

**Nordea**  
ASSET MANAGEMENT

A young girl with long, wavy brown hair is running through a lush green field. She is wearing a blue and white striped long-sleeved shirt and light blue jeans. She is holding a black leash attached to a black dog, which is running alongside her. The background shows a sunset with a bright sun low on the horizon, casting a warm glow over the scene. The sky is a mix of blue and orange, and there are some trees in the distance.

# Responsible Investments Report 2020

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## 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 to institutional clients in Europe, the Americas and Asia. We manage investments across the full spectrum of asset classes. Our 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 254 bn (31 December 2020) in assets under management, we have been experiencing strong growth over the past decade.

\*Nordea Asset Management 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.

# An ESG turning point

## Coronavirus serves as a catalyst for responsible investment.

Never has it been more true that the world around us changes rapidly. Now, as we begin to emerge from the fog of Covid-19, much of the worry and stress this pandemic has created for people, societies and economies still lingers. Our thoughts are continuously with our clients across the world, from Copenhagen to Europe to Asia, Latin America and beyond.

As I look back on 2020, I would like to extend solidarity, on behalf of Nordea Asset Management, to our partners and their loved ones. Yet even in the midst of these unprecedented challenges, there is reason for hope and encouragement. Although we faced unique hurdles, there were many bright spots throughout the year which I am pleased to share with you. Specifically, we expanded our ESG reach with new products designed to respond to the unique risks and opportunities of our day, we continued our engagement activities even amid social distancing restrictions, and we worked diligently to prepare for new EU ESG regulations coming into force in 2021.

### Expanding our ESG reach

In December, we launched a new equity solution with a strong focus on the “S” factor in ESG: the Global Social Empowerment Strategy. There’s no doubt that the pandemic has catalysed interest in the social aspect of ESG, a trend that we believe will continue. The new strategy supports businesses that provide social solutions in the areas of vital needs, economic inclusion and social empowerment.

This wasn’t our only new ESG enhanced product: we further expanded our ESG STARS family adding new solutions in equity, fixed income and private credit. In fact, our Fundamental Equities Team, which has been at the forefront of our ESG solutions, managing our ESG STARS Equity franchise and thematic solutions, went through a complete refocus on ESG-enhanced solutions. We ended the year with no less than 16 ESG STARS strategies representing around EUR14bn in AuM<sup>2</sup>.

### Staying engaged and engaging

Despite restrictions on travel and face-to-face meetings, we managed to engage with over 900 companies in 2020 to address issues like good governance, climate change and human rights, to name a few. For our engagement on pharma pollution in India, we won Environmental Finance’s “ESG Engagement Initiative of the Year”.

While we are honored by such accolade, collaboration also played an important role in our efforts. We signed an Investor Statement on Coronavirus Response, urging big pharma to respond to the Covid-19 pandemic responsibly. We also joined a group of asset managers representing over EUR 7 tn in AuM in launching the Net Zero Asset Managers initiative, which supports the goal of net zero greenhouse gas emissions by 2050 or sooner. In keeping with this initiative, we have committed to a mid-term goal of reducing carbon emissions across our investment portfolios by 50% by 2030. Independently, we

issued a Fossil Fuel Policy for our ESG-enhanced funds in an effort to align our portfolios, over time, with the Paris Agreement. Already in 2021, we have introduced tighter fossil-related restrictions that will apply to over 200 of our funds.

### Taking the next step in Responsible Investment

Our continued investment in our ESG analytics platform has not only enhanced our responsible investment capabilities, but has strengthened the foundation needed to address the demands of the European Union’s Sustainable Finance Disclosure Regulation (SFDR). In anticipation of the EU’s approaching deadline, we have been able to leverage our deep ESG expertise to categorize our products according to SFDR requirements. Hence, we are fully ready to embrace this new regulation, which will facilitate greater transparency for clients to gain insight into the ESG characteristics of our products.

The new EU’s Sustainable Finance Action Plan and SFDR are yet another catalyst for the mainstreaming of responsible investment; one that we welcome as we continue our ESG journey.

### Facing the future

Coronavirus is essentially an ESG moment as it is a public health issue. The crisis has generated dramatic social challenges which are pushing people toward ESG thinking. This is being accelerated by new EU regulations that will reshape the ESG landscape and provide investors with important information about ESG factors. But this is not new territory for us. For the past 30 years, we have rigorously pursued sustainable investments and we won’t take our foot off the pedal. In the coming year, we will offer our clients new ESG products, resources and education.

As always, we are working hard to stay at the forefront of ESG through engagement, analytics and development of new solutions. In 2020 we saw a clear surge in interest in responsible investments, the lion’s share reflecting ESG-related products.

It’s an exciting time to be an ESG investor. I invite you to read our 2020 RI Annual Report to find out more about our ongoing commitment to Responsible Investment.



**Nils Bolmstrand**, Chairman of the Responsible Investment Committee and Head of Nordea Asset Management.

<sup>2</sup>) As of 31.12.2020

# Year 2020 at a glance

## Key figures

### ESG AuM

€ **74bn**



Approx.  
**30%**  
of total AUM

### ESG professionals



**19**

Dedicated  
ESG analysts

**+2** 

Corporate Governance  
Specialists

### Active Ownership

Total of  
**924**  
engagements



AGM/EGMs  
Voted on

**701**

## RI credentials

### PRI

Early signatory of the principles

**2007**



PRI 2020 Score for  
Strategy & Governance



### ESG Awards



### European ESG labels



More information on European ESG labels: page 25

## Partnerships

### Initiatives



**27**

international RI initiatives  
participated



**7** SIF memberships

More information on initiatives: pages 26-27

### Transparency



**TCFD**

based Climate Report published

**9** 

new sustainability footprint  
reports published

### Climate goals



**Net-zero**

CO<sub>2</sub> emissions by 2050



carbon intensity by 2030

# Highlights of 2020

We cannot reflect on the past year without mentioning COVID-19 and the challenges it has brought to all of us. We believe that the importance of ESG is only more pronounced during times of crisis. Therefore, it is no wonder that during 2020 we kept focusing and working on what we are good at and what we believe is important – ESG.



Source: Getty Images

**Recognising that the pandemic is highlighting a wide range of ESG issues**, we signed the Investor Statement on Coronavirus Response in the early stages of the pandemic. We were also quick to bring Covid-related considerations into our ESG research by developing a specific COVID-19 module within our ESG data platform. This application allows us to gauge the impact on investee companies and their response to this unprecedented challenge, and to take that into consideration in investment and engagement decisions.

During the year we continued to develop our solutions, processes and reporting around ESG, as well as preparing to align our work with the new sustainability-related disclosure regulation for the financial sector. Thanks to the recent developments in our data platform, our proprietary ESG scoring now covers over 13.000 issuers. New product launches expanded our ESG STARS range in both the equity and the fixed income space. We have enhanced our existing ESG reporting, and launched completely new impact reports, providing investors concrete examples of the impact their investments have on selected sustainability topics.

Starting already in 2019, but also through 2020, Nordea has been in global headlines for taking a stand on deforestation.

