

# Nordea



**Sustainable Finance Annual Report  
2017**

# Introduction

## Nordea

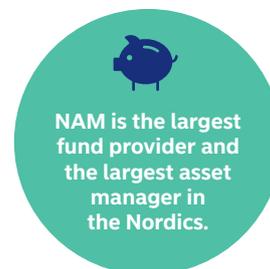
Nordea is the largest financial services group in the Nordic region and one of the biggest banks in Europe. We want to make a real difference – for our customers and for the communities in which we operate – by sharing our extensive expertise based on 200 years in the banking business. As a financial entity, we strive to find the financial solutions that best suit our customers' needs so they can achieve their goals and realise their dreams. When our customers succeed, so do we.

## About sustainable finance at Nordea

Sustainable finance at Nordea is about integrating sustainability into the bank and all business activities and products within our core areas of investment, financing and customer advice. At Nordea, the work on sustainable finance is conducted across the group by two dedicated teams, Group Sustainable Finance working at Nordea Group level and a Responsible Investment Team covering the ESG research at Nordea Asset Management. In total there are 37 people working with Sustainable Finance at Nordea, in Group Sustainable Finance and in the Responsible Investment team for Nordea Asset Management together with the fund managers and analysts to help integrate significant environmental, social and governance (ESG) analysis into our investment approach across portfolios. This report reflects the work on responsible investments within the scope of asset management and present highlights of sustainable finance efforts across investments, financing and advice at Nordea.

## 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 total EUR 223 billion. We are a semi-captive asset manager servicing Nordea Retail Banking, Private Banking and Life & Pensions, as well as Nordic and international institutional clients and third-party fund distributors globally. We employ 750 FTEs and 160 investment specialists. NAM is also the largest Nordic retail fund provider, with a 16% market share, more than 1.7 million unitholders and servicing more than 475 Nordic and international institutional clients. At the same time, we have a growing third party fund distribution franchise servicing 800 international fund distributors, including 21 global wealth managers.



Please find the audited Sustainability Report for Nordea Group here:  
[https://www.nordea.com/Images/33-247009/Nordea\\_Sustainability\\_Report\\_2017\\_printable.pdf](https://www.nordea.com/Images/33-247009/Nordea_Sustainability_Report_2017_printable.pdf)



If you have any questions about the *Sustainable Finance Annual Report*, you are welcome to address them to: **Katarina Hammar** ([katarina.hammar@nordea.com](mailto:katarina.hammar@nordea.com)) or **Sasja Beslik** ([Sasja.beslik@nordea.com](mailto:Sasja.beslik@nordea.com))



Sign up to our Sustainable Finance Newsletter here: <http://sustainablefinance.nordea.com/sign-up>



For more information about responsible investments at Nordea please visit our website: [nordea.com/en/responsibility/sustainable-finance/](http://nordea.com/en/responsibility/sustainable-finance/) or [sustainablefinance.nordea.com/](http://sustainablefinance.nordea.com/).

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# Nordea Sustainable Finance Annual Report

## A wider scope on sustainable finance

Welcome to Nordea's Sustainable Finance Annual Report. It is my pleasure to introduce you to our achievements on sustainable finance and responsible investments during 2017. Here we have developed the former *Responsible Investment Annual Report* into a *Sustainable Finance Annual Report* to cover an even wider scope on sustainable finance across the Nordea group, aligned with how we work and global momentum on sustainable finance.

**We are constantly facing** global challenges and in relation to our business this means that we need to take responsibility when mitigating risks, managing our customers' money and for the impact on our environment.

What we can change about the future are the choices we make. Together with customers and partners Nordea enables the transition towards a sustainable future. With sustainable finance as an enabler, Nordea is adapting to changes around us, to demand, to opportunities and to solutions for the future. We mitigate sustainability-related risks, such as ESG risks that can have an impact of the future. We also engage to make a difference for a sustainable future, engaging proactively with companies to change behaviours and engage with clients and other stakeholders by providing information about relevant sustainability issues.

In this report we highlight solutions that adapt to global challenges, risks that we mitigate and engagement on sustainable finance in our core areas of investment, financing and advice. For more information about sustainable finance and sustainability at the bank, Nordea's Sustainability Report 2017 is available.

**Looking back at 2017**, it has truly been a year of achievements for sustainable finance which I am proud to introduce in this report. Nordea has celebrated 10 years as a pioneer signatory of the UN Principles for Responsible Investment (PRI). We were recognised as one of the top 100 most sustainable corporations globally by Corporate Knights. Sasja Beslik, Head of Group Sustainable Finance at Nordea, was named Sustainability Leader of the Year, by The New Economy. Our Responsible Investment approach was awarded with the Best ESG Approach for the fourth year in a row by CFI Awards.

On product development we have several examples of sustainable offerings developed during 2017. We enhanced the Stars funds family and launched Nordea Swedish Bond Stars. We also prepared for the launch of Nordea European Stars investing in European companies that attach extra importance to environmental, social and corporate governance in their business models. Nordea issued its first Green Bond, facilitated several other green bonds during 2017 and has positioned itself as a strong actor on the Nordic green bond market.

We have engaged with companies, industries and addressed global issues such as climate change, for example in Australia and in Norway. As Nordea Wealth Management is a funding member of the Corporate Human Rights Benchmark (CHRB) we have continued our work to raise awareness and transparency on Human Rights.

**In the autumn of 2017** we hosted our first Nordic Sustainable Finance Conference for large corporate institutions. We launched the Sustainability Ambassadors Forum, a forum for internal stakeholder engagement for employees across the group to get input and feedback on sustainable finance. The governance model for sustainable finance was strengthened Nordea during 2017. Group directives have been established to support the development of sustainable processes and business. Nordea updated the Sustainability Policy which now covers investments, financing and advice. Nordea launched a Position Statement on Climate Change which describes our position on climate change and initiatives on how to meet these challenges.

**As we move into 2018** our focus will be to continue to strengthen our sustainable finance approach across the group and in all our client offerings. We will continue to develop our sustainable conduct in day-to-day business with customers. To us, sustainable finance is not only a business opportunity, but a part of our fundamental responsibility. Do please read the rest of this report to find out more about our achievements in 2017.



Best regards,

*Snorre Storset, Chairman of the Sustainability Committee  
& Head of Wealth Management at Nordea*



"Together  
with customers  
and partners  
Nordea enables the  
transition towards  
a sustainable  
future."

Snorre Storset

# Sustainable finance approach

– Together with customers and partners Nordea enables the transition towards a sustainable future



“For us, sustainable finance is not only a business opportunity, but a part of our fundamental responsibility.”

Snorre Storset

**Sustainable finance at Nordea** is about integrating sustainability into all our business activities and products within our core areas of investment, financing and customer advice.

By acting on behalf of our clients we can contribute to economic growth and prosperity, through capital allocation and interaction with companies.

Sustainable business is a prerequisite to uphold trust and confidence. Nordea is committed to sustainable business and development by combining financial performance with environmental and social responsibility as well as sound governance practice. In Nordea’s Sustainability Policy, a group directive that was updated in 2017, there are principles on investment, financing and advice that Nordea is committed to as a guide to conduct in our day-to-day work and when making business decisions. Nordea is committed to taking these principles and other relevant environmental, social and governance principles into consideration when evaluating business risks and opportuni-

ties in connection to advice, investing and financing. In 2017 Nordea launched Nordea’s Position Statement on Climate Change, a position statement presenting Nordea’s position on climate change with initiatives on how to approach the challenges.

**Please see our** Sustainability Policy, a Nordea group directive covering investments, financing and customer advice. Together with customers and partners Nordea is enabling the transition towards a sustainable future.



**Link to Sustainability Policy:**  
[nordea.com/sustainability-policy](https://nordea.com/sustainability-policy)



**Link to Climate Position Statement:**  
[Nordea.com/position-climate](https://Nordea.com/position-climate)

# Responsible investment approach

– We deliver on the mandate given to us **by our clients**

## ESG Integration

**Nordea Asset Management (NAM)** aims to take returns with responsibility to a new level to ensure competitive, consistent and responsible returns for all funds.

