



# Varma's Environmental Policy

**Varma's environmental policy defines what environmental responsibility means for Varma. The policy identifies and describes ways to manage the environmental risks and opportunities arising from our operations, investees, and supply chain. It recognizes the significance of the entire value chain in our environmental impacts.**

Environmental responsibility is one of the essential aspects of our sustainability efforts. The foundation of our sustainability work is based on building a more sustainable world for current and future generations. Environmental responsibility guides us, covering our entire operation, with climate change mitigation and adaptation, and biodiversity loss mitigation being the central areas.

In the coming years, various phenomena such as global warming, biodiversity loss, and environmental pollution threaten the future and well-being of our planet. It is estimated that failing to adapt to climate change and prevent biodiversity loss are among the most significant risks facing the Earth in the next decade. These risks also affect Varma, whose mission

is to invest pension assets profitably and securely. Risks can be physical, legislative, transitional, or systemic in nature, affecting Varma's entire value chain. Therefore, our goal is to consider the risks and opportunities posed to us by these threats and minimize the negative environmental impacts of our operations.

As with all sustainability issues, we consider the double materiality perspective when addressing biodiversity and climate change. Double materiality means considering both the company's impacts on society and the environment and the impacts of sustainability factors on the company. Biodiversity loss and climate change pose sustainability risks to us and our investments and conversely, we and our investees impact society and the environment. Risk management related to sustainability is integrated into our risk management and is thus described in the operating principles of the risk management system. Sustainability-related risks are addressed in Varma's risk and solvency assessment and in reporting to the board and management.

## UN Global Compact principles guide our responsibility

Varma is committed to adhering to the principles of the UN's Global Compact corporate responsibility initiative and its environmental responsibility principles.

**Principle 7:** Businesses should support a precautionary approach to environmental issues.

**Principle 8:** Businesses should undertake initiatives that promote environmental responsibility.

**Principle 9:** Businesses should encourage the development and diffusion of environmentally friendly technologies.

Varma's core mission, i.e., the implementation of statutory occupational pension security, is a significant societal task, highlighting the demand for ethics and transparency. We comply with all applicable laws and regulatory requirements in all our operations. In fulfilling its societal mission, Varma must act exemplarily, which also requires ethical behavior and good reputation from our investees and suppliers.

We [require](#) our investees to adhere to international norms and agreements in addition to national legislation. This means, among other things, adhering to the principles of the UN's Global Compact initiative. The Global Compact principles cover the UN's declarations on human rights and corruption, the ILO's labor conventions, and the Rio Declaration agreed upon for sustainable development.

We expect companies in our supply chain to commit to managing their financial, social, and environmental impacts. Additionally, our direct suppliers are required to ensure that their subcontractors comply with legislation and [Varma's Supplier Code of Conduct](#).

## Science-Based Targets for emission reduction

Varma has received official validation for its emission reduction targets, which are based on the Science Based Targets initiative (SBTi). These targets commit companies to reduce their emissions to limit global warming to 1.5 degrees Celsius. The international joint initiative sets clear and ambitious guidelines for private sector companies to reduce their emissions. By joining the initiative, companies commit to reducing their greenhouse gas emissions in accordance with the Paris Agreement.

Varma aims to reduce greenhouse gas emissions related to its own operations (Scope 1 and 2) by 60% by 2030 compared to 2021 levels. Varma's own operational emissions come from the use of company cars and the carbon dioxide emissions of its real estate portfolio, which result from the consumption of electricity and heating in our rental properties, including residential buildings and premises. Varma is a significant real estate investor in Finland.



For indirect greenhouse gas emissions (Scope 3), the target has been set for Varma's investment targets in listed stocks, listed bond investments, and real estate funds. In these asset classes, Varma aims to increase the proportion of companies committed to the SBT initiative to 51% by the end of 2027. In 2021, a total of 28% of investees had set their own SBT targets.

In the target setting year of 2023, listed stocks, listed bond investments, and real estate funds covered 45% of Varma's investment portfolio.

