



HELSINKI CAPITAL PARTNERS

# CSR AUDIT

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## **SUSTAINABILITY-DEFINITIONS**

**CSR** – Corporate Social Responsibility

**ESG** – Environmental, Social, and Governance

**GRI** - Global Reporting Initiative

**GRI G4** - GRI G4-Sustainability Reporting Guidelines

**General Standard Disclosures** – Disclosures required by GRI G4

**Specific Standard Disclosures** – Disclosures of relevant topics and material Aspects of GRI G4

**SRI** - Socially Responsible Investing

**Workforce:**

**Employee** – Person with HCP contract of employment

**Supervised Worker** – Person without any specific contract of employment

**AUM** – Assets Under Management

**HCP** - Helsinki Capital Partners

**#HCPSPiRiT** – Social collaboration

**Aspect** – Feature or characteristic of business

**Aspect Materiality** – The relevance of feature or characteristic of business

## A NOTE FROM THE CEO

Our clients enjoyed good returns on their investments in 2014; HCP Black 14.05%, HCP Quant 0.66% (from the end of June), and HCP Focus 10.01%. We gained over 700 new clients during the year. The amount of assets under management (AUM) in wealth management and in our funds was 56 (2013: 35) million euros at the turn of the year. The annual growth rate was 58% (2013 85%). The second profitable year for HCP group is now behind. Growth has continued profitable and the growth rate is good.

In the end the biggest achievement is the clientele, the team and those we co-operate with. We are in this business together, and I believe that neither the clients nor the team or those with whom we co-operate with are in this for quick profits, but to patiently and safely build value and wealth. The strong shared values and the feeling of meaning in what we do together steers strongly the operations and through that we gain a sound and strong identity.



Helsinki September 2015

Tommi Kemppainen  
Chief Executive Officer

## RELEVANT TOPICS

The following seven relevant topics were considered when defining the report content.

- 1. A more responsible financial industry* – The financial industry has come under a lot of criticism lately. Unfortunately, a significant portion of this criticism is warranted. HCP hopes to set an example to industry peers; nothing changes if everyone continues to do business with the same old values, methods, and codes of conduct. Someone must take the first step and lead the way. HCP does not consider itself a pioneer in every aspect of business, but rather an example of a small, growing company that is built on the idea of social responsibility. The traditional path has been that once a company reaches a certain size, external pressure and law mandates the company to consider corporate social responsibility, at least by paying lip-service. In contrast, we believe that corporate social responsibility should be programmed into the very DNA of every company from the beginning. The aspects related to this relevant topic are Economic performance, Labor/management relations, Investment, Product and service labeling, and Product portfolio.
- 2. Transparency of products* – This topic is a direct outgrowth of the previous topic. One good example of concrete actions undertaken to improve the overall status of the financial sector is to have more transparent products. HCP has signed its initiative from its foundation ([HCP Initiative](#)) to ensure that every client knows exactly how much he or she pays directly and indirectly. Working this way (i.e. fee only) is atypical behavior in the financial sector. This topic is closely related to Sub-category: Products relative to G4-aspects.
- 3. Meaningful work* - HCP strongly feels that working in the company must be found meaningful and useful to society. The productivity can reach the potential maximum only if the person working for a company feels he/she is doing an important work. HCP emphasizes not only the feeling of importance but also the actual importance of the work done at HCP. This topic relates to labor/management relations-aspect of the G4 Specific Standard Disclosures.
- 4. Cultural Collaboration* - This topic relates to the previous one. If considered an aspect, the boundaries would be within the company and outside the company. Cultural collaboration has a deep and direct impact with the local communities and the surrounding society in the form of events where people are entertained, artists doing their job, and creating possibilities for all agents of the society. It has direct as well as indirect economic impacts. This keeps the mind fresh and workers find themselves more productive. It also increases curiosity and enhances constant learning.
- 5. Responsible Investing* – Ethical investing is hard to define. What is ethical for some people is not necessarily ethical for someone else, but the basic idea in responsible investing is to at least carefully consider the sustainability of the world and global problems when making investment decisions. We are fully aware that we are merely taking the first steps towards responsible investing, but we nevertheless understand its importance and role on a global scale. This topic is very relevant and the company feels that it is becoming a growing trend in the future of the financial sector. In addition to the economic impact of the investments, responsible investing has also an impact through the investments in the society and surroundings of the investment. Responsible investing is linked strongly with G4 aspects in the environmental category as well as the sub-category: product.

6. *Stability of business* – This is a relevant topic within the company but it affects every aspect of our business. HCP is one of the fastest growing asset management companies in Finland and we understand the responsibility that comes with growth. The variety of possibilities widens with growth, but the company firmly holds on to its original values. Business is being done with the same basic ideas but improvements of productivity and how the company functions are considered and initiated on demand. A systemic approach is key in keeping operations stable.
7. *Uneven sex ratio in asset management* - Gender equality issues are relevant to the company and within the financial services. The financial sector as a whole does employ a large number of women, but for some reason the asset management sub-sector seems to attract a disproportionately low amount of women. This must be recognized as a trend but with critical observations. In the Specific Standard Disclosures, Equal remuneration of men and women relates to this topic.

## HELSINKI CAPITAL PARTNERS IN BRIEF

Helsinki Capital Partners Ltd. Headquarters at Kaapelitehdas, Tallberginkatu 1 C 136, 00180 Helsinki, Finland.

HCP offers asset management as well as financial advice and cultural collaboration. HCP is a group that consists of three companies: HCP Group, HCP Advisory, and HCP Asset Management.

### Products and Services

HCP offers service for five different partner groups. Of the four products of the company three are investment funds and the fourth service is separate managed accounts. HCP operates mainly in two countries, Finland and Sweden and pays taxes exclusively to Finland. The company has clients in eight different countries: Finland, Sweden, Switzerland, France, Spain, Singapore, Russia, and China. The three products that HCP offers are:

#### HCP BLACK

HCP Black is a multi-strategy fund managed by CEO Tommi Kemppainen. HCP Black aims for high risk-adjusted returns through active diversification. Instead of trying to buy as many assets within as many asset classes as possible, or analyzing the historical correlation between securities, work is done on the fundamentals of each investment, estimating future returns and differences in risks to achieve as wide a diversification as possible.