Environmental, social and governance (ESG) issues are an increasing source of risk and opportunity, and we therefore seek to integrate ESG issues into our investment analysis methodology for our internal boutiques to ensure that investment and portfolio construction decisions are based on a full set of information. ESG data is made available to all investment professionals to use in assessing investments. We believe this will improve risk management and thereby risk-adjusted returns. To encourage the use of ESG data we have integrated ESG in the portfolio performance reviews of our Equities team.

**Our research department** includes both financial and ESG analysts, and company assessments are shared between fund managers as well as financial and ESG analysts through a variety of mechanisms: our research platform, presentations, joint meetings, etc.

## Proprietary ESG research

**As part of our** ESG research efforts we continuously assess and evaluate transformative themes and areas, which we believe will shape the future landscape of investment. Social and technology changes as well as climate change and other environmental issues impact business models. The ESG research methodology at company level is a combination of two distinctive approaches.

First, companies are assessed based on whether they conduct their business responsibly in relation to their stakeholders – employees, suppliers, customers, investors, the environment and society at large. Second, we assess whether the companies' products or services are well-positioned in relation to broader sustainability megatrends such as climate change and changing demographics.

We underpin our approach with externally sourced ESG research and ratings. This provides coverage of over 6,000 companies globally both in terms of their practices and in



“Our responsible investment approach was awarded with the Best ESG Approach for the fourth year in a row by CFI Awards”

Snorre Storset

terms of tracking controversial issues. All portfolio managers of our actively managed funds have access to ESG data in their systems.

**During 2017 we conducted** in-depth analysis of approximately 120 companies from an ESG perspective. Meetings and on-site meetings were part of these analyses, as was feedback to the companies on their ESG materiality analysis.



**Nordea Life & Pensions (NLP)** are covered by the Group Directives: **The Sustainability Policy and Climate Position Statement**. The RI policy covers the funds managed by Nordea Asset Management. Nordea Life & Pensions is a signatory to PRI as asset owners.



Link to NAM RI Policy:  
[nordea.com/RI-policy](https://nordea.com/RI-policy)



Link to NLP RI Strategy:  
[https://www.nordea.com/Images/33-184955/RI\\_NLP.pdf](https://www.nordea.com/Images/33-184955/RI_NLP.pdf)

# Stars funds

## – Finding the winners of tomorrow

In line with NAM's ambition, we have created a family of investment funds under the Stars brand. The Stars funds are about positive selection and selecting quality companies with well-managed ESG profiles that generate long-term financial value.

**All investments in our Stars funds** undergo thorough financial analysis and proprietary in-house ESG analysis. This enables us to identify material risks and opportunities relating to the companies' medium- to long-term operational performance and strategic positioning in the market.

Our ambition is to create shareholder value by identifying companies that integrate environmental, social and governance metrics, as well as financial metrics, into their business model and strategic decisions. Active ownership is an important part of our investment approach for the Stars funds and we have developed long-term productive dialogues with several companies, especially companies in which we are large long-term shareholders.

We actively engage with companies when we see material risks that may not be adequately managed or opportunities that may not be fully capitalised on. When assessing companies for our Stars funds, we do so, on behalf of all NAM's funds, which support our ongoing ESG integration activities.

### Nordea Swedish Stars

Our **Swedish Stars** was launched in 2011 and invests in approximately 30 Swedish equities. Below are some examples of holdings and ESG highlights.

#### Sandvik

Sandvik is a high-technology engineering company that prioritises product innovation within quality, energy efficiency and safety as key drivers for its leading market position. Sandvik has recycling schemes that require less energy and consequently emit less CO<sub>2</sub>, for example 80% of metallic raw materials derive from recovered materials. The company has high exposure to ESG issues given the sector and country presence. Nordea's assessment continues to be that Sandvik is aware of its key ESG issues and has a well-integrated sustainability approach in its overall business strategy and throughout its operations. Recently, the company introduced a new sustainability strategy including long-term targets. This is an area that Nordea has previously pointed out to the company as lacking.

#### Thule Group

Thule Group is a Swedish manufacturer of bike racks, cargo carriers, and different types of luggage and packs. During 2017 we visited Thule's factory in Sweden with the purpose of understanding their production system and R&D as well as to learn how they integrate sustainability in those processes. For example, we met product development managers and discussed eco-design applied to minimise negative environmental impact of the products. The factory we visited uses 100% renewable energy and this is the goal for all factories by 2020. We conclude that while the company has strong management of environmental risks and opportunities, there is room for improvement on management of social risks in the supply chain, which Thule has already started working on.

### Nordea Nordic Stars

Our **Nordic Stars fund** was launched in 2014 and invests in approximately 40 Nordic equities. Below are some examples of holdings and ESG highlights.

#### Novo Nordisk

Novo Nordisk is a pharmaceutical company focused on diabetes care and insulin delivery systems. The company has a strong global environmental management systems and an overall good management of its supply chain, which includes audits and continuous improvement engagement programmes. Nordea has initiated a Sustainable Development Goals (SDGs) engagement with Novo Nordisk, which is the largest holding in Nordic Stars. The purpose is to establish the most relevant SDGs for Novo Nordisk and to evaluate the impact over time. Both parties want to learn more about how companies and investors can work with the SDGs in the most collaborative way. We believe Novo Nordisk will be a very interesting case, as the company has already started some work incorporating the SDGs, and the health care sector is highly relevant in this context. The joint engagement has recently been initiated and will be followed up in early 2018. Novo Nordisk is also part of Nordea's ongoing engagement with the pharmaceutical sector.

#### AstraZeneca

AstraZeneca is an Anglo-Swedish pharmaceutical company. The company manages its most material ESG risks well and ahead of its peers and we see a high likelihood that the ESG performance is going to improve in the future. During 2017, Nordea made a field visit to AstraZeneca's wastewater treatment plant in Södertälje, Sweden. The purpose was to get a better understanding of effluent treatment and water disposal in pharmaceutical manufacturing. AstraZeneca is also part of Nordea's ongoing engagement with the pharmaceutical sector. AstraZeneca is a member of the Pharmaceutical Supply Chain Initiative, an organisation that Nordea has a constructive dialogue with related to the issue of water pollution due to the pharmaceutical industry in India.

### Nordea Emerging Stars

Our **Emerging Stars fund** was launched in 2011 and invests in approximately 50 emerging market equities. Below are some examples of holdings and ESG highlights.

#### Qualicorp

Qualicorp is one of the leading full-service healthcare benefits administrators and health management service providers in Brazil. The company's business model is to enable access to healthcare in Brazil by keeping insurance costs down and increasing affordability for its members. In assessing Qualicorp's ESG profile, we analysed its corporate governance, responsible marketing and selling practices. While there is room for improvement in all areas in terms of transparency, our assessment concluded that each key issue was

sufficiently well managed. Our analysis showed an upward trend in terms of independence of the Board from previous years, which is also shown by Qualicorp being included in the Novo Mercado segment of the Bovespa index on the Brazilian Stock Exchange. This is a listing segment for companies that voluntarily adopt additional corporate governance practices beyond those required by Brazilian legislation.

#### Arvind Ltd.

Arvind Ltd. is a global leader in apparel manufacturing based in India. It is a leading fabrics and apparel supplier to the world's top brands and a leading branded apparel and accessory platform. The business model of textile manufacturing, particularly in India, carries inherent social and environmental risks ranging from water, energy, waste, chemicals, as well as labour and human rights. These are material stakeholder risks that we evaluated and assessed using our sector and country risk frameworks, to conclude that Arvind proactively addresses these factors and qualifies for inclusion in the Emerging Stars equity fund. Our analysis identified that the company's product portfolio increasingly focuses on developing green products related to sustainable dyeing methods, renewable and recycled materials. Moreover, increasingly stringent sustainability requirements from big customers (such as Marks & Spencer, Levi's, Gap, H&M, etc.) are further propelling innovation in this direction. The company is a signatory to a raft of globally recognised sustainability programmes and views its performance on sustainability parameters as a competitive advantage.

### Nordea Global Stars

Our **Global Stars fund** was launched in March 2016. Below are some examples of holdings and ESG highlights.

#### EcoLab

Ecolab Inc. is a global player in technologies relating to water, hygiene and energy. The company has a history of innovation within its business segments. Innovation within the water and chemicals segment in particular has a strong influence on overarching goals such as those defined by the UN Sustainable Development Goals. In the context of a sustainability fund, there is a strong basis for inclusion of the company as its very business model relies on solving some of the main contemporary and future challenges. We believe that the company is well positioned to commercialise the opportunities presented in the future with a focus on innovation. The company is also very focused on its own overall footprint with ambitious targets for 2020. We have recognised this and awarded the company the highest ESG rating by our own Nordea ESG Analysis framework.

