Nordea

Nordea is the largest financial services group in the Nordic region (approx. 9 million personal customers and 500,000 corporate customers) 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.

About Nordea Asset Management

Nordea Asset Management (NAM) is part of the Nordea Group. We are an active asset manager with a global business model offering services in Europe, the Americas and Asia. We manage asset classes across the full investment spectrum. Our growing third-party distribution franchise services a wide range of international fund distributors, including many of the leading global wealth managers. We distribute our products through banks, asset managers, independent financial advisors, insurance companies and family offices. Our client base is equally split between Nordea Group-related and external clients. With EUR 235 bn (31 December 2019) in assets under management, we have been experiencing strong growth over the past decade.
ESG at the tipping point

The global investment community's interest in ESG has reached a tipping point, and climate challenges, as well as the momentum behind the UN Sustainable Development Goals, will soon take us across the threshold. As investors face increased exposure to climate related risk—and new regulations—sustainability is becoming an important component of their strategic investment decisions. There are clear signs that ESG investing is now turning mainstream, and we welcome this shift. Having been at the forefront of Responsible Investment for more than 30 years we have devoted considerable time and effort to integrate it into our investment processes.

Because ESG investing is a long journey and there is no room for complacency, we significantly ramped up our commitment in 2019. Specifically, we took three key steps toward realizing our Responsible Investment goals: we expanded our ESG product offering, widened the scope of our ESG focus, and extended our ESG research platform to promote agility in decision-making and knowledge sharing amongst our investment teams.

Expanding ESG into new asset classes
As part of our ESG journey, we have been transporting the experience and expertise gained with our Equity STARS range, our family of ESG-enhanced equity strategies, to the fixed income space. In 2019, we added three fixed income STARS solutions: Emerging Stars, European Corporate Stars, and European High Yield Stars. Fixed income funds with true ESG integration represent a relatively new approach to Responsible Investment, and our investment teams are working with international groups such as the UNPRI to play a role in shaping best practices in this space.

We also took our Responsible Investment ambitions into private equity through a partnership with Trill Impact AB, a new PE firm founded by Jan Ståhlberg, one of the most renowned private equity professionals in Europe. Trill Impact’s mission is to make it possible for investors and businesses to actively contribute to a more sustainable world, while achieving attractive Private Equity market returns.

Finally, we launched our Global Gender Diversity strategy, which addresses a topic very dear to our heart as a Nordic house. The strategy aims to prove it is possible to deliver solid returns by investing in global companies with a strong focus on gender balance.

Taking our ESG focus to the next level
To deepen its commitment to ESG integration, our Fundamental Equities Team made the decision to further refocus on sustainability themed products. In 2020, the team will build on the momentum behind the Global Climate and Environment Strategy and the STARS Strategies to expand its product range.

Moreover, in 2019, we ramped up our engagement activities and voted on thousands of proposals at over 500 AGM/EGMs (Annual General Meetings/Extraordinary General Meetings), a 14% increase over the prior year. As an active owner, engaging with companies in our portfolio is a core component of our Responsible Investment approach.

Making ESG research accessible
To further ESG integration across all of NAM’s products, we expanded our proprietary ESG research and data platform to support scalability and agility in our ESG integration journey. Our RI Team delivered a new tool which automates ESG scoring for a larger investment universe. The new database centralizes the team’s ESG research efforts, which can now be accessed through a new platform that serves the whole of NAM.

Recognising the importance of reporting and transparency for our clients, we launched a quarterly ESG Exposure Report which highlights how holdings within each of our STARS equity funds, through their products and services, align with 17 sustainability objectives closely attuned to the UN Sustainable Development Goals. The new reporting has been very positively received by our clients and complements the existing quarterly Engagement Report we produce for each Equity Stars strategy.

Continuing our ESG journey
Ongoing climate change and the necessary policy action to limit it, as well as action on the broader agenda of the Sustainable Development Goals, present investors with new and uncertain financial impacts that must be managed. As we move into 2020, we are further expanding our ESG product offering, in line with our ongoing commitment to Responsible Investment and to deliver tangible solutions and benefits to our clients. I invite you to read our 2019 Responsible Investments Report to find out more about our work.

1) There can be no warranty that an investment objective, targeted returns and results of an investment structure is achieved. The value of your investment can go up and down, and you could lose some or all of your invested money.
Year 2019 at a glance

Engagements
- 101 individual engagements
- 478 collaborative engagements
- 167 engagement meetings

Publicly-recognised strengths
- PRI signatory since 2007
- CFI award
- 14 dedicated ESG analysts

European ESG labels
- LUXFLAG Label
- ESG
- INSTM Sustainability Label
- ISR

Voting and corporate governance
- Attended 100 AGMs
- Voted on 517 AGM/EGMs

Member of various initiatives and forums
- Climate Action 100+
- CDP
-档次
- FINSIF
- SWESIF
- TaCIF
- CSRIF
- CHRB
- TCFD
- IIIGC
- SASB
- FNG
- spansif

For details on European ESG labels, refer to page 21.
Sustainable finance: working together

Sustainability is deeply rooted in our Nordic culture, philosophy and business: it stands at the core of our DNA.

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. Our work on sustainable finance is conducted across the group by two dedicated teams, Group Sustainable Finance - working at Nordea Group level - and the Responsible Investments (RI) team, which carries out ESG research at Nordea Asset Management (NAM). The RI team works with the fund managers and analysts to integrate environmental, social and governance (ESG) analysis into our investment approach across portfolios. In total there are 37 people in these two teams working on sustainable finance at Nordea.

This report primarily reflects the work on responsible investments within the scope of asset management.

Renewable resources within Nordea Group

For some years, we have been working to reduce the carbon footprint from our own activities. Business travel is our greatest direct climate impact: in 2018, it accounted for 71% of Nordea Group’s carbon emissions. With this in mind, we targeted a 7% reduction of travel for internal meetings in 2019, which we achieved.

Another key focus area is the resources we use in our office space. Since 2011, we have been buying 100% renewable electricity for our offices in the Nordic countries, Poland and Estonia. Going one step further, at our Copenhagen head office we have installed solar panels. While our business isn’t a large consumer of water we are nevertheless taking steps to reduce it, e.g. at our Copenhagen office we are gathering rainwater to flush the toilets.
Responsible Investment approach

NAM’s commitment to be a responsible asset manager is not new. We launched our first sector-screened funds in 1988 and were an early adopter of Responsible Investment (RI), signing the UN Principles for Responsible Investment as early as 2007. Formed in 2009, Nordea’s Responsible Investments team is one of the largest and most experienced in Europe.

Responsible Investment structure

NAM has developed a responsible investment framework that comprises a wide range of RI approaches. Some are decided and deployed at the corporate level – “overlays”, which apply to all funds managed by NAM1 – while others are product-specific and apply to solutions with an enhanced ESG focus.

NAM’s responsible investment approach is governed by the Responsible Investment Committee (RIC), chaired by NAM’s CEO Nils Bolmstrand and comprised of senior management representing various departments in the organisation.

