Responsible Investments

Annual Report 2014

About Nordea Asset Management

Nordea Asset Management (NAM) is the largest asset manager in the Nordics with a growing European presence and business. Our assets under management exceed EUR 174 billion. We are a semi-captive asset manager servicing Nordea Retail Bank, Private Banking and Life & Pensions, as well as Nordic and international institutional clients and third party fund distributors globally. We employ 592 FTEs and 153 investment specialists.

NAM is also the largest Nordic retail fund provider, with a 14% market share, more than 1.6 million unitholders and servicing more than 600 Nordic and international institutional clients. At the same time, we have a growing third party fund distribution franchise servicing 350 international fund distributors, including 21 global wealth managers.

Our vision

Being a leading European asset manager

Our mission means...

Deliver returns...	Right assets Excess performance
...with responsibility	Risk adjusted ESG proactive Operational execellence

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Editoral leader

Written by:
Christian Hyldahl, Head of Asset Management
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Creating value the responsible way

Asset management is all about value creation. At Nordea Asset Management we believe that responsible value creation is what makes the difference.

The commitment to being a responsible asset manager is deeply embedded in our corporate culture and business model. Our mission is to deliver returns with responsibility. To us, this is also closely linked to being an active asset manager. In addition to our mission of delivering returns with responsibility to our investors the function of active asset managers (contrary to passive) is to secure the right cost of capital for individual companies. This is the core of efficient capital markets and we believe that optimising returns with responsibility is the way to achieve correct pricing of cost of capital. Our responsible approach is what differentiates us from passive managers. To us "Responsibility" means focusing on operational excellence, risk adjusted returns and proactive ESG approach in our investments.

Recently published academic studies and market reviews confirm that the Sustainable and Responsible Investments market has grown spectacularly and have done so at a faster rate than the broader European asset management market. Asset owners see ESG integration as an opportunity to generate long-term performance while fulfilling their fiduciary duty, and investment managers see it as a way to improve risk management in the financial performance of their investment portfolio. This investment strategy offers companies opportunities to attract long-term investors while, at the same time, reducing their shareholder turnover, aligning their investment strategy with the real needs of their business and laying down the foundation for a sustainable future. Narrative for 2050 is clear, there is only win-win option on the table regarding ESG.

Active Ownership is leading the way
Nordea Asset Management has established a dedicated investment concept STARS with determined strategy to create strong returns by investing in companies that act responsibly – The Star Funds. Companies in our Star Funds portfolio are assessed for how they manage risks and opportunities related to ESG factors - environmental issues, social issues such as human rights, labour standards and business ethics. Our aim is to identify key issues that are of material relevance for the company to address. We believe that companies actively working on these issues and have a clear governance structure for dealing with these aspects expose their business to less risk. This creates a solid foundation for even better risk management and returns long-term.

Our ambition is to fully integrate ESG and leverage ESG analysis and engagement solutions in order to embed ESG across all investments processes, even if it will take time to have the full results and conclusions of this ESG integration work.

We have won international and national awards for our Emerging Stars fund as well as for our ESG integration efforts. Because of this we are investigating our standing in investing in companies involved in coal.

We are also committed to assisting clients with the adoption of responsible investments strategies that enhance long-term investment performance.

The future landscape of investments in a changing paradigm
As part of our ESG analysis efforts we continuously assess and evaluate transformative themes and areas which we believe shape the future landscape of investments.

Coping with changes
The new global growth paradigm means doing more with less resources and identifying new more resource efficient and less exploitative routes to follow. Crucial resources must be conserved and managed through better managing the demand of products and services and through the use of efficient supply mechanisms. One example is to deploy more efficient energy distribution systems, such as "super grids" and "smart grids". Water demand through water efficient systems such as drip irrigation, shifts in mix of crops sown is another example.. Better management of food demand can be achieved through changes in distribution, packaging, and content.

Technology change
Technology change is likely to resolve some ESG issues and exacerbate others. On the one hand technology can be leveraged to use resources more efficiently, at the same time it can be highly resource and energy dependent. Technology can enhance social networks and facilitate access to labour markets, but there is also risk related to privacy and data integrity in critical social infrastructure.

Social issues
In the aftermath of the credit crunch there is an increased emphasis on inequality issues. As mentioned above, technology developments may exacerbate this. Overall, we see the risks of social unrest, including labor unrest, as rising for as long as these trends continue. Unemployment, government policy responses, as well as labor rights, therefore remain important ESG issues, along with supply-chain management and related issues such as product safety and human rights. We believe that social issues should be high up on the corporate list of priorities. This includes responding to shifts in the political landscape in light of still-constrained government finances. Expectations are likely to be high in relation to corporate behavior in the domains of food, water, energy and land security.

Governance
The relationship between firms and society was on the front burner in many years and we expect this to continue for as long as credit crunch effects persist. Environmental and social issues

continue to impact company business models. Relevant issues here automatically become governance issues which puts greater demand on board oversight and governance of ESG issues and adequate internal control and compliance processes, including anti-corruption programs.

Environmental issues
Climate change as an issue for markets and companies has been fully aired, and so much associated with the lack of success in areas of regulation such as carbon trading, that it tends to be moved to the back burner. Climate change is still a key issue for companies, together with the related issues of food security, water security, energy security and land security.

Responsible Investments Policy

Read the full exclusion list here (http://esg.nordea.com/exclusion-list/)

In 2007 NAM adopted the United Nations-backed Principles for Responsible Investments. By endorsing the PRI, we committed to integrate ESG factors into our investment analysis, decision-making processes and ownership policies and practices – to deliver long-term value. The guidelines for our work are set out in our Policy for Responsible Investments.

Responsible returns

It is our vision to be a leading European provider of responsible investments (RI) solutions and it is our mission to create responsible returns – which will be achieved among other things, through the integration of ESG issues into our investment processes and product development. We believe we can add value for our clients by actively considering ESG in our investment activities.

As a responsible manager, we want to invest in companies that operate in line with our ESG commitments and mission. Acting responsibly is fundamental for a company to achieve long-term returns. We define responsible as being compliant with prevailing laws and regulations, relevant rules and international conventions.

Furthermore, a responsible company addresses ESG risks, and identifies and capitalises on opportunities in these areas.

Consequently, NAM does not invest in companies that are involved in the production of illegal weapons or nuclear weapons. Neither do we invest in sovereign bonds issued by governments subject to broad sanctions and/or which fail to respect human rights.

All funds managed by NAM are subject to annual norm-based screening to identify listed companies allegedly involved in infringements on global norms on environmental protection, human rights, labour standards and anti-corruption.