#### SAP

SAP is a global software provider company. The company develops various software systems intended for corporations. Although the company might appear distanced from broader sustainability trends by the nature of its business, we find that the company is capitalising on some of these trends. Examples include helping its customers to improve resource and energy efficiency but also providing solutions related to data security, anti-corruption, automation, healthcare, education and access to finance. At the company level, we find that it is undertaking significant efforts to manage its most material ESG risk, which is human capital development. In this regard we find that the company fares well with both high employee satisfaction and employee retention ratios. With the introduction of the cloud the company has expanded its data centres, significantly increasing its own energy consumption. The company tackles this issue with proactive energy efficiency programmes and a transitioning to renewable energy sources, now accounting for the vast majority of its electricity consumption.

### Nordea European Stars

The latest star in the Nordea Stars family is **European Stars**, which was launched in November 2017. Below are some examples of holdings and ESG highlights.

#### Unibail Rodamco

Unibail Rodamco is the largest commercial real estate company in Europe. The group manages shopping centres, convention centres and office properties. We see Unibail Rodamco as an ESG leader in its sector. The group's ESG roadmap is very solid and has continuously improved. Unibail Rodamco is particularly strong on the environmental aspects related to its business. The company's governance is good and the group has developed a strong business ethics framework. The main challenges of the group relate to social aspects where it has experienced a significant turnover rate, a local controversy related to safety during the construction phase of Mall of Scandinavia and another in France, where it was accused of mishandling customer data. Overall we believe the ESG roadmap of Unibail Rodamco positions the group very favourably for a future where environmental regulations and urbanisation intensify. We see the strong ESG commitments of the group as a very supportive factor in competing for the best tenants and the best assets.

#### Kingfisher

Kingfisher plc is an international home improvement company that operates in stores and online across Europe. Kingfisher has an excellent overall ESG profile rating and is especially advanced in terms of raw material sourcing and sustainable products. The company's commitment and performance is reflected with almost 96% of the wood and paper products being responsibly sourced, primarily through FSC and PEFC certifications. On the issue of sustainable products the strategy is not to focus on niche green products but instead to make its entire product portfolio sustainable. In order to achieve this, the company has created sustainability road maps for all product categories. Kingfisher has a net positive strategy aiming to increase the sales of eco products and services with a target of 50% by 2020. With over 70,000 employees labour management is very important for Kingfisher. A positive differentiator from other retail companies is that the company offers similar benefits to full and part time employees. The company also performs well on diversity and surveys show a high engagement level in the company. On the negative side employee turnover is significant and has gone up over the past year.

### Nordea Swedish Bond Stars

In 2017, Nordea also introduced a fixed income fund under the Stars concept.

There is growing demand for investments in ESG funds from customers and **Nordea Swedish Bond Stars** is a pioneer among bond funds using ESG research to meet a sustainable portfolio. The Nordea Swedish Bond Stars is our first ESG enhanced fixed income product. The universe for the Nordea Swedish Bond Stars will consist of green bonds and Nordic investment grade bonds where the issuer of the bond has been evaluated by an ESG analyst from the Nordea RI team. Just like the Swedish Stars, Nordic Stars, Global Stars and European Stars the threshold for investments will be an ESG rating of B+ on a scale from A to C.

Green bonds are bonds that are aimed at funding projects that have positive impacts on the environment, like reducing fossil fuel emission, renewable energy or sustainable property construction. Nordea Swedish Bond Stars does not invest in companies with more than 5% revenue from products or services from coal mining, or companies involved with more than 50% of revenues from production of fossil fuels.

# Stewardship

We want to take an active role in aligning finance and markets with sustainability. We do this in part through our stewardship activities. We believe that this will benefit companies and investors, contribute to a sustainable economy with prosperity and long-term growth where pressing environmental and social issues are being addressed. As part of our sustainability finance approach, we follow internationally recognised principles of responsible investment and stewardship.

## Corporate governance activities

**During 2017, we attended** more than 100 annual general meetings in the Nordics, and voted on about 450 AGM/EGMs (Annual General Meetings/Extraordinary General Meetings) on thousands of proposals, including proxy voting. We thus maintain the high level of engagement we set in 2016.

Our goal is to increase our voting level in the coming years. As before, we engage with companies on a range of topics, including ESG issues, remuneration programmes and capital structure. Nordea funds are represented on several nominations committees, in 2017 we joined about 35 nomination committees, and here we have pushed the issue of gender balance. In the committees on which we were represented, the aggregate of female board members grew three percentage points to 37 percent at the end of the 2017 season.

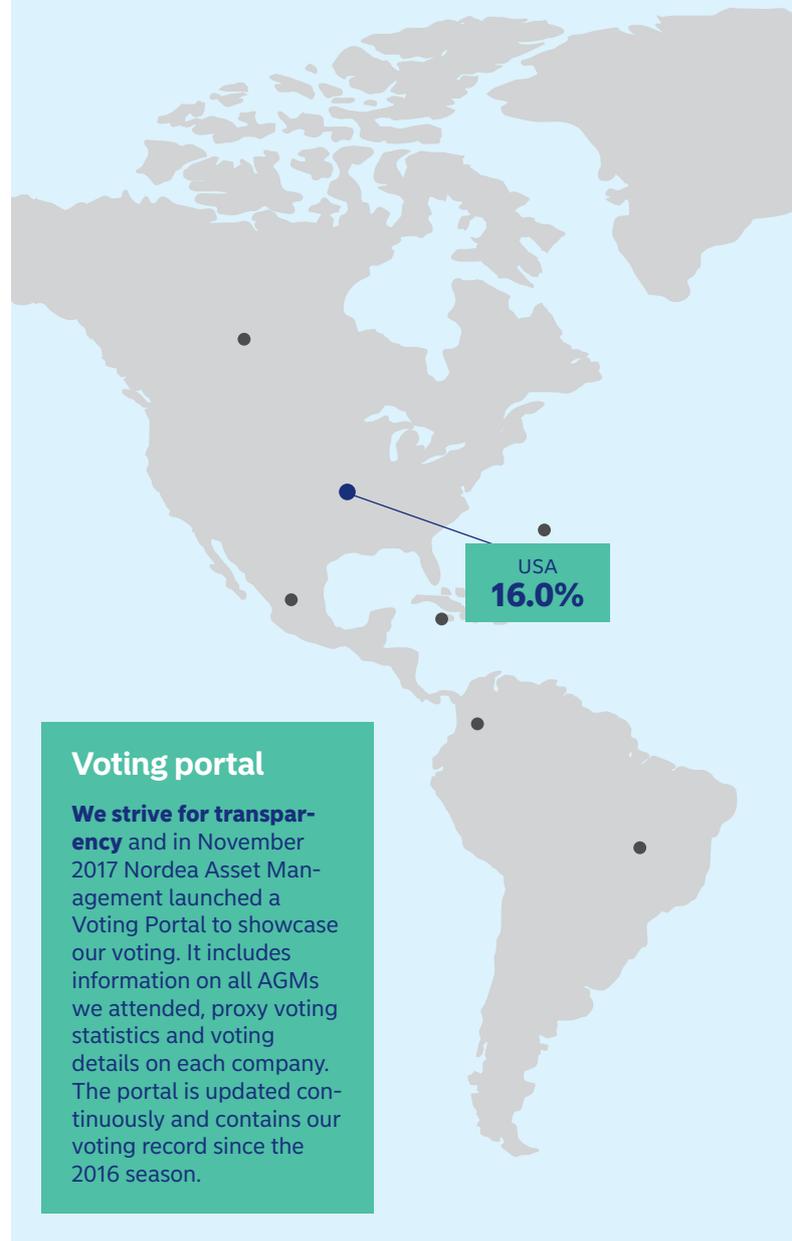
## International initiatives

We seek to encourage best practice through participation in international initiatives.