#### HCP FOCUS

HCP Focus -managed by Ernst Grönblom- is a concentrated, global, long-only equity strategy with high upside potential that focuses on very few holdings (target portfolio: 8-15 companies). The companies are carefully researched with an eye on three main valuation and purchase criteria: financial strength, identifiable and sustainable competitive advantage, and quality of management.

#### HCP QUANT

HCP Quant -managed by Pasi Havia- is a global, long-only equity fund that concentrates on small and midsize companies. The fund uses systematic quantitative and statistical methods to identify stocks that are undervalued as indicated by several different objective measures (multi-factor model).

#### MANAGED ACCOUNTS

HCP Fund strategies are also offered without collective investment structure as managed accounts.

# GRI G4 GENERAL AND SPECIFIC STANDARD DISCLOSURES

## Defining The Report Content

To identify the Aspects that are material for HCP the company has carefully considered aspects that are important both for the company and for the stakeholders. Due to the small size of HCP and the intangible nature of the company's products, many Aspects were thought to be irrelevant to disclose and not material, such as energy and water consumption within the company. Still, many non-material Aspects were considered as a tool of taking notice of global sector specific trends and self-evaluation of the company. The basis of this analysis lies on the key points of the stakeholder engagement. Transparency towards clients fosters trust on both sides, the foundation of values defines meaningful work, and responsible investing results in a more ethical financial industry and a more sustainable world.

## GRI G4 General and Specific Standard Disclosures

### Relevant Topics and Aspect materiality

After identifying relevant topics from a stakeholders' point of view, the G4 Specific Standard Disclosures were examined and the potential materiality all of the aspects was considered. The most relevant aspects were gathered and considered more closely in the wider context of sustainability and stakeholder inclusiveness. With every relevant topic and Aspect the economic, social, or environmental impact was considered subject to which stakeholder group mostly affected.

The Aspects included in this section were gathered first from the G4 Implementation Manual after examining all of the Aspects. Subsequently we examined highlighted Aspects and their sector specific additions alongside with the three sector specific Aspects and their indicators. Most of them were included in the report.

The most relevant topics and Aspects were then discussed and analyzed with the CEO of the company In order to identify the materiality of each relevant topic and aspect. The small size of the company enables a swift and easy actions of going through relevant topics with the entire personnel if necessary. The criteria for ignoring an Aspect or postponing its materiality for future reports were considered subject to stakeholder engagement. If an Aspect has relatively small impact on stakeholder assessment it is ignored. If an Aspect has relatively small impact on society, local communities or other agents of a society it is ignored. If an Aspect has relatively small impact within the company it is ignored. The impact is considered relative to the size of the area of the impact. For example, if an impact covers seven people out of nine of the total workforce, it is considered significant but if an impact covers seven out of tens of thousands of citizens, it is considered relatively small except when the impact covering seven out of tens of thousands of citizens is significantly negative.

In addition, the nature of the impact is considered and analyzed taking into account that there are different levels of negative, neutral and positive impacts on an agent or agents of a society. Also, the impact might be considered relatively significant but the resources of the company could not allow the disclosure of the Aspect related to the impact and these Aspects in question are the ones to postpone for future reports to be considered very carefully.

## **GRI G4 General and Specific Standard Disclosures**

### The Principles of GRI-reporting

This is the first HCP report that follows the guidelines of Global Reporting Initiative (GRI). This report follows the current GRI G4-guidelines for reporting sustainability impacts and performance. The Principles of Defining Report Content and the Principles of Defining Report Quality are considered and applied. This report is considered 'In Accordance' with "Core" GRI G4 Reporting guidelines.

## **GRI G4 General and Specific Standard Disclosures**

### Supply Chain of the Company

The supply chain of HCP builds on strong, shared values and sovereignly led units, projects and initiatives. The products, the funds, are managed exclusively by the portfolio managers, i.e. they make all the investment decisions independently.

## **GRI G4 General and Specific Standard Disclosures**

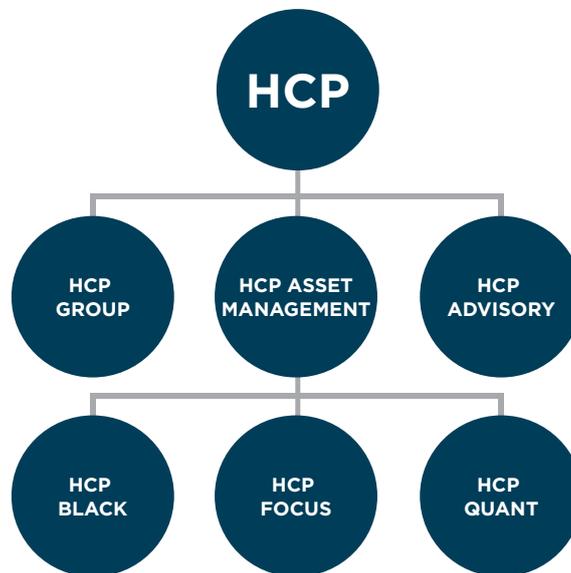
### Memberships of associations

By the end of the year 2014 HCP did not hold any positions in any associations or international advocacy organizations other than what is required by law for an asset management company.

## GRI G4 General and Specific Standard Disclosures

### Entities Included in the Consolidated Financial Statements

HCP is a group of three companies with no subsidiaries or joint ventures. The entities included in the consolidated financial statements of the company are depicted below in Figure 1 and include all the stakeholder groups related within the company:



[Figure 1: Entities within the Company]

## GRI G4 General and Specific Standard Disclosures

### Product and Service Labeling

The sourcing of components of the product or service: As producers of intangible products and services, the HCP partner groups and funds sourcing of components is lead by people responsible of the products and this information is provided through the website of HCP.

Content, particularly with regard to substances that might produce an environmental or social impact: The content of the funds is provided with the allocation of each fund. The investments may have an indirect environmental or social impact.

Safe use of the product or service: After a subscription the safe use of the money lies with the portfolio manager concerning return and risk. Safe use is enhanced by transparency of product including; fees, investment strategy, updates on performance and such.