The RIC determines NAM’s ESG investment guidelines. It also decides the appropriate reaction when a company is found to have acted outside our guidelines. The RIC might decide to exclude, quarantine or engage with the company, depending on the type of violation and our ability to influence the company.

To add detail to the ESG investment guidelines, the RIC has developed NAM’s Responsible Investment Policy, which details the international conventions we subscribe to and what we require of the companies we invest in. The RI Policy applies to all NAM funds1.

Areas covered by the Responsible Investment Committee (RIC):

- RI strategy
- Climate change
- Norms engagements
- Collaborative engagements
- Weapons
- Exclusions
- ESG product developments
- Coal mining
- RI trends
- ESG Quant
- ESG Private Equity
- RI trends

RI team

Formed in 2009, Nordea’s award-winning Responsible Investments (RI) team is one of the largest and most experienced in Europe in terms of pure ESG analysts.

The RI team comprises 14 members with a wide range of experience coming from academia, independent RI organisations and investment. The team carries out NAM’s activities regarding our commitments to international RI initiatives and is continuously developing NAM’s RI approach to maintain our competitive edge. Sharing their latest insights and findings, the team often participates in client meetings and ESG conferences.

The team maintains both a broad RI coverage and a particular focus on STARS fund holdings, working closely with their respective portfolio management teams in Stockholm and Copenhagen. The team carries out its various functions in four clusters:

- **Active Ownership**
  - The active ownership cluster is responsible for NAM’s norm-based and thematic engagement, as well as for the implementation of RI policies through all of NAM’s funds. They also work with stewardship and proxy voting together with the Corporate Governance team.

- **ESG Products & Research**
  - The research cluster carries out ESG research and engagement for NAM’s ESG enhanced STARS funds.

- **ESG Quant**
  - The ESG quant cluster develops and maintains NAM’s proprietary ESG scoring model.

- **ESG Private Equity**
  - The private equity cluster supports NAM’s private equity collaboration with Trill Impact.

1) Nordea Asset Management it is the functional name of the asset management business conducted by the legal entities Nordea Investment Funds S.A. and Nordea Investment Management AB and their branches, subsidiaries and representative offices. Nordea Investment Funds S.A. is the management company and Nordea Investment Management AB is the investment manager of all funds belonging to NAM.
Proprietary ESG research

Through 2019 the RI team developed a new ESG data platform which was rolled out towards the end of the year. This internal platform offers a single user-interface for investors across NAM to access proprietary RI quant analytics and modelling of ESG data. Behind the user interface sits an ecosystem of interconnected ESG analytics modules. One of these is a new ESG scoring module which automates ESG scoring for a large investment universe.

Our proprietary ESG scoring model continues to factor in both the issuer’s ESG risk exposure and the sustainability of a company’s business model. However, the new scoring module brings increased standardization and transparency of our ESG scoring process, which is helpful both internally and when discussing ESG issues with issuers. The new scoring module allows us to scale our proprietary assumptions about ESG quality onto an increasing range of issuers and thereby supports a broader set of ESG products across asset classes.

While this delivery is a big step in scaling up and improving the internal accessibility of the RI team’s ESG research, as well as boosting their capabilities of the RI team, the team continues to develop additional modules for the ESG data platform.

Three team members are working full time on the continuing development which will support further the work of the team and its application within the investment process.

In 2019 the RI team published two white papers:

Fast Fashion looked at the problem of low wages for garment workers and whether fast fashion can be a sustainable business model.

Cyber Security considers the new diverse and complex governance risk, which all companies must address and manage.

ESG integration

NAM aims to take returns with responsibility to the next level to ensure competitive, consistent and responsible returns for all funds. ESG issues are an increasing source of risk and opportunity; in order to ensure that investment and portfolio construction decisions are based on full information, we seek to integrate ESG issues into our investment analysis. To do this, we make both external and internally-sourced ESG data available to all investment teams and we have integrated ESG into the portfolio performance reviews of our equities and fixed income teams. We believe this ESG integration can enhance risk-adjusted returns.

In Stockholm: Olena Velychko, Katarina Hammar, Katarzyna Salacinska, Marjo Koivisto, Julien Grouillet, Emir Borovac.
Responsible Investment funds at NAM

NAM’s ESG offerings are a family of investment funds under the STARS name. The STARS funds are about positive selection of quality companies with well-managed ESG profiles that generate long-term financial value. To complement the ESG funds, NAM’s range of thematic funds aligns with specific UN Sustainable Development Goals to build a better future.

**STARS funds - finding the winners of tomorrow**

Within the STARS equity funds, every investment undergoes a thorough ESG analysis with our proprietary ESG model. Our ESG analysts work closely with the investment teams to identify material risks and opportunities relating to the companies’ medium- to long-term operational performance and market positioning.

We believe that we can create shareholder value as our fundamental and ESG analysts together identify companies that integrate both environmental, social and governance metrics and financial metrics into their business model and strategic decisions. In order to stay at the forefront of responsible investment solutions, we have refocused our Fundamental Equities Team (FET) more deeply into this area. The 25 investment professionals, headed by Hilde Jenssen, now primarily manage ESG-
enhanced and thematic equity solutions and will continue to expand their range with new fund launches in 2020.

Active ownership is an important part of the STARS investment approach and we engage in productive dialogues with many companies, especially those in which we are a large long-term shareholder.

In 2019, we extended the reach of the STARS family by launching three new STARS Fixed Income (FI) funds: the Nordea 1 – European Corporate Stars Bond Fund, the Nordea 1 – European High Yield Stars Bond Fund, and the Nordea 1 – Emerging Stars Bond Fund.

The STARS FI funds integrate ESG into their investment processes, sharing the same goals as the STARS Equity Funds: to outperform the benchmark, to meet Nordea Asset Management’s ESG standards, and to utilize active ownership to influence the behaviour of the bond issuers in order to generate returns with responsibility. This approach applies as much to the

Nordea 1 – Emerging Stars Bond Fund, which focuses on country-specific ESG risks as it invests primarily in sovereign bonds, as it does for the two corporate bond funds.

**Thematic funds – building a better future**

**Alongside the STARS range,** we have also been expanding our range of thematic funds that align with the UN’s Sustainable Development Goals (SDGs). This year, NAM launched the Nordea 1 – Global Gender Diversity Fund which focuses on companies at the forefront of gender diversity across all management levels and with good gender diversity practices in place. The Nordea 1 – Global Climate and Environment Fund, on the other hand, has been at the forefront of the climate investing megatrend since 2008. This fund invests in companies which, through their resource efficiency, environmental protection or alternative energy solutions, are changing the world for better.

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NAM's engagement overview

NAM is an active owner; it is our policy to engage with companies in our portfolios. We believe that ensuring good ESG practices in our funds’ holdings is an important part of safeguarding the long-term interests of shareholders and society.

Engagement at NAM generally falls into one of three categories:

1. Norms- and incident-based engagement: engaging with companies breaching the international norms or conventions or companies having ESG related incidents
2. Risk based engagement: engaging with companies on their material ESG risks
3. Thematic engagement: engaging on specific themes such as corruption, human rights, water and climate change

NAM’s engagement activities are carried out on behalf of all our funds, and follow this process:

**Engagement selection process**
We focus our ESG engagement efforts on companies representing our largest holdings, especially those with the highest ESG risk exposure, and those selected for our ESG-enhanced STARS funds. We prioritise our engagements on issues such as ESG underperformance, high ESG risk, and materiality.

