

# Nordea Asset Management: Our Commitment to Responsible Investment

## Nordea Asset Management's Responsible Investment journey

Nordea Asset Management's (NAM) commitment to be a responsible asset manager is not new: it is deeply rooted in our Nordic corporate culture, philosophy and business model. Socially responsible thinking and sustainability concerns are prevalent in Nordic countries, which are global leaders in numerous sustainability-related aspects. In 2018, NAM's parent company, Nordea Group, was ranked one of the top 100 most Sustainable Corporations in the world.

Additionally, we consider it our fiduciary duty to care about all factors that are material to clients' investments, including those that are non-financial such as Environmental, Social and Governance (ESG) factors. It is therefore natural that Nordea was one of the early signatories of the United Nations Principles for Responsible Investment (UNPRI) in 2007. Since then, we have been active supporters of several Nordic, European and global ESG-related initiatives. Under the guidance of our Responsible Investment Committee, chaired by NAM's CEO, we have developed a corporate-wide RI policy as well as various RI-related procedures and investment products. These underpin our comprehensive Responsible Investment Framework.

### Our journey towards a sustainable future: key dates

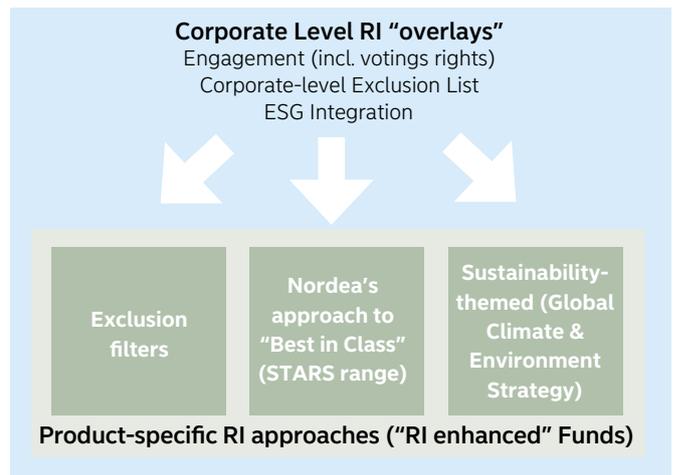
- 2007: Signed the United Nations Principles for Responsible Investments
- 2008: Launched Global Climate and Environment strategy
- 2009: Created NAM's Responsible Investment Team
- 2010: Established exclusion of companies involved in illegal and nuclear weapons
- 2011: Launched first STARS strategies (fully ESG integrated)
- 2015: Established exclusion of companies with revenue share from coal mining > 75%
- 2016: Launched Nordea Group Sustainable Finance Team
- 2017: Launched public Voting Portal and lowered the coal mining threshold to 30%
- 2018: Began quarterly ESG reporting for STARS strategies

## NAM's Responsible Investment Framework

NAM's Responsible Investment Framework comprises a wide range of RI approaches. Some are decided and deployed at the

corporate level – we call them “overlays” – while others are product-specific and apply to solutions with a stronger ESG focus.

### NAM's RI framework in a nutshell



### Active Ownership

Active ownership is a central component of our corporate-wide overlays. Being an active owner is of paramount importance to NAM. We believe this is a powerful way to protect shareholder value, enhance long-term returns and foster positive change. We do this by exercising our formal voting rights as well as proactively engaging with companies and encouraging them to improve their management systems and ESG performance.

Our active ownership efforts begin with voting on our holdings, attending Annual General Meetings (AGMs) and representation on nomination committees. Our publicly available Voting Portal shows how we have voted in AGMs for stocks held across our funds. Access to the Voting Portal can be found at [nordea.com](http://nordea.com).

### Engagement

Engagement is the next step of being an active owner and is a crucial component of our RI philosophy and framework. Engagement means having a constructive dialogue with a company through face-to-face meetings, conference calls, letters or even field visits. As such, it provides an opportunity to improve our understanding of companies that we invest in as well as the ability to influence. We engage proactively with companies and other stakeholders on behalf of all internally-managed Nordea funds.

We focus our efforts on companies that represent our largest holdings and where we believe we can create impact, in other words where we can foster change. Also, all our active funds are subject to norms-based screening which can drive engagement activities (see box). For certain products, such

as our STARS solutions, which stand at the forefront of our RI approach, we engage systematically and proactively with investee companies. By engaging individually or collaboratively with other investors, we try to promote better corporate governance, risk management, performance or disclosure standards on a wide range of ESG-related issues.

### Exclusion list

While engagement is always NAM's preferred approach, we have made a corporate-level decision to exclude certain stocks, sectors, and practices across our entire active fund range. For example, NAM has banned investment in companies active in the production of illegal or nuclear weapons, including cluster munitions and anti-personnel mines. In 2017, the policy was extended to include companies involved in the maintenance of nuclear weapons. In a similar fashion, none of our funds invest in companies deriving more than 30% of their revenues from coal mining (metallurgical coal, thermal coal and coke). Our detailed RI policy and our corporate exclusion list are publically available at [nordea.com](http://nordea.com).