Disposal of the product and environmental/social impacts: The disposal of the product can be applied to fund withdrawal.

Other: HCP provides detailed written information of its products and services, including charged fees and its commitment to return all third-party commissions to clients.

All of the information mentioned above is provided with the products and services of HCP. The information provided is regularly evaluated and improved as a part of service development.

## **GRI G4 General and Specific Standard Disclosures**

### Values and codes of ethics

The values of HCP are transparency, partnership, and efficiency. By transparency we mean total openness especially with respect to expenses, commissions and asset management fees. This is an explicit commitment to be fee-only. By partnership we mean the desire and ability to establish genuinely mutually beneficial relationships with our customers and society at large. This includes clear and understandable communications and sound, transparent incentives. By efficiency we mean running a cost-efficient operation and producing competitive risk-adjusted net investment returns, based on our expertise and experience in investing in stocks, bonds, real estate, currencies, and alternative investments.

The company strives to be as open as possible. We have a keen desire to work for a better world, and we are convinced that the most promising approach is to constantly take small steps and have the courage to be different. This is the basis of codes of ethics at HCP.

## **GRI G4 General and Specific Standard Disclosures**

### Precautionary Approach

HCP is a company that produces intangible services and products. We believe that transparency is one of the most important factors in increasing the financial industry's capability to function in a sustainable way. To adapt the Precautionary Approach into investing requires advanced tools and resources in responsible investing, especially negative screening strategies. It also requires integrating ESG-factors systematically into our processes of financial analysis. HCP has started its' journey towards more responsible investing but we do not consider ourselves fully ethical investors yet. We continue to amass tools and resources and know-how that enhance our ability to invest ethically. The company tries to avoid projects involving significant risks of environmental or social harm.

## **GRI G4 General and Specific Standard Disclosures**

### The Environment

HCP is a company that produces intangible services and products, and consequently environmental issues are rarely paramount. Nevertheless, sometimes it is good to think about how to manage and guide personnel and stakeholders in environmental matters. A practical example is the HCP car-leasing policy, which states that only hybrid vehicles are to be used. Our approach to office work is a break with conservative traditions; we see no inherent benefits in maintaining the traditional ritual of 9-5 office work in a world where technology has largely obliterated the boundaries of time and space. Instead, we permit and even encourage our staff to experiment with different telecommuting arrangements. To maintain morale and team-spirit, we organize virtual staff-meetings on a weekly basis. Virtual meetings with customers were also added as a tool of communication; during the year of 2014 a total of 51 virtual meetings were held. We see this as simultaneously increasing convenience and reducing the environmental burden.

## **GRI G4 General and Specific Standard Disclosures**

### Disclosure on Management Approach

Every Aspect of our business must be in line with the shared values of the company. All of the projects go through the same formal process where the projects are evaluated by the workforce and finally approved by the CEO.

## ASPECTS

The below Aspects, their materiality and their boundaries, were considered:

### Aspect Materiality

#### **Aspect Materiality - Category: Economic**

**Economic Performance** - Economical performance as an aspect subject to indicator direct economic value generated and distributed (EVG&D) is an important factor for stakeholder group - partner groups to assess their economical and social input with HCP. The interest of how the company creates wealth for stakeholders has been analyzed as an important characteristic in the stakeholder engagement process.

#### **Aspect Materiality - Category: Economic**

**Indirect Economic Impacts** - One factor that the asset manager has to consider is the indirect economic impacts of investments or other economic actions. This is closely related to responsible investing and to ESG-factors and thus it might not be relevant or material just yet but it may well become one in a few years. However these impacts are important to consider in addition to responsible investing.

#### **Aspect Materiality - Category: Environmental**

**Emissions** - Direct and indirect greenhouse gas (GHG) emissions are to be considered in the sense of global warming. HCP produces intangible services and products, but they have an indirect impact on greenhouse gas emissions. HCP did not disclose the indirect emissions of our portfolios during the fiscal year of 2014, but the Aspect of emissions was considered for further study. (The Montreal Pledge for investors is an agreement to disclose GHG emissions in portfolios managed and this tool will be considered for next year).

#### **Aspect Materiality - Category: Environmental**

**Effluents and Waste** - This Aspect is similar to the previous one of the environmental category. It is linked to HCP through its investments and with indirect impacts. In our judgment, the amount of waste produced by nine office employees is so small that it can relatively safely be ignored for the time being. The disposal of water and waste of the companies in HCP portfolios was not reported and it will be a challenge to disclose them in the next few years.

#### **Aspect Materiality - Category: Social**

**Labor/management Relations** - This Aspect might seem to be irrelevant for small companies but we wanted to observe the relations of a manager and an employee in our organization compared to the same relation in a more typical organizational hierarchy. This Aspect is considered material because HCP applies a flat organizational structure, and we highly value sound relations between all owners and members of the workforce.

**Aspect Materiality - Category: Social**

**Equal Remuneration of Men and Women** – This Aspect is not material for HCP since we do not currently employ women, and we have only a few women as supervised workers. Nevertheless, the company sees the lack of women among its workforce as potentially problematic. The financial sector as a whole does employ a large number of women, but for some reason the asset management sub-sector seems to attract a disproportionately low amount of women. HCP strives to have a positive impact on the development in this field so that hopefully in the long run we will get as many applications from women as from men.

**Aspect Materiality - Category: Social**

**Occupational Health and Safety** – The physical health and safety of HCP workforce is considered a small factor for stakeholders and the company. However, the employees with portfolio management roles are exposed to stress that at times can reach material levels, with subsequent risks to mental health and well-being. Key in managing such risks is in-depth knowledge and understanding of all deployed investment strategies. Only through a deep understanding of the strategies is management able to safeguard the portfolio managers from potentially overwhelming levels of stress in periods of underperformance.

This enables management to communicate to other employees, owners and partner groups that the underperformance at hand is a natural and inevitable phase one can expect to happen occasionally, as opposed to an indicator of a fundamental flaw in the investment strategy. Without such understanding, the portfolio managers risk getting pressured or even being fired, causing further stress which, paradoxically, might aggravate the problem even further. Thus this Aspect was analyzed and deemed as being not material from a physical health point of view, but material from a mental health point of view.