**Engagement plan with objective**
An engagement plan is drafted, which defines our objective, establishes milestones, and tracks our progress.

**Research and meeting**
Meetings are held with the companies where the engagement process’ purpose and milestones are communicated. We also hold research meetings with other stakeholders to better understand the company’s ESG performance.

**Progress report or escalation**
Finally, we review the engagement progress and the company’s willingness to address the relevant issues. If there has been no progress or if the progress is too slow, then we assess how to escalate the engagement.

There are several different active ownership tools which we use in our engagement process:
- Letters to management & board of directors
- Management visits
- Field visits
- Proxy voting and filing shareholder proposals
- Collaboration with other investors

The effectiveness of the different tools depends on the individual engagement case. Engagement is always our preferred approach, but the ultimate tool is exclusion of the company from all NAM portfolios. The RIC can decide to exclude a company if its operations are incompatible with our responsible investment policy or if the company does not respond to our engagement efforts.

In addition to individual engagement cases, we also collaborate with other investors. Collaborative engagements often address a specific topic, and we might take the role of lead investor in companies where our investments are substantial.
The Sustainable Development Goals (SDGs) are a collection of 17 global goals set by the United Nations General Assembly for the year 2030. They address the global challenges we face, and at NAM we try to align our risk assessment with the SDGs. Furthermore, we engage with companies where SDG related themes might represent a significant material risk.

Complete list of SDGs:


Engaged sectors:

- Financials: 8%
- Energy: 16%
- Consumer staples: 11%
- Health care: 23%
- Communication services: 2%
- Information technology: 10%
- Materials: 13%
- Consumer discretionary: 9%
- Industrials: 8%
Bank Rakyat Indonesia
Bank Rakyat Indonesia (BRI) is the largest and oldest commercial bank in Indonesia. Nearly three quarters of its loan book is connected to microfinancing, a type of banking service provided to low-income individuals or groups who otherwise would have no access to financial services. This is an important contribution to improving financial inclusion and socioeconomic resilience in Indonesian society.

▶ Material issue: financing of palm oil production
Palm oil production has been associated with a number of ESG risks such as indigenous people’s rights, labour rights, deforestation and threatening endangered species. Since palm oil production is a large industry in Indonesia (the world’s biggest producer of palm oil), it is no surprise that BRI, as a leading lender in the country, has some exposure to the industry through its loan book.

▶ Engagement process and goal: palm oil risk management
NAM has discussed with BRI its exposure to the palm oil industry. BRI acknowledges it is exposed to ESG risks related to palm oil and in 2018 it began implementing ESG risk management for palm oil plantation loans. It requires palm oil plantation clients to have an ISPO or an RSPO certification, which are the two main sustainable palm oil certifications in Indonesia. BRI is also collaborating with WWF Indonesia to develop in-house sustainable palm oil assessment capabilities for its credit officers.

▶ Outcome: ongoing engagement
NAM has recommended a few improvements, such as expanding its in-house training programme to credit officers in the field. Existing BRI clients without certification were given in 2018 a two-year grace period to obtain one, so NAM’s RI team will follow up in 2020 to track the bank’s progress in this and other related areas.

Samsung
Samsung Electronics is a South Korean multinational company that manufactures and sells electronics and computer peripherals. Its businesses include consumer electronics, information technology and mobile communications and device solutions.

▶ Material issue: corruption
In 2016, the company was involved in a corruption case which led to the arrest of Vice-Chairman (VC) of the board on corruption charges. After being released from jail the VC maintained his position on the board while he was appealing his conviction, although during this time he was not participating in any activities or meetings of the board.

▶ Engagement process and goal: corporate governance
NAM has engaged with Samsung Electronics for several years since the revelation of the corruption allegations against the Vice-Chairman. We were satisfied with the corporate governance and transparency improvements the company had taken in the aftermath of the allegations. NAM informed the company that we would not accept the reappointment of the VC to the board once his ongoing term-limit was up.

▶ Outcome: removal from board
In October 2019, the company informed NAM that the VC would not be reappointed to the board.
Kerry Group

Kerry Group is a market leader in nutrition and taste solutions for the food and beverage industry, with global leading positions in “clean label” solutions (especially natural preservation and natural taste).

▶ Material issue: labour practices
Agriculture is a sector with a high risk of labour rights abuses and the most severe ones – such as child labour and slave labour. NAM’s engagement with Kerry is focused on labour practices in agricultural supply chains. Because most of Kerry Group’s procurement is done via intermediaries, the group needs proper supply-chain procurement practices in order to ensure that its supply chain is free from labour rights abuses.

▶ Engagement process and goal: collective engagement on supply chain labour rights
As the investor leading engagement in Kerry Group, we are part of a collaborative engagement coordinated by the UNPRI on labour practices in agricultural supply chains. The engagement targets 41 global large cap food producers and retailers with high exposure to supply-chain labour rights risks.

▶ Outcome: improvements
The UNPRI has developed an evaluation framework for assessing how companies address labour rights risks in their supply chains. The metrics cover both the policy and the implementation aspect. Since the start of the engagement, Kerry Group’s score has improved by 84%. Kerry Group still scores below brand-name companies, but this is essentially down to its position as a middleman/supplier company to the bigger names.

H&M

H&M Group is a fashion and design company established in Sweden in 1947. Nowadays H&M has around 4900 physical stores in 73 markets and online shops available in 50 different markets. H&M group consists of eight brands that offer consumers goods mainly in fashion, beauty and homeware sectors.

▶ Material issue: fair living wage
Because H&M has a strong brand, global presence and large operational footprint, the company needs to identify and manage sustainability concerns proactively; this includes the fair living wages for workers – including those working for H&M’s suppliers. Since 2010, NAM has been discussing living wages with H&M. A fair living wage is one that covers the basic needs of workers and their families, including food, clothing, shelter, healthcare, education, transport to work and a little extra for unforeseen circumstances.

▶ Engagement process and goal: continuation of Fair Living Wage work
We welcomed the H&M Fair Living Wage Roadmap 2013-2018, a coherent and ambitious plan aiming to provide a long-term systematic solution to the living wage dilemma. It addresses the problem through four channels: purchasing practices, wage management systems, workplace dialogue and minimum wage setting mechanisms by the government.

However, despite wage improvements in some regions, there is still much to be done. Wages have not risen sufficiently, and we still lack outcome-related KPIs, such as worker perception.

▶ Outcome: ongoing
Since we believe the success of H&M in achieving living wages depends to a larger extent on the progress of the whole industry in advancing collective bargaining agreements and securing improved purchasing practices, we will continue to engage on this issue. For example, we encourage other apparel companies to join relevant industry initiatives and especially ACT (Action, Collaboration, Transformation - a foundation focusing on the living wage in the garment industry) agreement.
Field visits

USA

A trip to the USA in June 2019 included a visit to Levi Strauss, the global garment manufacturer. NAM initiated an engagement with this new holding both on wage costs in the supply chain, and on the sustainability of raw materials.