## Environmental aspects of our operations

Varma's core mission is securing pensions. We manage the statutory occupational pension security for private entrepreneurs and employees. Implementing our core mission causes environmental impacts from the facilities and vehicles we use and the production of the goods and services we purchase. On the other hand, various environmental impacts on our operating environment, such as climate change, can pose risks and opportunities to our pension insurance core mission.

Our own operations and the goods and services we consume account for only a small part of Varma's total greenhouse gas emissions. However, we can directly influence these, and thus, we aim to minimize their environmental impacts.

Our environmental goals for our operations are part of the overall emission reduction targets. The most significant impacts come from the facilities we use and work-related travelling. In the facilities we use, our goal is to operate energy-efficiently and utilize self-produced and purchased carbon dioxide-free energy. For work-related travel, including commuting, company car use, and business travel, we encourage our staff to choose environmentally friendly modes of transport through flexible working practices, environmental responsibility guidelines, company car policy, and various office solutions. The environmental aspects and emission reduction targets of our operations are the responsibility of the CFO, who reports to the CEO.

## Environmental aspects of the supply chain

Our supply chain's sustainability requirements are recorded in the [Supplier Code of Conduct](#). The requirements are based on the principle that Varma commits its direct suppliers to sustainability requirements. Suppliers are obligated to ensure the sustainability of their subcontracting and to assess, reduce, and prevent environmental impacts in the value chain.

We require suppliers to respect the environment and be aware of their environmental impacts and consider them in their operations. Environmental legislation must be strictly followed. Special attention must be paid to assessing, reducing, and preemptively addressing environmental impacts to prevent environmental risks.

We encourage our suppliers to use a certified environmental management system or documented operating method for managing environmental issues. We also encourage the development of environmentally friendly solutions. Especially in emission-intensive sectors, suppliers should pay special attention to their carbon footprint and environmental impact reduction goals. We also aim to encourage suppliers to set science-based emission reduction targets (Science Based Targets, SBT) by our example and monitor our suppliers' emission reduction target setting.

Our most significant purchases are directed towards construction, property maintenance, and IT systems. We also aim to work with our suppliers to identify and reduce environmentally relevant impacts in the industry. The heads of functions making purchases, who report to the CEO, are responsible for considering environmental aspects in procurement.

## Investments

Environmental considerations are included in our investment process. Varma's investments are exposed to environmental risks, and the investments simultaneously have significant impacts on the environment. We are increasingly investing in financial assets that consider climate change and biodiversity loss in their operations, for example, by developing solutions for adapting to climate change and considering natural diversity. The investment director, who reports to the CEO, is responsible for considering the environmental aspects of investments.

We monitor that our investees comply with both national laws and international agreements concerning environmental aspects. Considering climate change and biodiversity is part of our norms-based violation monitoring. It is of utmost importance for Varma that the investee's situation is corrected in the desired direction in monitoring the progression of violations. Additionally, we actively contribute to actions mitigating the effects of climate change and biodiversity loss, both independently and in collaboration with other investors, and through third parties as part of a larger investor group.

Voting in shareholder meetings is one of the tools in our responsible investment toolkit. Through voting at shareholder meetings, we aim to promote both biodiversity conservation and climate change mitigation and adaptation, as well as reporting on natural diversity and climate issues.

## Climate change

Investors must prepare for significant changes brought by climate change. Greenhouse gas emissions from human activity have already changed the climate, and the resulting risks are increasingly affecting investors financially. The operating conditions of many industries and companies are changing. In some sectors, such as electricity production and the automotive and mining industries, change has already begun. This also creates opportunities for investors.

We support actions that mitigate the effects of climate change and enable adaptation to change.

Varma has been committed to developing its investments and investment process according to the Paris Agreement since 2016. From 2024 to 2035, we will further develop our investment portfolio:

1. Investing in financial assets that enable the transition to lower emissions and offer business solutions to issues caused by climate change.
2. Developing cooperation in the financial markets to promote climate change mitigation and adaptation.
3. Focusing on the analysis of financial risks brought by climate change in the investment portfolio.
4. Reporting transparently on the impacts of climate change on our investments and the impacts of our investments on the climate.