**Aspect Materiality – Category: Social, Sub-Category: Human Rights**

**Investment** – This Aspect is partially linked to responsible investing (positive screening) and investments as a stakeholder group. The amount of significant investment agreements including human right clauses is hard to define when considering client money invested by HCP. This Aspect was not currently considered material.

**Aspect Materiality – Category: Social, Sub-Category: Society**

**Local Communities** – HCP respects local communities and the surrounding society. The company strives to support the needs of local communities through our engagement in various cultural projects. However, since these are not part of our direct business operations, the indicator in question is excluded from the analysis. This Aspect is relevant for two stakeholder groups; #HCPSPiRiT social collaboration and the artists partner group. The impact of HCP to local communities is an important feature of the business, thus this Aspect is considered material.

**Aspect Materiality – Category: Social, Sub-Category: Product**

**Product and Service Labeling** – Our main products are our investment funds. The company strives to be as transparent and informative as possible with the product labeling and information provided. All of the indicators of the Aspect are relevant for the products. No surveys measuring customer satisfaction were implemented in the reporting period, so the Aspect is not material subject to G4-PR5 indicator, but the Aspect ought to be material for our partner groups.

A key aspect of our strategy and brand is transparency; we want every customer to know exactly how much they have paid for our services. One of the most serious ethical problems in the financial industry is the exploitation of client trust through discreet, low-key methods such as a scheme of charging hidden (and excessive) fees under a disguise of opacity and complexity. Thus we see transparency not just as a means to enhance customer satisfaction, but also an important stake in the ground in our work to further a more ethical financial industry.

**Aspect Materiality – Category: Social, Sub-Category: Product**

**Product Portfolio** – This Aspect is naturally very important for several stakeholder groups. The product portfolio is important to our clients, but it also has an impact on investments as a stakeholder group. This Aspect is not analyzed as material for this report. However, we will continue to monitor it in the years to come.

*Aspects - Scope of the Specific Standard Disclosures*

After the analysis and discussion with the CEO five aspects were considered material for the company in this report. All of the Aspects in the previous stage of the process of defining report content were considered with the relevant topics and their materiality was identified when the impact from the Aspect was significant for the stakeholder groups or some of the stakeholder groups and for the company as well. The six most significant Aspects identified were:

- Economic Performance
- Indirect Economic Impacts
- Labor/Management Relations
- Local Communities
- Product and Service Labeling
- Occupational Health and safety

## Specific Standard Disclosures

The boundaries of **Economic Performance** are within the company and outside the company. Every partner group as a stakeholder group is interested or concerned of the economic performance of HCP at some level. Within the company the impact occurs in workforce and owners in the sense of interest in retaining positive economic performance and job opportunities.

### Specific Standard Disclosures

**Indirect Economic Impacts** occur mostly outside the company through investments from assets under management and through other business behavior which includes #HCPSPiRiT social collaboration with possible indirect economic impacts.

### Specific Standard Disclosures

**Labor/Management Relations** occurs most clearly within the company in the relationship with the CEO and the workforce. The organization of HCP is rather flat. This Aspect has an indirect impact also in #HCPSPiRiT social collaboration. With social projects, campaigns and participation in cultural productions HCP represents publicly with the same flatness of organization as within the company.

### Specific Standard Disclosures

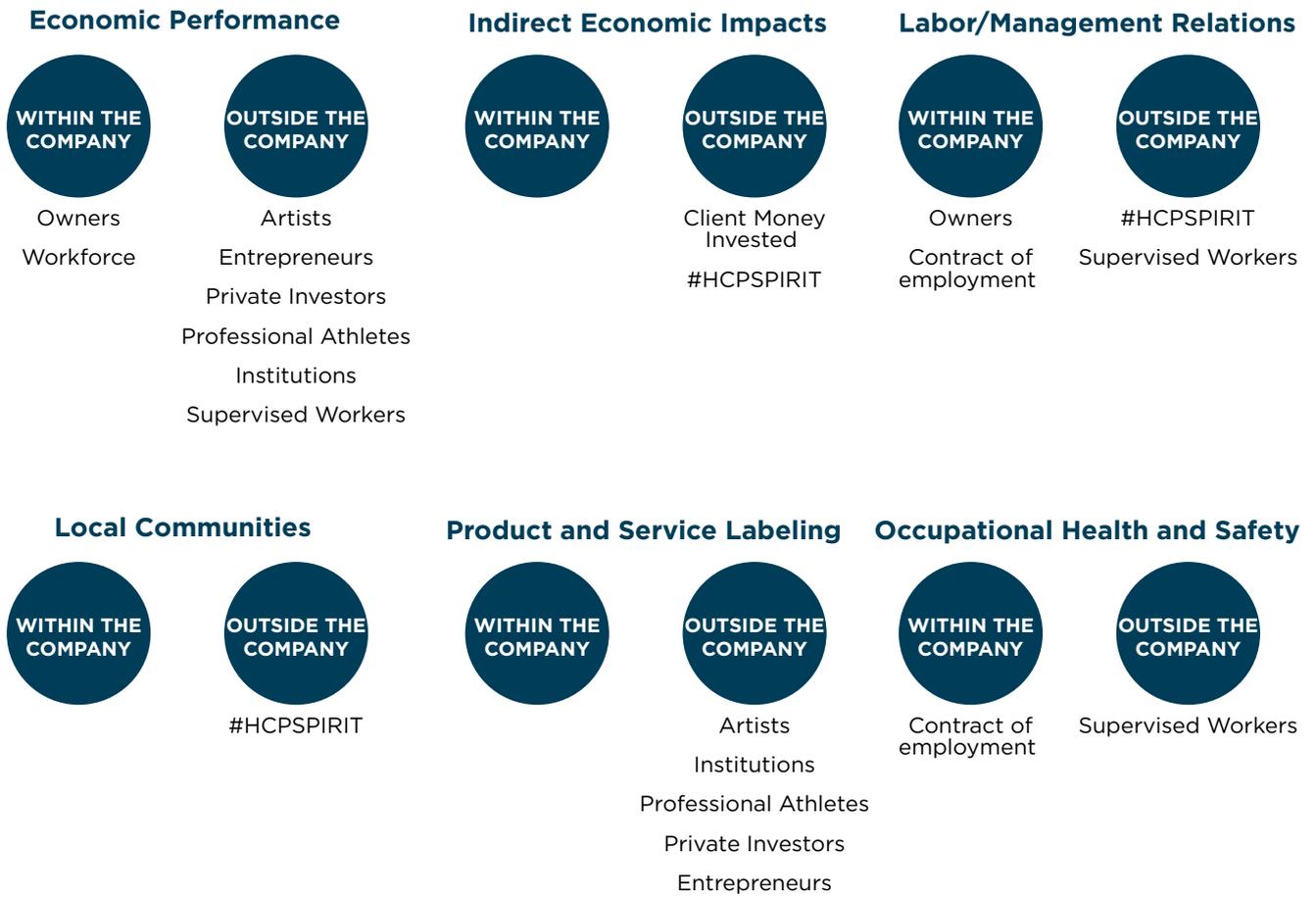
With social collaboration of #HCPSPiRiT, **Local Communities** are affected from the behavior of the company. One of the main factors of social collaboration of HCP is that most of the collaboration projects are instantiated by local agents of society.

