

# Principles of Investment Portfolio Management

Investments (excluding Mandatum Life's investments covering unit-linked policies) are managed according to the subsidiaries' Investment Policies which are based on insurance liabilities and solvency as described in previous section. In Sampo Group direct investments and managers of collective investment assets are carefully studied before entering into new investments or making new commitments. This prudent person principle is reflected in many different ways in companies' investment policies and specifically in requirements set for new kind of investments or any non-routine investments by their nature.

Sampo Group's Chief Investment Officer is responsible for managing investments within the limitations of the Investment Policies prepared by Group companies and approved by Group companies' Boards of Directors. The insurance subsidiaries and the parent company have a common Group-wide infrastructure for investment management as well as for performance and risk reporting which facilitates simultaneous company and Group level reporting. These create cost efficiency in Investment activities and also facilitate Group-wide monitoring of portfolios.

Sampo Group has a thorough understanding of the Nordic markets and issuers and consequently Group's direct investments are mainly made in Nordic securities although lately direct investments outside non-Nordic countries have increased. Mandatum Life's direct investments are mainly denominated in euro and in companies geographically located in Finland and selectively in other countries. If P&C has the major part of its direct investments denominated in the Scandinavian currencies and their respective countries. Through effective differentiation in asset selection between companies, concentration risk is proactively managed at Group level.

Sampo Group prefers simple matured instruments and transparency. Hence, most of Sampo Group's investments are in fixed income securities and listed equities which are tradable and subject to daily mark-to-market valuation. Moreover, Sampo Group has also some illiquid investments in these asset classes – loan instruments and private equity – for which market prices are not that frequently available, but whose fair values can change adversely when the financial strength or future prospects of the issuer deteriorates or the value of collaterals decreases. Sampo Group has tools in place to measure the risks of these instruments as well.

In financial accounting the investment portfolios are reported on a fair value basis. These fair values are determined either on the basis of direct market quotes or by using various valuation models. More information on the valuation methods of the investment assets is presented in

[Note 16](#) of Sampo Group Financial Statements. In regards to Solvency II valuation methods, there are some minor differences compared to IFRS rules. [See Appendix 4](#) for Solvency II Valuation Methods.

Sampo believes that the sustainability issues have an impact on the long term performance, risks and value of all companies. Hence, integration of environmental, social and governance issues (ESG) into the investment process is an important instrument to improve the risk-return profile of investments and it is a critical success factor of investment activities especially in the long run.

- At the moment Sampo Group companies do not have ESG investment guidelines that would exclude some business areas and companies outside the scope of investment opportunities. Sampo Group does not have earmarked funds for sustainable investments like green bonds either.
- Sampo's investment philosophy is to invest into separate companies' shares and debt instruments instead of allocating funds to chosen industries and geographical areas. These companies are carefully studied before any investments are made and hence environmental, social and governance issues are considered in parallel with other factors affecting risk/return ratio of separate investments. By this method Sampo will acquire only investments that are in line with Sampo's values at the time of investment. It is the responsibility of the portfolio managers and others involved in the investment decision-making process to determine ESG factors as well.
- During 2018 Sampo Group will develop reports classifying assets by their ESG scorings (or ratings) to further enhance internal monitoring of ESG issues and make external reporting more transparent from ESG angle.

Sampo's activity is reflected through our actions. In case Sampo's view about the company changes, Sampo does not make new investments on the company and investments already in the portfolio may be sold over time.

## Management of Equity and Spread Risks of Direct Investments

In Sampo Group, the selection of direct fixed income and equity investments is based primarily on stock and bond picking and secondarily on top-down allocation. This investment style ensures that the portfolio includes thoroughly analyzed investments with risk return ratios internally considered to be adequate, although the portfolio might not be necessarily as diversified as finance or portfolio theory suggests.

The main steps in decision making, limit and monitoring process are as follows:

1. Potential investments are analyzed thoroughly. The creditworthiness and future prospects of the issuer are assessed together with collaterals and structural details of the instruments. Although external credit ratings by rating agencies and the opinions of analysts are used to support the internal assessment, Sampo Group's own internal assessment is always the most important factor in decision making.
2. Investment transactions shall be executable on short notice when an opportunity appears. This puts pressure on authorizations and credit limit structures and procedures which must be simultaneously (i) carried out flexibly enough to facilitate fast decision making regardless of instrument type, (ii) well-structured to ensure that investment opportunities are assessed prudently, taking into account the specific features and risks of all investment types and (iii) able to restrict the maximum exposure of a single name risk to a level that is within the company's risk appetite.
3. Accumulated credit exposures over single names and products are monitored regularly at the subsidiary level and at Group level to identify unwanted concentrations. Credit exposures are reported, for instance, by sectors and asset classes and within fixed income by ratings.