### 1. We invest in climate change mitigation solutions

We steer our investment portfolio away from investments based on the utilization of fossil fuels by selecting financial assets that recognize opportunities related to climate change mitigation and adaptation. We avoid investees that are significantly exposed to the risks of climate change.

Our tools for managing financial risks related to climate change include exclusion, active ownership and engagement. By reducing the greenhouse gas emissions of our investments, we also invest profitably and securely.

### 2. We collaborate with other investors

We promote cooperation in the financial markets to mitigate climate change and adapt to it, as well as participate in public discussions on the impacts of climate change at events and through cooperation initiatives. We are involved in developing business and investment strategies that reduce the greenhouse gas emissions of our investees.

Especially in fund investments, our goal is to develop cooperation among investors to mitigate climate change. Our goal is to engage, alone and together with other investors, how investment funds consider climate aspects as part of their responsible investment practices. We encourage funds to report on financial risks and opportunities, set emission reduction targets based on science (Science Based Targets, SBT), and assess their investment portfolios' emissions according to the reporting standards defined by the Partnership for Carbon Accounting Financials (PCAF) if emissions data is not otherwise available.

### 3. Identifying and managing climate risks and opportunities

From an investor's perspective, climate change poses both physical and transition risks that affect the value of investments. Physical risks are divided into acute and chronic. They refer to challenges to companies and society caused by climate change, such as sudden damage from extreme weather conditions or the depletion of natural resources over a longer period. Transition risks involve changes in regulation, technology, and consumer behavior as the economy transitions to low-carbon. Transition risks can also include requirements for energy security and self-sufficiency.

A just transition to a low-carbon economy requires, among other things, promoting employment opportunities in new and transitioning industries, retraining, and ensuring affordable and reliable energy availability.

We have identified industries that offer the largest opportunities for emission reductions with their business and are significantly exposed to transition risks from climate change mitigation. For these industries, we have also identified an increased need for due diligence. The due diligence process for climate change concerns the following industries:

- Oil and gas industry
- Electricity and heat production
- Automotive industry
- Mining industry
- Building materials industry
- Transportation industry
- Forestry industry
- Chemical industry.



In addition to these industries, we analyze the transition risks from climate change to our properties to identify key risks related to political decision-making, legislation, technology, markets, and reputation. We assess the significance and impacts of risks.

In assessing physical risks, we focus on evaluating the climate burden of real assets and assess, for example, the weather resilience of properties and the risks of storm surges and runoff. The assessment of physical risks emphasizes both broader geographical areas and the analysis of very local climate impacts.

We assess the risk of our investments' fossil reserves as part of the assessment of climate change risks. When the goal is to limit global warming and not all fossil reserves in the ground can be used, a risk is posed to the value of fossil reserves.

#### 4. Reporting on our climate actions

We prepare for the financial impacts of climate change by developing the assessment of financial risks. We utilize forward-looking data, such as temperature scenarios, in assessing and reporting on the climate risks of investments.

A climate-aware investment portfolio requires strong scientific and current knowledge and tools for developing investment activities. We use the latest scientific knowledge and tools to assess the impacts of climate change.

We follow the recommendations of the Partnership for Carbon Accounting Financials (PCAF) in reporting our investments' carbon dioxide emissions and report the figures annually.

#### *Integrating climate issues into the investment process*

We aim to identify new investment opportunities brought by climate change and have created a climate-friendly investment allocation that includes investment targets,

- whose business benefits from climate change mitigation actions
- whose anticipated emissions are in line with the Paris Agreement
- that have a clear strategic and scientifically validated emission reduction target that would limit global warming to 1.5 degrees Celsius
- whose operations offer carbon sequestration or carbon capture.

Our goal is for the allocation to make up 50 percent of the investment portfolio by the end of 2027.

The IPCC's climate report in 2021 outlined that global greenhouse gas emissions should be cut by 50 percent from 2016 levels by 2030. At the same time, methane emissions must decrease by one-third. Both emission reduction targets and increased reporting on the financial impacts of climate change create new regulatory risks for investors. We believe that carbon-efficient and emission-reducing investment targets have the best conditions for success. Limiting global warming to 1.5 degrees Celsius compared to pre-industrial times requires that not all discovered fossil fuel reserves be utilized.