### Specific Standard Disclosures

**Product and Service Labeling** is one of the most important factors of HCP business. This Aspect has impacts outside the company as many clients and potential clients consider their investment decisions based on product and service labeling. The transparency of HCP business extends to its' products and this affects all the partner groups as stakeholder groups.

### Specific Standard Disclosures

**Occupational Health and Safety** is bound strongly within the company and has indirect impacts on business but the most significant direct impact is within the workforce.



[Figure 2: Boundaries of Material Aspects. The Boundaries of Material Aspects is depicted graphically.]

## STAKEHOLDER GROUPS AND ENGAGEMENT

The stakeholder groups of HCP have been identified in Figure 3. In the identification process the Principle of stakeholder inclusiveness has been applied. This means that stakeholders are the groups that are affected most by the actions of the company and the groups that affect the company most. The Principle of stakeholder inclusiveness is one of the main principles in defining report content as defined by GRI-reporting guidelines.

The key points represented below are the dominant characteristics in the engagement between a stakeholder and the company.

Stakeholder Group	Magnitude	Key points
<b>Partner Groups</b>	5 different partner groups, with over 900 clients	[X] Transparency [X] Trustworthiness
<b>Workforce and Owners</b>	Six persons with HCP contract of employment and five as advisors or board members. From these 10 are owners of the company. Four supervised workers.	[X] Shared values [X] Meaningful work [X] Long term ownership as a sound driver
<b>Client money invested by HCP</b>	€56mn assets under management (AUM)	[X] SRI, Socially Responsible Investing
<b>#HCPSPiRiT Social collaboration</b>	25 projects that all need to match HCP values, from which 5 purely non-profit	[X] Social responsibility, [X] Social utility

[Figure 3: Stakeholders]

### Stakeholder Group - Partner Groups

Our clients and their opinions are important to us. Interaction with partner groups is regular. Naturally clients are the key for short-term economic performance in our industry, but they are also involved long-term with developing the partner group's service offering. The company sees its five partner groups as five different stakeholder groups since our interaction with them is different.

The partner groups are:

#### Stakeholder Group - Partner Groups

##### Private Investors

The biggest project in 2014 was launching the HCP Quant fund with Pasi Havia. Pasi was the most widely read finance blogger in Finland, with his original approach to investing and saving, and his focus on increasing financial literacy. The launch of HCP Quant rebuilt this private investor partner group. Numerically this is our largest partner group, and measured in AUM it is also one of the most important. The service offering has also evolved to include a monthly newsletter and virtual meetings held by Pasi.

## **Stakeholder Group - Partner Groups**

### **Institutions**

The institutional partner group is built mainly on our work with Finnish foundations. This partner group differs from the private investor partner group in that the total amount of AUM is large but the number of individual clients is relatively small. Working with the third sector (the non-profit sector) is an important part of our business. Ernst Grönblom is in charge of this partner group. Ernst has published papers on how foundations may optimize their investing to better support the purpose of the foundation. At the end of 2014 our institutional client base included six major charitable foundations as well as a large number of smaller investment companies (e.g. family offices).

## **Stakeholder Group - Partner Groups**

### **Professional Athletes**

HCP offers a service for professional athletes that is customized to take into account the athlete's season and other aspects specific to their careers. Everything in the service is built to support the athlete's life and performance. Great attention is paid to make sure that HCP avoids unnecessary disturbances of the athlete's work and season. Timo Vertala is responsible for this partner group together with Josef Boumediene, both of which have made a career in professional ice hockey.

## **Stakeholder Group - Partner Groups**

### **Artists**

Our collaboration in cultural projects is mainly carried out on a pro-bono basis. The relationship with artists and cultural producers creates an interest in our values, reputation and economic performance. The whole process of collaboration defines the social responsible relationship of a company and the surrounding society. HCP listens, observes and investigates its surroundings and creates possibilities for artists and cultural producers on demand, when it seems that with a reasonable effort and limited amount of money HCP can enable an already very valuable project to thrive. Elias Koski is responsible for this partner group.

## **Stakeholder Group - Partner Groups**

### **Entrepreneurs**

In terms of client numbers and assets under management this partner group is one of the smallest but still an important area of business. The current focus within this partner group has been on small and mid-size companies, which often already have a close relationship with a bank. Toni Schlobohm is responsible of this partner group. Currently this is the partner group where HCP seeks new focus on how to be a valuable partner in the entrepreneurs' everyday life.

## **Stakeholder Group - Workforce and Owners**

Workforce has a significant role in sustainability issues, as their work output, values and attitude create the work environment of HCP. Values and opinions of the staff are discussed often and due to the small size of the workforce, management is easily available and there is no lag in reaching executives in concerns, opportunities and ideas on sustainability and responsibility. Six persons have a HCP contract of employment and five are advisors, supervised workers or board members. 10 of these 11 persons are also shareholders in the company. Shared values and ownership create a natural incentive to build a functional and profitable company that creates different forms of utility

for society. Additionally, during 2014 HCP had four supervised workers involved with accounting, IT, social media, and web development.