**The Access to Medicine Index:** Two billion people around the world have no access to medicine. We believe that pharmaceutical companies have an important role to play in addressing the access to medicine issue and that this particular issue is potentially material to long-term shareholder value creation. In order to promote better business practices in this area we work with the Access to Medicine Index. The Access to Medicine Index analyses the top 20 research-based pharmaceutical companies on how they make medicines, vaccines and diagnostics more accessible in low- and middle-income countries. It highlights best and innovative practices; and areas where progress has been made and where action is still required. In October 2017 the methodology for the 2018 Access to Medicine Index was published.

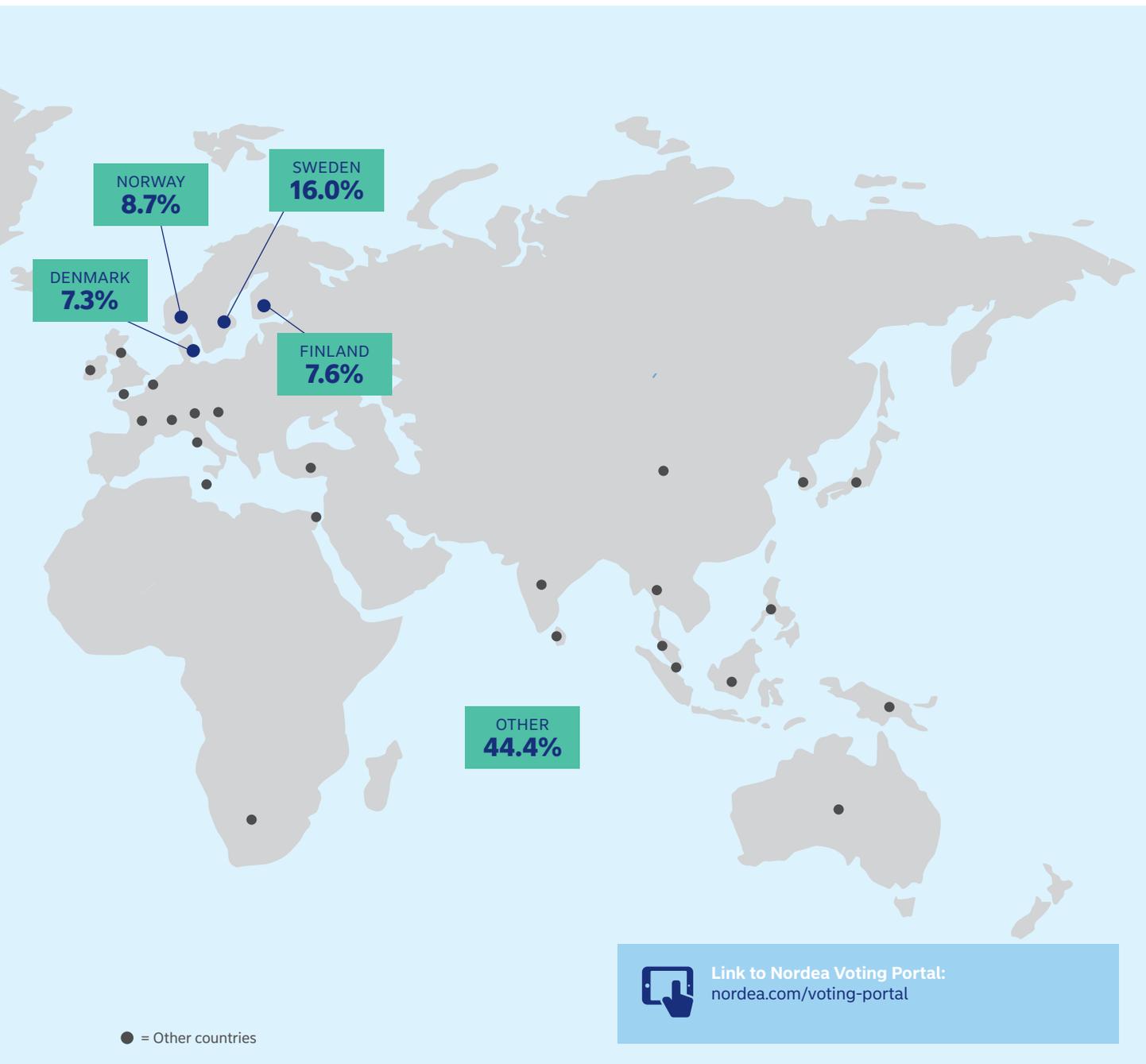
**Antimicrobial Resistance Benchmark:** The AMR Benchmark Methodology was launched in August 2017. The AMR Benchmark will track how pharmaceutical companies are responding to the increase in drug resistance. Nordea was a

## Governance activities around the world in 2017



member of the Expert Committee. The first assessment report was launched at the World Economic Forum in Davos in January 2018.

**Carbon Disclosure Project (CDP):** Nordea is a signatory of the CDP, which is a not-for-profit organisation that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts including climate change, water scarcity and deforestation. We are also represented on the CDP Water Advisory Council.



**Climate Action 100+:** Nordea Asset Management has joined Climate Action 100+, a collaborative five-year global initiative led by investors to engage with the world's largest corporate greenhouse gas emitters to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures.



The Corporate Human Rights Benchmark (CHRB) received the CFA Society Sweden ESG award for 2017. Magdalena Kettis, Group Sustainable Finance, member of the CHRB advisory council accepted the award.

**The Corporate Human Rights Benchmark (CHRB):** The CHRB is the first ever ranking of the world's largest publicly listed companies on their human rights performance. The Corporate Human Rights Benchmark will rank the top 500 globally listed companies on their human rights policy, process and performance, harnessing the competitive nature of the markets to drive better human rights performance. Nordea is a funding member and on the CHRB Advisory Board.

In the first public wide-scale ranking of corporate human rights performance, the 98 largest publicly traded companies from the agricultural products, apparel and extractives industries were ranked on 100 human rights indicators. The inaugural Corporate Human Rights Benchmark (CHRB) results were unveiled at a launch event held in London in March 2017.

**The Equator Principles:** Nordea was the first Nordic bank to adopt the Equator Principles, a set of voluntary environmental and social guidelines for financing projects. Nordea became a signatory in 2007.

**European Financial Services Roundtable (EFR):** EFR Members are Europe's leading banks and insurance companies. Nordea is a member of EFR and in 2017 we became a member of the EFR Sustainable Finance Working Group.

The purpose of the EFR is to contribute to the European public policy debate on issues relating to financial services and to the financial stability with the completion of the single market in financial services. The EFR deals in particular with the global G20 agenda, regulation and supervision, consumer protection and pensions. The EFR has published positions, reports and press releases on a wide range of topics, including sustainable finance. During 2017, EFR published EFR case studies showing commitment to the Paris Agreement; EFR letter to the Chairman of the High-Level Expert Group on

Sustainable Finance; Statement on the Interim Report on Sustainable Finance and Papers on Green Supporting Factor and on Risk Mitigation.

**The Extractive Industries Transparency Initiative (EITI):**

Nordea is a supporting investor and board member of the EITI. The initiative is a multi-stakeholder coalition of governments, companies, investors and civil society organisations. The aim of the initiative is to ensure transparency and accountable management of revenues from natural resources.

**Institutional Investors Group on Climate Change (IIGCC):**

IIGCC provides investors with a collaborative platform to encourage public policies, investment practices, and corporate behaviour that address long-term risks and opportunities associated with climate change.

**Montreal Carbon Pledge:** We believe that increased transparency of funds' carbon footprints contributes positively to tackling climate change. We signed the Montreal Carbon Pledge launched on 25 September 2014 at PRI in Person in Montreal, supported by the Principles for Responsible Investment (PRI) and the United Nations Environment Program Finance Initiative (UNEP FI). By signing this pledge we commit to measuring and publicly disclosing the carbon footprint of our investment portfolios on an annual basis. In 2015, we started disclosing the carbon footprint of our STARS funds. Now we have expanded the disclosure and published carbon footprints for all of our equity funds.

**Principles for Responsible Investments (PRI):** As one of the first major Nordic banks Nordea signed the Principles of Responsible Investment (PRI) in 2007. The PRI is the world's leading proponent of responsible investment. It works to understand the investment implications of environmental, social and governance (ESG) factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions.

