

ENGAGEMENT PRINCIPLES



MANDATUM
ASSET MANAGEMENT

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Engagement Principles

1. Introduction

Mandatum Asset Management's (hereinafter MAM) Engagement Principles describe MAM's activities as an asset manager when investing in equities of exchange-listed companies in the European Economic Area. Active engagement can take place by participating and voting in general meetings, pooled engagement and by maintaining contact with the management of target companies.

Where applicable, these Engagement Principles can also be applied when investing in unlisted companies, investment funds and in debt capital instruments.

The Engagement Principles guide MAM's personnel, and they are aimed to serve as a guide in the day-to-day activities of those participating in investment activities and, more broadly, the exercise of ownership rights in investment activities.

MAM reports on the content and implementation of its Engagement Principles once a year.

2. Ownership steering and investment strategy

Ownership steering means measures by which equity investors influence the operations of target companies by engaging with them either directly or through their representatives. Ownership steering refers to measures taken to guide and control the management of target companies with the aim of achieving the best possible profitability and long-term return for shareholders and to ensure that the legitimate interests of other stakeholders are taken into account. Although ownership steering means engaging with equity investments, these principles can also be complied with, where applicable, in debt capital and fund investments, in which case engagement takes on a broader sense.

The goal of MAM's investment activities is to achieve the best possible return on the customers' assets in the long run in and in a sustainable manner, meaning that the investment return is pursued at an acceptable risk. MAM's investments are, by nature, long term, and the goal is for the investment objects to have the best possible performance and profit generation in the long run.

MAM has set high expectations for target companies' governance and responsible business practices. MAM has published a Responsible Investment Policy, which outlines MAM's approach to responsible investment as well as management and mitigation of sustainability risks and adverse sustainability impacts. MAM believes that, in the long run, the securities of companies and issuers that take into account the sustainability risks affecting their business operations as well as the adverse sustainability impacts arising from their operations will perform better, due to their more favourable growth prospects and more predictable cost development

Therefore, by engaging with the governance of target companies, MAM aims to promote the companies' long-term performance and sustainable business practices.

MAM requires target companies to comply with local corporate governance codes and international good governance recommendations, taking the operating environment, size and position of the target company into account. For example, for Finnish listed companies, this means complying with the Securities Market Association's 2020 or more recent Corporate Governance Code. MAM considers it important that target companies provide clear grounds for any possible deviations from local corporate governance codes. The local corporate governance codes, legislation and local practices that are valid in different countries concerning ownership steering may conflict with one another, and therefore, the obligations companies comply with may be in conflict with MAM's Engagement Principles. In possible conflict situations, the best approach is to review the overall picture rather than specific differences.

Additional criteria to consider before engaging can be e.g. materiality of the issue, size of the investment, actions already taken by the investee company, and geographical location.

3. Monitoring of target companies' operations

MAM monitors the operations of target companies in various ways, for instance, by actively following their stock exchange releases. Investee companies must be open and transparent in their operations, in addition to which they must provide information, e.g. on their financial performance, strategy, risk assessment and capital structure. In addition to financial reporting, MAM appreciates that target companies report on their corporate governance and responsibility principles, as well as on how they are applied and any related goals.

Besides monitoring companies' statutory reporting, MAM may participate in the companies' investor events and general meetings, especially with respect to companies in which MAM represents a major shareholder. MAM may also meet with the management of the companies. The purpose of the meetings is to discuss matters that are important in terms of the target company's success, for instance the company's goals, possible challenges or sustainability in business operations.

4. Exercising ownership rights in target companies

4.1 Internal staff engagement

The most natural way to influence a company's operating methods is to engage in a direct dialogue with the company's executive management using e.g. in-person and virtual meetings, roadshows and visits to operations. Portfolio managers should do this regularly with representatives of target companies or companies which MAM has invested in. Internal staff engagement is used both in a proactive and reactive manner.

4.2 Participation and exercising the right to vote in general meetings

MAM participates in the annual general meetings (AGM) and extraordinary general meetings of companies in which it represents a major shareholder or in which participation is otherwise appropriate, e.g. due to a topic that is on the agenda.

The focus of participation and exercising the right to vote in general meetings is on Finnish holdings, as MAM has significant holdings in Finnish companies and thus engagement activities are likely more successful. MAM can either authorise an employee of the company or another representative to participate in a general meeting and exercise the right to vote or use an external service provider, to whom MAM gives voting instructions on exercising the right to vote.

If proposals submitted to the general meeting by a target company's board of directors deviate from MAM's Engagement Principles or Principles of Responsible Investment, MAM may initiate discussions with the company before the general meeting in order to reconcile the opinions. If a discussion is not possible or it does not lead to a mutual understanding, MAM may exercise ownership rights in a possible voting situation. MAM strives to ensure that the target company knows the grounds for MAM's voting behaviour in cases where MAM does not support the board's proposal.