Nordea is a founding and advisory committee member of the Investors Policy Dialogue on Deforestation (IPDD), which was formally established in July 2020 in response to the increasing rates of deforestation in Brazil as well as other countries. We have also taken steps towards our long term aim to align our portfolios with the Paris Agreement targets as we launched a new policy on fossil fuel investments for our sustainable strategies, and led an investor initiative to stop new cross-border coal investments in Asia, focusing specifically on the companies behind the Vung Ang 2 power plant project.

## **/// The targets (of the Net Zero Asset Managers initiative) align fully with NAM's internal climate targets ...**

**Nils Bolmstrand**, Chairman of the Responsible Investment Committee and Head of Nordea Asset Management.

We have been more active than ever in different ESG initiatives. During 2020, we became a **founding member of the Net Zero Asset Managers** (NZAM) initiative, a global coalition of asset managers working for the achievement of net-zero greenhouse gas emissions by 2050, and adopted a historic set of climate targets to support this ambition. We also co-developed a **Net Zero Investment Framework** together with other members of

the Institutional Investor Group on Climate Change (IIGCC) to help investors to set climate targets that align portfolios with the Paris Agreement. More information on NZAM and other initiatives can be found on page 28. We were also very pleased to announce that the Sustainability Accounting Standards Board (SASB) has appointed Eivind Lorgen, Director ESG Active Ownership, to chair its Investor Advisory Group (IAG).



Source: Shutterstock

Our holistic approach to ESG has gained recognition globally. For the 5th year in a row PRI recognised us with the best possible A+ score for Strategy and Governance. We ranked at 12th place in ShareAction's report "Point of No Returns" where the 75 most influential asset managers were evaluated on their approach to responsible investment. We also received international ESG awards, including the Environmental Finance Award 2020 for Best ESG Engagement Initiative, for our long term engagement with the pharmaceutical industry. More information on awards and other public recognitions is available on page 27 of this report.

Even during these times of social distancing, we have expanded our offering of education on ESG for our clients and other stakeholders, through multiple channels such as our website, social media, virtual meetings and webinars, and ESG E-learning that has been translated into several languages and offered to our advisory clients.

We are honoured to say that these efforts have been rewarded. We ended the year with close to 30% of our AUM in specific Responsible Investment solutions.

# Sustainability in our Nordic DNA

Sustainability and Responsible Investment are in our Nordic DNA. As part of Nordea Group, the Nordic values are an essential part of our business culture guiding us in everything we do.



Source: Getty Images

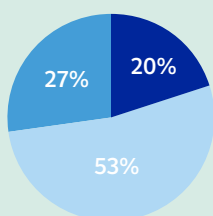
**Nordea Group's sustainability work** is carried out by the Group Sustainable Finance team. This includes everything from setting and meeting our internal sustainability targets, from resource-usage to diversity, and also integrating sustainable considerations into the products and services across the Group. At NAM level, the Responsible Investments (RI) team, carries out the research and integration of environmental, social, and governance (ESG) aspects into our investments. In total there are 41 people working on sustainable finance, responsible

investment and corporate governance at Nordea. This report primarily reflects the work on Responsible Investments within the scope of asset management.

The two boxes below summarize some of our key sustainability measures. More information about the work carried out by Group Sustainable Finance can be found in the [Sustainability Report 2020](#).

## Diversity and inclusion

### Age distribution in the total workforce



- below 30 years old
- 30-50 years old
- above 50 years old

Excluding employee representatives.

### Gender balance



Board of directors	40%	60%
Group Leadership Team	36%	64%
People leaders	40%	60%
Asset Management	32%	68%
Total workforce	51%	49%

## Carbon footprint

Nordea has committed to achieving net-zero carbon emissions by 2050 across investment portfolios and internal operations



CO<sub>2</sub>e emission intensity:

**1.88**

tonnes/EURm of total operating income



Total CO<sub>2</sub>e emissions:

**15,898**

tonnes

# NAM's Responsible Investment approach

At NAM, we believe it is our fiduciary duty to deliver returns with responsibility. Our commitment to be a responsible asset manager is not new. We launched our first sector-screened fund in 1988 and we were an early adopter of Responsible Investment (RI), signing the UN Principles for Responsible Investment (PRI) back in 2007. Responsible Investment Solutions now comprise almost 30% of NAM's AUM and we are confident and determined that this number will continue to increase.

## NAM's Responsible Investment Framework

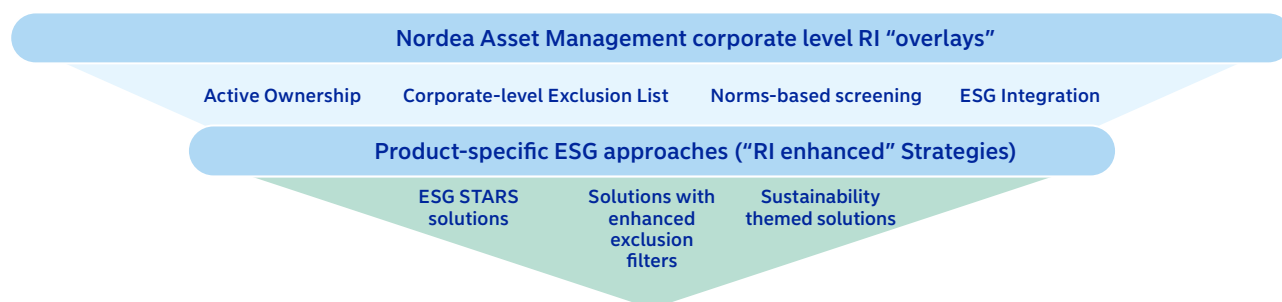
NAM has developed policies and procedures to ensure that the companies we invest in meet our expectations of ESG performance, and that ESG and sustainability risks are managed in all our investment processes. These include corporate-level RI approaches ("overlays") and product-specific approaches.

While the day-to-day management of ESG topics is handled by the RI and investment teams, NAM's RI approach is governed by the RI Committee (RIC), chaired by NAM's CEO Nils Bolmstrand and comprised of senior management representing various departments in the organisation. RIC keeps an overview of NAM's RI strategy, engagements and exclusions and determines NAM's overall ESG investment guidelines. It also decides the appropriate reaction when a company is found to breach our guidelines. The RIC may decide to exclude, quarantine and/or engage with the company, depending on the type of violation and our ability to influence the company. To support the ESG investment guidelines, the RIC approves and is the owner of

NAM's Responsible Investment Policy, which also details the international conventions we subscribe to and what we require of the companies we invest in.

NAM's RI Policy defines our position on sectors that are linked to material ESG issues, going beyond the international norms and conventions. This helps to ensure that the companies we are invested in meet our expectations of sound ESG performance. The policy describes the stance we take on a number of areas within Human Rights, Climate change and Governance. Depending on the nature and gravity of individual cases, breaches can trigger engagement or exclusion. The RI Policy applies to all NAM funds and is publicly available on our [website](#). Our policy is complemented by a robust norms-based screening process. Together, these inform our active ownership and engagement policy and our exclusion list at the firm level. Although engagement is our preferred approach, we will consider divesting our holding if we think there is a long-term risk to the value of the investment. We have divested from, for example, coal companies to manage climate risks.