Company Name	Reason
Aeroteh S.A.	Involvement in cluster munitions
Airbus	Involvement in nuclear weapons
Areva SA	Involvement in nuclear weapons
Aryt Industries Ltd	Involvement in cluster munitions
Babcock International Group	Involvement in nuclear weapons
BAE Systems plc	Involvement in nuclear weapons
Boeing Co.	Involvement in nuclear weapons
CEMEX	Human right violations, extraction of non-renewable resources from occupied territory
Constructions Industrielles de la Mediterranee SA	Involvement in nuclear weapons
Doosan Corporation	Involvement in cluster munitions
Finmeccanica	Involvement in cluster munitions
General Dynamics Corporation	Involvement in cluster munitions & nuclear weapons
Hanwha Corporation	Involvement in cluster munitions & anti-personnel mines
Huntington Ingalls Industries Inc.	Involvement in nuclear weapons
Incitec Pivot	Violation of human rights related norms
L-3 Communications Corporation	Involvement in cluster munitions
Lockheed Martin Corporation	Involvement in cluster munitions & nuclear weapons
Motovilikhinskive Zavody OAO	Involvement in cluster munitions
Northrop Grumman Corporation	Involvement in nuclear weapons
Orbital ATK	Involvement in cluster munitions
Poongsan Corporation	Involvement in cluster munitions
Potash Corporation of Saskatchewan	Violation of human rights related norms
Rolls-Royce plc	Involvement in nuclear weapons
Safran Group	Involvement in nuclear weapons
Singapore Technologies Engineering Ltd	Involvement in cluster munitions & anti-personnel mines
Textron Inc.	Involvement in cluster munitions
Thales SA	Involvement in nuclear weapons
United Technologies Corporation	Involvement in nuclear weapons

Responsible investments governance
Our in-house Responsible investments team engages the entire business to honour our commitments, which is overseen by the Responsible Investments Committee (RIC), which has the role of monitoring and directing Responsible investments practices across the business. The RIC is chaired by the CEO and includes important internal stakeholders from across the organisation. The RIC meets four times a year and approves several important initiatives including review of our Responsible Investments Policy, progress related to our engagement activities, and how we can improve our practices is several key areas.

Transparency
Transparency is a key element of Responsible investments. We expect transparency from the companies in which we invest and therefore regard disclosure as key to our Responsible investments work. We strive to be transparent in what we do and how we incorporate ESG issues into our investment activities. In addition to this report, we report on our research and analysis and engagement activities through our website on an ongoing basis and publish reports to inform our clients about our activities. We also report our activities and progress in terms of implementing the PRI principles through the PRI reporting framework.

Stewardship and Active ownership

See the full movie here (https://www.youtube.com/watch?v=acLNqkKZBCw)

NAM aims to create shared value through its active ownership activities. Active ownership is about exercising our formal rights as a shareholder and our informal influence to encourage companies to improve their management systems, their ESG performance or their reporting. This can encourage companies to improve the management of risks in order to protect shareholder value and enhance long-term returns. We demonstrate this through our representation on nomination committees, through voting on shareholder resolutions and through our engagement activities.

Corporate governance
In our view, active corporate governance is important for the long-term development of companies and thus beneficial for shareholders, employees and society.

At Nordea funds we see active corporate governance as a core part of our assignment, and governance activities are conducted in the the interests of our unitholders. It is an integral part of being a responsible owner, and we strive to make a difference.

Ensuring long-term returns through corporate governance
We are convinced that sound corporate governance is essential for creating long-term positive developments in companies, thus providing added value for shareholders, employees and society at large. One of the ways to ensure this is to focus on increasing transparency and openness in contacts between the company and shareholders on issues such as board and committee composition, shareholder rights and executive remuneration.

New corporate governance structure
In 2014 a new structure was established regarding responsibility for corporate governance matters for all Nordea's funds. It involves us voting and conducting other activities uniformly, regardless of where the fund or company in question is located.
Erik Durhan was appointed Head of Corporate Governance in August. The newly established function works very closely with the Responsible Investments unit as their work is closely interconnected.

New Corporate Governance Committee
In 2014, the board of Nordea Funds Ltd appointed a new committee for corporate governance matters. The committee includes independent

board members, representing the unitholders, and representatives of Nordea Asset Management. The purpose of the committee is to take a stance on specific and complex ownership issues.

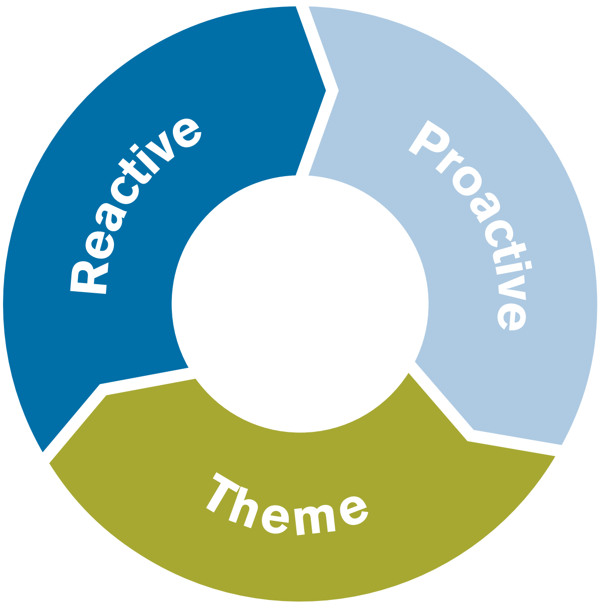
The long-term objective of the Corporate Governance Committee is to take the operations in an increasingly active direction – with the goal of engaging in more companies and increasing governance activities in non-Nordic companies. The initial 2015 goal is to vote in around 300 companies. These are selected based on holding, invested capital and/or if there are special grounds, such as ESG factors, for engaging.

Corporate governance activities in 2014
In 2014 we participated in around one hundred Nordic Annual General Meetings (AGM), alongside proxy voting in an additional one hundred international companies. Proxy voting involves voting electronically without attending the AGM. Furthermore, representatives of Nordea funds were members of more than 20 nomination committees, and for the 2015 season we are represented on more than 30.

A nomination committee normally consists of representatives from the largest owners. Their responsibility includes evaluating the present board and propose the future composition of the board to the AGM. The AGM is the highest decision-making body of a listed company.
Nordea funds are generally positive on participating in nomination committees, or other similar functions. It is a good instrument for providing shareholders with substantial influence in companies in which they have major holdings.