Levi Strauss has already taken steps towards sustainable materials including joining the Better Cotton Initiative and exploring hemp and waterless jeans. Following years of collaboration between the group’s R&D and sustainability teams, Levi Strauss has introduced lasers at some vendor sites for a ‘clean’ way to finish jeans instead of chemical finishing. We like to see sustainability integrated into the beginning of the product lifecycle and continue to monitor related progress across the apparel sector.

Wage costs are an issue because Levi Strauss has almost 100% of its production in emerging markets. We suggested that the company should join ACT (a foundation focusing on the living wage in the garment industry). Commitment to paying ‘living wage’ is best practice and makes wage costs more predictable. Going forward we will monitor how the company manages wage cost pressures in its supply chain.

Brazil

In May 2019, NAM conducted a field trip to the city of Brumadinho in the Brazilian state of Minas Gerais. Four months earlier, a nearby tailings dam - an earth-filled embankment dam used to store the by-products of mining operations - failed catastrophically. The subsequent mudflow destroyed everything in its path, creating a human and environmental disaster.

We spent several days visiting stakeholders affected by the incident. We met families directly impacted by the breach; unions representing employees of the mine; communities displaced by the clean-up activities; the city’s mayor, who highlighted both the grieving community and the economic importance of the mine; and rescue workers.

With this first-hand knowledge, we met the company in its headquarters, asking it not only to take responsibility for the clean-up, but also to improve its communication with the local community, increase its transparency around its other tailings dams, improve its safety management system, and secure and decommission high-risk tailings dams. We have subsequently seen positive steps from the company to address our concerns and we continue to monitor the situation closely.
Finland

In October 2019, NAM conducted a field trip to Finland to look at some green bonds, as this segment expands. Green bonds raise funds for climate or environmental projects; we visited two Finnish wastewater treatment projects.

At the Turku treatment plant, the municipality is issuing a green bond to finance a drainpipe. The new pipework will enable the plant to cope better with the overload of stormwater in the sewage system, a result of climate change.

We also visited a state-of-the-art wastewater treatment plant being built by the municipality of Mikkeli. This will supply clean water with very low environmental impact, provide freshwater for irrigation and industrial processes, and includes research cooperation with the local university. The research is resulting in new materials such as ultra-fine membranes, which reduce the need to aerate the wastewater through circulation. As this is the most energy intensive step of the process, these materials bring a big energy saving.

The trip provided a useful insight into the kind of fundamental research and cooperation that are needed to enable the shift to a more circular economy. The technology used in these plants is enhancing their efficiency and not only purifies wastewater, but also enables the creation of natural gas from the waste product.

China

NAM's field trip to China in December 2019 comprised meetings with several Swedish and Chinese companies, experts, and government officials to learn more about the impacts of environmental challenges and policies in China.

Since China is responsible for almost a third of global greenhouse gas (GHG) emissions, its actions have a substantial impact on limiting the global temperature rise to below 2 degrees centigrade. Hence, China’s plans to launch the national carbon emissions trading system in 2020 has been a hot topic. Once the system is fully operational, it will be the largest in the world trading 8 billion tons of GHG annually.

China’s forceful “war on pollution” is having a short-term economic impact as companies need to invest to meet new requirements. Autoliv, a Swedish automotive safety producer, told us that for example its factories in China upgraded their wastewater discharge systems. Another Swedish company, the fashion retailer H&M, has been working with its suppliers for a long time on wastewater treatment, which was helpful for its suppliers: many other textile factories have had to shut down following government inspections.

In China, the environmental disclosure to government has been increasing, mainly driven by the requirements from the Chinese government. However, the level of public ESG disclosures by corporates is still very poor. For us as ESG investors, transparency on material issues is key for making more informed decisions and it was a focus of our meeting with the Chinese companies.
Thematic engagements

Thematic engagement focuses on companies’ exposure to certain themes. These themes are typically valid across STARS funds and defined jointly by the RI team and the portfolio managers. They focus on topics that tend to align with the UN Sustainable Development Goals (SDGs) - issues such as climate, gender diversity, corruption, environmental protection.

NAM believes that companies that align their strategies with the SDGs will be successful in the long term, because they are adjusting to global society’s future needs.

We have identified four thematic focus areas for our engagement and active ownership activities:
- Corruption
- Human rights
- Water
- Climate change

In 2019, we engaged with a number of companies on all four focus areas, both individually and through collaborative engagements. We will use whichever approach appears the most effective, and often we will use both styles of engagement on a single topic.

This has been the case in NAM’s long-term engagement with the pharmaceutical industry on water pollution (falling under the Water theme). Pharmaceutical water pollution is a particular issue because of its link to Anti-Microbial Resistance. Here we engage both directly with the companies we invest in and through the industry-led Pharmaceutical Supply Chain Initiative (PSCI), where we have a seat on the advisory board.

An area NAM addresses primarily through collaborative engagement is human rights. Nordea is a funding member of the Corporate Human Rights Benchmark (CHRB), the first public...
benchmark of corporate human rights performance created by investors and civil society organisations, and has a seat on the organisation’s Advisory Council. The CHRB measures the human rights performance of the world’s largest companies in sectors with high exposure to human rights risk and is today an internationally recognized standard on business and human rights. Since 2017 NAM has been part of an investor coalition engaging on human rights with companies assessed in the benchmark. This coalition includes over 85 asset managers with more than USD 5.3 tn in AuM.

HG Petrobras: a thematic engagement example

Nordea is part of the Climate Action 100+ (“CA100+”) investor initiative on climate change. CA100+ was launched in 2017 to ensure that the world’s largest corporate greenhouse gas emitters take the necessary action on climate change. The aim is to curb emissions, improve governance and strengthen the companies’ climate disclosures.

NAM is the lead investor in the CA100+ collaborative engagement with Petrobras. Petrobras is a partly state-owned Brazilian petroleum company, and one of the largest oil and gas extraction companies in the world. A sound strategy for a transition to low carbon would allow Petrobras to play a key role in achieving the goals of the Paris Agreement. Representing a group of investors, NAM has discussed with Petrobras what steps we believe they need to take going forward.

First, NAM has advised Petrobras that its climate governance framework should be strengthened. While the company has made significant strides in this field in recent years, it is still lacking in certain areas, such as linking the CEO’s compensation to climate-related factors.

Second, we expect Petrobras to work more aggressively to curb emissions. The company has recently set emissions-intensity targets for parts of its operations, but these are insufficient to meet the 2-degree target. We have recommended improvements to the company’s target-setting, including using an approach that encompasses more of the company’s total emissions.

Third, Petrobras should become more transparent in its climate-related disclosure. On a high level, this will involve meeting the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD) for climate reporting and improving the transparency of the company’s climate-related scenario analysis.

Petrobras is now constructively discussing our points. This engagement will continue in 2020.
Voting and corporate governance

NAM’s Corporate Governance team aims to be a trusted partner for both companies and institutions in corporate governance issues.