We have set targets for reducing absolute emissions for Varma's entire investment portfolio for 2025 and 2030. At the same time, the proportion of investments classified as carbon sinks in the portfolio should increase.

In addition to Science Based Targets emission reduction targets, our goal is to reduce the absolute scope 1 and 2 emissions of Varma's entire investment portfolio compared to 2021:

- -25 percent by the end of 2025
- -50 percent by the end of 2030.

We also aim to increase investments classified as carbon sinks in our portfolio.

We recognize the differences in the quality of climate-related information between listed and unlisted investments. In addition to better transparency, listed investment targets offer better liquidity to the investor, allowing portfolio adjustments to be made quickly even over a short period.

Our goal is to reduce the carbon intensity, i.e., the ratio of greenhouse gas emissions to revenue, of our listed stock and corporate bond investments as follows:

- -40 percent by the end of 2025
- -50 percent by the end of 2027.

We prioritize financial assets whose business benefits from climate change mitigation and that have a lower risk of exposure to the impacts of climate change. The most significant opportunity for climate change mitigation comes from investments in industries such as oil and gas, electricity, and



heat production, automotive, mining, concrete, transportation, building materials, chemical, and forestry industries that offer alternative products or services to the use of fossil fuels. We also prefer companies whose energy use is increasingly renewable and whose operational activities are resource-efficient in the use of raw materials and other production factors.

In investments to electricity generation, we utilize a low-carbon roadmap. This means that

- investments in fossil fuel-based electricity production businesses will decrease in proportion or faster than the roadmap requires, i.e., they will be no more than 10% of the investment portfolio's electricity production capacity in 2030.

We use temperature scenarios produced by NGFS (The Network of Central Banks and Supervisors for Greening the Financial System) in the roadmap. NGFS is a global network of central banks and supervisors that has published its recommendations for central banks on monitoring climate risks. The network's purpose is to develop the best ways to identify climate-related risks and increase the conditions for sustainable finance.

Investment funds manage a significant portion of our investments. We aim to manage the weight of industries containing climate risks through company and I fund selection. We select funds that recognize investment opportunities related to climate change mitigation and adaptation. We avoid investees that are significantly exposed to the risks of climate change.

In private equity and infrastructure investments, investment horizons are long, making it particularly important for the investor to consider the changing operating environment due to the progression and mitigation of climate change. Our goal is to prioritize investments with clear emission reduction targets in their operations.

In fund investments, our goal is to increase the proportion of climate-aware funds to 50 percent of all fund investments by 2025.

### *Exclusions*

We do not make new investments in companies whose revenue, production, or production capacity is based more than 10 percent on coal. The exception to this general rule is companies with a scientifically validated emission reduction target that would limit global warming to 1.5 degrees Celsius. We do not finance coal-based projects, nor do we invest in companies planning new coal investments.

We are committed to divesting from all coal investments by the end of 2025. Additionally, we commit to excluding investments in oil drilling from our portfolio by the end of 2030. These commitments cover Varma's entire investment portfolio. Coal and oil drilling are not strategic investment targets in Varma's investment activities.

We regularly review the climate actions of our investment targets' value chains and, for example, do not use brokers for whom companies producing fossil fuels constitute a significant part of their business. Our goal is also to develop the reporting of investment targets on energy use and carbon footprint together with mutual funds.

## **Biodiversity**

Biodiversity is essential for a thriving life. Its decline poses significant risks to the economy and business operations. The European Union's biodiversity strategy aims to halt biodiversity loss and initiate the recovery of natural diversity by 2030. This goal emphasizes the importance of preserving natural diversity. The Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) has identified land and sea use and their changes, direct exploitation of animals and plants, climate change, pollution, and invasive species as the main drivers behind biodiversity loss.

In response to these challenges, we conduct systematic, portfolio-wide assessments of biodiversity. This includes setting goals and reporting. Active monitoring and updates according to the development of global actions against biodiversity loss are also essential. These actions can promote the protection of biodiversity and reduce related risks to the economy and business operations.

