

Aktia

Principles for Aktia corporate governance

25 January 2023



Principles for Aktia corporate governance

The principles are intended as a guideline for rights and ownership for Aktia Bank Plc (“Bank”) and its subsidiaries Aktia Fund Management Company Ltd (“Fund Management Company”) and Aktia Life Insurance Ltd (“Life Insurance”) (together hereinafter “Aktia”).

Aktia complies with these principles when managing customers’ investment assets based on the wealth management agreements and in its own investment activities, the Fund Management Company complies with these principles in the funds it manages. Concerning Life Insurance, these principles are followed with respect to own investment activities. The principles observe applicable regulation and the recommendations on corporate governance in the sector.

These principles apply to investments in company shares and, where applicable, corporate bonds. These principles describe separately how corporate governance may differ for shares and corporate bonds.

1. Roles and responsibilities

The CEO of the Fund Management Company, shall have the power to decide on the practical application of these principles in relation to the use of voting rights or other rights in respect of the funds. In investment management agreements, the asset manager shall not have the right to exercise the voting rights of the client, unless the client has expressly authorised the asset manager to do so. In Life Insurance, the CEO shall have the power to decide on the practical application of these principles in respect of investments not covered by the Life Insurance management agreement.

The responsibility for monitoring the activities of undertakings, as described in more detail in paragraph 5 of these principles, rests with the portfolio manager responsible for each portfolio (fund or own investment activities). Responsibility for publishing these principles on the website and for public reporting on their implementation lies with the director responsible for responsible investment in Aktia.

2. Target

Aktia’s principles for corporate governance define the methods and manners for implementing corporate governance, through which Aktia seeks to influence the management and policies of equity and corporate bond investments in a way that supports the long-term value of the funds and the investment portfolios it manages. Corporate governance

supports Aktia’s investment strategies when Aktia acts as an asset manager and in its own investment activities. Corporate governance is a factor that can be used to promote good governance in companies that constitute investment objects, climate action and to promote the possibilities for a good long-term return development in investment objects or investment portfolios. Corporate governance is one way of promoting carbon neutrality targets in accordance with the Aktia climate strategy. The principles of the corporate governance are the same in equity investments and corporate bond investments.

Regarding investment funds, the asset manager is obliged by law to always consider the fund unit holders’ interests. Regarding Aktia’s funds, the objective of corporate governance is the aim to look after the unit holders’ interest in the long term in companies where the fund has significant holdings. The funds’ holdings in individual companies are restricted by the provisions of the Act on Common Funds regarding funds’ investment restrictions.¹

3. Expectations of corporate governance

As a rule, corporate governance expectations do not differ between equity and corporate bond investments. For Finnish listed companies, Aktia expects their Corporate Governance to comply with the governance code drawn up by the Securities Markets Association for listed companies. As far as foreign companies are concerned, Aktia expects them to

¹A Fund Management Company may, through its investment funds, invest in one and the same company an amount equal to no more than one tenth (10%) of the company’s share capital or one tenth (10%) of the voting rights generated by all shares.

act in accordance with the good governance practices prevailing on their domestic market.

Aktia expects all investee companies to describe their corporate governance systems and to report not only on economic aspects but also on environmental and stakeholder aspects relevant to their strategy and activities. Aktia encourages companies to apply e.g. TCFD recommendations in an applicable manner in their reporting and to report their carbon emissions.

4. Procedures for monitoring the activities of companies in matters relevant to the investment strategy

Aktia monitors matters relevant to the investment strategy in the companies through their financial reporting, other company reporting and communications, investment analysis, meetings with management and other representatives of the companies and other information obtained as deemed necessary. The procedures are the same for equity investments and corporate bond investments.

5. Procedures for exercising voting or other rights

A shareholder has certain rights that a corporate bond investor does not have. Therefore, this paragraph in the principles of corporate governance does not apply to corporate bond investments.

Aktia can participate in the Annual General Meetings of the companies it invests in by using a representative that Aktia itself has appointed or through a partner in co-operation via the proxy voting service.

When it comes to Finnish companies, Aktia can if needed participate in Annual General Meetings of investee companies on behalf of the funds, wealth management customers who have given authorisation and, on its own behalf, by using a representative appointed by it. When deciding on participation, in particular the size of Aktia's equity holdings in the company in question, the size of equity holdings in the funds or wealth manager customers' investment portfolio, as well as the matters on the agenda of the Annual General Meeting shall be considered. Aktia deems that participation and voting is justifiable particularly when voting can on reasonable grounds be expected to have a positive impact on the development of the value of the holdings in Aktia's funds or investment portfolios in the long term.

