other external service providers if necessary.

In the 2023 investment plan, the implementation of set goals continues specifically in terms of the composition of our portfolio, reporting, and acquisition of new sustainable assets, such as green bonds.

We will engage in active dialogue on reporting and its development with the fund management companies we use for long-term investments. We will also amend the ESG survey by including more details on issues important to Tradeka-sijoitus.



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