### *Identifying and managing biodiversity loss risks, impacts, and dependencies*

Almost all industries face risks from biodiversity loss. Risks can be divided into physical, legislative, transition, and systemic risks. Physical risks include, for example, the depletion of natural resources or disturbances in the operating environment. Legislative risk refers to increasing regulation and international agreements. Transition risks involve changes in the operating environment, technology, and consumer behavior due to measures to prevent biodiversity loss. Systemic risk refers to the extreme risk where biodiversity loss could lead to the collapse of entire regional ecosystems.

Varma has identified industries with the most significant risks related to biodiversity through their impacts and dependencies. The industries align with the risk industries defined by the TNFD reporting framework (Taskforce for Nature-related Financial Disclosures). We encourage our investees in risk industries to develop policies on biodiversity and report according to TNFD. The policies may include:

- Strategies to reduce biodiversity impacts.
- Policies on integrating biodiversity into risk management.
- Reporting on the impacts, risks, and dependencies of their operations and metrics to verify them.
- Goals concerning biodiversity.

We monitor the extent to which our investment targets report according to TNFD recommendations. We report on our investments in risk industries and sensitive areas according to TNFD.

In addition to industries, we examine geographical areas vulnerable to biodiversity loss where we have investments or operations and report on them. We classify as sensitive

- areas important for biodiversity and/or
- areas with thriving and resilient ecosystems.

We also aim to manage the weight of industries containing biodiversity risks through company and fund selection. We select investment funds that recognize investment



opportunities related to biodiversity conservation. We avoid investees significantly exposed to the risks of biodiversity loss.

#### *Integrating biodiversity into the investment process*

Biodiversity is integrated into the investment process. In the integration, we first focused on our direct investments and high-risk industries. We have assessed sustainability impacts, risks, and opportunities using the double materiality analysis in line with sustainability reporting. Both climate change and biodiversity loss bring significant sustainability risks that investors must prepare for. Varma has defined industries with an increased need for due diligence. The due diligence process for biodiversity concerns the following industries:

- Industries significantly exposed to climate risks, such as oil and gas, electricity, and heat production, automotive, mining, concrete, building materials, forestry, transportation, and chemical industries.
- Industries significantly exposed to biodiversity risks, such as food, pharmaceutical, and cosmetics industries, packaging material manufacturers, fashion and luxury goods industries, and waste management companies.

#### *Exclusions*

We do not make new investments in companies with significant operations in areas vulnerable to biodiversity loss. We also do not invest in companies that have violated national laws or international agreements, and there are no credible plans or evidence of sufficient progress in correcting the violation.

#### *Cooperation with other investors*

We promote cooperation in the financial markets to mitigate and halt biodiversity loss and participate in public discussions and cooperation initiatives on the impacts of biodiversity loss.

We encourage our investees to report on financial risks and opportunities according to the TNFD reporting framework (Taskforce on Nature-related Financial Disclosures) and set science-based SBTN biodiversity targets (Science Based Targets for Nature). The science-based biodiversity targets guide helps companies set biodiversity-related goals. TNFD and SBTN complement each other.

#### *Active ownership and influence*

One way for investors to manage risks caused by biodiversity loss is to **engage investees**. We recommend companies report transparently on current and future impacts of biodiversity loss on the company's business and growth opportunities. We encourage our investees to manage risks and policies regarding biodiversity. We engage companies in risk industries and encourage them to report transparently on their operations' impacts and risks related to biodiversity loss. Biodiversity consideration is part of our norms-based violation monitoring.

#### *Reporting on biodiversity*

We need scientific information to stay aware of our portfolio's risks, impacts, and dependencies related to biodiversity. We use the latest scientific knowledge and tools to assess the impacts of biodiversity loss. Initially, we will focus on reporting on listed investments. As data quality improves, we will expand reporting to other asset classes.

Our reporting covers risks and opportunities related to biodiversity. We also assess our impacts and dependencies on biodiversity. Additionally, we report on our goals, actions, and metrics we follow.