## A comprehensive RI Framework including various forms of RI



## NAM's corporate wide ESG positions

### Exclusions:



**Controversial weapons**



**Thermal coal mining**  
(10% revenue threshold)  
**Coal mining**  
(30% revenue threshold on all coal)



**Oil Sands** (10% revenue threshold)



**Arctic drilling** (5% revenue threshold)

### Enhanced due diligence on:



**Biodiversity**



**Board diversity**



**Climate change**



**Conflict areas**



**Corruption**



**Deforestation**



**Good governance**



**Government sanctions**



**Human Rights**



**Soft commodities**



**Tax transparency**



**Water**

# NAM's Responsible Investments team

Our award-winning Responsible Investments (RI) team was established in 2009, and now comprises 19 dedicated ESG analysts<sup>3</sup> with a wide range of experience from academia, independent RI organisations and investment.

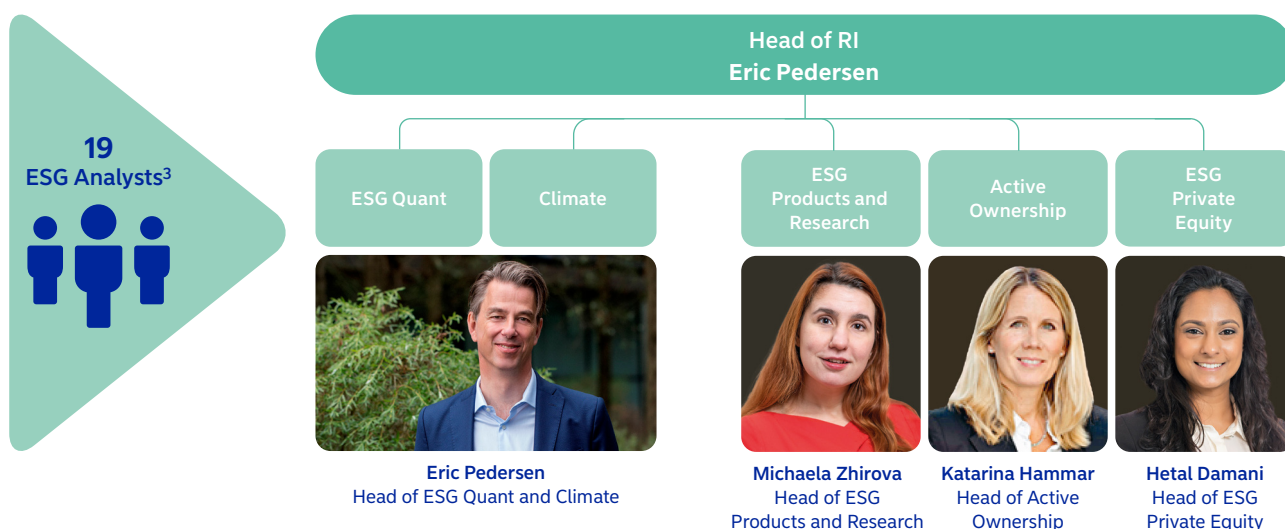
Besides being fully integrated with the investment boutiques managing ESG products, the team carries out ESG research, active ownership activities, and represents NAM in international RI initiatives. The team is continuously developing NAM's RI approach in line with the increasing complexity, depth and scope of application of ESG methods, and to maintain NAM's leadership in the area. To support our ongoing emphasis on ESG, we have strengthened our line-up with 5 more ESG professionals joining the RI team this year. The RI team's various functions and main responsibilities can be divided into five areas:

- **Active Ownership** team is responsible for NAM's engagement activities, as well as for driving the RIC agenda and the RI Policy development. This group also works with the Corporate Governance team on proxy voting
- **Climate** team maintains focused expertise and analysis on climate change factors and policies, implementation and reporting on TCFD recommendations

- **ESG Private Equity** team supports NAM's private equity collaboration with Trill Impact
- **ESG Products & Research** team carries out company specific ESG research and engagement for NAM's ESG funds, as well as ESG product development
- **ESG Quant** team develops and maintains NAM's proprietary ESG scoring model, as well as other advanced applications of ESG data

The team maintains both a broad RI coverage and a particular focus on our ESG-enhanced strategies (i.e. the ESG STARS and thematic strategies), working closely with their respective portfolio management teams. The RI team often participates in client meetings and ESG conferences to share their latest insights and findings. It also leads ESG training (e.g. climate workshops) both internally and for clients. In 2021 the team will offer training across the company around the new EU regulations on sustainable finance.

## Responsible Investments (RI) team



<sup>3</sup>) This number includes only full-time RI professionals in the RI team. Corporate governance and proxy voting professionals, Portfolio managers managing ESG funds and financial analysts and other employees with ESG as part of their responsibility are additional to this.

# NAM's ESG research approach – how we look at companies

We want to find the most sustainable companies: those who make money by creating long-term value. Business model analysis is augmented by a materiality-focused review of ESG risk, governance, environmental footprint and social impacts.

## Company specific

Our experiences with companies, through management meetings and systematic engagement, flows into our scoring. Reputational risk and exposure to controversy is also something we consider at the company-specific level. Responsiveness to investor concern, tone from the top, and company culture are important parts of final evaluation. This allows us to produce forward-looking ESG scores that include the direction a company is moving in, dimensions that are not found in traditional external ESG ratings.

## Materiality led

A key part of our process is identification of financially material ESG issues – those which are likely to influence the financial performance of the company. We weigh these issues flexibly, according to their materiality for the specific sector. We use the materiality map of SASB<sup>4</sup> as a guideline to determine materiality, but we supplement it with our own insight into the workings of the company. Both which issues we consider material and the weight we assign to them will vary by sector. A software company, for example, will have a relatively low environmental footprint, be dependent on skilled labour and intellectual property (social), and be vulnerable to data privacy regulation such as the GDPR (business ethics). A mining company, on the other hand, will have a high environmental footprint and will also need solid relations with its labour force (social). And their exposure to even universal risks such as climate change will be different.

## Business model alignment with the UN Sustainable Development Goals (SDG's)

Our research is qualified by ESG business model analysis, which is closely intertwined with the financial business model assessment of NAM's internal investment boutiques. We consider how a company's business aligns with the SDG's, whether the service or product the company offers contributes positively to society, how significant aligned activities are as a proportion of revenue, how much capex is directed into them, and whether they are a visible driver of growth. This is relevant both because the SDG's present large and durable business opportunities, and because SDG alignment – or the lack thereof – is an indicator of a company's material impact on the world around it. This way, our research takes into account both sides of the so-called "double materiality". Our assessment of the business model is weighted at 30% in our internal scoring process. (Governance is also fixed - at 10%.) In other words, how a company makes money and how it is run always matters.