### Norms-based screening at Nordea Asset Management

All our actively managed funds (including those managed by external boutiques) are subject to a regular norms-based screening which identifies companies that are allegedly involved in breaches of, or controversies around, international law and norms on environmental protection, human rights, labour standards and anti-corruption. If a company is flagged in this screening process, we will initiate an internal assessment of the company and of the incident. This assessment is performed by our ESG analysis team, which then provides a detailed analysis and recommendation to NAM's RI Committee. Decisions to place companies on our exclusion list, or to freeze any additional investment in these, may be made by the RI Committee if engagement fails or is deemed not possible.

### ESG Integration

NAM aims to take returns with responsibility to a new level. Because ESG issues are an increasing source of risk and opportunity, we seek to integrate ESG data into our investment analysis methodology for all internally managed funds. To ensure that investment decisions are based on a full set of information, ESG data is made available to all our internal portfolio managers and financial analysts through a variety of mechanisms, such as our internal research platform and joint meetings with NAM's investments teams and ESG analysts. For instance, our Multi Assets Team considers ESG as one of its (many) factors when reviewing a potential investment. Our Fundamental Equity Team runs a number of strategies that incorporate ESG analysis into their investment process, such as the STARS range.

## NAM's RI-enhanced Products

Besides corporate-level RI overlays, we have developed a range of "RI-enhanced" strategies to meet the needs of our clients. These strategies typically raise the bar in terms of responsible investment.

### Exclusion filters: additional filters to meet specific needs

While engagement is our preferred approach, some markets or market segments do not wish to be exposed to certain companies, sectors or practices. For this purpose, we have developed specific exclusion filters to meet these preferences. Such exclusion approaches include, for instance:

- Certain sectors, typically tobacco, military equipment, gambling, alcohol or adult entertainment
- Companies listed in the so-called "NBIM list" established by the Norwegian Global Government Fund, one of the world's largest Sovereign Wealth Funds
- Certain carbon-related (fossil fuel) filters or stricter limits in terms of exposure to the coal sector

### The STARS strategies: at the forefront of responsible investment

The STARS strategies are at the absolute forefront when it comes to integrating responsible investments and ESG concerns in fund management. They aim to outperform their benchmark through true ESG integration, establish specific sustainability standards for investee companies and proactively engage with them to create impact.

The management teams behind the STARS strategies focus on selecting companies not only with sound fundamentals, but also with higher ESG ratings to ensure their ESG quality. Each holding in the STARS strategies undergoes a detailed 360 degree ESG analysis, looking at both ESG risks and opportunities, and is rated A, B or C according to our proprietary ESG rating methodology. The portfolio managers can only invest in companies rated A or B – in other words the companies with good ESG profiles. Additionally, the findings of the ESG analysis are fully incorporated into the competitive analysis and valuation of the company. This enables the portfolio managers to focus on tomorrow's winners.

Active ownership is also a key and distinctive part of our investment approach for the STARS range. We engage proactively with companies in the STARS portfolios when we see material ESG risks that may not be adequately managed or opportunities that may not be fully capitalised on. We also engage with them to advance certain themes related to the UN-backed Sustainable Development Goals<sup>1</sup> (SDGs), such as human rights and climate change. Our engagement activities in the STARS strategies are detailed in quarterly reports available to our clients.

1) The UN's Sustainability and Development Goals are a series of thematic targets the UN identified in 2015 as a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity.

## The Global Climate and Environment strategy: a sustainability-themed investment

Ten years ago, NAM developed a sustainability-themed product, the Global Climate and Environment strategy, which is focused on solutions around climate change and environmental protection. This thematic strategy capitalises on a long-term megatrend supported by multiple drivers, including a growing awareness of the climate challenge and the economic sense it makes for businesses to minimise their environmental impact. The portfolio managers focus on companies providing solutions, that contribute to a more efficient and sustainable society, in particular those leading in the areas of resource efficiency, environmental protection and, to a lesser extent, alternative energy.

### Award-winning ESG analysis team

Our RI efforts, in particular our ESG integration and engagement activities, are supported by NAM's in-house ESG analysis team. The team was formed in 2009 and since then has built award-winning ESG research capabilities and expertise, receiving awards from several external entities such as Extel and Capital Finance International (CFI) – NAM was awarded Best ESG Investment Process in Europe for three consecutive years (2015, 2016 and 2017) by CFI. Our ESG analysis team is constantly fine-tuning its proprietary ESG assessment model which provides in-depth company-specific ESG analysis and ratings to the portfolio managers.

Because social and technological developments, as well as climate change and other environmental issues, routinely impact business models and create opportunities, part of our ESG analysis consists of assessing and evaluating transformative themes and areas which we believe shape the future landscape of investments.

### In summary

Responsible investment has long been an integral part of NAM's DNA as a Nordic asset manager. We remain steadfast in our commitment to encouraging companies towards more sustainable and climate resilient business models. Our RI framework, which includes active ownership, engagement, exclusions and a range of RI-enhanced products, is an essential tool that supports our efforts to take returns with responsibility to the next level.

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