**The Responsible Ship Recycling Standards (RSRS):** The RSRS are voluntary principles for financial institutions active in ship financing. The RSRS aim to promote responsible ship recycling and to minimise the dangers associated with hazardous materials on board. The standards form guiding principles in the dialogue about responsible ship recycling between the financial sector and the stakeholders in the shipping industry. Nordea joined the RSRS initiative on 17 December 2017.

## Sustainability Ambassadors Forum



Filippa Strandänger hosting Sustainability Ambassadors Forum at Stockholm FinTech Hub in September 2017.

In 2017 Nordea's Sustainability Ambassadors Forum was launched – a forum of 50 Nordea employees working across the bank in various positions and geographical areas. The forum is organised by Group Sustainable Finance and the first meeting in person took place at Stockholm FinTech Hub in September 2017. The rest of the meetings have taken place on Skype on a monthly basis. Sustainability Ambassadors Forum has been established in order to support Nordea's efforts to contribute to the greater good of the societies where Nordea operates, customers and through investment, financing and advisory activities. Sustainability Ambassadors Forum is the first forum of its kind among European banks.

"This is an important part in integrating sustainability across the organisation and to engage people. In collaboration together with colleagues working in different business areas with different experiences we enable sustainable value creation for our customers through the Sustainability Ambassadors Forum," says Filippa Strandänger at Group Sustainable Finance.

**The Sustainability Accounting Standards Board (SASB) Investor Advisory Group:** SASB is an independent non-profit organisation. SASB's mission is to develop and disseminate sustainability accounting standards that help public corporations disclose material with useful information to investors. Accordingly, SASB has created an Investor Advisory Group (IAG). The IAG comprises leading asset owners and asset managers who are committed to improving the quality and comparability of sustainability related disclosure to investors.

In 2017, Nordea Asset Management became a member of the Investor Advisory Group (IAG) of SASB. NAM published an ESG integration case study in the SASB quarterly publication *ESG integration insights*.



Link to the ESG integration case study:  
<https://sustainablefinance.nordea.com/sites/default/files/inline-files/Nordea%20ESG-Integration-Insights-YearEnd2017.pdf>

**Sustainable Stock Exchanges' initiative (SSE):** The SSE was launched in 2009 and is a global partnership platform including most of the world's exchanges and working with exchanges to utilise new research to advance their sustainable business strategies. Through the Initiative Nordea has access to consensus and capacity building activities, guidance, and research to assist in their efforts to contribute to sustainable development.

**United Nations Environment Programme – Finance Initiative (UNEPFI):** UNEPFI is a partnership between the United Nations Environment Programme and the global financial sector with a mission to promote sustainable finance. Over 200 financial institutions, including banks, insurers and investors, work with UNEP to understand today's environmental challenges, why they matter to finance, and how to actively participate in addressing them. In 2017, we were elected as Social Issues Representative for the UNEP FI Banking Committee and member of the UNEP FI Social Issues Advisory Board. We are also part of the UNEP FI water and finance work stream.

**UN Global Compact:** The United Nations Global Compact is the world's largest corporate sustainability initiative, which aims to mobilise companies to conduct business responsibly by aligning their strategies and operations with ten principles on human rights, labour rights, environmental protection, and anti-corruption. Nordea has been a member of UN Global Compact since 2004 and the annual Communication on Progress is available on the UN Global Compact website.

# Engagement

We engage with companies and other stakeholders including policymakers on different themes individually or through collaborative initiatives with global reach and supported by a large number of investors.

## Engagement with companies

**We use an external** service provider to screen all funds managed by NAM against our exclusion criteria as well as for verified violations of international norms (on issues such as environmental protection, human rights, labour standards and business ethics). We continuously receive incident alerts related to our holdings to ensure that the companies we are invested in continue to meet our criteria for inclusion. If a company is identified as breaching our inclusion criteria or international norms, we will undertake an internal assessment of the company and the incident. We may decide to engage with the companies identified through this process

and through active ownership encourage them to improve their ways of working.

In 2017, we had seven in-depth engagements cases on norm violations. If a company is found to be in breach of our inclusion criteria or does not change its norm-breaching behaviour within a certain time period, NAM's Responsible Investment Committee may decide to exclude or divest the company. In some cases we put companies on a watch list or quarantine them.

In 2017, we engaged with 134 companies to ensure that material ESG risks were being adequately managed or ESG opportunities were being fully capitalised on. These companies include some of our largest holdings as well as companies identified for our ESG-enhanced funds. These discussions



were part of the approximately 161 company meetings we had during the year.

**Our model for outlining engagement** activities is supported by structured processes to prioritise our engagement efforts on key issues such as underperformance on ESG, high ESG risk exposure to a certain theme or sector issue, materiality, relevance to our clients and our ability to influence. We monitor all investments from an ESG perspective on a continuous basis through our ESG-integrated investment research and activities, including company meetings. We also receive up-to-date incident reports relating to our holdings through an external service provider and review our funds annually to ensure that they continue to meet our criteria for inclusion. We engage at company and industry sector level as well as with stakeholders and standard setters. We engage on behalf of all of NAM's funds. This supports the ongoing ESG integration activities within NAM. We actively vote our shares across all markets, which includes taking voting action in respect of companies where ESG engagement has been unsatisfactory, concerns remain and/or significant controversies have arisen.

## Thematic engagement

### **The Corporate Human Rights Benchmark (CHRB):**

**In a letter, the CHRB investors** – Nordea, Aviva, APG, Calverts plus Boston Common Asset Management on behalf of 85 investors supporting the UN Guiding Principles Reporting Framework – communicate to the 98 companies in the 2017 CHRB pilot study (see page 12 in this report). We will measure progress on the performance in the next CHRB benchmark assessment planned for 2018.

### **Farm Animal Investment Risk & Return initiative (FAIRR) Initiative:**

**We are part of a** collaborative engagement on sustainable protein coordinated by FAIRR. The engagement aims at promoting sustainable food production, especially in animal production. 14% of global greenhouse gas emissions are from from the livestock sector as a whole, with factory farming as a key component (FAO); this is more than from the global transport sector. This sustainable protein engagement is a part of our climate strategy, where we committed to engage with the highest impact industries. Other ESG risks related to



**Dr. Charlie Veron, Marine Scientist & Coral Expert and Sasja Beslik, Head of Group Sustainable Finance at Nordea exploring the effects of climate change on the Great Barrier Reef in Australia (see page 18).**

industrial animal production are water scarcity and pollution, health impacts from antibiotics overuse as well as changing consumer preferences for healthier options. The engagement is targeted at 16 retailers and food manufacturers urging them to respond to the material risks of industrial farming and to diversify into plant-based sources of protein.

**Institutional Investors Group on Climate Change (IIGCC):** We continued being part of the IIGCC investor initiative on corporate lobbying in an EU climate and energy policy context during 2017 (see page 12 of this report). A letter signed by 50 investors from eight countries representing over EUR 4.4 trillion in assets under management was sent to 75 companies. We continued our participation in the collaborative investor engagement on Climate Lobbying with more than 60 investors coordinated by the PRI. The initiative calls for improvements in practice and transparency from investee companies on their climate change lobbying practices.

**Letter to governments of the G7 and G20 nations:**

In 2017, NAM was one of 217 investors representing more than \$15 trillion in assets, who signed a joint letter to governments of the G7 and G20 nations. "As long-term institutional investors, we believe that the mitigation of climate change is essential for the safeguarding of our investments. We have previously conveyed our strong support for the Paris Agreement and one of the collaborative engagement initiatives we are involved in is a PRI-coordinated project focusing on water risks in agricultural supply chains."

**Principles for Responsible Investments (PRI):**

*Principles for Responsible Investments (PRI)* – collaborative engagement on human rights in the extractive industries: Nordea has been part of this engagement for several years and over time we have focused on different companies. The collaborative engagement held its last meeting in November 2017 and key findings were: 1.) Improvements were made across all focus areas which are primarily related to showing a commitment to human rights in internal policies and management processes; 2.) Disclosure on human rights used to be the exception in 2015 but is now the norm; 3.) Most companies still struggle to monitor and track the effectiveness of the policies and mechanism they have put in place.

*PRI – collaborative engagement on labour practices in agricultural supply chains:* We are part of a collaborative engagement coordinated by the PRI on labour practices in agricultural supply chains. Supply chain labour practices have become a risk for companies with global agricultural supply chains. These include regulatory risks, e.g. the UK Modern Slavery Act, and reputational risk associated with investigations on poor corporate practices in supply chains with accompanying negative media attention impacting consumer brand perception. The engagement targets 41 global large cap food producers and retailers with high exposure to supply chain labour rights risks.