## The ESG platform creates scale

Our proprietary ESG platform automates some parts of this analysis and thus allows significant scale with its coverage of over 13,000 names. Its backbone is the SASB taxonomy, which provides the material issues per sector. These are then populated with data points from a number of providers and calibrated by analyst review. We continuously work to improve the accuracy of its estimates, and to align the score with the scores that RI analysts produce from first principles. Ultimately, a good algorithm and a good human analyst together produce better results than either on its own.

4) The mission of the Sustainability Accounting Standards Board (SASB) Foundation is to establish and improve industry specific disclosure standards across financially material environmental, social and governance topics that facilitate communication between companies and investors about decision-useful information.



## ESG Integration – making it work across asset classes

The strength of our ESG approach is that our fund managers are involved throughout the ESG research process and are able to tie our results directly into their investment decisions. Both research and integration methods vary between asset classes.

We integrate ESG considerations into all our investment solutions, with certain firm-level elements applicable to all our holdings. These include voting and engagement, our company-wide ESG limits and exclusion list, individual ESG analyses of businesses, and the provision of ESG data and research to all portfolio managers. However, we take integration a step further in our ESG-enhanced products.

### ESG integration in Equities

Within our equity ESG research, portfolio managers (PMs) work closely with the RI team as we perform our business model assessments and engagement dialogues. The resulting ESG scores that we assign to companies define their investment universe, in that our ESG STARS products cannot invest in C-scored companies. Importantly, the scores also affect the portfolio managers' stock valuations. The ESG score can affect both the discount rate a PM uses when valuing future cash flows, and how long the PM expects the company to generate above-average returns. Thus, the ESG score affects how we value both the risks and the opportunities a company is facing.

### ESG integration in Fixed Income

The fixed income universe needs ESG outputs that translate easily into trading rules, so that PMs can react quickly when new issues come to the market. How the research is integrated into the portfolio is different too. While ESG integration for equities can affect both the discount rate and the "fade" rate of excess returns, for bonds it is focused on the risk of default,

giving a binary set of outcomes. Nevertheless, we still need a robust ESG scoring process – and ours varies significantly for different types of debt.

Corporate bonds allow us to leverage a lot of equity work, although lower down the credit scale there are many unlisted issuers with low data coverage. In those cases, the credit analysts make an initial assessment of the issuers' ESG profile which the RI team then verifies, doing more in-depth work where necessary.

For sovereign debt, we have built an ESG assessment model tailored to country risks. It makes a detailed assessment of ESG factors that contribute to economic development and has a grounding in academic research. This model was developed in close co-operation with the EMD credit analysis team, ensuring that it not only produces robust results but also meets their investment needs.

### ESG Integration across the firm

To ensure the ESG data and research is used appropriately by portfolio managers, ESG risk exposure is included in our regular portfolio performance reviews, alongside financial data. At the same time, sustainability risk is included in our company-wide approach to remuneration. All employees participating in our variable pay scheme are measured against both qualitative and quantitative targets suitable for their positions and role: these include sustainability risks where relevant.

# Sustainable choice: Responsible Investment strategies at NAM

NAM's Responsible Investment solutions include both our ESG STARS family and our thematic range. The ESG STARS strategies are about positive selection of quality companies with well-managed ESG profiles that generate long-term financial value, while the thematic strategies offer investors a focus on specific aspects of sustainability<sup>5</sup>.

## ESG STARS strategies – Tomorrow's sustainable corporate leaders

Our ESG STARS range is built on the belief that companies and issuers that integrate both ESG and financial metrics into their strategic decisions will be tomorrow's sustainable winners. In these strategies, we aim to beat the benchmark through investing in companies or bonds that meet Nordea Asset Management's ESG standards<sup>6</sup>.

Within the ESG STARS strategies, every investment is examined through an ESG lens as well as on financial grounds. 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, and the results of their analysis feed into proprietary ESG models that are integrated into the investment process.

Active ownership and engagement is an important part of the ESG STARS' investment approach. We engage in productive dialogues with many of our STARS companies, and this engagement happens in close collaboration between the RI team and the relevant investment boutique. We believe this collaborative process creates value, because it identifies companies that integrate both environmental, social and governance metrics and financial metrics into their business model and strategic decisions.

The ESG STARS range includes equity funds covering different regions and countries, as well as corporate, high yield and sovereign bond funds.

## Thematic strategies – Building a better future

In addition to our ESG STARS family, we also offer investors strategies that focus on specific sustainability themes and align with the UN's Sustainable Development Goals (SDGs). Nordea's Global Climate and Environment Strategy has been at the forefront of climate investing since 2008. The strategy invests in companies which, through their resource efficiency, environmental protection or alternative energy solutions, are providing answers to the climate problem. These companies can generate attractive returns, as proven by the Global Climate and Environment Strategy's strong track record<sup>6</sup>.

Gender diversity is another theme we have chosen to highlight in a strategy. As one of the UN's 17 SDGs it has been identified not only a fundamental human right but a necessary foundation for a peaceful, prosperous and sustainable future. In 2019 we launched the Global Gender Diversity Strategy building on our belief that gender diversity is not only key for an equal society but often goes hand in hand with other drivers of business success. Research shows that companies with greater gender diversity deliver better financial performance and better value creation, and therefore, this fund has been developed to participate in this by investing in companies that have a gender-diverse management and implement concrete measures to support gender diversity.

The newest thematic strategy in our stable is the Global Social Empowerment Strategy, launched in December 2020. This year the health crisis and social inequality demonstrations have raised awareness around this theme which has been exacerbated by historic lack of investment in social infrastructure. The Global Social Empowerment Strategy targets the "S" in ESG, investing in businesses that offer social solutions, create a positive impact, and generate sustainable shareholder value. Both the ESG STARS and the thematic solutions follow an approach of full ESG integration and positive selection while consciously avoiding companies that do not meet Nordea's sustainability standards.

## Sustainability reporting – Keeping our clients informed

We understand that investing your assets responsibly is not enough: transparent reporting on how we do this is essential. Therefore, in addition to the traditional financial reporting, we offer Sustainability reports for a number of our ESG strategies. We report on the portfolio's sustainability in comparison to a benchmark<sup>7</sup>, both in aggregate and with specific factors such as carbon intensity, for the Global Climate and Environment Strategy and most of the ESG STARS equity solutions – and have begun to roll out these reports for the ESG STARS bond strategies too. For the ESG STARS family, where engagement is a key part of the investment process, we also provide engagement case studies to illustrate the results of our activities.

5) 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.

6) The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested. The value of shares can greatly fluctuate as a result of the sub-fund's investment policy and cannot be ensured, you could lose some or all of your invested money.

7) Where a fund has no official benchmark we have chosen suitable indices for comparison purposes.



Source: Getty Images

In addition, we have recently introduced Impact reports for several strategies. These illustrate the difference an investment of 100,000 Eur makes in areas such as water usage and waste generation with concrete numbers that make the impact more tangible.

We continuously develop our reporting to improve and respond to feedback from clients. This will continue as we develop our sustainable solutions, and live up to the enhanced requirements that the EU's Action Plan on Sustainable Finance will entail.