[Figure 4: Total Workforce]

0% of the HCP employees are under any collective bargaining agreements. The work of HCP is not fixed to a specific location. The total workforce is located in five different locations in four different countries with the headquarters in Helsinki, Finland having the most significant labor input. Total workforce of HCP by region is depicted below in Figure 5.

## Total Workforce by Region

### Employees



### Supervised Workers



### Advisors, Board members, Owners



O = Owner | B = Board Member | A = Advisor

[Figure 4: Total Workforce by Region]

## Stakeholder Group - Workforce and Owners

### Summer Trainee Program

In 2013, the first profitable year of the company, HCP started a summer trainee program. One summer trainee was hired also in 2014; this increased the total workforce of the company by 11% and is considered a significant variation in employment numbers. With the summer trainee program HCP wants to maintain contact with the younger generation, provide employment for nearly graduated students and to function as a career stepping-stone. This is felt to be especially important as there is currently growing academic unemployment in Finland.

HCP pays the trainee below national recommendations by area of study or work, which makes one summer for a student economically challenging but the company aims at offering a solution

to the rising difficulties of nearly graduated students in finding work in the rough, current state of employment. The pay is barely enough to make a living in Helsinki without external assistance or a second job, but when looking at the big picture HCP feels that the stepping-stone it provides is an investment in future work opportunities and the company aims to assist in the process of finding work after the internship ends.

## **Stakeholder Group - Workforce and Owners**

### **Labor/Management Relations**

The management of HCP is considered to be about resourcing the workforce and fostering the shared values and ensuring that the work is meaningful. HCP has no typical minimum notice periods provided to employees regarding operational changes that could substantially affect them. The company adjusts to the employee's situation and together with the employee considers what is optimal for both parties.

One example of the HCP human resources policy is that one of the employees of HCP is given a minimum of six months as a deadline for any given project to ensure maximum potential of the effectiveness of the employee in question. Another example is that one employee was granted a study leave to finish his studies before continuing to develop an important piece of HCP services.

## Stakeholder Group - Client Money Invested by HCP

### **SRI - Socially Responsible Investing**

In the end of 2014 HCP set as a goal to gradually introduce responsible and sustainable investing as part of all our investment strategies. One of the main goals is to consider ESG-factors (Environmental, Social, Governance) when making investment decisions and implement at least one of the seven strategies of responsible investing as a tool for managing assets in each fund. Our goal for the next few years is to consider and possibly sign the United Nations Principles of Responsible Investing (PRI). We are also considering other initiatives to help HCP to gain more tools for responsible investing.

In early 2015 we joined FINSIF, Finland Sustainable Investment Forum and FiBS, a corporate responsibility Network. Our goal is to interact with and learn from other organizations that take Corporate Social Responsibility seriously. The seven strategies of Responsible Investing (SRI) are

1. *Negative screening*, where investor excludes companies, practices or even sectors from a fund or portfolio based on specific ESG-factors
2. *Positive screening*, where investor includes investments with positive ESG-factors relative to industry peers
3. *Norms-based screening*, which means screening based on international norms on business practice
4. *Integration of ESG-factors*, where investment managers systematically consider environmental, social and governance factors in financial analysis
5. *Sustainability themed investing*, investment in themes related to sustainability (clean energy, green technology, etc)

6. *Impact Investing*, which means targeted investments aimed at solving social and environmental problems
7. *Corporate engagement and shareholder action*, influencing corporate behavior with shareholder actions of engagement,

HCP is currently including at least partially negative screening in its portfolios. Strategies can be of course used simultaneously in the same fund and some of the strategies can be occasionally interpreted as partials of another strategies, for example impact investment usually can be defined as sustainability themed investing but they ought to keep separated since their difference in basis. The most commonly used strategies are negative screening, norms-based screening, corporate engagement and shareholder action. In Europe, the most common strategy is negative screening, while integration of ESG-factors is the mostly used strategy in the US, in Oceania and in Asia. Corporate engagement is the most popular strategy in Canada. (Source: [http://www.ussif.org/Files/Publications/GSIA\\_Review.pdf](http://www.ussif.org/Files/Publications/GSIA_Review.pdf)).

The use of all seven strategies is growing in Europe and sustainable investing grows faster than the broad asset management market. One has to keep in mind that the growth rate of sustainable investing strategies is largely happening because of governmental pressure and guidelines as well as laws. The fact that a fund says it has a sustainable strategy implemented in its portfolio does not necessarily mean that the fund is actively applying the strategy. Either way, it seems that Sustainable Investing is becoming an important aspect of professional investing, and we want to be part of this development.

It is clear that many of the global environmental, economic, and social problems are escalating as we speak. To totally ignore these problems by concentrating exclusively on making profits is ethically problematic from the standpoint of our corporate values. As a small but rapidly growing asset management company, we understand our limits as to our capacity to actually make a difference, but we recognize the importance of setting an example and taking part in the development of new global standards. We think that leading through example is the best or possibly the only way to improve the industry from within.

We strive to systematically improve in the broad field of Corporate Social Responsibility. Integrating responsible investing strategies and starting to publish annual sustainability reports are baby steps towards this goal.

## **Stakeholder Group - Client Money Invested by HCP**

### **Breakdown of Revenue from Investing Client Money**

HCP reached break-even in 2013, and 2014 was our second profitable year. The company's financial position (including assets under management, AUM) is depicted in Figure 6. At the end of 2014 HCP was debt free and thus total capitalization is pure equity. This section and Figure 7 offers an overview on the economical performance of HCP and product shares of assets under management.

The question of how HCP creates wealth for its clients is intimately linked to the investment strategies of our funds. This leads to the more general question of how the company creates wealth. This question is important for the owners, the workforce as well as for the all other stakeholder partner groups.