## Direct real estate investments

As a property owner, we aim to reduce the environmental impacts of our properties throughout their lifecycle. The key environmental responsibility goals for real estate investments include climate change mitigation and adaptation, supporting the circular economy, and considering biodiversity. The climate risks of direct real estate investments are considered part of the investments' climate risks.

Construction and real estate play a central role in mitigating several environmental impacts and adapting to environmental changes. This challenges the industry and leads to increasingly strict legislation and a market demanding environmental responsibility. We believe that developing the energy efficiency of properties and utilizing environmental certifications as guiding tools will improve the environmental responsibility of our real estate portfolio and reduce the portfolio's financial risks.

We implement environmental responsibility in property management, development projects, property acquisitions, and the procurement of materials and services related to property operations. Additionally, we aim to enable property users to make environmentally respectful choices that also support their environmental goals.

## Climate change mitigation

Varma aims for carbon dioxide free energy use in its properties by 2030 in locations where we are responsible for the energy procurement. Additionally, we strive for energy efficiency and the use of local renewable energy in our owned properties. We aim to procure only carbon dioxide free energy for the electricity, district heating, and district cooling by 2030, meaning the production of purchased energy would not result in direct carbon dioxide emissions.

Buildings cause greenhouse gas emissions at different stages of their lifecycle. In addition to energy use, significant climate impacts come from the production of construction materials. We aim to identify the carbon footprint impacts throughout the lifecycle of new construction and renovation projects and strive to minimize impacts through design, construction, and procurement and by utilizing circular economy principles. When acquiring new properties, we ensure their compatibility with our climate goals.

We support our users' environmental goals and greenhouse gas emission reductions by offering premises and apartments from locations with excellent transportation connections and supporting the electrification of transport with electric car charging stations.

## Adaptation to climate change

The construction and real estate industry, as an emission- and resource-intensive sector, needs to adapt to the expectations of different stakeholders and tightening legislation in climate change mitigation. We aim to respond to these transition risks by evaluating our properties' performance against our own goals and the goals of the Paris Agreement. Our goal is to develop and maintain our properties in accordance with the goals.

As part of the physical environment, buildings are increasingly exposed to various physical risks brought by climate change, such as temperature changes, heatwaves, changing wind and rainfall conditions, and their consequences, such as floods. Our goal is to identify physical risks posed by climate change to our properties and aim to consider risks in the repair plans of the properties.



## Circular economy

Construction and real estate investment, as resource-intensive activities, can significantly benefit from adopting and utilizing circular economy principles. Simultaneously, circular economy models support climate change mitigation and biodiversity conservation. We have identified ways to promote circular economy in construction projects and property maintenance in our guidelines. We aim to act according to our circular economy guidelines and direct our activities towards closed loops where materials are kept in use at the highest possible value. In our real estate investments, this means setting circular economy goals and criteria and considering space efficiency, adaptability, deconstruction, reuse, and recyclability in projects.

During building's use phase, building resources are kept in use through regular maintenance and care. For energy and water use, we have efficient monitoring, and we implement efficiency improvements. We also aim to reduce the harms from waste and its handling generated at the properties. In demolition, we are committed to the Green Deal agreement, according to which we conduct demolition surveys for our demolition projects and aim to find solutions supporting circular economy principles. At construction sites, we aim for construction waste management and utilization and act to protect the environment and prevent pollution.

## Considering biodiversity

Climate change mitigation, use of natural resources, and circular economy are closely interrelated to considering biodiversity in real estate investments. Varma has identified the need to promote biodiversity in its real estate portfolio.

Mitigating biodiversity loss and managing biodiversity impacts requires a holistic consideration of the whole value chain of the construction and real estate and targeting and prioritizing to the most significant parts of the value chain. This requires cooperation between different stakeholders in the construction value chain. In Varma's real estate investments, impacts on biodiversity are identified specially through land use decisions and resource use. Actions to promote the circular economy can also support biodiversity when considering the entire value chain of real estate investments. We have identified biodiversity aspects in properties and aim to consider these as possible in renovations, maintenance, and new construction.

Varma's Board of Directors approved Varma's Environmental Policy on 15 February 2024.