Active dialogue
Active dialogue is another important instrument of corporate governance. We initiate an active dialogue with companies when there is need. The most prevalent topics for discussion are incentive programmes for executives and capital increase mandates. Companies changed or clarified AGM proposals following discussion with us on a number of occasions in 2014, and this trend continues into 2015.

Nordea funds also advocate gender balance on boards and actively pursue the matter in the nomination committees on which we are represented and in other forums. With the exception of Norway (which has binding legislation on the matter) none of the Nordic countries have an acceptable balance on corporate boards, and the problem is even more extensive in many continental European countries.

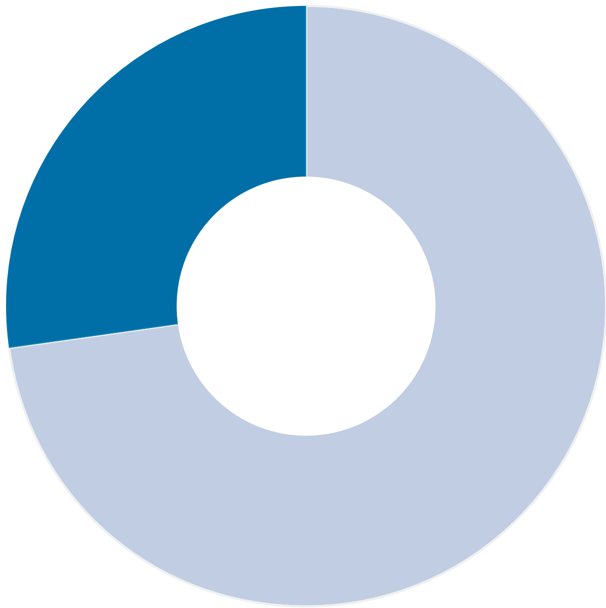


Engagement
We engage with companies and other stakeholders on behalf of our clients to protect and enhance their returns over the medium to long term and to provide real benefits in terms of ESG outcomes. Our engagement activities are conducted on behalf of all NAM funds. By working individually or collaboratively with other investors, we are able to influence the practices of companies in which we are invested through, for example, encouraging them to improve their governance, risk management, performance or disclosure on ESG issues.

The following model outlines how we structure our engagement activities. Our model is supported by structured processes to prioritise our efforts on key issues as defined by materiality, relevance for our clients, exposure in our funds, our ability to influence as defined by our holdings, our relationship with the company and opportunities to collaborate with others.

Company interaction 2014

- Company dialogues: 138
- Company engagements: 51



Companies engaged by topic

- Environment: 54%
- Social: 28%
- Governance: 18%

Reactive engagement

As stated in our Policy on Responsible Investments, on an annual basis, all listed companies in which NAM invests are screened to identify companies that are confirmed as being involved in repeated or severe violations of international norms[1] on human rights, labour rights, environmental protection and business ethics. We engage with selected companies identified in this screening process.

In 2014 we updated our process to prioritise engagement in incidents that may have a negative impact on the company's core business or reputation, and by screening broader factors, such as companies' total ESG performance, how they manage the most relevant key issues as well as the severity and financial materiality of the incident. This screening is now conducted jointly by our in-house Responsible Investments and Portfolio Management teams.

All cases are put forward to the Responsible Investments Committee (RIC), which decides which companies we engage with and monitors the process. Each engagement is supported by an agreed engagement plan that outlines the objectives, milestones, timeframes and engagement activities to be carried out.

[1]OECD Guidelines for Multinational Enterprises (1976), the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (1977), the UN Global Compact (2000) and the UN Draft Human Rights Norms for Business (2003).

Examples of Reactive engagement in 2014

Occupied territories
In 2014 Nordea engaged with companies operating in occupied territories. The implications of business activities in or in connection with occupied territories have over the years been discussed as part of the broader debate on corporate responsibility in conflict-affected areas. For us as an investor, businesses need to be mindful of the legal and human rights implications of corporate activity in such areas. As part of our dialogue, Nordea visited Israel in 2014 to meet with companies, local stakeholders and NGOs. We see that investor engagement related to corporate involvement in this area has contributed to increased transparency and raised awareness among companies of human rights implications related to operations in the occupied territories. We recognise the issue as a complex one and in 2015 we will continue our dialogue with plans for further field trips related to the issue.

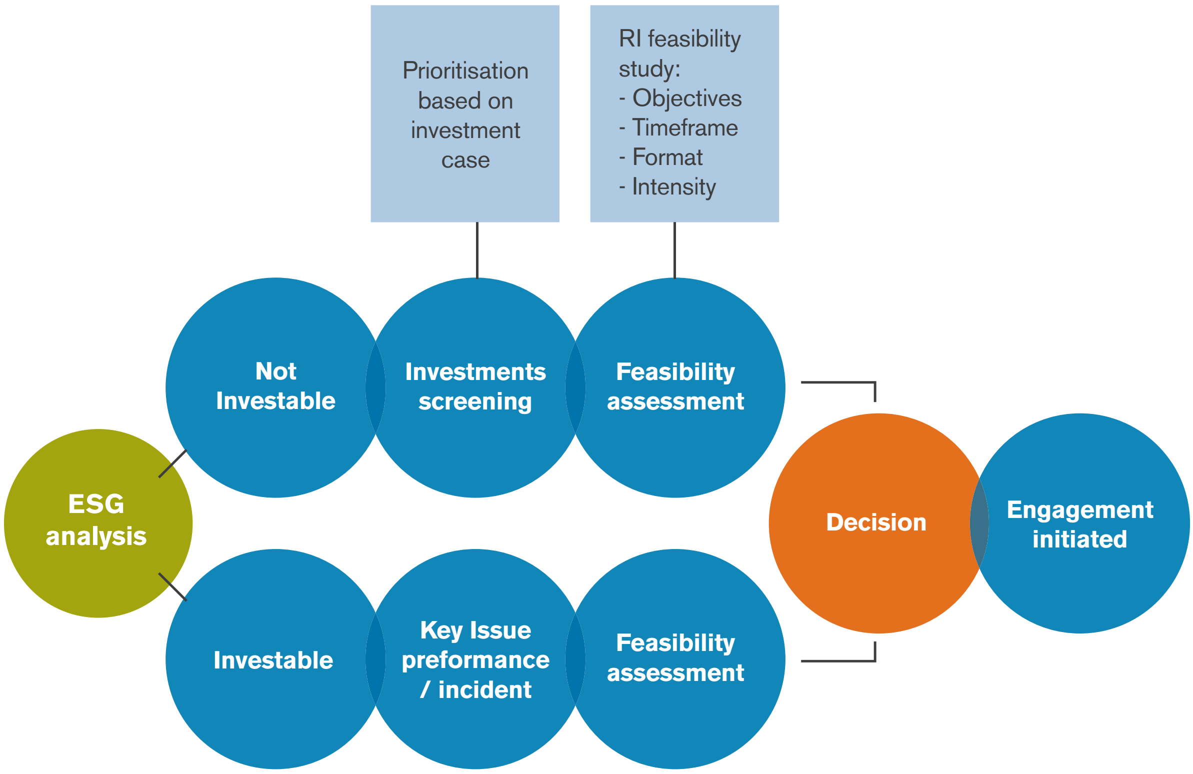
Child labour in supply chain
In 2014, Nordea engaged with a company that reportedly has child labour featuring in its supply chain. During the year the company conducted an in-depth Human Rights Impact Assessment in order to identify and respond to all potential human rights impacts across its operations. The assessment was completed at the end of 2014 and the company is now in the process of developing appropriate action plans and KPIs to address the identified human rights impacts. We appreciate the change that has occurred at the company and in the past year it demonstrated an action-oriented mindset and a high level of transparency.