The Corporate Governance team is responsible for defining and executing NAM’s corporate governance policy. This year the team combined both Nordic and international corporate governance principles into a single set of global principles, set out in NAM’s Corporate Governance Policy document. The most recent update introduces a section on conflict of interest and is compliant with the Shareholder Rights Directive II (SRD II). This corporate governance policy guides the way we vote, an important way we engage with our funds’ largest holdings.

In 2019, we voted in more than 500 AGM/EGMs (Annual General Meetings/Extraordinary General Meetings) on thousands of proposals, including ESG issues such as climate, data privacy, diversity, as well as remuneration programmes and capital structure. Increasingly we are being invited by companies in the Nordics to join their nomination committees. Membership of nomination committees is a very efficient way to engage with the companies we have large holdings in, and it enables us to drive real change – for instance in the gender ratio. In 2019, we joined 42 nomination committees and saw female representation on these companies’ boards improve from 36% to 38%.

Our Corporate Governance team actively engages with companies in which the funds have significant ownership by voting at annual general meetings in accordance with the Corporate Governance Principles. We strive for transparency and have therefore made our voting portal publicly available.

During 2019, we voted in more than 500 AGM/EGMs (Annual General Meetings/Extraordinary General Meetings) on thousands of proposals and physically attended about 100 of those.

Meetings by sector

Attend 100 AGMs

Nomination committees

Meeting by country

Alignment with management

91% for

5% against
NAM in the RI community

We are actively taking part in the discussions around responsible investment and promoting the best practices. Below are a couple of examples of our active participation in the responsible investment community.

**Sustainable Accounting Standards Board**

The Sustainable Accounting Standards Board (SASB) aims to help businesses identify, manage and report material sustainability topics. In November 2018, SASB published a set of 77 industry-specific standards that help investors to compare companies’ sustainability performance within an industry. The standards identify the minimum set of financially material sustainability topics and their associated metrics for the typical company in an industry.

The adoption of the SASB Standard is becoming increasingly wide-spread as more investors and corporates recognize the importance of ESG factors. We’ve focused on material ESG factors since the inception of our STARS family. In 2016, NAM became the only Europe-based founding member of the SASB investor advisory group (IAG) and we continue to advocate for improved ESG reporting.

As part of the SASB Engagement Task Force, this year we engaged with three of the largest US technology companies, encouraging them towards reporting to the SASB standard. Following our 2018 sponsorship of the SASB Annual Conference in New York, in June 2019 we were part of the SASB IAG panel that spoke to the US Society of Corporate Governance Annual Conference in San Diego. Here we raised the importance of sustainability reporting, highlighting aspects to a cross-industry group of large US Corporates ranging from how to identify ESG issues to how to report them. The success of this panel paves the way for broader support of the SASB accounting standards.

**PRI Sustainable Palm Oil working group**

Palm oil remains an important topic for NAM, as part of our anti-deforestation efforts.

We have signed the PRI Sustainable Palm Oil working group’s latest position paper which outlines investor expectations of companies across the palm oil value-chain to develop a sustainable palm oil industry. We also discussed with the working group how investors can engage with Asian fast-moving consumer goods companies to promote sustainable palm oil. As a member of the working group, we are engaging with 10 ASEAN banks that provide financial services to clients within the palm oil industry. Their access to companies within the palm oil sector creates another way to monitor environmental and social risks and address company managements in the industry.
Initiatives and credentials

Access to Medicine Index
The index analyses how 20 of the world’s largest pharmaceutical companies are addressing access to medicine in 106 low- to middle-income countries.

Antimicrobial Resistance Benchmark
The benchmark evaluates how 30 pharmaceutical companies are responding to the global threat of antimicrobial resistance.

CO2 Montreal Carbon Pledge
An investor pledge to commit to measuring and publicly disclosing the carbon footprint of investment portfolios on an annual basis.

Principles for Responsible Investments
PRI is an investor initiative to incorporate ESG in investment processes.

Carbon Disclosure Project
CDP runs the largest global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts.

SASB’s Investor Advisory Group
Sustainability Accounting Standards Board develops sustainability accounting standards that help public corporations disclose material ESG information.

Climate Action 100+
CA100+ is an investor initiative to ensure the world’s largest corporate greenhouse gas emitters take the necessary action on climate change.

Sustainable Stock Exchanges’ initiative
SSE is a partnership platform to utilise new research to advance stock exchanges’ sustainable business strategies.

Corporate Human Rights Benchmark
The benchmark ranks globally listed companies on their human rights policy, process and performance.

United Nations Environment Programme – Finance Initiative
UNEPFI is a partnership between the UNEP and the global financial sector with a mission to promote sustainable finance.

Extractive Industries Transparency Initiative
EITI’s aim is to promote the transparent and accountable management of oil, gas and mineral resources.

ICGN - Global Stewardship Principles
The International Corporate Governance Network principles provide an international framework for investors to implement their fiduciary obligations on behalf of clients and beneficiaries.

Institutional Investors Group on Climate Change
IIGCC is a forum for investors to collaborate on climate change.

Farm Animal Investment Risk & Return
We’ve joined the FAIRR’s collaborative investor engagement on sustainable proteins which asked a number of global food companies to diversify their protein sources to drive growth, increase profitability, reduce risk exposure, and improve their ability to compete and innovate in a resource-constrained world.
Highlights of new RI community initiatives supported by NAM

- Investor Mining and Tailings Safety Initiative is an investor-led engagement which advocates for increased tailings dam safety and transparency in the mining industry.

- Investor statement on deforestation and forest fires in the Amazon was an initiative where 251 investors together urged companies to assess their operations and supply chain for deforestation risks.

CFI Award for Best ESG Investment Process in Europe 2014-2019

Source: cfi.co is a London-based magazine whose annual awards focus on best practice.

PRI signatory since 2007

We were an early adopter of RI and signed the Principles for Responsible Investment (PRI) as early as 2007.

ESG-labels

<table>
<thead>
<tr>
<th>Nordea 1, SICAV Funds</th>
<th>LuxFlag ESG Label</th>
<th>FNG-Siegel 2020</th>
<th>Towards Sustainability Label</th>
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<td>Global Climate and Environment</td>
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Climate change

Our mission is to deliver returns with responsibility and integrating climate risk as well as other sustainability risks into our investment decisions is critical. Neglecting these risks could have a negative impact on investment performance through both unwanted risk exposures and missed opportunities as the world transitions to a low-carbon economy.

Evolving in line with the TCFD recommendations
The Financial Stability Board, an international body that monitors and makes recommendations about the global financial system, set up the Task Force on Climate-related Financial Disclosures (TCFD) to help companies meet higher reporting standards. In 2017, the TCFD published its recommendations for enhancing the quality and usefulness of climate-related reporting. We believe this improvement is crucial to enable investors to properly manage climate risks and opportunities within their portfolios. As of December 2019, over 930 global organizations, including Nordea, support the TCFD.