### ESG STARS Equity funds

#### Nordea 1 – Global Stars Equity Fund

LU0985320562 (BP-USD) / LU0985319804 (BI-USD)

#### Nordea 1 – Emerging Stars Equity Fund

LU0602539602 (BP-USD) / LU0602539354 (BI-USD)

#### Nordea 1 – European Stars Equity Fund

LU1706106447 (BP-EUR) / LU1706108732 (BI-EUR)

#### Nordea 1 – Asian Stars Equity Fund

LU2152927971 (BP-USD) / LU2152928607 (BI-USD)

#### Nordea 1 – Nordic Stars Equity Fund

LU1079987720 (BP-EUR) / LU1079987134 (BI-EUR)

#### Nordea 1 – North American Stars Equity Fund

LU0772958525 (BP-USD) / LU0772957808 (BI-USD)

### ESG STARS Fixed Income funds

#### Nordea 1 – European Corporate Stars Bond Fund

LU1927797156 (BP-EUR) / LU1927797586 (BI-EUR)

#### Nordea 1 – European High Yield Stars Bond Fund

LU1927798717 (BP-EUR) / LU1927799012 (BI-EUR)

#### Nordea 1 – Emerging Stars Bond Fund

LU1915689316 (BP-USD) / LU1915689829 (BI-USD)

#### Nordea 1 – Emerging Stars Local Bond Fund<sup>8</sup>

LU1160612526 (BP-USD) / LU1160610405 (BI-USD)

### Thematic funds

#### Nordea 1 – Global Disruption Fund

LU1940854943 (BP-USD) / LU1940855759 (BI-USD)

#### Nordea 1 – Global Climate and Environment Fund<sup>9</sup>

LU0348926287 (BP-EUR) / LU0348927095 (BI-EUR)

#### Nordea 1 – Global Gender Diversity Fund

LU1939214778 (BP-USD) / LU1939215403 (BI-USD)

#### Nordea 1 – Global Social Empowerment Fund<sup>10</sup>

LU2257592514 (BP-USD) / LU 2257592787 (BI-USD)

8) With effect as of 5th May 2020 the sub-fund is renamed from Nordea 1 – Emerging Market Local Debt Fund Plus to Nordea 1 – Emerging Stars Local Bond Fund.

9) Please note that the Nordea 1 – Global Climate and Environment Fund is soft closed since 26 February 2021.

10) With effect as of 25 February 2021 the sub-fund is renamed from Nordea 1 – Global Impact Fund to Nordea 1 – Global Social Empowerment Fund.

# Active ownership and Engagement

Being an active owner is central to our understanding of ESG and Responsible Investing. Therefore, our active ownership activities span across all of our products.

**We believe** that active ownership is a powerful way to protect shareholder value, enhance long-term returns and foster positive change. We are convinced that ensuring good ESG practices in our funds' holdings is an important part of safeguarding the long-term interests of shareholders and society. When we want to improve a company's management of its ESG risks, we exercise our ownership right to support and influence the company.

Active ownership, when suitable, is always our preferred approach. However, we do believe that there are activities and types of behaviour that cannot be reconciled with our mission of delivering Returns with Responsibility. If a company's operations are incompatible with our RI Policy or if the company does not respond to our active ownership efforts, the RIC can decide to exclude it. For example, in 2020, after unsuccessful engagement with the Brazilian meat giant JBS SA, we decided to exclude the company from all our portfolios, due to insufficient handling of deforestation risks, corruption charges, and employee health and safety amid the coronavirus pandemic. Active Ownership can generally be divided into two streams – **engagement** and **voting** – both equally important and interdependent on one another.

## Engagement

We believe that improved management of sustainability risks and opportunities is vital to creating returns with responsibility, and that engagement can result in a competitive advantage, increasing the likelihood of the companies being successful in the long run – benefitting companies, clients and society at large. Engaging with our investee companies enables us to address material sustainability risks and opportunities. The dialogue allows us to put forward our expectations on corporate behaviour and to support companies in enhancing their sustainability performance.

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



Engagements typically run over several years and are carried out either by NAM alone or in collaboration with other institutional investors. Our engagement activities combine the perspectives of portfolio managers, financial analysts and ESG specialists to form a holistic opinion and establish coherent engagement objectives. During the engagement period, we conduct regular meetings with the company and track progress against our pre-defined engagement objectives. Progress reports and outcomes of the engagement are communicated to clients, portfolio managers and financial analysts, allowing the information to be considered in investment decisions. Should the engagement process fail, we will further escalate the issue through other stewardship activities, for example, with our voting rights.

Our engagement activities fall into one or more of three different categories. The first type addresses companies that are in breach of international norms or conventions or those involved in ESG-related incidents. The second type relates to ESG-related risks or opportunities identified by portfolio managers and financial analysts via our company assessments. The third and final stream concerns our thematic engagements. Thematic engagements are initiated for investee companies with the most material exposure to one or several of our five focus areas:

- climate
- human rights
- good governance
- water
- biodiversity

Each theme is closely aligned with the SDGs and relevant ESG risks, and has been selected and defined through close collaboration between ESG specialists, portfolio managers, financial analysts and clients. All of our engagement is tracked on our in-house database and reviewed by the RI team to monitor progress.

## Engagement streams

1. **Norms- and incident-based engagement:** engaging with companies breaching the international norms or conventions or companies having ESG related incidents
2. **Investment-led engagement:** engaging with companies on their material ESG risks
3. **Thematic engagement:** engaging on specific sustainability themes in focus



Water pollution from the pharma industry, India. Source: Shutterstock

## Case Study: Long term engagement with the Indian pharmaceutical industry

India's pharma industry, expected to grow to USD 100 bn by 2025, contributes to both the country's severe water pollution crisis and to anti-microbial resistance (through the waste generated in the manufacturing process).

NAM has engaged with some of the world's largest companies in the pharma industry since 2015 on their supply chains and pharma pollution related to drug manufacturing in India. During a field visit to drug manufacturing plants in Hyderabad and Visakhapatnam in 2015 we saw disturbing evidence of water pollution and poor waste-water management. As a follow-up we commissioned on-the-ground investigations in Hyderabad and Visakhapatnam in 2016 and 2017 and published two reports on the findings. The reports show that pharmaceutical pollution is rife and not being effectively addressed, with severe local impacts of drug pollution through contamination of waterways and agricultural lands. The reports also stressed that water pollution related to pharmaceutical manufacturing in India is a significant driver of anti-microbial resistance (AMR).

In response to the findings of our research reports, the industry-led Pharmaceutical Supply Chain Initiative (PSCI) developed an industry-wide action plan for India. The action plan included mapping Indian suppliers and sharing industry expectations on pollution management, and supplier capability training. In 2018 the PSCI invited us to join its newly-established Advisory Panel, where we are the only investor member. Our work with this group has been an important part of our engagement. The PSCI has also established a sub-team on Pharmaceuti-

cals into the Environment (PiE) and a sub-team in India, and issued a Position Statement on PiE and AMR. The revised PSCI Principles now include a reference to "managing releases of PiE". The pharma industry published discharge targets for antibiotic manufacturing which are incorporated in the PSCI audit protocol.