Ended engagements due to successful progress
In 2014 Nordea successfully ended five engagements because the companies had improved their management of ESG aspects significantly since the dialogues were started.
The engagements with these companies concerned their practices related to workers' rights and local community management as well as companies operating in occupied territories and how, in these circumstances, they act to respect the rights of the occupied populations.

Proactive engagement

Nordea proactively engages with companies in which we see material risks that may not be adequately managed or opportunities that may not be fully capitalised. We initiate dialogue with the companies representing our largest holdings as well as those identified for our Stars concept funds in the ESG analysis process. When engaging with companies identified for analysis for our Stars concept funds, we engage on behalf of all Nordea funds that might hold these companies – which supports our ongoing ESG integration activities. The process below describes how we prioritise engagements for our Stars concept funds.

Selection process for proactive engagments



Example of Proactive engagement in 2014

Managing water risk in emerging markets
Water crises were recently identified by the World Economic Forum as the top global risk in the world today. Water stress is likely to become more prevalent as demand for water increases, driven by urbanisation, industrialisation, economic growth and the effects of climate change. In many regions, competition for scarce water resources is already causing business disruption, brand damage and, at worst, loss of licence to operate. Companies that can transform their business and work to safeguard valuable water resources have the potential for both short- and long-term cost savings, sustainable revenue generation and a more resilient future.

Taking action to mitigate risks
In 2014 Nordea and CDP (Carbon Disclosure Project) worked together to protect emerging market investments from current and future water-related risk. We entered into dialogue with companies in the Emerging Stars portfolio that were judged to be at relatively high risk from water-related issues. 21% of the companies targeted provided a full response to the survey. A further 15% of companies indicated that they would like to respond within the coming year. Among the very largest listed emerging market companies globally, only 32% are currently reporting information on management of water risk to investors. It is therefore encouraging that 36% of the targeted companies, which are often slightly smaller, in the Emerging Stars portfolio engagement were able to report or to commit to reporting in the near future.
The majority of the companies were not able to answer the questions at this point. We know from experience that it takes time to achieve change in corporate behaviour, but that investor dialogue is very important to achieve change and the desired results.

A need for better disclosure
By posing key questions to corporations about their relationship with water, we gained greater understanding of risks in the Emerging Stars portfolio. The dialogue with companies encourages them to detect, understand and, ultimately, manage these risks.
It is clear that more and better disclosure is needed. Disclosing and sharing water-related information not only enables companies and investors to better understand a company's risk exposure and the appropriateness of the management and governance responses thereto, but can also increase resilience to water challenges and thus avoid value destruction.

Thematic engagement

On an annual basis, we also look at our top holdings to monitor our exposure to specific themes or sectors defined by material ESG risks. We select a few key themes in which we see opportunities to further understand how material risks related to these sectors or themes are proactively managed by companies with the goal of influencing corporate practices.

Community risk

Studies have highlighted that local communities are increasingly opposing the development of extractives and infrastructure projects, particularly in developing and emerging markets that feature social and ecological vulnerabilities. These studies also show that the risks that community opposition (e.g. through protests and disputes) present to companies can be material and are often disregarded. Many companies do not fully capture the related costs of community opposition across their portfolios of projects and therefore underestimate the value of community engagement, i.e. fostering positive, long-term, relationships with local communities. This is particularly evident at the early stages of project development, but also throughout the project lifecycle.

Investors (as well as lenders and insurers) are increasingly concerned about how failure to adequately manage community relationships erodes value, through increased financial, operational and regulatory risks, and also about how poor management of community issues conflict with their long-term, shared interest in promoting responsible and sustainable development. While many extractives and infrastructure projects, if executed responsibly, can provide socioeconomic development opportunities and benefits to local communities, we have encountered cases where community engagement and mitigation of negative environmental and social impacts have been overlooked and under-prioritised, leading to conflict and disputes that ultimately result in the suspension or abandonment of projects.

In 2014 we engaged with a number of companies to understand their approaches to managing and mitigating community risk particularly related to an increased number of incidents at infrastructure an extractives companies regarding the violation of human rights and environmental protection, and to request robust management practices to mitigate such risks. We believe that companies that adopt sound practice in managing community impacts in their operations are best positioned to protect shareholder value and meet stakeholder expectations.

The outcome of our dialogue included a report that guides our dialogue with companies and builds the case for improved risk management by companies with operations that have high environmental and social impacts on local communities, particularly in high-risk geographies and capital-intensive industries. It also provided recommendations to companies, including: developing company systems and processes according to international best practice guidelines; ensuring ‘front-end’ commitments to early stage community consultation, engagement and remediation; supplementing the gaps in processes led by government agencies; and ensuring continuous, on-the-ground presence to foster positive relationships with local communities.

PRI/collaborative engagement

Nordea participates in company engagements and initiatives on a collaborative basis, for example through the PRI Clearing House. This is a hub for endorsers of the PRI (United Nations-backed Principles for Responsible Investments) where they can jointly support, drive and participate in different initiatives. In 2014 Nordea was involved in the following collaborative initiatives:

- Shale gas
- Water risk
- Sustainable value creation "hållbart värdeskapande"
- Tax practices
- Oil sands
- Arctic drilling
- Investors for Children's Rights
- Financing climate change

ESG integration

ESG issues are a potential source of better performance and a way of controlling risk in an investment portfolio. That is why the ESG principles are integrated into all Nordea Asset Management investments.

