

## **1. Introduction (scope and purpose of the document, concepts)**

This policy summarizes key internal policies and guidelines that govern the management of investment baskets according to laws and regulations. Document applies to the whole Mandatum Life group (parent company and Baltic branches).

Investment baskets are managed in the same manner and according to the same principles for all type of clients. Client information includes several types of materials produced for each investment basket – Rules, Monthly Review (or Quarterly Review), KID, NAVs are available to see on the official Mandatum Life website. A short description about the main features of particular basket is presented.

### **1.1 Concepts / List of abbreviations:**

KID – Key information document

NAV – Net asset value

AUM – Assets under management

MTF - Multilateral trading facility

OTF - Organized trading facility

MLIS - Mandatum Life Investment Services Ltd.

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## **2. Mandatum Life investment principles**

The investment principles of Mandatum Life reflect the investment philosophy of the Sampo Group as a whole. The attributes that define the philosophy are:

1. **Patience and long term focus.** The basis for our approach is the best investment outcome is achieved by taking a long term view with regard to both portfolio construction and investment decision making. The guiding principle is that capital appreciation accelerates and the uncertainty about reaching the expected return decreases as a function of time invested. In the long term, the weight of short term tactical moves has little effect on return.
2. **Broad diversification across asset classes and instrument choice.** Utilizing diversification benefits across both liquid and illiquid asset classes optimizes portfolio construction and increases the risk-return relationship. In choosing individual investments both passive and active investments are used. We acknowledge that a large number of actively managed investments underperform their benchmarks, hence we require that the investments vehicles (funds) used can robustly demonstrate outperformance ability both with regard to investment process and performance track.
3. **Sustainable investing.** In our view, the companies that operate their business in a sustainable way have the best probability of returning a sustainable cash flow to investors and will be superior at attracting capital, knowledge and customers.

The portfolio construction of individual investors is based on the investors risk taking ability and investment goals. As standard investment solutions Mandatum Life offers five risk class portfolios – one fixed income solutions, one equity solution with a small allocation to alternative asset class and three balanced solutions with three different risk profiles. The balanced solutions investments are distributed across fixed income, equity and alternative investment asset classes.

Mandatum Life takes into account the responsible investment principles in its investment process and ESG (environmental, social and governance) factors constitute an important part of it.

## **3. Decision making process**

All investment products offered by Mandatum Life to its clients are approved in the Investment Product Oversight Committee and the products are analyzed by all relevant stakeholders in the Product Approval Forum. The Forum has participants from Legal, Compliance, Investment Operations, Risk Management and Sales units. Other participants may also be asked to join the Forum on case-by-case basis if a new product has features that require their expert analysis.

The Forum evaluates the product's suitability for different client segments and insurance products and also its suitability for sale in the Baltic countries. If the product is approved for sale in the Baltic countries, suitability analysis for each Baltic client segment and insurance product is performed by the Mandatum Life Baltic branch office.

The final product approval for each investment product is made by the Head of Investment Solutions support services in Finland.

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This procedure applies also to any significant changes made to product's terms or investment strategies.

### **Oversight for investment basket performance**

Organizationally oversight for investment basket performance has been assigned to the Chief Investment Officer for Client Assets. He monitors the operations daily and is responsible for ensuring adequate resources for managing the investment baskets.

The Investment Product Oversight Committee is responsible for more long-term and strategic oversight for the investment baskets. The committee monitors the products in the monthly meetings and assesses the performance and competitiveness of each of the products. The performance assessment is made against the products' benchmarks, on absolute terms and also against funds in each fund's peer group. As Mandatum Life considers investing a long-term process, performance is also evaluated over a longer period. If a product underperforms for a longer period, a thorough analysis of the performance is produced and the CIO is mandated to implement required changes to the product's investment strategy or investment team. The effectiveness of these changes is monitored in the Investment Product Oversight Committee meetings.

## **4. Types of financial instruments used in managing the investment baskets**

Mandatum Life has approved following instrument types to be eligible for investment baskets. It should be noted that each investment basket has its own term sheet, which stipulates what type of financial instruments may be used for each basket.

List of financial instruments used:

1. Transferable securities;
2. Money market instruments;
3. Units in collective investment undertakings;
4. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, emission allowances or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash;
5. Options, futures, swaps, forwards and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of default or other termination event;
6. Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market, a MTF, or an OTF, except for wholesale energy products traded on an OTF that must be physically settled;
7. Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in point 6 of this Section and not being for commercial purposes, which have the characteristics of other derivative financial instruments;
8. Derivative instruments for the transfer of credit risk;
9. Financial contracts for differences;
10. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates or inflation rates or other official economic statistics that must be settled in cash

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or may be settled in cash at the option of one of the parties other than by reason of default or other termination event, as well as any other derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Section, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market, a MTF, or an OTF.

