

GUIDELINES FOR RESPONSIBLE INVESTMENT

13 April 2021

SITRA

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1 Introduction

Sitra's Guidelines for Responsible Investment were first published in 2013. We develop our responsible investment practices regularly and update our guidelines accordingly (previous update on 30 October 2019).

2 Principles for Responsible Investment

In accordance with the Act on Sitra (717/1990), Sitra's operations are financed by return on investments and proceeds from funding activities. Sitra is a long-term investor whose investment activities are intended to ensure the continuity of Sitra's operations. This also requires proper risk management.

The investments are made in accordance with Sitra's general rules for investment activities and the annual investment plan. The Act on Sitra states that all investments should be made in a secure and profitable manner. The fund should primarily finance its own operations, so the target is the best possible return on investments at a defined risk level. Responsible investing and operating methods are important aspects both in terms of expected financial returns and risk management.

The UN Principles for Responsible Investment (PRI) serve as instructions and guidelines for Sitra's responsible investment activities. Sitra signed the PRI in 2015 and committed itself to the following six Principles.

- We will incorporate ESG [environmental, social and corporate governance] issues into investment analysis and decision-making processes.
- We will be active owners and incorporate ESG issues into our ownership policies and practices.
- We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- We will promote acceptance and implementation of the Principles within the investment industry.
- We will work together to enhance our effectiveness in implementing the Principles.
- We will each report on our activities and progress towards implementing the Principles

For Sitra, responsible investing means taking account not only of the return and risk but also of the environmental, social and governance (ESG) factors when making investment decisions in accordance with the PRI. Among environmental factors, climate change mitigation is one of our most important corporate responsibility goals. To support this goal, Sitra has drawn up a separate climate strategy.

National legislation and the international UN Global Compact principles governing business and society are taken into account when addressing responsibility. The UN Global Compact includes 10 principles concerning the environment, corruption, human rights and labour. Alongside the PRI, the international UN Global Compact principles serve as an international framework for implementing Sitra's responsible investment activities.

3 Responsible investing at Sitra – How we work

Sitra's investments are mainly made through funds. Fund investments include all equity funds, bond funds, index funds and private equity funds (including private debt funds and venture capital funds). In the case of fund investments, the investments are managed by external asset managers who make individual investment analyses and investment decisions. Sitra's investments also include a number of direct investments. Responsibility is manifested in the selection and monitoring of all investments and is subject to continuous development.

Our goal is to include ESG considerations in all of our investment activities, taking into account the characteristics of each asset class and different instruments. This requires the identification of key material ESG factors. There are several methods of responsible investing and the methods used by Sitra are listed in Table 1.

Table 1. Responsible investment methods by instruments

	Equity funds	Bond funds	Index funds	Private equity funds	Direct investment
Methods	ESG INTEGRATION				
	Analysis and monitoring of ESG principles	X	X	X	X
	ACTIVE OWNERSHIP AND ENGAGEMENT				
	Dialogues	X	X	X	X
	Board of Directors and General Meeting				X
	Investor initiatives	X	X	X	X
	THEMATIC INVESTMENTS (SUSTAINABLE DEVELOPMENT)	X			X
	EXCLUSION				
	Industries	X	X	X	X
	Breaches of standards	X	X	X	X
	Fund domiciles	X	X	X	X
	IMPACT INVESTING	X	X		X

3.1 Integration of ESG

ESG integration means that we include environmental, societal and corporate governance (ESG) issues in investment analysis and investment decisions and also in investment monitoring. ESG issues are integrated into the investment analysis alongside traditional financial indicators.

The integration of ESG issues with fund investments becomes more concrete with the actual fund selection process. Fund managers, i.e., asset managers, are required to take the Principles for Responsible Investment into account in their investment strategies, processes and, ultimately, their investment decisions and their practices concerning engagement and active ownership. We require our asset managers to actively monitor companies' ESG issues as part of their investment activities. Similarly, we require our asset managers to consider the ESG issues of bond issuers and governments, meaning that the integration of ESG must cover Sitra's entire investment universe.

The minimum requirement for fund investments is that the asset manager has signed the PRI or follows another responsible investment practice. Sitra primarily selects funds and fund managers who are both successful and accountable partners.

In addition to traditional financial analysis, the effects of environmental, social and corporate governance factors are considered when assessing and monitoring direct investments. With the integration of ESG, understanding of a company's operations and investment risks is enhanced.

3.2 Active ownership and engagement

3.2.1 Dialogues

The activities of asset managers are regularly evaluated in discussions with them. Responsible investing procedures are monitored annually via asset manager meetings or by asset manager questionnaires. The purpose of monitoring is to obtain information on best practices and areas for improvement.

When investing in a fund, the best opportunity to influence the fund's policies is in the preparation phase, since after the investment is made the asset manager has the key decision-making power in the fund.

3.2.2 Board of Directors and General Meeting

When Sitra is a significant shareholder, it participates in the company's operations and development through the work of the Board of Directors in co-operation with the company's management and other shareholders.

3.2.3 Investor initiatives

Investor initiatives generally collect a broad and influential group of owners that can influence specific themes or companies. Taking part in investor initiatives is possible, for example, via PRI and actions co-ordinated by several other not-for-profit organisations.

Sitra aims to participate in between one and three investor initiatives each year within the limits of its own resources. We participate in investor initiatives that support Sitra's investment strategy as well as sustainable development goals, such as the Climate Action 100+ initiative, which aims to reduce emissions.