As stated by the new CEO of Nordea Asset Management, Christian Hyldahl, "ESG issues are increasingly important in the risk/reward equation. Integration is therefore vital to our business and how we generate returns for our clients." Nordea Asset Management started to take the initial steps towards ESG integration into all investment processes in 2013. Today, all Nordea portfolio managers have access to relevant ESG issues and are able to use this information to improve their investment decisions.

Environmental, social and governance issues are an increasing source of risk and opportunity. It is therefore natural to integrate ESG issues into all of our investment analysis methodologies. ESG issues are a potential source of better performance and, at the very least, it is a way of controlling risk in an investment portfolio. Good returns for our customers are the focus for Nordea Asset Management and so we need to take ESG issues into account in all our investment products.

This has the added benefits for customers of increasing transparency so clients will know how we are handling ESG issues. This information can in turn be passed onto the customers' stakeholders as part of their communication on how their money is invested. We believe ESG integration will strengthen Nordea's profile as being a European leader in Responsible investments.

Montreal Carbon Pledge and carbon footprint

One example of ESG integration developments is that Nordea Asset Management was one of the first endorsers of the Montreal Carbon Pledge, which was launched in September 2014 by the Principles for Responsible Investments. As an endorser, we have committed, in an initial step, to measure and disclose the carbon footprint of our investments. The subsequent aim is to use this information to develop an engagement strategy and/or identify and set carbon footprint reduction targets.

Since the beginning of 2014 RI has had access to the Trucost database. The database gathers information on companies' carbon footprint and enables us to measure the carbon footprint on portfolios compared to benchmarks. The carbon footprint of portfolios has been presented to a number of major clients and is used in some model portfolios and is already highly appreciated by clients.

Interview with Mathias Leijon, Global, Nordic and Swedish Equities

Could you briefly describe your investment process?
We are long-term investors with an investment horizon of 5 years and we are trying to identify companies with a sustainable competitive advantage that yields a return above the cost of capital and who trades at a discount to fair value. We spend a lot of time on the corporate governance aspect including ESG factors to determine risks in the cash flow being generated. A well balanced board is very important since they are ultimately the guardians of capital and resource allocation which, over time, has a profound impact on shareholder value.

Why do you think ESG factors influence the short-term and/or long-term performance of your portfolio?
ESG has very little to no impact on shorter time horizons up to 3-4 years. It could actually have negative short-term effects since companies over-invest to be ESG compliant which leads to short term lower margins. On the longer horizon however ESG contributes a lot since companies will be able to sustain their competitive advantages for longer and lower fluctuations in profits which impact the discount rate. All in all it leads to a higher fair value. H&M is a good example here. HMs fair value would be substantially lower without giving them the benefit for being good in terms of ESG. I always say that ESG is not an issue until it is. When these events happens it happens suddenly and often have both a short-term impact but also a long-term one since the historical under investments (purchasing licenses, paying too low salaries etc.) needs to reverse and costs will go up.

What benefits do you see from having an internal ESG analysis team?
Independent views and unbiased advice. In general terms an internal research teams works solely for the benefit of our stakeholders and customers and do not have an incentive to sell anything or to create transactions in the portfolio in order to generate commissions. Internally we have come a long way but we need to continuously evolve and integrate the ESG analysis with our financial analysis even further.

Any example of companies where ESG data help to detect/reveal hidden threats or opportunities?
TeliaSonera is a good example where there has been both a short-term impact but more importantly a long-term one since the corporate governance structure has changed, the way the board works has changed, the culture is about to change etc. In the meantime Tele2 which has historically been substantially better in this respect has progressed very well both from an operational perspective as well from a shareholder perspective.

How do you expect ESG research to affect future cash flow calculations?
It impacts the risk in the cash flow being generated. Company valuation is based on expectations on future profits as well as the risk associated with this and hence strong ESG performance increases the longevity of sustainable profitability as well as lowering the risk in these profits.. Very important to stress that our stakeholders need to have a long-term investment horizon, aligned with the long-term nature of our investment philosophy, in order to fully leverage on our internal ESG as well as financial research. Personally I have a 7 year view on my investments in our STARS funds.

In the field

Shale gas in the US

The boom in shale gas exploration has prompted much debate the environmental consequences, as well as the health and safety of the local communities directly affected by production. In the eyes of opponents, natural gas has gone from being a favourable 'bridge fuel' to suddenly threatening the recognition of an immediate need for renewable energy sources.

The Responsible Investments team at Nordea embarked on a research trip to the US in 2014 with the purpose of gaining new insight into shale gas. Recognising the matter as a complex one, we approached it from multiple angles, meeting with policy makers, think tanks, the industry, environmental organisations, as well as local communities

By all accounts, the level of carbon dioxide emissions is declining in the United States because of the transition from coal to natural gas, as well as the weaker economic output of the country since the financial crisis. The success story of shale gas is the result of certain technologies having gained much broader application, enabling unlocking the shale gas held in rock formations a mile beneath the earth's surface. The increased supply has reduced the price of natural gas significantly, making it competitive with coal, thus setting the energy sector on a whole new course. Natural gas is perceived by many as the perfect 'bridge fuel' in the transition to a decarbonised energy system. While natural gas indeed emits less carbon dioxide in combustion than other fuels, it is still questionable as to whether it really is the favourable bridge fuel we seek. The reason for this can mainly be attributed to methane emissions.

Methane, which is the primary component of natural gas, has a much greater impact on global warming than CO2. It is a particularly aggressive greenhouse gas, packing more than two dozen times as much global warming potential as carbon dioxide. Methane emissions come both from human activity and naturally occurring sources, such as seeps, wetlands, animals, etc. Estimates indicate that energy-related methane emissions represent about 30% of total emissions (EPA). For shale gas it is estimated that methane emissions are nearly 30 times higher than those of conventional gas over the lifetime of a well (Climatic Change 2011). The main sources of methane emissions in shale gas production include intentional venting, fugitive emissions, incidents involving rupture of confining equipment, and incomplete burning.

Companies are important players

Besides regulation, industry and research have an important role to play. Some research indicates that it is cost-effective for industry to reduce methane emissions by using already available emission control technologies. Nevertheless, increased and improved research would certainly aid in generating even more cost-effective techniques. At Nordea, our focus as investors and active owners is on this intersection between environmental sustainability and financial viability – and we encourage others to do the same. While much still remains uncertain, one conclusion is clear to us: in order for natural gas to be a favourable bridge fuel, methane emissions need to be properly addressed and managed. From the Nordea Responsible Investments team's perspective, this is just the start of our research efforts on shale gas, and methane emissions will undoubtedly be a sharp focal point ahead.