*PRI – Tax advisory working group:* In May 2017, Nordea joined the PRI advisory committee on tax together with 9 other investors to scope a collaborative engagement on responsible tax in high risk sectors (IT and Pharmaceutical). The engagement will start in 2018 and its aim is to drive best practice in corporate income tax disclosure. Nordea has committed to lead the engagement with two companies.

*PRI – SDGs (Sustainable Development Goals) and active*

*ownership:* In 2017, Nordea joined a new working group within the PRI on SDGs and active ownership. We see this as a highly relevant group given the increased focus we are currently witnessing in terms of the SDGs in our engagement activities. With the emergence of the SDGs the focus has increasingly shifted towards positive outcomes for society and as a consequence active ownership activities will increasingly expand their focus on new business opportunities. The working group will focus on SDGs in active ownership and identify the most effective tools and strategies. One of the key issues that need to be addressed is how to measure impact over time.

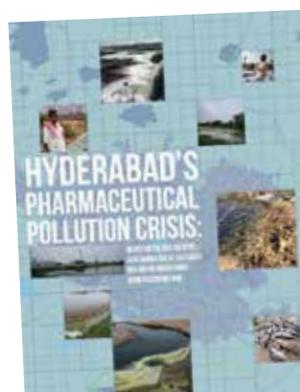
**The Engagement Initiative on Auto Manufacturers**

**The auto-industry** has been hit by a number of controversies over the past years, starting with the emissions scandal implicating Volkswagen in 2015. In the scandal often referred to as Dieselgate, the US Environmental Protection Agency (EPA) found Volkswagen cars being sold in the country had a "defeat device" (software) in diesel engines that could detect when being tested and change performance accordingly to improve results. Nordea has held a number of meetings with Volkswagen and subsequently placed the company in quarantine, as we are part of a class action lawsuit against the company. Mitsubishi has been accused of similar actions, and we met with this company as well. Following our decision not to continue our engagement Mitsubishi has appeared to have taken serious steps in terms of preventive measures.

Since it has become increasingly apparent that this is an industry-wide problem rather than company-specific, Nordea has taken a decision to initiate a thematic engagement targeting 14 automakers in which we have holdings. The engagement will focus on emissions cheating, anti-competitive behaviour, lobbying practices against climate regulation and supply shortage of metals for li-ion batteries increasing exposure to country and sector ESG risks. As a first step a letter has been sent to company CEOs which will be followed by individual meetings. The idea is for the engagement to run over a period of two years to evaluate how the companies' performance develops.

**Water pollution in the pharma supply chain:**

**The pharmaceutical industry** is one of the fastest growing segments of the Indian economy. The market is expected to grow to \$100 billion by 2025. We have engaged with 25 pharmaceutical companies regarding their supply chain management and the evidence of poor waste water management within pharmaceutical manufacturing in India since 2015. We engage directly with the companies and through the industry-led Pharmaceutical Supply Chain Initiative. As a follow-up of a report on pharma



Link to more information and the latest report:  
<http://sustainablefinance.nordea.com/articles/call-action-indias-pharma-pollution-crisis>



**Water pollution in India.**

pollution in Hyderabad and Visakhapatnam published by Nordea in 2016, we commissioned a new independent on-the-ground investigation and report in 2017. Evidence confirms pharmaceutical pollution is still rife and not being effectively addressed. Water samples taken adjacent to selected pharma sites found heavy metals and industrial solvents commonly used in pharmaceutical manufacturing. Some samples showed concentrations that were higher than maximum regulatory limits or safe exposure levels. A report on the findings was published in January 2018.

**As part of our pharma engagement** we also participate in various events, engage with various stakeholders including policy makers on antimicrobial resistance (AMR). Nordea co-hosted an event at the Stockholm World Water Week: “Antimicrobial resistance putting sustainable development at risk:

Drivers, impacts, solutions” related to the engagement in India on pharma pollution.

We were on the Expert Committee of the Antimicrobial Resistance Benchmark methodology. We spoke at an event on pharma pollution in emerging markets and antimicrobial resistance (AMR) at Almedalen Political Week. We attended the AMR call to Action event in Berlin hosted by the UK Government, the Government of Thailand, the UN Foundation and the Wellcome Trust to Held in partnership with the Inter-Agency Coordination Group (IACG).

**We have continued to work** on this issue with the pharma companies and the industry-led organisation PSCI (Pharmaceutical Supply Chain Initiative). In April 2016, we were invited to present Nordea’s expectations on pharma supply chain management and manufacturing practices at the PSCI annual meeting. Our expectations were well received by PSCI members and the PSCI has initiated several initiatives to address our concerns. We have also been in contact with other relevant stakeholders. In October 2017 we again presented at the PSCI Annual Meeting. We have continued our dialogue with the companies.

#### **Nordea at World Water Week 2017**

**World Water Week** is the annual focal point for global water issues. It is organised by Stockholm International Water Institute (SIWI) and took place in Stockholm August 27 – September 1. This year World Water Week addressed the theme “Water and waste: Reduce and reuse”. Nordea participated as a co-host of the event “Antimicrobial resistance putting sustainable development at risk: Drivers, impacts, solutions” related to the engagement in India on pharma pollution.

## Iron mine in Brazil

**In November 2015** a tailings dam belonging to a mine in Brazil collapsed and caused the largest environmental disaster in Brazilian history. The mine is operated by Samarco which is jointly owned by BHP Billiton and Vale.

In March 2016 the companies signed a Framework Agreement with the federal government in Brazil on remediation and indemnity programmes. In April 2017 the Brazilian Ministry of Environment’s Institute of Environment and Renewable Natural Resources (IBAMA) fined Samarco for failing 2 of the 42 programmes. The programmes concerned reme-

diation processes such as revegetation and soil erosion and dredging of Risoleta Neves, Candonga Dam.

In May 2017 our service provider ISS-Ethix red-listed BHP Billiton due to the fine by IBAMA.

In June 2017 Nordea participated in an investor trip organised by BHP Billiton in the affected area. The conclusion from the trip is that the company, given the complexity of the operating context, is working as well as it can with the remediation process and in compliance with the Framework Agreement. However, given the magnitude of the event and that several time lines in the Framework



**Nordea’s Felix Nilsson, Group Sustainable Finance in Minas Gerais, Brazil engaging with mining companies related to the dam incident**

Agreement are set for March 2019 we believe that we need to monitor and engage with

the company to also ascertain their future compliance with the Framework Agreement.

# Field visits

As part of our engagement and ESG analysis approach, we regularly visit company sites to improve our understanding of relevant issues and to get a closer view on how investee companies are managing their social and environmental challenges. We also visit places and talk to experts on global challenges, to discover opportunities to address and create awareness.



Nordea's Felix Nilsson, Olena Velychko and Anders Langworth in Indonesia to investigate the palm oil industry.

**INDONESIA:**

## Palm oil

**During a field visit** to Singapore and Sumatra, Indonesia, we got the opportunity to meet the world's major palm oil producers, NGOs as well as small-holder farmers at both offices and palm oil plantations. The field visit gave us a deeper understanding of the complexity of the ESG risks facing the palm oil industry, enabling us to have a more sophisticated dialogue with holding companies sourcing palm oil. Our conclusion is that while much is being done to improve sustainability, challenges still remain to produce palm oil sustainably.



**SOUTH KOREA:**

## Corporate Governance



**Nordea went to South Korea** to meet Samsung Electronics. The trip was planned against the backdrop of controversial news about the company's Vice-Chairman. The team met the company to discuss corporate governance, anti-corruption programmes, OH&S performance and allegations of child labour. After discussing the above topics with Samsung Electronics, our main conclusion was that the company was taking serious and committed action to address areas of underperformance and was improving its management systems in the flagged areas.

"To me who has been diving on this reef for fifty years it looks like a graveyard."