Aktia uses the proxy voting service, which has been developed by its partner in co-operation. The service allows Aktia to participate mainly in Annual General Meetings in foreign companies. With this method, Aktia can efficiently exercise its voting rights in a large number of companies on behalf of the fund's unit holders and wealth management

customers. In this respect, Aktia's voting decisions are supported by an analysis service provided by its service provider, which takes into account, e.g., the following factors: the independence of the members of the board and its chairman, the independence of the members of the key committees of the board, material deficiencies in the administration or risk control, and material deficiencies in the management of risks related to the environment, society and stakeholders. The objectives of the Aktia climate strategy and other climate commitments will also be taken into account in the exercise of the right to vote.

Aktia may participate in the selection of the members of the board of directors of the fund's investee companies by appointing its own representative to the nomination committee. The nomination committee is typically composed of representatives appointed by the largest shareholders, which, for its part, limits Aktia's use of this method.

If the client authorises Aktia to exercise voting rights, in respect of the portfolios of Aktia's asset management clients, specific characteristics relating to the exercise of the right to vote for direct investments may be agreed with the client separately, in accordance with the client's wishes.

6. Description of the dialogue with Aktia and its investee companies

Aktia meets and discusses to the necessary extent with representatives of companies it invests in when it comes to matters regarding the companies' operations and strategies as a part of monitoring the companies' activities. The main objective of the direct discussions with companies is to acquire information that supports the formation of the investment view. The topic of direct discussions with companies is also to outline the essential risks and opportunities related to business activities, e.g. in relation to climate change.

Since 2017, Aktia has been in a responsible ownership-related co-operation with a norm-based ownership engagement service provider. Aktia supports thus companies to better meet the international expectations regarding environmental, social and good governance norms (that are directed at them). The cooperation is based on so-called norm-based screening, where the service provider monitors the allocations of the Fund Management Company according to the criteria based on the UN Global Compact principles and identifies companies that have not been able to operate in accordance with these principles. The screening includes both equity and corporate bond funds. The service provider carries out engagement dialogues on behalf of Aktia with companies that have not been successful in complying with the UN Global Compact norms. The service provider represents Aktia as both equity and corporate bond investor in the discussions.

During the dialogues, the aim is typically to get the companies in question to report their problems and either fix them

or take measures to ensure that corresponding problems do not appear going forward.

Aktia may engage in investor engagement by participating in investor initiatives in cooperation with other investors, for example in line with Aktia's climate policy, the objectives of Aktia's climate strategy and any other climate commitments.

7. Public disclosure of corporate governance and annual report on its implementation

Aktia will publish the content of these principles and an annual report on the implementation of these principles on its website.

The objectives of the corporate governance of the Fund Management Company are stated in Aktia's fund prospectuses, in addition to which the half-yearly report and the annual report provides information on how the voting rights of the investment fund have been exercised during the review period.

8. Corporate governance in Aktia Life Insurance Ltd's own investment activities

Life Insurance Ltd has outsourced its investment activities subject to corporate governance to Aktia Bank Plc. Life Insurance Ltd determines its investment strategy in accordance with which the Bank operates. This arrangement is valid until further notice.

The performance of the fund manager is regularly assessed by the Board of Directors of Life Insurance Ltd. The asset management fee is not profit-linked. The investment strategy takes into account the nature of the responsibilities of Life Insurance Ltd, and investment activities are carried out taking into account the needs and return requirements both in the short and longer term.

The Board of Directors of Life Insurance Ltd approves annually the investment plan and the limits per investment instrument based on its investment strategy. Before the investment plan is confirmed, the main responsible mathematician of Life Insurance Ltd makes a statement on the return requirement for investment activities in relation to the company's liability.

The Board of Directors of Life Insurance Ltd receives regularly a report at the board meeting on the measures that have been taken and the implementation of the investment plan and limits.

Aktia has approved the rules on handling conflicts of interest. In addition, the insurance distribution agreements that the Life Insurance Ltd has with its insurance agents take into account conflicts of interest.

Conflicts of interest related to influence are identified, prevented and managed as required by regulation.

Life Insurance Ltd provides insurance-based investment products to which the Bank's discretionary asset management can be attached, in which decisions on the distribution of premiums and the transfer of insurance savings to different investees (allocation) are made on behalf of the policyholder, taking into account the risk profile of the policyholder. Investment decisions are taken by the Bank in its capacity as a fund manager and in decision-making the Bank is committed to taking into account the principles of corporate governance.