HCP Asset Management, €	2014	2013	2012
Net Revenues	898 919.92	529 809.02	320 346.07
Result	222 570.35	81 849.33	-69 920.03

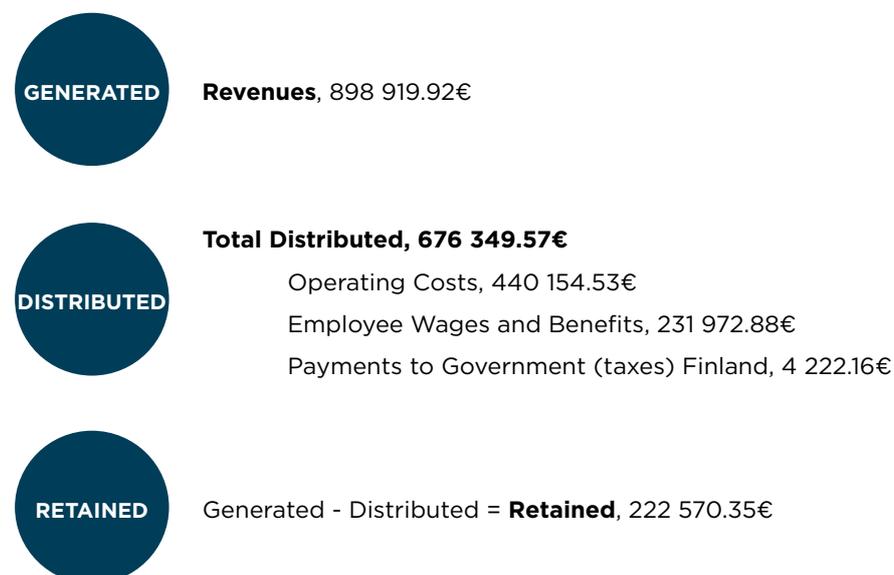
Total Capitalization, €	1 131 513.77	911 491.55	772 893.32
HCP Asset Management	268 196.69	218 155.88	165 238.75
HCP Group	828 759.83	691 967.18	606 062.10
HCP Advisory	34 557.25	1 368.49	1 592.47

Total Assets Under Management, €	54 923 310.44	33 503 531.01	18 601 427.14
HCP Black	15 780 965.18	11 873 120.70	5 063 262.21
HCP Focus	18 180 828.99	12 820 582.56	2 807 046.27
HCP Quant	11 816 244.26	0	0
Managed Accounts	9 145 272.01	8 809 827.77	10 731 118.66

[Figure 6: Economical Performance and AUM]

## Stakeholder Group - Client Money Invested by HCP

### Economic Value Generated and Distributed



[Figure 7: EVG&D]

## **Stakeholder Group - Client Money Invested by HCP**

### **Indirect Economic Impacts**

To grasp the key point in economic impact of the company one might consider the following statement from the CEO of HCP:

*“Our company’s written commitment to complete transparency in asset management forces us to focus all of our efforts to deliver what our industry can do at its best – to create wealth and to allocate society’s scarce resources efficiently.”*

The biggest indirect economic impact of HCP comes through the investment of client money. This is the main way that we create wealth, but the impact of the money invested is indirect since HCP does not have control of how the thus financed portfolio companies operate with the invested money.

One example of an indirect economic impact is the theme of insuring natural disasters. This theme is present in two of HCP products. They include investments in Berkshire Hathaway (that offers insurance of natural disasters) as well as direct investments in insurance linked securities (ILS). Natural disasters and global catastrophes are still underinsured and when more capital is prepared to carry these risks it will become cheaper for people to protect themselves. Consequently, we see these investments as being not just good financial investments but also as being socially beneficial.

## Stakeholder Group - #HCPSPiRiT, Social Collaboration



Businesses don't operate in a vacuum; they require a well functioning surrounding society to operate in. One defining factor of a society are the companies operating within the framework of the society. A bidirectional relationship is born and one cannot define the relationship merely by law. Obeying the law is obviously essential, but the relationship must not be defined exclusively by law. The relationship between business and the rest of society is not external of society; it is a human creation within a society. Thus, one should not under-

stand the relationship in terms of pure profit maximization within the law, since that would inevitably lead to ethically questionable outcomes. "A business sector cannot prosper if the society in which it operates is failing and a failing business sector inevitably detracts from general well-being." (OECD) We must put flesh on the bones of the definition of the relationship between businesses and society and the concept of Corporate Social Responsibility (CSR).

### **Stakeholder Group - #HCPSPiRiT, Social Collaboration**

#### **Corporate Social Responsibility**

Donating a portion of corporate profits to charity is no doubt laudable, but this is charity, and charity is not the essence of CSR. True CSR is the sincere attempt to integrate responsible and sustainable strategies into how business is being made. Thus the question is not what to do with profits, but how these profits is generated in the first place. The size of the profits directed to responsible activity depend on company interest, values and opportunities, but that is taking CSR further. CSR does not necessarily have to be non-profit activity, but rather part of the company's business strategy and execution. The million-dollar question is how to balance these two seemingly contradictory goals: maximizing social utility while simultaneously minimizing corporate costs? Social responsibility should not be considered an exogenous variable in microeconomic functions of a company. It should be endogenous and incorporated into the production function and cost function. Otherwise maximizing profits or minimizing costs may well lead to a sub-optimal level of socially responsible activity. Such a dilemma could manifest as social action that is either too high (an unreasonably heavy burden to the company) or too low (shirking from social responsibility). Thus, in the long run the optimal choice (financially as well) is to integrate the values of social responsibility and sustainability into the core of the business strategy of the company. The shape of the CSR-variable in the microeconomic production equation is a difficult question to answer and requires careful research.

What does this mean for HCP? In a small but efficient asset-management company the scarcest productive resource is effective human resources (time, attention, passion, creative problem solving capacity). Sustainable and responsible business is important to HCP's values, which includes participating in, even if on a modest scale, the grand and august task of building a more trustworthy, transparent and ethically sound financial industry. The company strives to take its business to the next level and shake off some of the old habits by, e.g. replacing unsound incentives (e.g. profit maximization to the exclusion of everything else) with more sound and balanced ones. Improving reputation is of course an important factor as to the trustworthiness of a company, but here again the goal of CSR is not necessarily to "maximize" the company's reputation in the sense of "brand building". The goal is rather to be able to also consider the interests of society at large when making business decisions. A stable and sustainable society consists of trustworthy companies that mind

the bidirectional relationship and strengthen it. To have nonprofit programs and donating a share of profits to charity can both be defined as “giving something back” to society, but collaboration with artists and cultural producers as well as nonprofit culture programs is much more than charity.