We have supported the TCFD recommendations since 2017 because we believe we have an important role to play in ensuring transparency around climate-related aspects in the companies we invest in. At Nordea, we use the TCFD’s framework to make a smooth transition to a low-carbon economy in our portfolios and in the companies we invest in.

The transition to a low-carbon economy presents both risks and opportunities: our challenge is to identify and quantify these. There is uncertainty around aspects ranging from data quality and availability, complexity of models for low-carbon transition scenarios to the financial implications of these scenarios that we are currently exploring. We welcome ESG-related standardisation and frameworks such as the TCFD recommendations. The TCFD recommendations are structured into four areas – Governance, Strategy, Risk Management and Metrics & Targets – which comprise a framework for putting our climate-related ambitions into practice. While we are encouraging the companies we invest in to align with the TCFD recommendations, we are also aligning our own business with them.

Climate change in NAM’s governance
Support for Responsible Investment at NAM comes from the top. Our Board oversees the strategic direction and reviews the development of our ESG policies, starting from the Responsible Investment Committee (RIC) charter and Chief Investment Officer (CIO) instructions through the Responsible Investment policy and the Corporate Governance policy. Our RI policy and strategy include climate change points such as our commitment to the TCFD recommendations and expectations of companies, our ambition to align our portfolios with the Paris agreement over time and our position on coal mining and oil sand exclusions. Oversight of NAM’s climate change strategy rests with the RIC, which was created in 2009 and is chaired by the CEO of NAM. The CIO’s instructions include responsibility for integrating ESG risks - including risks arising from climate change - into the investment analysis and decisions.

Climate change in NAM’s strategy
For many years, climate change has been a focus area for NAM. We were an early signatory of the UNPRI in 2007, and a year later, we launched the Nordea 1 - Global Climate and Environment Fund. Since the RI team’s inception in 2009, the impact of climate change has been a part of our proprietary ESG analysis. NAM’s strategy on climate change includes climate-focused product development, climate-related divestment policies, and the integration of climate risk management into the investment process. Climate is a focus area for our engagement with the companies in which we invest. We view this as both part of our fiduciary duty and a means by which we can help meet the goals of the Paris Agreement. To increase awareness about the

As the urgency of the climate issue is mounting, NAM continues to accelerate its efforts.

Addressing climate change is high on the agenda and Nordea supports the TCFD recommendations since we firmly believe that climate change risk disclosure is key in order to strengthen the stability of the financial system.

Nils Bolmstrand, Head of Nordea Asset Management
In addition to these collaborative engagements, NAM engaged independently with 33 companies during 2019 to enhance two central components of a climate-resilient business strategy: their climate reporting and climate risk management. In dialogues with these companies, we have highlighted their most important shortfalls against the TCFD recommendations, especially the need for greater clarification of companies’ exposure to climate risk scenarios and the associated financial impacts. In the first three months of this engagement, 7 of the 33 companies took steps towards TCFD alignment. The RI team is now considering extending the engagement to more companies in 2020.

Managing climate-related risks
Climate change brings material long-term risks and opportunities to the companies we invest in – including transition risks and opportunities, physical risks and litigation risks. NAM uses various data to manage and assess climate risk, identify the most exposed sectors and guide our active ownership activities.

We joined the United Nations Environment Programme Finance Initiative (UNEPFI) pilot group in 2018 to address the need for analytical tools and indicators to report on the risks and opportunities presented by climate change. The aim was to develop a model and approaches that could encourage the wider investment community to promote a climate-resilient, low-carbon economy.

The main output from this pilot group is the Climate Value at Risk model which considers the impact on the total portfolio if climate risks were to be priced by the market today. The model incorporates several different policy scenarios by using various Shared Socioeconomic Pathways (SSPs) and carbon pricing models. The results from the Climate Value at Risk model are not exhaustive, for example, the model doesn’t take into account companies’ strategic plans for reducing carbon emissions or diversifying away from fossil fuel dependency, a critical component of the low-carbon transition and a central focus for NAM’s active ownership activities. However, the results offer valuable insights into relevant climate risks through scenario-based risk assessment. The Carbon Delta analysis for equities, corporate bonds and some funds enables us to set an approximate value on the transition to a low-carbon economy and physical risks that we are exposed to.

Next steps on climate change
Implementing the TCFD recommendations is a journey. We will continue to enhance our tools for better identifying and valuing climate risks and opportunities in the short, medium and long term. This will enable further integration of climate-related aspects into our risk management and product development. We will continue engaging with companies to support TCFD recommendations and a smooth transition to a low-carbon economy.

In our efforts to manage climate-related risks as well as possible, we are also looking into the framework provided by PACTA (Paris Agreement Capital Transition Assessment), Transition Pathway Initiative and other frameworks and initiatives. Recognising that climate change will pose risks as well as opportunities for us and our clients, we will continue assessing, managing and reporting climate-related factors with respect to our investments.
Climate change

Interview - sustainability on the ground

Fund managers Thomas Sørensen and Henning Padberg see a growing awareness of environmental issues within companies and society in general. In this Q&A, they discuss the choices they make in their own everyday lives.

Q: You have been managing the Nordea 1 – Global Climate and Environment Fund for more than ten years now. Are you environmentally conscious in your personal lives as well?

Henning: Yes indeed. My wife and I moved out of the city of Copenhagen primarily to get closer to nature. We have a beautiful garden with many fruit trees, an old greenhouse with grapes, a chicken coop – repurposed from an old barn, and we grow our own vegetables.

Thomas: I am fortunate to live relatively close to work, so I always cycle – in all weather conditions. While I do not have a garden, we do grow some apples in our backyard. We get as much as possible of our vegetables and fruit from organic sources and our household has become increasingly vegetarian. My two young daughters are becoming more and more interested in the environment and our environmental footprint, too.

Q: Can you talk a little about your partnership over the past ten years?

Thomas: We had a great chemistry from the beginning. We grew up not too far apart – I am from Mid-Denmark and Henning is from Northern Germany – so we share many cultural similarities. More importantly, we share many personal values – including honesty and passion – as well as a deep belief in sustainability.

Henning: Our colleagues at Nordea would probably describe me as structured and curious and Thomas as experienced and creative. We complement each other well.
Q: What keeps you both motivated in this role after more than a decade?

Henning: I love getting up in the morning with the prospect of potentially unearthing the next great investment opportunity. My passion for investing was born when I was working in the auto industry for Mercedes-Benz during its merger with Chrysler. Being a portfolio manager truly is my dream job and my motivation has never waned.

Thomas: I am very competitive and enthusiastic when it comes to investing and a strong believer in the power of active management. For me, managing this strategy is more than just a job, it is a passion. We are both proud to lead a strategy that aims to make a difference.

Q: The climate community has evolved significantly over the past decade. How have attitudes changed over this time?

Thomas: Within the last decade we have seen a big step up in general awareness and a massive shift within the corporate sector. Climate, environment and sustainability have become major drivers of corporate strategy and product development. Evolving consumer expectations are incredibly powerful as a driver for the development of environmentally sustainable solutions.