## **5. Basic principles of investment operations execution and handling**

Assets of Mandatum Life investment baskets are managed by Mandatum Life Investment Services Ltd (“MLIS”), a regulated Finnish investment firm. MLIS manages the baskets according to each baskets’ rules and investment restrictions and it has adopted an Order Execution Policy to ensure best execution of trade orders on behalf of Mandatum Life Insurance Company.

In the Order Execution Policy MLIS has established that in order to achieve the best possible result for execution of its clients’ orders, MLIS will give consideration to following factors:

- Price - this is the price a financial instrument is executed at;
- Costs - this includes implicit costs such as the possible market impact, explicit external costs e.g. exchange or clearing fees and explicit internal costs which represents MLIS’s own remuneration through commission or spread;
- Speed - time it takes to execute a client transaction;
- Likelihood of execution and settlement - the likelihood that MLIS will be able to complete a client transaction;
- Size - this is the size of the transaction executed for a client accounting for how this affects the price of execution; and
- Nature of the transaction or any other consideration relevant to the execution of the transaction - this is how the particular characteristics of a client transaction can affect how best execution is received.

Generally, MLIS considers price and cost factors to have the biggest relative importance when determining the execution of orders, but MLIS has defined in the Order Execution Policy asset class specific factors for order execution.

The support services of MLIS are responsible for trade settlement, net asset value calculation, reporting and reconciliation of all investments and investment baskets. MLIS has produced internal guidelines and work instructions to ensure operational soundness and continuity of all processes related to managing of investment baskets’ assets.

## **6. Risk management and control**

Risk management of investments is an integral part of portfolio management at Mandatum Life and it is not considered only as a post-trade process, but rather as an essential part of investment decision making and investment monitoring processes.

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The risk management of investment baskets is divided between three sections, the so called three lines of defense:

- First line of defense are the responsible portfolio managers and heads of investment teams. Their responsibility is to ensure that the investments made in the baskets are in line with the baskets' strategies and investment restrictions and that they are in compliance with Mandatum Life's Policy for Responsible Investment.
- Second line of defense are the risk control operations that are performed by the support services teams of Investment Solutions unit with most important tasks being:
  - Control that each investment baskets' portfolios are managed according to the rules and limits set forth in their term sheets.
  - Control of market prices and valuations used for net asset value calculation of each basket.
  - Reconciliation of trades, positions and cash accounts between Mandatum Life records and external records.
  - Reporting of breaches of any investment restrictions to management and reporting of investment basket performance and AUM development to Investment Product Oversight Committee.
- The third line of defense is the internal audit function of Mandatum Life that verifies and ensures that the risk management operations are adequate, in compliance with laws and regulation and performed as described in internal policies and guidelines.

In addition to the risk management of investment operations, Mandatum Life also has a dedicated Compliance manager that monitors the Investment Solutions unit to ensure that all operations are performed within laws and regulations and that internal documentation is up-to-date with respect to any changes in internal operational set up and / or external circumstances such as changes to laws and regulations.

### **Preventing and managing conflicts of interest**

Mandatum Life in its investment baskets management process puts emphasis on preventing and managing conflicts of interest. Customers' interests must always come first in Mandatum Life. Mandatum Life must be able to identify and prevent possible conflicts of interest or manage the situations by treating customers equally and in accordance with their best interests. Mandatum Life has implemented effective organisational and administrative arrangements to prevent and manage the identified conflicts of interest.

### **Investment baskets management policy oversight**

As the policy covers a very broad range of topics, the oversight responsibilities to ensure proper implementation of the policy have been assigned to several committees:

- The Investment Product Oversight Committee has the responsibility to review and assess the overall management process of the investment baskets

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- Mandatum Life Risk Committee has the responsibility to review and assess the risk management of the investment baskets, including compliance and any conflict of interest issues
- Mandatum Life Compliance function conducts annual compliance checks on various processes within the investment process and reports on adequacy of processes finding to the board of Mandatum Life as well as to the Risk Committee
- Internal Audit conducts audits annually on various topics related to management of investment baskets and reports its findings to the board of Mandatum Life as well as to the Risk Committee

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Antti Sorsa

Mandatum Life Insurance Company Ltd