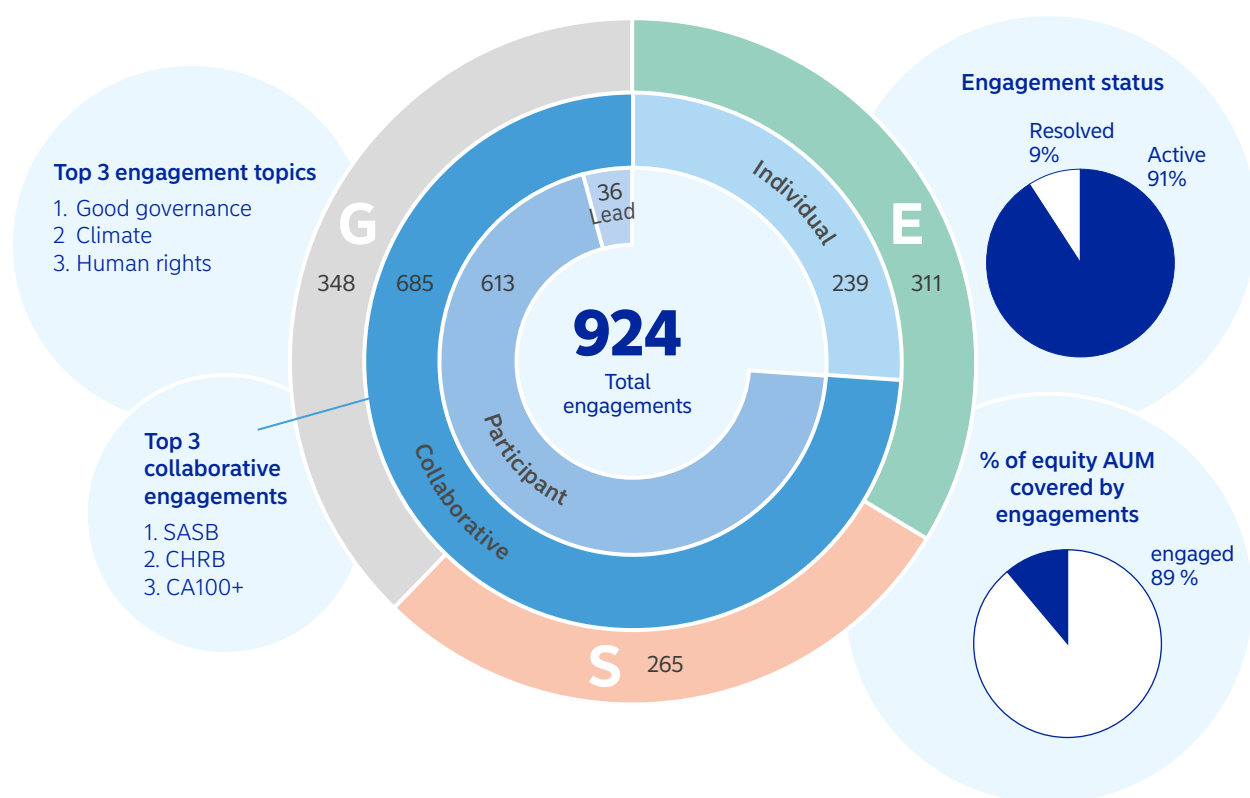
In 2020 the Advisory Panel of PSCI met twice and we also attended the PSCI annual meeting and the PSCI conference for Indian suppliers. Finally, this year the Indian government issued a draft bill to limit concentrations of antibiotics discharged by pharmaceutical factories into waterways.

Nordea's expectations are now more or less met by the pharma industry, nevertheless we will continue our work with the industry and retain our position on the PSCI Advisory Panel. Nordea Asset Management won the ESG engagement initiative of the year category in Environmental Finance's 2020 Sustainable Investment Awards with the Pharma Industry Engagement on Pharmaceutical Pollution in India.

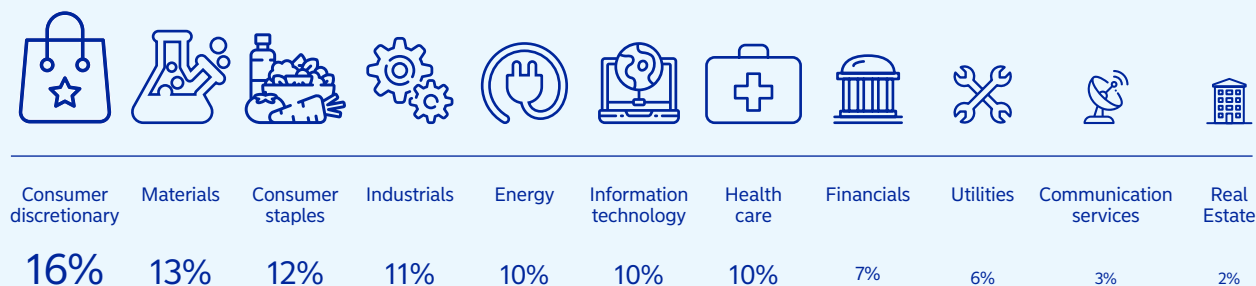
# Engagement overview 2020

Field trips have normally been an important part of our engagement practices, but due to the Covid-19 pandemic, this year we had to emphasize other ways of engaging, such as virtual meetings. We were quick to adapt to the new situation, and in fact increased our engagement efforts over the 2019 levels. Our team of 19 dedicated ESG analysts manages both our individual engagements and collaborative engagements with other investors.