Henning: Investor attitudes have also changed. Ten years ago, we were regarded as a niche strategy; today we are meeting many large institutional investors. Nevertheless, only a fraction of global equity assets are allocated to sustainability-themed approaches like our Global Climate and Environment strategy. Many investors are implementing exclusion criteria or negative screening: this is definitely a step in the right direction, but we do not think it goes far enough. We believe positive ESG engagement and impact strategies can have a greater influence on environmental and sustainability factors.

Q: Finally, where do you hope the world will be in a decade’s time?

Thomas: We are incredibly optimistic that these solutions will play a critical role in generating global prosperity while conserving natural resources, improving biodiversity and alleviating other environmental issues. Inefficient asset-heavy industries – such as energy, utilities, industry, agriculture and transportation – offer the greatest potential.

Henning: We have already come a long way, but each individual can still do far more to reduce their environmental footprint, which would undoubtedly expedite the global goal of achieving environmental sustainability.
2019 in review

2019 has been filled with ESG and Responsible Investment activities at NAM. We have expanded our ESG product offering to the fixed income space and also moved further into ESG themed investments, received recognitions in the form of European ESG labels and awards, and continued to develop our ESG and RI policies with additional resources allocated to these areas.

During the first quarter of 2019, we added three new funds to our ESG STARS fund range - this time in the fixed income space. Now, in addition to our five equity STARS funds, we also have Nordea 1 – Emerging Stars Bond Fund, Nordea 1 – European Corporate Stars Bond Fund, and Nordea 1 – European High Yield Stars Bond Fund.

Expanding the STARS concept to new asset classes was a milestone during 2019, taking ESG integration to the next level at NAM. We were honoured to be able to present our process at the roundtable on "Integration of ESG in Fixed income" hosted by Responsible Investor.

NAM also expanded its thematic offering in the first quarter with the Nordea 1 – Global Gender Diversity Fund. The fund focuses on companies that are at the forefront of gender diversity across all management levels and that have good gender diversity practices in place. Please find more information on all of our responsible investment funds on page 8.

Another milestone as we progress our responsible investment journey and expand ESG integration to new asset classes is the partnership with Trill Impact AB. Working closely with Nordea’s RI Team, Trill Impact’s mission is to make it possible for investors and businesses to actively contribute to a more sustainable world, while achieving attractive Private Equity market returns.

During the year our funds gained more recognition from European ESG labels than ever before. We were awarded renewals and additional ESG labels, so that four of the STARS Equity Funds now carry the FNG German Label and five have been awarded the LuxFLAG ESG Label. As a completely new addition, five of our funds were awarded the Belgian Towards Sustainability label, and three the French Label ISR. This means that our main STARS Equity funds have been ratified by four leading independent European ESG organisations.

NAM’s strength in the responsible investing area was again recognized by the UNPRI Assessment Report where we received again the highest possible score (A+) in the category “Strategy & Governance”.

3) There can be no warranty that an investment objective, targeted returns and results of an investment structure is achieved. The value of your investment can go up and down, and you could lose some or all of your invested money.

4)
Another public acknowledgement came from the European magazine “Cfi.co”, which has awarded NAM’s RI team for the “Best ESG Investment Process in Europe” for the sixth year in a row. Please find more information on our labels and awards on page 21.

Our clients’ interest in ESG matters has continued to grow. In 2019 we hosted and participated as a speaker in 46 ESG events around the Europe. These events included ESG seminars and roadshows where we introduced ESG themes, the work of NAM’s RI team, and our range of ESG solutions for investors.

To provide more information and transparency on our funds’ sustainability performance, we launched the Sustainability Exposure Reports for our Equity STARS range and Nordea 1 - Global Climate and Environment Fund. This report highlights how portfolio companies have impact on sustainability objectives which are closely aligned with the United Nations Sustainable Development Goals. The results are then compared with the benchmark which makes the data more tangible for the readers.

Exploring new ways of engaging with our clients, NAM launched an interactive ESG e-learning tool at the end of 2018. Its purpose is to equip advisors with a solid foundation on the various themes and topics that surround ESG investing, to guide them through the ESG jargon and to help them have a conversation with their clients about responsible investment. Due to its huge success and high demand, we rolled out this e-learning into eight languages during 2019.

This year we have been working on the UNEP FI pilot project. Nordea case study “Delayed Policy Response” was included in the UNEP FI publication “Changing Course”. The results of the pilot project were presented in London in May.

We built on our work on Anti Money Laundering (AML) from 2018 by discussing the topic with a broad range of European banks in Italy, the Netherlands, and Portugal. These conversations allowed us to refine our risk scoring template, gain an idea of best practice, and gain greater clarity of what AML risk exposure in the banking sector looks like. We have seen that banks differ in their risk analysis, the timing and extent to which they carry out AML analysis, and reporting of such analysis to the market. Overall, we believe that most financial institutions can significantly improve transparency on the topic. We will proceed to evolve this work into a collaborative engagement, potentially involving other investors to advocate for more tangible steps in this direction.

Through the year, we have strengthened the RI team with additional experienced team members and a more focused structure to support new products and the wider use of ESG data through the team’s research and active ownership activities. At the same time, we have also reviewed our RI policies and principles. Our RI Policy was updated with new and tighter criteria on thermal coal and oil sands. Our Corporate Governance Principles document was also updated, combining two sets of principles (Nordic and International) into one set of global principles. The new principles now include a policy on conflict of interest and are SRD II compliant.

4) Source: UN PRI Assessment Report 2019  
5) Source: cfi.co. is a London-based magazine whose annual awards focus on best practice.
2020 outlook

We believe ESG factors will reach a higher profile within the investment industry in 2020 and that even mainstream investment management will work to integrate RI into its investment process. In rapidly changing conditions, Nordea continues to untangle complex ESG issues through ESG research and impact analysis, active ownership and transparency of the ESG quality of our investments.

In 2020 we expect to build out further the technical tools we use in our ESG research and the way we use these tools within our investment products; in investing, reporting, and in widening our ESG product range. NAM’s RI team, one of the strongest in the industry, is well-positioned to both drive and support the ongoing developments to ensure NAM remains at the forefront of responsible investing.

Quantitative aspects of ESG analysis

Whilst advances in the disclosure of material ESG information are being made, the lack of standardized, comparable and third-party verified ESG data remains an issue, making it hard for investors to assess long-term ESG risks and rewards. The information required to assess the likelihood of issuers’ transitions to a more sustainable approach and the risks around this is very diverse and largely unstructured. We don’t believe there is a systematic lack of ESG data – in fact it is quite the opposite – but statistical and other data science methods can help us to structure the relevant information and better identify patterns and signals.
We have advanced both our ESG quant competencies and infrastructure significantly over the past year, and in 2020 it is our intention to be ready and able to use Artificial Intelligence (AI) methods on ESG investment research problems where it makes sense.

**Continually raising our ESG output**

In early 2020, we will further develop the Sustainability and Engagement Reports that were launched in 2019. The new reports will be more comprehensive, including also an update on the engagement activities of the quarter. This way we hope to make our reporting more transparent and the information easier to find.

We are also continuing to widen our ESG product offering; as we enter 2020 we are planning the continuing development of our STARS ESG-enhanced range, with new fund launches in the pipeline.