Dr. Charlie Veron, marine scientist & coral expert about climate change in Australia

**AUSTRALIA:**

## Climate Change

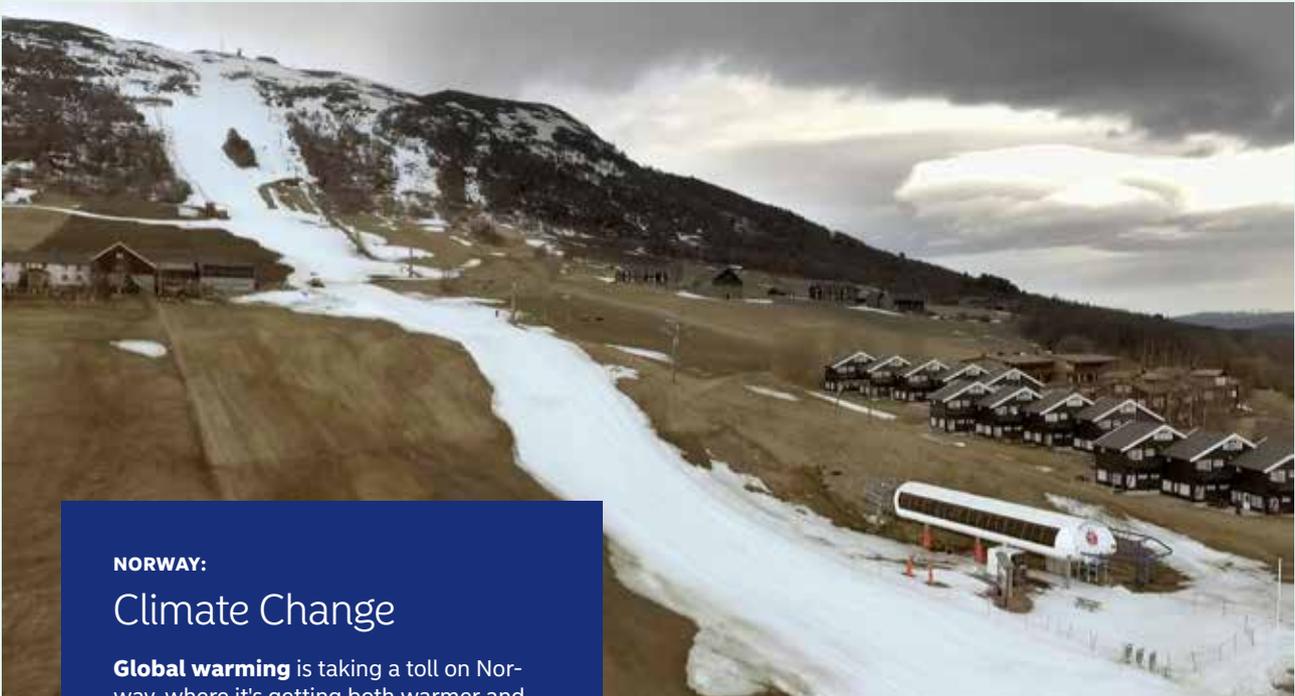
**Nordea visited Australia** to witness the current consequences of climate change, to discover the challenges and opportunities in order to understand how to channel capital into the right solutions. Severe drought and a dying Great Barrier Reef are two of the negative consequences of climate change. Australia continues to mine for fossil fuels as though nothing is wrong and it is now overtaking Indonesia as the world's biggest exporter of coal.



Dead coral everywhere.



It should look like this.



**NORWAY:**  
**Climate Change**  
**Global warming** is taking a toll on Norway, where it's getting both warmer and wetter. The dramatic increase in temperature and precipitation is damaging to many sectors in the Norwegian economy. Climate change is not only far away from Nordea's home market, but here and now.



**UNITED STATES:**  
**Information security**

**Nordea went to the US** to meet stakeholders relevant to information technology companies. During the meetings, which involved fellow investors, industry initiatives and think tanks, we focused on some of the major issues facing society and information technology companies such as anti-trust, data privacy and cyber security. Our initial hypothesis of a rapidly changing corporate landscape that the big technology companies will need to adjust to was confirmed and we look forward to engaging with this issue continuously throughout 2018 with a stronger focus on Europe.



**BOSNIA:**  
**Environmental Impact**

**Nordea visited Zenica in Bosnia** to investigate the pollution and impacts of the steel industry, which dominates the city with a huge plant employing around 3,000 people. The steel is manufactured by one of the world's largest players in the extractive industry, ArcelorMittal – a company Nordea invests in.

 **Find out more about our field visits:**  
[sustainablefinance.nordea.com](https://sustainablefinance.nordea.com)



## Sustainable financing

Nordea is committed to engaging with customers on environmental, social and governance (ESG) matters and to having an understanding of the challenges and opportunities customers have in their respective businesses and industries. ESG considerations provide additional, non-financial, information on company performance, and are taken into account in customer evaluations in connection with financing.

### Sustainable financing in the Group Directive on Sustainability

**Nordea's Sustainability Policy** is the Group Directive on Sustainability and it was updated and approved by the Board of Directors of Nordea in 2017 with principles on sustainable financing:

- We are committed to engaging with customers on environmental, social and governance matters and to having an understanding of the challenges and opportunities customers have in their respective businesses and industries.
- We are committed to including and integrating environmental, social and governance risk assessments in risk management and due diligence processes.
- We are committed to developing and supplying financial products that support sustainable development.
- We are committed to engaging with stakeholders in order to ensure continuous development and performance in financing activities.
- We are committed to preventing financial crime and to including measures to manage these risks in financing activities. We are committed to engaging in analysing the potential reputational risk elements in connection to financing that could result in reputational damage for Nordea. Equally we expect customers and stakeholders to engage in managing their reputational risk.
- We are committed to high standards and best practice with regards to tax compliance and reporting and do not finance or facilitate tax schemes that are regarded as tax evasion or finance tax schemes that may be legal but perceived as aggressive tax planning or otherwise not in line with Nordea's internal ethical standards.

## ESG evaluation of large corporate customers

**To operationalise** Nordea's Code of Conduct and the Sustainability Policy, we have integrated ESG risk evaluation into the internal decision-making process within Wholesale Banking at Nordea. The work is structured by a specific ESG evaluation tool that has industry-specific questions and also takes account of controversies. The ESG risk category is included in credit memorandums. More than 70% of Wholesale Banking exposure at risk, excluding financial institutions and most of shipping that will be addressed in 2018, was evaluated in 2017 and customers were allocated to one of five ESG categories.

### Initiatives for sustainable financing

Nordea joined Responsible Ship Recycling Standards (RSRS) in 2017. RSRS are voluntary principles for financial institutions active in ship financing. Nordea was the first Nordic bank to adopt the Equator Principles, a set of voluntary environmental and social guidelines for financing projects (See pages 14–15).

"Green bonds are a natural step in manifesting Nordea's increased ambition level in the sustainability area."

Nordea's Jacob Michaelsen,  
Head of Sustainable Bonds

## Green Bonds

**In 2017, we saw** an increasing interest among our corporate customers for sustainable financing solutions manifested by the insurance of our first green bond – a EUR 500 million five-year bond.

Nordea was an arranger for 20 green bonds in 2017 with a total deal value of almost USD 4bn – more than doubling the amount from previous years put together – including the inaugural EUR 500m Nordea Green Bond. We have moved from number nine in the Nordic league table to a lead position on the green bond market.

## Combating climate change with green bonds

If we are to achieve the stated goals of the Paris Agreement, massive amounts of green investments will have to be made at all levels of society, from governments to corporates.

**At Nordea, we encourage** the transformation of companies towards low-carbon and more resilient business models, and are focused on helping our customers finance such investments. One way of doing this is to provide relevant products such as green bonds.

Jacob Michaelsen is Head of Sustainable Bonds at Nordea.

"In short, a green bond is like any other bond except that the money is earmarked for green purposes such as renewable energy, green buildings and clean transportation. The biggest difference from a regular, non-green bond is that an investment in green bonds also achieves a

green impact and investors can be transparent about it," says Jacob Michaelsen.

At Nordea, we work with green bonds in two different ways. Firstly, we issue our own green bonds to finance loans to corporate customers that have environmental benefits and mitigate climate change. In June 2017 we issued our first green bond – a EUR 500m five-year bond. Secondly, we serve as the intermediary between our corporate customers as issuers and investors by helping them to invest in or issue green bonds via the capital markets.