3.3 Thematic investments

In thematic investments, the investor favours companies in a particular industry or companies that produce specific products and services. Through thematic investments, Sitra not only seeks returns in certain industries but also supports the development of the selected industries. Examples of Sitra's thematic investments are clean technology funds and renewable energy infrastructure funds.

Our vision at Sitra is that Finland will prosper by building a fair, sustainable and inspiring future that ensures people's well-being within the limits of the earth's carrying capacity. In its thematic investments, Sitra favours industries and businesses that contribute to the achievement of the United Nations Sustainable Development Goals. An example of these themes is climate change.

3.4 Exclusion

Investments may be excluded on the basis of their industry, possible breaches of international standards and the fund domiciles. We screen fund portfolios annually for industries and for international breaches of standards.

3.4.1 Industries of investees

We exclude from all our investments:

- Manufacturers of tobacco products if the tobacco products account for more than 50% of turnover.
- Companies manufacturing controversial weapons (cluster bombs, land mines, biological and chemical weapons, nuclear weapons and depleted uranium).
- Companies with more than 30% of their turnover linked to coal production or coal use in power generation without a clear strategy to reduce coal use.
- Companies that have violated internationally accepted norms (concerning human rights, the environment, corruption and working conditions) and have not done enough to compensate for the violations.

The funds are screened annually within the limits of the available information. The results of the screening are discussed with the asset managers. If there are deviations in the funds from Sitra's industry restrictions, these are pointed out to the asset managers. Based on the screening results, the fund investments may have to be sold if Sitra's required industry restrictions or related transformation objectives are not met. Sitra's fund investments are subject to a two-year transition period so that industry exclusions shall be taken into account by the end of 2021 at the latest.

3.4.2 Breaches of international standards

Sitra's investments are screened annually in case of breaches of international standards. Many equity and bond funds systematically conduct standard screening themselves. In addition, external service providers can be used to screen portfolios. Portfolio screening is conducted to identify possible non-compliance with the UN Global Compact standard.

For fund investments, we investigate our asset managers' processes in the event of non-compliance. All possible breaches of standards are discussed with relevant asset managers, who are encouraged to comply with international norms. Selling a fund is the last measure if improvement is not achieved with our engagement.

We also require our asset managers to monitor country risks and seek to avoid investing in countries where the state in question has a significant country risk. Such state-related risks may include, for example, sanctions against a state or its citizens, the human rights situation in a country or serious deficiencies in the rule of law (affecting, for example, the realisation of investments or returns).

3.4.3 Fund domiciles

Sitra always makes efforts to identify the domiciles of the registered offices of funds considered for investment. Sitra cannot invest in funds that are registered in tax havens. For the purposes of these guidelines, tax havens shall mean states or jurisdictions which at the time their domiciles are being identified:

1. are listed in the EU list of non-cooperative tax jurisdictions (“the EU blacklist”);
2. do not participate in the automatic exchange of tax information in compliance with the OECD Common Reporting Standard (CRS) or FATCA legislation;
3. do not comply with the requirement of the Global Forum on Transparency and Exchange of Information for Tax Purposes. In other words, on the listing of countries maintained by the OECD, the jurisdictions in question are marked as ‘non-compliant’ or ‘partially compliant’.

In this context, a fund is an entity that includes the fund itself as a legal person and the company managing it as a legal person. However, if the consultancy of the fund or the distribution of profits, or both, are separated from the management company into separate companies, these are also considered to be essential parts of the fund. Therefore, the fund itself, the management company, the consultant company and the profit distribution company constitute a fund entity, in which all the companies must be domiciled outside the areas specified as tax havens. The fund entity also includes any legal persons (e.g., a feeder fund) through which the fund investments are channelled into, for example, investments in a particular geographical area.

In addition, Sitra cannot invest in a fund entity located in a tax haven through a fund located in a non-tax haven area. Then again, if, for example, a feeder fund or a company of a non-tax haven fund has been established for other investors in a tax haven, this does not prevent Sitra from investing in the fund.

When looking at mutual funds (or similar investment products investing in multiple funds), Sitra's opportunities to identify the registered domicile only extend to the master fund and not to the funds below.

3.5 Impact investing

Impact investing combines returns with social impact. Forms of impact investing include, for example, green bonds that support sustainable development and microfinance funds that focus on social impact. Sitra has helped create a domestic impact investing market and is an investor in social impact bonds (SIBs), which aim to create new ways of solving societal problems.

4 Decision-making, reporting and measurement

Sitra's Board of Directors approves the guidelines for responsible investing.

Sitra's Vice president, Investments, is responsible for the organisation of responsible investment activities at Sitra. All individuals participating in Sitra's investment operations are responsible for the implementation of Sitra's corporate responsibility work.

Responsibility issues are discussed in the investment team's weekly meetings. In these meetings, current ESG issues are highlighted, and potential problems can be addressed. Responsibility issues are also addressed in investment proposals and in fund manager meetings.

As a responsible investor, Sitra emphasises the need for openness and transparency in all of its operations. Sitra publishes its investments in its Annual Report and also reports annually to the PRI on its responsible investment practices and internally to the Board of Directors. A section on responsible investment is maintained on Sitra's website.

5 Ensuring competence

Sitra also aims to ensure the development of responsible investment skills by investing in personnel training in this area. We encourage staff to participate in responsible investing events and seminars organised by our partners.

Sitra promotes responsible investment practices and is an active member of Finland's Sustainable Investment Forum (Finsif). Sitra is involved in developing the venture capital industry through the Finnish Venture Capital Association and Invest in Europe.

See also: [Sitra's climate strategy for investments](#)