According to a study by the Chartered Institute of Management Accountants (CIMA) and co-authored by strategy consultant and writer Robert Philips, companies’ use of the word “trust” has risen by a factor of eight in the past decade, indicating an increasing corporate obsession with trustworthiness. According to Philips: “This is bizarre, because ‘trust’ is not something companies can directly control – it is an outcome. It does not work as an isolated message. Endlessly repeat the word ‘trust’ if you want, but it will not make people trust you,” (Source: [FIBS newsletter June 2015](#))

The above refers to the old dictum: “Actions speak louder than words”. In the case of Corporate Social Responsibility the ability to communicate with the public requires words and numbers subject to a global standard. HCP wants to be part of this development.

## **Stakeholder Group - #HCPSPiRiT, Social Collaboration**

### **Culture and art**

We acknowledge that a healthy society needs a thriving culture. The gains of culture is challenging to measure in purely monetary terms, but several studies have established a positive correlation between societal well-being and the amount of cultural events. Contributing to art is important to HCP also for the reason that art and artists are usually under-financed relative to their positive social impact. The social utility derived from art is not directly proportional to the generally meager financial profits that can be made from traditional “investments” in art. Relative to our modest size, we have a vast network of collaboration with artists and cultural producers.

Sometimes the input-output ratio of cultural projects is very good, meaning that the resources invested into the project can create a much bigger impact than the original investment. In post-industrial societies such as Finland and most other Western countries, the importance of creativity as a productive factor is starting to eclipse that of traditional factors of production, such as commodities or industrial infrastructure. Culture also seems to enjoy some long-term macro tailwinds; as an increasing portion of the world population is beginning to get their basic physical needs (food, shelter, health-care) met, the demand for goods that are situated higher in the Maslow pyramid of needs (e.g. culture) is bound to continue increasing. Even Western pop-culture, that we so easily dismiss as something shallow seems to have a certain function as a symbol of freedom in many developing countries.

## **Stakeholder Group - #HCPSPiRiT, Social Collaboration**

### **Communities and Projects**

A total of 25 projects were realized during 2014. All projects are evaluated provided that they are in line with company values. Every project is documented as to the values they reflect and how; transparency, partnership, efficiency. To get approval, a project needs to build on at least one of these and in the end it needs to reflect the HCP credo: “Asset management to be proud of.”

Of the projects undertaken in 2014, five were purely non-profit. From the 25 projects in 2014 many were campaigns primarily undertaken to promote sales. However, even they were subject to the same process of evaluation.

[X] Hengen Apteekki (Pharmacy of the Spirit) [\[link\]](#)

[X] Kaapelitehdas, Roinasauna (sauna as a recycling space) [\[link\]](#)

[X] Snowboarding and HCP freeride artifact, a graffiti artwork

[X] Ääniwalli 27.12.2014. Jeff Mills [\[link\]](#)

[X] Roof Garden at Kaapelitehdas

From the total number of campaigns 20% were projects with impacts with the local communities.

Our headquarter is located at Kaapelitehdas ([cable factory](#)) in Helsinki, Finland. Kaapelitehdas has probably the biggest concentration of culture in the Nordic countries and resident artist tenants pay a subsidized rent. Commercial organizations such as HCP pay market-rate rent. We have offered our office space as a space for revolving art exhibition for several artists ([Hengen Apteekki](#), [Temple 2013](#)). HCP is also taking part of the roof garden-project at Kaapelitehdas.

The workforce of HCP is included in every step of the process of planning each campaign and project: The values of HCP are applied in every project from the process of planning to execution. Every project is reviewed by the CEO of HCP to ensure that only projects that are in line with company values are initiated. This ensures that our values are respected in every aspect of the project.

## ABOUT THIS REPORT

All data in this report refers to the fiscal year of 1.1.2014 – 31.12.2014 unless stated otherwise. The goal of HCP is to publish a sustainability report annually. Although data is mainly collected during the fiscal year, data from the first two quarters of the current year is in some parts included in this report. All analysis is produced by HCP and references to external articles or other publications are given as appropriate. Any questions or comments about the report may be directed to [ishareholderservicing@helsinkicapitalpartners.com](mailto:ishareholderservicing@helsinkicapitalpartners.com). You may also contact us with a request for a virtual meeting (<http://www.helsinkicapitalpartners.fi/en/contact-us/>).

**Oskari Jakonen**, an economics student at University of Helsinki, performed this audit during 2015 as a summer trainee of HCP. HCP strives to report its sustainability efforts via an impartial and objective person in order to minimize the temptation to cherry-pick only information with positive brand-building value. We hope that this practice leads to a more transparent process of sustainability reporting than otherwise might have been the case. HCP offered the auditor all required resources.

**Victor Heinänen** was elected by the fund shareholders in the annual fund shareholder meeting to become the representative of fund shareholders and a board member in the HCP Asset Management Company. No one from the HCP organization knew Victor personally from before, nor did HCP or any of its workforce or owners have any previous business relations with him. This was seen as an important guarantee of impartiality and objectivity. Victor's has stated the following upon reading a first draft of this report: "After reading this report, the first word coming to mind was WOW. The report is in line with my observations made while being a fund shareholder, as well as seeing HCP from the inside as the representative of all fund shareholders. HCP differs from the stereotypical asset management company with its transparency, high ethics and high morale: there's even no flirting with the chalk line. One example of this is the election of the shareholder representative to the board. It is people that do the work and also the customers are treated as people. The report shows deficiencies, such as the gender distribution, which are not swept under the carpet. This is one illustration of true transparency and uprightness."

Our main goal is not short-term profit-maximization, but total long-term utility.

# GRI CONTEXT INDEX, “IN ACCORDANCE” - CORE

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HCP HQ and mobile office



Oskari Jakonen during the HCP summer internship 2015