If necessary, MAM may, make proposals that promote good governance and sustainability, especially proposals aiming at improving the company's capability to address and mitigate the effects of climate change to the business operations, as well as support similar proposals by other shareholders and take part in preparing such proposals.

Voting at AGM is also a tool for shareholders to express their views and can be used in conjunction with other engagement activities. Portfolio managers are in charge of voting at companies' AGMs. The portfolio managers keep records of the AGMs they have attended and the votes they have cast at the meetings.

Voting decisions are made by MAM's portfolio managers assisted by the ESG team and approved by the CIO, if necessary, given the nature of the voting decision.

4.3 Pooled engagement

MAM engages through pooled engagement with other investors, if it is believed that it can be an effective means of achieving a desired change in the investment company. Pooled engagement is used mainly in a reactive manner to address issues that may have already occurred.

Engagement processes may take years depending on the severity of the case. Engagement progress and outcomes are monitored internally and through the service provider as long as the engagement is ongoing.

In unsuccessful engagements the escalation strategy depends on the size and type of investment. If the investee company is unresponsive to engagement activities, the investment may be sold or the exposure reduced.

4.4 Significant resolutions to be made in general meetings

MAM considers it important that all proposals that deviate from the ordinary are justified in detail already in the notice of the general meeting. MAM considers resolutions that concern a target company's strategy, financial and other performance, as well as risks, capital structure, social and environmental aspects, and governance and steering systems to be significant resolutions. Therefore, in terms of engagement, e.g. major business transactions may be considered as significant events.

Furthermore, if the general meeting votes against the board's proposal or presents a substantially different view, the event can likewise be considered significant. In contrast, MAM does not consider resolutions concerning a general meeting's procedural matters alone to be significant resolutions. In addition, general meeting resolutions in target companies in which the number of shares held by MAM's clients is very low compared to its shares in other target companies have minor significance. General meeting resolutions that have minor significance do not require MAM to take an active part in the resolution.

4.5 Participation and engagement in the nomination process of board members

MAM may, if deemed necessary, participate in the selection of board members and in the decision-making process of a separate body established for the purpose. MAM performs active monitoring of the governance and management activities as well as appointments in target companies, and MAM may additionally exercise shareholder's rights by voting on a board's composition in the general meeting.

MAM does not, in principle, act as a strategic owner by participating in board work, and the aim in general is thus not to influence the composition of target companies' boards through board membership.

4.6 Changes in capital structure and policy on the distribution of profits

Companies' ability to distribute profits depends on their performance, financing structure and growth prospects. MAM considers it important that a target company has a board-approved policy on the distribution of profits and that the company complies with, from the shareholders' perspective, an active and goal-oriented profit distribution policy that safeguards the company's solvency.

MAM considers it important that authorisations proposed by the boards of target companies on the issuance of new shares be appropriate from the perspective of the company's strategy and life cycle.

4.7 General meeting proposals that promote sustainability

The goal is to promote target companies' sustainability, in particular compliance with the principles of the Global Compact initiative, and with the UN's declarations on human rights, environment and anti-corruption that the initiative is based on, as well as with the ILO's declarations on labour conventions and rights. MAM considers it important to take sustainability factors broadly into account in business. MAM is, in principle, in favour of general meeting proposals that promote sustainability, adaptation to climate change and mitigation of climate risk in accordance with MAM's Principles of Responsible Investment.

5. Contact with other shareholders and stakeholders

Contact with other shareholders primarily takes place in general meetings and investor meetings. MAM cannot, as a general rule, comment on its investment decisions due to possible market reactions or conflicts of interest.

6. Engagement in other asset classes

Active ownership in other asset classes is pursued through the same methods and principles as in direct listed equity engagement, i.e. through portfolio managers' dialogue with the company or fund manager and participation in roadshows and investor meetings, as well as the service provider's pool engagement activities. In private equity investments engagement also takes place through board work and active participation in the companies' development.

7. Conflicts of interest

When exercising ownership steering, MAM follows the principles of identifying, preventing and managing conflicts of interest defined in Mandatum Group's and MAM's Conflict of Interest Policies. All employees are expected to identify possible conflicts of interest in the activities they undertake and raise potential concerns within the organisation. The identified conflicts of interest must be assessed and managed with appropriate risk prevention or, if not possible to prevent, with mitigation measures. For example, in a situation where an employee's personal interests may conflict with the interests of a client, the employee must abstain from decision-making and escalate the matter internally for deciding appropriate actions to proceed.

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