Opportunity for the economy
Advocators highlight the fact that the US economy has been refuelled by the shale gas revolution, providing a much needed boost to a struggling labour market and slowing GDP growth. IHS Global Insights predict that shale gas will support 870,000 jobs and generate around 0.75% of US GDP by 2015. Furthermore, electricity prices have already declined 10% due to cheaper gas prices, creating a positive multiplier effect across industries. On the environmental front, the increased use of natural gas as an alternative to more carbon-intensive fuels has helped bring down US carbon emissions to 1996 levels. The benefits are many.

While we do not question the immediate economic potential, we are concerned with the longer-term consequences. Our research efforts therefore focus on a number of central issues:

- Methane leaks and the impact on global warming
- Water usage and contamination
- The regulatory framework and its enforcement
- Corporate best practices, accountability and the business case for sustainable operations
- Impact on communities

Our aim is to establish the impact these issues could have on the investment case for the oil and gas sector, and the potential of each to change the broader investment landscape across industries.

ESG status in Brazil

At the end of 2014 the Responsible Investments team visited Brazil to research environmental and social aspects related to Brazilian companies in general and hydroelectric dams specifically.

A general first impression from the trip is that there is rather high awareness of sustainability challenges among companies, especially related to labour management, for which the regulatory framework appears to be quite stringent, albeit with some enforcement challenges.

Water scarcity is a hot topic in daily conversations – it is becoming a real business risk for companies. Brazil is currently suffering from drought and this has posed a serious operational issue for hydroelectric dam projects, especially since the inception of laws requiring smaller reservoirs. Besides water availability, the development of hydroelectric dams faces several other risks, which we discussed with companies and other stakeholders during our visit.

According to Brazil's Energy Research Company, the country needs 6,350 megawatts of new electricity generation per year between now and 2022. The country now produces around 121,000 megawatts annually, of which at least 70% is from hydroelectric power plants. This energy is of course considered to be clean compared to fossil fuels; seen from a CO2 emissions perspective, hydro produces zero emissions while e.g. coal produces about 200 pounds per kWh. At the same time, construction of such projects has a tremendous impact on the local environment and communities.

The world's third largest hydroelectric dam is currently being built in the Amazon region of Brazil. For the country's energy needs, the Belo Monte dam is considered a necessity. For the roughly 20,000 people living in the Altamira region of Para where the dam is being constructed, it marks the end of life as they know it. The Brazilian government and Norte Energia, the operating consortium, have been accused of failing to adequately consult local communities, which has led to several delays in the project. In our engagement with companies related to this project, we were assured that the government and consortium are now trying to improve and manage the issues on the ground.

Nordea has engaged in several companies involved in this project with the aim of pushing them to apply best practice procedures for how they manage, for example, local communities. Given that more than 50 dams have already been planned for construction in the Amazon area, it is important for us as investors that lessons have been learned and that, going forward, projects will be planned and better managed from the start.

Myanmar – the next low-cost country?

The issues and risks to be aware of when considering this market

After decades of authoritarian rule and a long period of economic sanctions, Myanmar (formerly Burma) is now open for Western businesses. Despite some progress, the country is severely underdeveloped, riddled with corruption and deficient in essential international standards.

In order to make well-informed investment decisions, a representative from the Nordea Responsible Investments team went to Myanmar at the end of 2014 to gain a better understanding of the major challenges that the country is facing, with specific focus on the garment industry. While there, the International Labor Organisation (ILO), The UK Department of International Development (DFID), and the Myanmar Garment Manufacturers Association (MGMA) visited two garment factories.

Lack of infrastructure contributes to severe business constraints

Myanmar is one of the least developed countries in the world with a population of 51 million, of which 37.5% live below the national poverty line. The country was ruled under the military junta from 1962 to 2011 when a supposedly civilian government was instated, led by President Thein Sein (who served as a general and then Prime Minister under the junta). Although the country is moving towards democracy, it is evident that the military is still dominant in politics and economics. The political transition continues with the election scheduled for November 2015, in which proportional representation is a strong possibility.

Even though all international trade sanctions were lifted in 2013, there are still several constraints for businesses to operate there. The government is currently negotiating with 17 non-state armed groups and ceasefires are broken frequently. About 73% of the population lacks access to electricity. Transportation and communications infrastructure is poor, posing operational challenges, although clear improvements have been made. These constraints result in low export figures – less than 20% of GDP, which is very low despite the country's enormous potential and of natural resources.

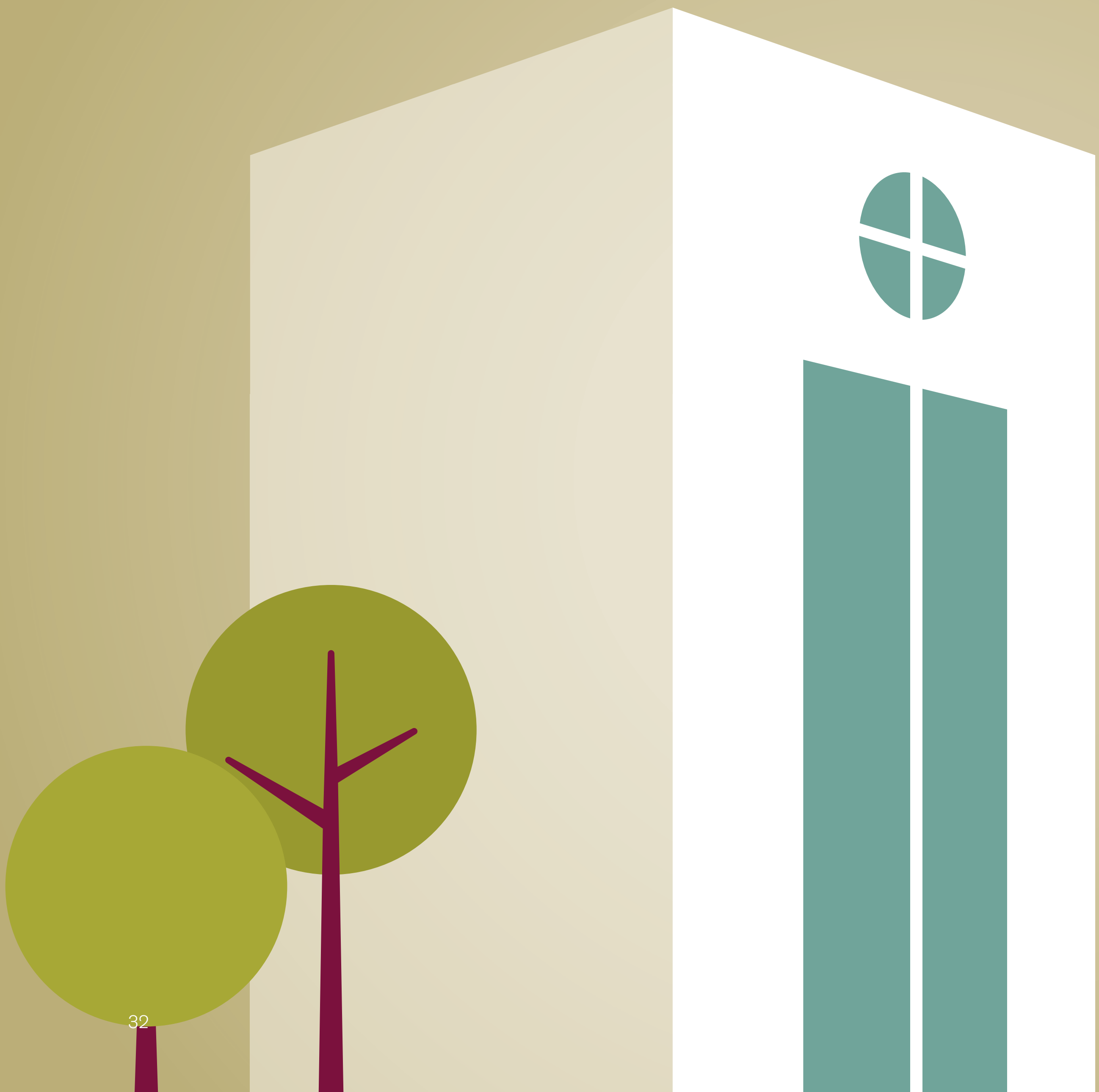
Child labour is a commonplace at garment factories