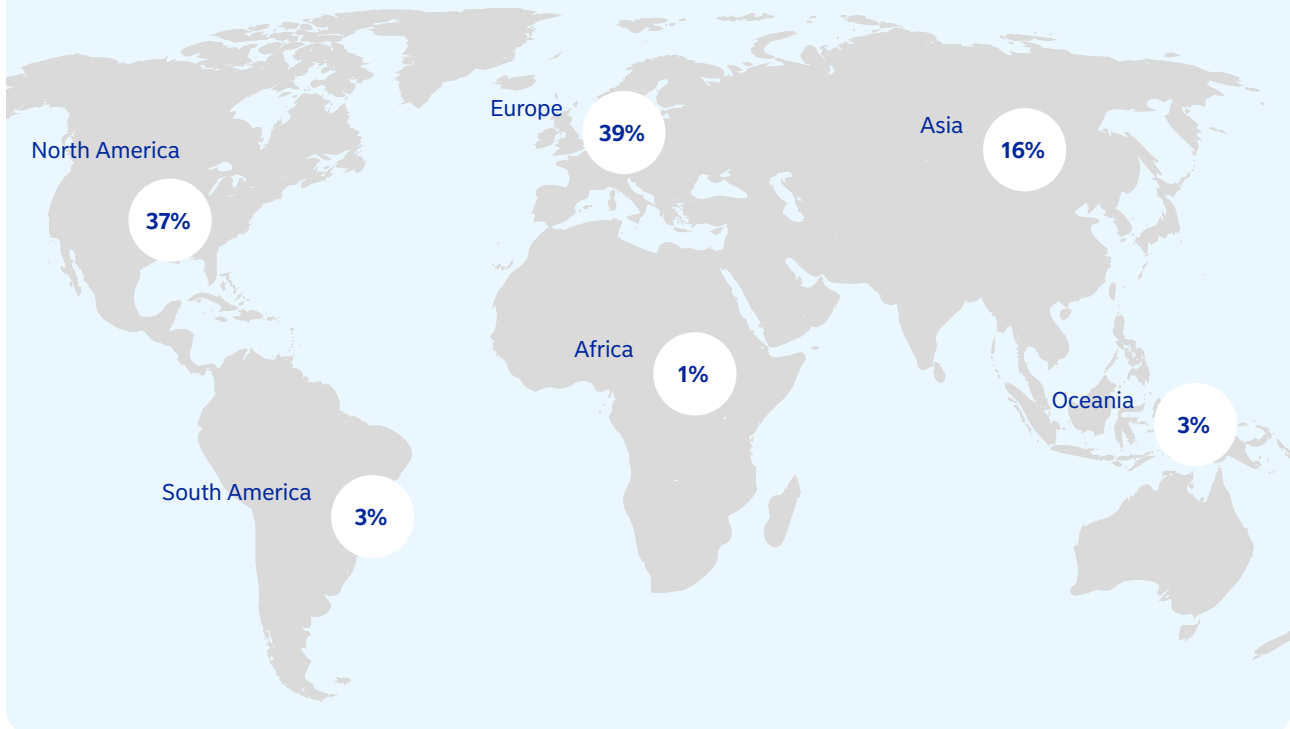
## Engagements in 2020



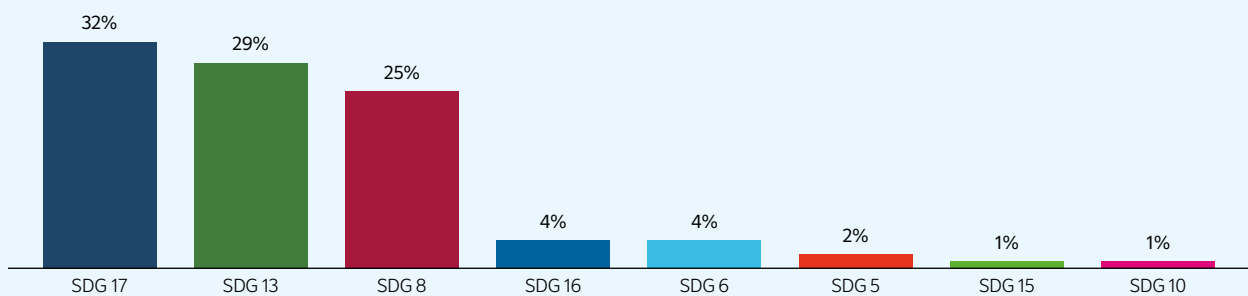
## Engaged sectors



## Geographical breakdown of engagements



## Engagement – SDGs



Complete list of SDGs:



Source: [un.org/development/desa/en/news/sustainable/sustainable-development-goals.html](https://un.org/development/desa/en/news/sustainable/sustainable-development-goals.html)

# Voting

Voting is an effective tool to influence companies in the right direction. We believe that sound corporate governance contributes to shareholder value and adds value to equity investments.



Source: Shutterstock

Our Corporate Governance team is responsible for defining and executing NAM's corporate governance policy. Together with our overall ESG focus areas, our Corporate Governance Principles guide the way we vote, and in which issues we decide to engage with companies.

Every year, we vote and engage on a myriad of issues. On some of those we have a very clear stance. One of our strongly held beliefs is that the Chief Executive should not be the same person as the Chairman of the Board. One of the most important tasks of companies' Board of Directors is to oversee and evaluate top management, and in our view combining the CEO and CoB roles compromises this duty.

Furthermore, we are strict when it comes to remuneration proposals containing time-based awards. Any long term incentive program should have additional KPIs over and above long service - just showing up for work should not be sufficient. Accordingly we disapprove of any pay package containing a large part of time-based compensation.

Increasingly we see non-financial KPIs being introduced into compensation programs. We are supportive to this as it enables the companies to tie part of the compensation to, for instance, ESG-related criteria. It is also encouraging to see how dramatically the number of shareholder proposals on climate and social issues has increased over time, and it is natural for us to support such proposals. Unfortunately, we have seen

cases where proposals that in principle aligned with NAM's policies, and that NAM would have preferred to support, were contingent on other elements such as changes to a company's articles of association. In such cases, we can and do engage with the promoters of a proposal to suggest adjustments to make a proposal more practical to implement, and therefore easier to gain support for.

We also generally vote against any proposal to limit minority rights, such as a higher threshold to call extraordinary general meetings or limiting the ability of shareholders to vote or express their views.

Generally, we focus our stewardship efforts on companies on which we can have a significant impact, such as firms in which we have a substantial ownership share or if we have a large aggregated position. In addition, we strive to put extra emphasis on companies which we own in our ESG-enhanced products, such as the STARS funds.

The Corporate Governance team works closely together with the RI team and the Portfolio Managers to align the stewardship work on various ESG aspects. The RI team gives input on all proposals related to environmental and social issues, and provides an overview of industry-related issues affecting multiple companies. We have been a signatory to the International Corporate Governance Network's general corporate governance principles since 2018.

# Voting overview 2020

The ongoing pandemic has had a significant impact on Corporate Governance in general and on AGM voting in particular. Sadly, we have not been able to physically attend as many general meetings as we normally would, but instead we have voted by proxy and increased our support for environmental and social shareholder resolutions. In addition, we focused on providing support to companies on, for example, dividend policies and remuneration implications.

During 2020 we voted in about 701 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. In 2021 our voting activities will cover the majority of our holdings.

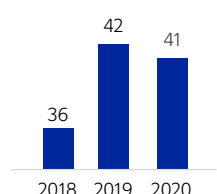
We regularly engage with companies to explain our voting rationale, and we try to be as proactive as possible to get companies, if possible, to alter their proposals in line with our prin-

ciples. One key theme we voted on in 2020 was the separation of the CEO/ Chairman role. Cisco, Facebook and Amazon are examples of companies where we supported shareholder proposals to separate the CEO and CoB roles and we also voted against election of the CEOs to the board. More information about last year's important votes can be found on p 40.