**SDGs in an investment context**

Important industry-wide efforts are being made towards investments aligned with the United Nations SDGs. We believe you cannot manage what you cannot measure, so we are developing methods and identifying the best available data to measure the impact resulting from our investment activity.

**Continuing engagement themes**

We will continue our engagement on climate change, extending the engagement on TCFD that we started in 2019, and work further on both the collaborative and individual engagement cases that are already ongoing. We see our engagements as a way of working with the companies we invest in, and often these engagement relationships can continue productively for some years.
**Active Ownership:**
Actively exercising your rights as a shareholder. It can take various forms, including the exercise of voting rights or active engagement. Actively engaging means having an active dialogue with the managers and boards of directors of investee companies on business strategy and execution, including specific sustainability issues and policies. Active ownership is generally regarded as one of the most effective mechanisms to reduce risks, maximise returns and have a positive impact on society and the environment.

**Engagement:**
A form of active ownership. The practice of shareholders entering into a dialogue with the management of companies to change or influence the way in which the companies are run.

**Environmental, Social and Governance (ESG):**
Environmental (E), Social (S), and Governance (G) refer to the three main areas of analysis in modern responsible investment. ESG risks and opportunities are identified through careful analysis of a company’s operations. Environmental criteria looks at how a company performs as a steward of the natural environment. Social criteria examine for instance how a company manages relationships with its employees, suppliers, customers and the communities where it operates. Governance deals with a company’s leadership, executive pay, audits, internal controls and shareholder rights.

**ESG integration:**
The explicit inclusion of ESG risks and opportunities into traditional financial analysis and investment decisions based on a systematic process and appropriate research sources. This considers ESG factors alongside financial factors in the mainstream analysis of investments. The integration process focuses on the potential impact of ESG issues on company financials (positive and negative), which in turn may affect the investment decision.

**Materiality of ESG factors:**
Materiality is the principle of defining the social and environmental topics that matter most to businesses and stakeholders. ESG analysis typically considers any factor that can have a significant impact on a company’s core business value drivers – namely growth, profitability, capital efficiency, reputation and risk exposure – to be financially material. Thus, RI analysts typically start by determining which information is “material” for specific sectors.

**Norms- and incident-based engagement**
We proactively engage through dialogue when we see breaches of international norms or incidents at companies we invest in.

**Positive selection:**
An approach where leading or best-performing companies as identified by ESG analysis within a universe, category, sector or class are selected or weighted based on ESG criteria.

**Responsible Investment (RI):**
The primary term used for the inclusion of Environmental, Social, and Governance (ESG) criteria in the investment process. Through that process Responsible Investment aims to generate competitive long term financial returns while creating positive change.

**Risk-based engagements:**
Proactively engaging through dialogue around specific material risks or opportunities.

**Sustainable Development Goals (SDGs):**
The Sustainable Development Goals (SDGs) are a collection of 17 global goals set by the United Nations General Assembly in 2015. The SDGs are part of Resolution 70/1 of the United Nations General “Transforming our World: the 2030 Agenda for Sustainable Development”. The goals are an urgent call for action by all countries – developed and developing – in a global partnership. They recognise that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all the while tackling climate change and working to preserve our oceans and forests.

**Sustainability-themed investing:**
Investment in themes or assets linked to the development of sustainability. Thematic funds focus on specific or multiple issues related to ESG. Sustainability-themed investments inherently contribute to addressing social and/or environmental challenges such as climate change, eco-efficiency and health.

**Thematic engagements:**
Thematic engagement focuses on companies’ exposure to certain themes. We have identified four thematic focus areas for our engagement and active ownership activities – water, corruption, human rights, and climate change. We engage with companies on all four focus areas, both individually and through collaborative engagements.
The sub-funds mentioned are part of Nordea 1, SICAV, an open-ended Luxembourg-based investment company (Société d’Investissement à Capital Variable), validly formed and existing in accordance with the laws of Luxembourg and with European Council Directive 2009/65/EC of 13 July 2009. This document is advertising material and does not disclose all relevant information concerning the presented sub-funds. Any investment decision in the sub-funds should be made on the basis of the current prospectus and the Key Investor Information Document (KIID), which are available, along with the current annual and semi-annual reports, electronically in English and in the local language of the market where the mentioned SICAV is authorised for distribution, without charge upon request from Nordea Investment Funds S.A., 562, rue de Neudorf, P.O. Box 782, L-2177 Luxembourg, from the local representatives or information agents, or from our distributors. 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Sucursal di Milano, Società Générale Securities Services S.p.A., Banca Sella Holding S.p.A, Banca Monte dei Paschi di Siena S.p.A, CACEIS Bank S.A – Succursale Italia and on the website www.nordea.it. Any requests for additional information should be sent to the distributors. Before investing, please read the prospectus and the KIID carefully. We recommend that you read the most recent annual financial statement in order to be better informed about the fund’s investment policy. The prospectus and KIID for the sub-funds have been published with Consob. For the risk profile of the mentioned sub-funds, please refer to the fund prospectus. Additional information for investors in the United Kingdom: The Facilities Agent is Financial Express Limited 2nd Floor, Golden House 30 Great Pulteney Street W1F 9NN, London, United Kingdom. Additional information for investors in Ireland: The Facilities Agent is Maples Fund Services (Ireland) Limited, 32 Molesworth Street, D02 Y332 Dublin 2, Ireland. Additional information for investors in Sweden: The Paying Agent is Nordea Bank ABp, Swedish Branch, Småländsgatan 17, SE-105 71 Stockholm, Sweden. Additional information for investors in Denmark: The Representative and Sub-Paying Agent is Nordea Bank ABp, Dansk Branch, Grønprisvej 19, DK-2300 Copenhagen S, Denmark. A hard copy of the above-mentioned fund documentation is available here: Additional information for investors in Norway: The Paying Agent is Nordea Bank Abp, Norwegian Branch, Esbensgade gate 7, Postbox 1166 Sentrum, NO-0107 Oslo, Norway. Additional information for investors in Lithuania: The Representative Agent is Nordea Funds Ltd, Satamaraždikatu 5, FI-00020, Helsinki, Finland. Additional information for investors in Latvia: The Representative Agent is Luminor Bank AS, 62 Skanistes iela 12, LV-1013 Riga, Latvia. Additional information for investors in Estonia: The Representative Agent in Estonia is Luminor Bank AS, Liivalaia 45, EE-10145 Tallinn, Estonia. Additional information for investors in Lithuania: The Representative Agent in Lithuania is Luminor Bank AAS, Konstitucijos pr 21 A, LT-03601 Vilnius, Lithuania. Shareholders must evaluate possible investment risks and take this into consideration when making investment decisions. Source (unless otherwise stated): Nordea Investment Funds S.A. Unless otherwise stated, all views expressed are those of Nordea Investment Funds S.A. The document may not be reproduced or circulated without prior permission. Reference to companies or other investments mentioned within this document should not be construed as a recommendation to the investor to buy or sell the same but is included for the purpose of illustration. The level of tax benefits and liabilities will depend on individual circumstances and may be subject to change in the future.