The garment industry is by far the greatest economic growth opportunity for the country. However, it also means that the industry needs to reach certain standards quickly in order to attract investment. Myanmar is currently not party to the majority of ILO labour and UN Human Rights conventions. In general, few requirements on labour standards are imposed at factories. Although, new laws on the right of industrial action and freedom of association have been passed. However, workers do not understand the concept of negotiations and instead immediately turn to industrial action. There are frequent outbreaks of labour unrest.

The minimum wage act was passed over a year ago, a requirement that the outside world insisted upon but which is not fully implemented in Myanmar. The act is too flexible to specify a precise number. The minimum working age is 13. However, due to the poor educational system, most children leave school only after three or four years, aged between eight and ten, and end up having to work in order to survive, often supporting their families. Many already established foreign companies in Myanmar argue that their biggest reputational risk is linked to the exposure of child labour.

The conclusions from the trip are that the country has undergone dramatic positive change in the last three years. However, it is crucial to understand the immense development issues. Foreign businesses will continue to face operational and strategic risks in the next couple of years. Investors and companies with a presence or supply chain in Myanmar must exercise extreme caution to avoid complicity in labour, civil and political rights violations. Thorough on-the-ground due diligence is therefore crucial prior to starting up business in the country. Nevertheless, outlook for Myanmar is generally positive and there is tremendous growth potential and great opportunity for foreign businesses ahead.

STARS FUNDS



Stars concept

See the full movie about what makes a Nordea Stars fund special here (https://www.youtube.com/watch?v=3a6qLx9wq74)

Investing in companies that deliver shareholder value through sustainable business models

As part of Nordea's ambition to deliver returns with responsibility, we have created a family of investment funds under the Stars brand. The combination of engagement, thematic research, field trips and ESG analysis make up the backbone of Stars products under the Stars concept. We believe change is created through active ownership, and company dialogue is a core part of the Stars concept.

In the Stars funds, we proactively select high-quality ESG companies rather than negatively screening out poor ESG industries. Our ambition is to create shareholder value through identifying companies that integrate environmental, social and governance metrics, as well as financial metrics, into their business model and strategic decisions.

Being aware of and adaptable to ESG challenges will be a key enabler for a company to survive the tremendous geopolitical challenges ahead. It is our belief that sustainable business models will heighten a company's ability to survive for the next 100 years. The Stars concept is all about finding tomorrow's winners.

The ESG research methodology is a combination of two distinctive approaches. Star companies conduct their business responsibly in relation to all their stakeholders –employees, suppliers, customers, investors or society at large alike. At the same time, Star companies position their products well in relation to sustainable megatrends such as climate change or changing demographics.

While the merits of ESG integration can and should be debated, we are confident that our 'Stars' approach not only boosts investment performance, but also makes the world a little better.

Swedish Stars

Swedish Stars is a focused equity fund investing in companies that are at the forefront in the management of key environmental, social and business ethics aspects. Major investments in the fund during the year are Tele2, Nordea, Danske Bank and Millicom. The best contributors to performance were Electrolux and Tele2, while Sandvik made a negative contribution.

Electrolux

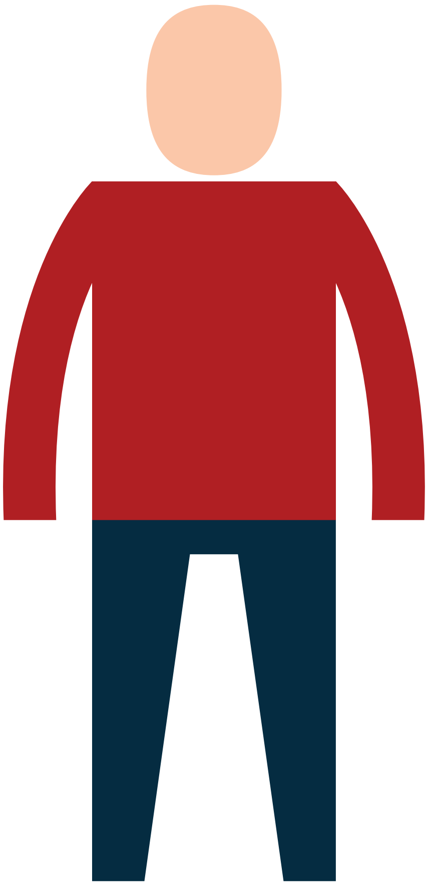
Electrolux aims to be the sustainable leader in the appliance industry and has a well-integrated sustainability approach in its overall business strategy and throughout its operations. The majority of the company's carbon emissions are emitted when the product is in use. In order to reduce the environmental impact, product development is both an important revenue and cost driver for many of the companies in that sector. This is an area that is well-managed by Electrolux and highlighted as a competitive advantage by the management. In addition, the company has identified and defined targets for the most material sustainability topics – product efficiency, hazardous substances, operational efficiency, ethical business and responsible sourcing. One example of an ambitious target is to reduce its carbon footprint by 50% in 2020.