"In addition to providing cost-efficient funding, green bonds are a natural step in



manifesting Nordea's increased ambition level in the sustainability area. They constitute a tangible effort showing our commitment to

delivering on our sustainability agenda and working towards a greater good in line with our purpose," concludes Jacob Michaelsen.

# Why you cannot afford to not care



Impact your carbon footprint by moving your savings towards sustainable investments

**IN FACT**  
PUTTING YOUR SAVINGS  
IN SUSTAINABLE FUNDS IS

**27x**

MORE EFFICIENT  
THAN THE OTHER  
ACTIVITIES  
COMBINED

## 5 ways you can help fight climate change

1. Shorten your **shower** by 2 minutes each time – you save 1.06 tonnes of CO<sub>2</sub> emissions.
2. One less **international flight** per year – you save 18.93 tonnes of CO<sub>2</sub> emissions.
3. Take the **train instead** of the car – you save 26.73 tonnes of CO<sub>2</sub> emissions.
4. Eat max. **1 piece of meat** per week – you save 35.68 tonnes of CO<sub>2</sub> emissions.
5. Move your **pension savings** to fossil-free funds – you save 2,222.67 tonnes of CO<sub>2</sub> emissions.

NB: Moving your pension savings is 27 times more effective than the other activities. If you do all the activities above, but leave your savings unchanged, it takes 27 years to reach the same reduction of emissions as a simple reallocation of your savings.



Together with customers  
and partners Nordea enables  
the transition towards a  
**sustainable future**

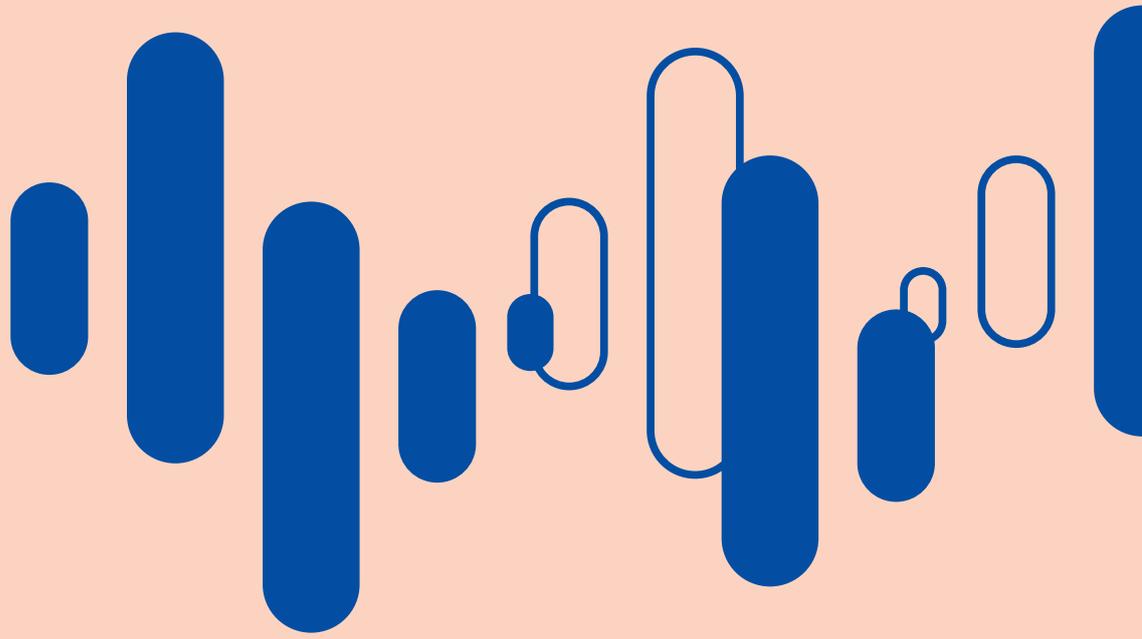
Nordea

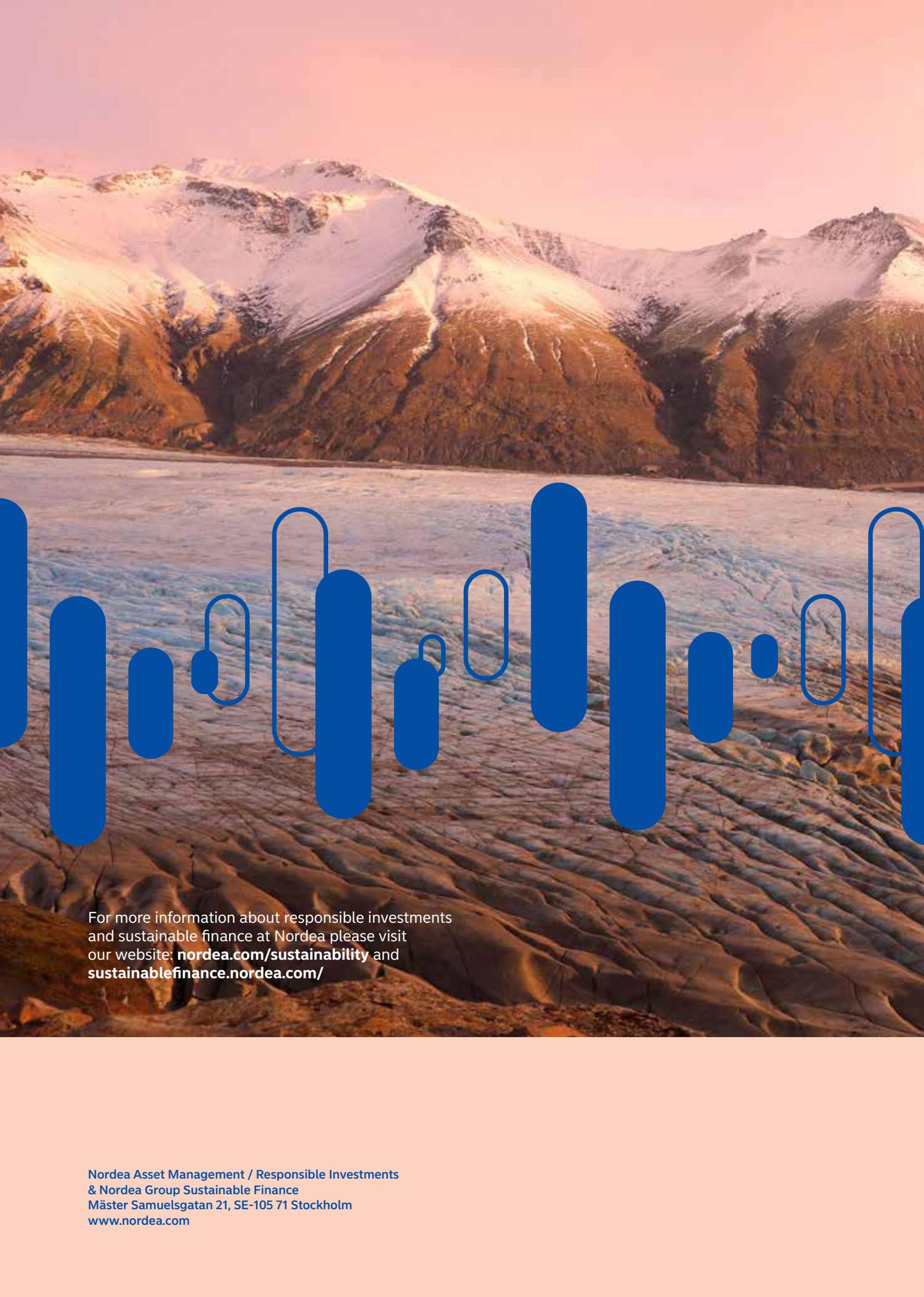
## Cracking the ESG code

One way of advancing sustainability is research that provides hard facts in the form of empirical data. Nordea Markets has invested in building up dedicated ESG research and published the inaugural ESG report “Cracking the ESG code”, which has become by far the most downloaded publication on nordeamarkets.com.

The study highlights the correlation between operational excellence and ESG performance (measured with MSCI ratings) and finds solid evidence that ESG matters, both to operational and share price performance.

The relative performance of the top versus bottom ESG performers was as much as 40% in 2012–2015.





For more information about responsible investments and sustainable finance at Nordea please visit our website: [nordea.com/sustainability](https://nordea.com/sustainability) and [sustainablefinance.nordea.com/](https://sustainablefinance.nordea.com/)