## Management of Indirect Investments

In addition to direct investments the collective investment assets managed by third parties are used. The external asset managers and collective investment assets managed by them are selected centrally by the same members of Sampo Group's Investment Unit for both wholly owned subsidiaries. In this selection clearly defined procedures are followed to ensure the integrity of asset managers and to make sure that these investments do not overlap with direct investments. By this way Sampo Group prevents unidentified or unwanted concentrations.

These investments are mainly in other asset classes – real estate, private equity and alternative credit funds – and in different geographical areas than the direct investments that are mainly in Nordic countries. These investments are primarily used as a tool in tactical asset allocation when seeking return and secondarily in order to increase diversification. Sampo Group does not have Asset Backed securities in its portfolios except some CDOs in Topdanmark.

## Management of Currency Risk

In Sampo Group companies the net foreign currency **transaction** exposure is considered as a separate asset class and is managed within investment portfolio activities as considered relevant by the company.

Open transaction risk positions are identified, measured and managed separately by each Sampo Group company. The net position in each currency consists of the assets, liabilities and foreign exchange transactions denominated in the particular

currency. Mandatum Life and Topdanmark have their liabilities only in their local currency and hence their transaction exposures are net of foreign currency assets and currency derivatives. In If P&C there are also foreign currency denominated liabilities.

At Group level Sampo is also exposed to translation risk, because base currency of If P&C is Swedish Krona and for Topdanmark base currency is Danish Krona.

## Use of Derivatives

In Sampo Group the main motive for use of derivatives is their efficiency – better liquidity and tighter bid-ask spreads – compared to cash instruments.

In Sampo Group derivatives are used mainly to adjust risks at investment-portfolio level (spread and equity risks) or at balance-sheet level (interest rate, inflation and currency risks). This adjusting can mean mitigating or increasing of risks. From time to time risk profile of single transactions may be adjusted by derivatives as well.

The approved derivatives are listed in the companies' investment policies. In case there is a need for a new kind of derivative instrument the proposal is made for the Board approval. This proposal includes analysis how the effect of new instrument type is properly taken into account in risk limits and other reporting.

In most of the cases, derivatives are booked as trading derivatives at fair value through the profit and loss statement in financial accounting and hedge accounting is applied only seldom.

The counterparty risk related to derivatives is managed as described in counterparty risk section.

## Control of Investment Activities

### Daily Controlling of activities in wholly owned subsidiaries

Market risk control is separated from portfolio management activities in two ways. Firstly, persons independent from the Investment Unit prepare Investment Policies for Board approval. Secondly, Middle Office units which are independent of the Investment Unit, measure risks, performance and control limits set in Investment Policies on a daily basis.

Market risks and limits are also controlled by the Investment Control Committee (ICC) in If P&C and the Asset and Liability Committees (ALCOs) in Mandatum Life on a monthly basis at a minimum. These committees are responsible for the control of investment activities within the respective legal entity.

The ICC is responsible for monitoring the implementation of and compliance with the Investment and Asset Coverage Policies. The committee considers and proposes changes to



the policies. The Chairman is responsible for the reporting of policy deviations and other issues dealt with by the committee.

Mandatum Life has two ALCOs, of which one controls the segregated assets and liabilities and the other controls the rest of Mandatum Life's with profit assets and liabilities. The ALCOs ensure that the investment activities are conducted within the limits defined in the Investment Policy as approved by the Board and monitors the adequacy of liquidity, profitability and solvency capital in relation to the risks in the balance sheet. The ALCOs prepare proposals of Investment Policy to the Board of Directors and report to the Board.

## Group-wide Monitoring Activities

The aggregated market risks and concentrations at Group level are controlled by Group's Audit Committee quarterly at a minimum. Unlike underwriting activities, the subsidiaries' investment activities are coordinated closely many ways at group level as follows:

- Their investment portfolios' risk profiles are designed and decided separately from each other, but their risk profiles are coordinated to proactively prevent potential concentrations. This principle is relevant for Topdanmark as well.
- The persons responsible for managing the subsidiaries' investments report directly to Sampo Group's Chief Investment Officer which ensures day-to-day coordination. Topdanmark is taking care of its day-to-day investments independently
- IT systems in investment activities are common throughout the Group, facilitating consistent analysis and reporting of risks both at the company and group level. In regards to Topdanmark their investment assets are taken into account at concentration reporting, but otherwise they have separate reporting processes.
- The same basic principles are primarily followed in the investment activities of both wholly owned subsidiaries, although the risk level of If P&C's investment portfolio is significantly lower than the risk level of Mandatum Life's investment portfolio due to different features of their insurance liabilities. In Topdanmark as well the insurance liabilities are the starting point to investment risk profiles.