Tele2

During the year we visited companies and organisations in Kazakhstan in order deepen analysis and understanding of the country's key issues and in particular the risks and opportunities related to the telecom sector. Kazakhstan scores 29 out of 100 in Transparency International's Corruption Perception Index, indicating that it is a high-risk country. We visited Tele2 to discuss its risks related to business ethics and the protection of human rights/freedom of expression in particular. The presence of international telecom companies in Kazakhstan can contribute to developing society through actively working with such risks, but also through providing services such as financial payments through mobile devices. Procurement was discussed with local management and it was confirmed that it is possible to do business in Kazakhstan without bribes, although procedures might take longer. The procurement process is well structured with sound control functions in order to manage the target "zero tolerance of corruption".

Thule Group

Thule Group, world leader in sports and outdoor products sold in 135 markets, had its IPO in 2014 and has since been a Swedish Stars holding. The group is ambitious in terms of reducing its environmental impact. By implementing a closed loop system at its factories, the company has managed to reduce water consumption by 30%. A quarter of its electricity consumption is derived from renewable resources, with a target to increase this to 60% by the end of 2016, by for example installing solar panels on production and office facilities. Thule also conducts life cycle assessments to assess the environmental impacts of its products in order to make environmentally conscious decisions in design and product development. Going forward, the company should extend the scope of its sustainability efforts to encompass a broader range of issues that are relevant to its operations.



Nordic Stars

Nordic Stars is a focused equity fund investing in companies at the forefront in the management of key environmental, social and business ethics aspects. The fund was launched in August 2014. Major investments in the fund during the year are Tele2, Danske Bank, Autoliv and Electrolux. The best contributors to performance were Schibsted, Electrolux and Autoliv, while Storebrand made a negative contribution.

Autoliv

Autoliv is a global market leader that develops and manufactures automotive safety products, benefitting from the global trend of increased safety equipment in automobiles. The company works actively to manage sustainability risks and opportunities in its operations. Working conditions for employees and suppliers have been highlighted as its main risk. Therefore, Autoliv recently implemented a global standard to secure a good level of employee health and safety. This standard has had a positive impact on product quality, which has been an area of concern at a major competitor. Autoliv is also working to improve supply chain management and has recently centralised global sourcing in order to enhance efficiency and ensure that suppliers have the same high standards as the company.

TOMRA

The global population is constantly growing and estimated to overshoot 9 billion by 2050, while at the same time the world is facing severe resource constraints. Resource productivity must therefore increase to ensure global sustainable development. TOMRA's business model truly contributes to this as the company provides smart solutions for optimising resources through sensor-based solutions for optimal resource productivity. An example of resource productivity is its metal recycling machines that recover 715,000 tonnes of metal every year. The company has several activities to reduce its environmental impact and its solutions around the world help avoid approximately 22 million tons of $CO2$ a year from being released into the atmosphere.

Novo Nordisk

According to the World Health Organisation (WHO), 'In 2014 the global prevalence of diabetes was estimated to be 9% among adults'. Novo Nordisk is a healthcare company committed to preventing, treating and ultimately curing diabetes. Simultaneously, it always take the triple bottom line (environmental, social and financial responsibility) into account when conducting business. Novo Nordisk's positive contribution to society coupled with its efforts to manage key ESG risks as well as valuation potential have placed the company among the top 10 Nordic Stars holdings.

Emerging Stars

See the full movie about the ESG integration here (https://www.youtube.com/watch?v=5DiQpgPi_8g)

With returns that outperform the market, the Emerging Stars fund is one of the best examples of how to provide returns with responsibility

Emerging Stars is an equity investment fund investing in global emerging markets. Since the inception of the fund almost three years ago, we have conducted detailed ESG analysis in-house with the help of our research partners MSCI and Solaron. Based on this analysis, we have identified around 200 companies with the corporate responsibility profile required to be a 'Star'. Detailed financial analysis determines the final, concentrated, long-term, low-turnover investment portfolio of 40/60 equities with an average holding period for each stock of around three years.

7% above the index

The investment performance has been exceptional. Since its inception in 2011, the fund has outperformed its reference index by over 7% in total. The risk-adjusted performance has been particularly good, with the information ratio hovering above 1.5 and clearly indicating that sustainable and responsible companies can improve both the return and the risk metrics of an investment portfolio.

We have met with senior representatives of all the companies in the portfolio, and we frequently travel to emerging markets to discuss both financial and ESG issues, to make sure that all investments maintain their Star potential. Moreover, we seek to engage with companies that have financial potential, but expose themselves to unnecessarily high ESG risks. We have encouraged many companies to improve their ESG management on all continents and, as a result, we understand the ESG issues in emerging markets better. More importantly, however, we have also influenced some companies to run their businesses more sustainably and responsibly.
While the merits of ESG integration can and should be debated, we are confident that our 'Stars' approach not only boosts investment performance, but also makes the world a little better.

Customer perspective

Delivering alpha
At Nordea Asset Management we thrive on delivering on the mandate given to us by our clients – to generate the highest possible return with the lowest possible risk by managing and investing their assets in a responsible way.

We achieve this by managing funds actively and delivering alpha. We live on taking the appropriate level of risk and managing it prudently. We base our work on the premise that when you own a share, you are also committed by that ownership. At Nordea Asset Management we thrive on fulfilling this responsibility by being an active owner, and engage with companies to ensure prudent environmental, social and corporate governance practices (ESG).

Delivering on the mandate of our clients
We deliver on the mandate that our clients have given to us. Our Code of Conduct reflects Nordea Investment Management's mindset and naturally ensues from Nordea's values combined with prevailing law.

Our commitment to and responsibility for delivering are evidenced in our dedication to active management. We have an obligation to constantly extract value from financial markets to the benefit of our clients.

Our structure is built on a functional organisation and strong technology. We offer our clients the services of a complete value chain and on a front-to-end operation platform to ensure scalability, efficiency, quality and collaboration that goes from start to finish.

We deliver ESG analysis to Investments and external clients. We ensure that our research is integrated into investment processes of Investments. We engage with companies suspected of violating international ESG norms, and we analyse industries that are particularly complex from an ESG perspective. Furthermore we, we develop and run specialised ESG products and services together with other units.

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