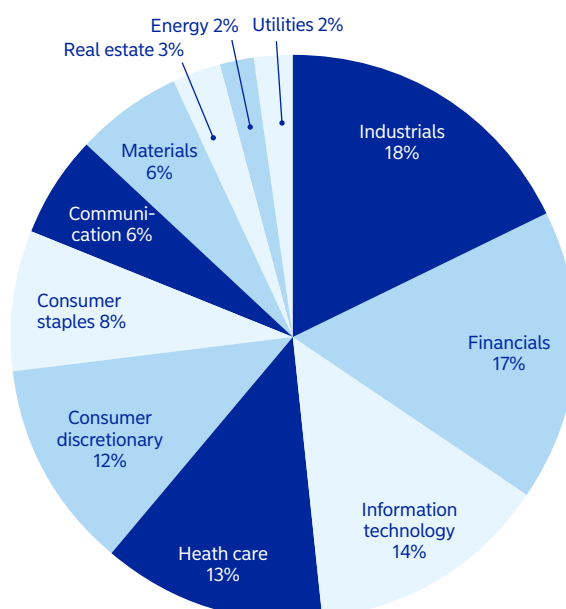
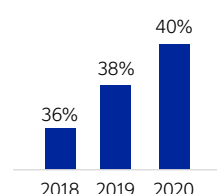
Increasingly we are being invited by companies in the Nordics to join their nomination committees. Membership of nomination committees is a very efficient way to engage with the companies we have large holdings in, and it enables us to drive real change – for instance in the Board gender ratio. For the 2020-season, we sat on 41 such committees, and during 2019-2020 we saw female representation on these companies' boards improve to 40%. This is in line with our goal of 40-60 representation of any gender. We also strive to introduce ownership-led nomination committees in other countries, and over the last couple of years we have managed to help facilitate such changes in both Finland and Denmark.

## Meetings by sector

### Nomination committees



### Gender diversity in nomination committees



### Meetings by country

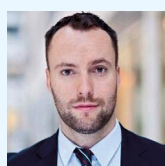


USA	25%	UK	4%
Sweden	11%	Finland	4%
China	7%	Denmark	4%
Japan	6%	Other	39%



Voted on 701 AGM/EGMs

### Alignment with management



**Erik Durhan**  
Head Corporate Governance



**Jan Särstvik**  
Corporate Governance Specialist

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.



For more information on voting:  
[nordea.com/voting-portal](https://nordea.com/voting-portal)

# Engagement Deep Dives

## Xcel Energy



Power plant interior. Source: Shutterstock

Xcel Energy is a major electric power company that supplies electricity and natural gas to retail customers in the United States. Before this engagement began, the company based 60% of its electricity generation on coal and other fossil fuels. NAM is part of the CA100+ engagement with its Xcel, which started in 2018, to transition to clean energy and reduce its climate risk.

Nine months after the engagement started, Xcel became the first US utility to commit to delivering 100% emissions-free electricity by 2050. The company also committed to an 80% reduction in emissions associated with electricity by 2030. Xcel included climate KPIs in its CEO's remuneration for 2019-2021 and published its inaugural TCFD report in 2020. While the company does not yet have a detailed plan for achieving its targets beyond 2030, the 2050 targets are in place and have already begun driving its business planning and strategies. The ongoing dialogue with the company is currently focused on the company's efforts in the 2020-2030 period, and the concrete possibilities for realising earlier-than-planned closures of coal-fired power plants and adding more renewables capacity.

## Samsung SDI



Cobalt mine. Source: Shutterstock

Samsung SDI specializes in Lithium Ion Battery (LIB) technology, producing rechargeable batteries for products such as mobile phones, energy storage systems, solar panels and electric vehicles. Cobalt is a key raw material for these. However, 70% of the global cobalt supply is sourced from Democratic Republic of Congo (DRC), where the mining is often unregulated - even illegal - with extensive reports of human rights abuses, including child labour. We are urging Samsung SDI to ensure its cobalt supply is sustainably sourced. After a field visit to South Korea in 2017 and follow-up meetings, we asked Samsung SDI to audit and increase the transparency of its cobalt supply chain and also to use only smelters which get their own independent audit. Samsung SDI has set up a risk management tool and begun auditing its direct supply chain. The company has taken steps to secure a direct supply line with full transparency with a lead supplier, but is also working with industry peers to address the issue at government level. In addition to continuing work around supply chain transparency, we have commissioned a report expected to be published next year reviewing the ESG risks in DRC's cobalt mining industry. We will use this report's findings to engage with Samsung SDI and other companies with exposure to cobalt on the more general ESG risks associated with mining operations in DRC.

## Varun Beverages

Varun Beverages (Varun) is an Indian company which manufactures, bottles and distributes carbonated soft drinks and non-carbonated beverages, including bottled water. The company has 32 manufacturing plants around India and 6 plants outside India. Varun uses significant amounts of groundwater and freshwater in its products – a scarce resource in these locations. We have engaged with Varun around its water management since 2018 to ensure that it doesn't risk the lives and ecosystems around its operations by drawing too much groundwater or freshwater from sources around its operations. As a result of this engagement, Varun has implemented several water management programs. It has reduced the water needed in the manufacturing process, now recycles 100% of its waste water, and has improved its replenishment of water through factory harvesting and pond harvesting. The group's water usage and recharging is now audited by a third party, and is reported more extensively in its shareholder reporting. Going forward we would like to see Varun expanding its water recharge activities to plants that currently are not in water stressed areas and to continue to increase its transparency around its long-term water management strategy.



Portfolio Manager of Emerging Stars Equity, Juliana Hansveden and Senior ESG Analyst Arvinder Tiwana visiting Varun Beverages.

## Millicom

Millicom is a telecom operator providing cable, mobile and broadband services in emerging markets in Latin America and Africa. The company is exposed to markets at high risk for corruption. Through a long term (since 2013) engagement, we have worked with Millicom to improve its business ethics program, transparency and governance. Following a field trip to Columbia and subsequent meetings, NAM has developed a strong enough relationship with Millicom to be invited on various occasions to share our ESG knowledge, materiality analysis and expectations on areas to prioritize. NAM is also a member of Millicom's Board nomination committee. Since NAM's engagement was initiated, Millicom has established local business ethics committees and included business ethics targets as part of remuneration. Subsidiary TigoUne has been recognized as the first telecommunications company in the list of Anticorruption Active Companies in Colombia. The group has also made board changes to strengthen its board ahead of its US listing, and has met our expectations for responsible management during the Covid-19 pandemic. Our next expectations are that Millicom will improve transparency on data privacy and introduce reporting in line with SASB standard. We will also follow progress on our Covid-19 expectations.



Telecom operators. Source: Shutterstock.

# Highlights of our collaborative engagements

In addition to engaging individually, we also collaborate with other investors in order to make the engagement efforts more impactful.

Collaborative engagements are conducted through a group of investors, who come together to increase the weight of their demands on companies. In collaborative engagements, the collaboration agrees on engagement priorities and strategy and divides the responsibility for the engagement amongst the signatory investors.

## Engagement around SASB reporting standards

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. NAM is a founding member and the current chair of SASB's Investor Advisory Group (IAG).

In 2020, the SASB IAG set a target of having 75% of S&P500 companies reporting SASB metrics by 2025. By the end of the year, 25% of these companies had already begun reporting in line with the SASB Standards.

## Climate Action 100+ engagement

NAM is part of the Climate Action 100+ (CA100+), a global investor initiative on climate change launched in 2017. The initiative's aim is to curb emissions, improve governance and strengthen the companies' climate disclosures. CA100+ has over 545 signatory investors and is one of the largest investor-driven climate initiatives to date.

The initiative has made significant progress in 2020, with 22 of the 47 companies engaged in Europe committing to net zero emissions during 2019-2020. NAM is the lead investor for the Petrobras engagement and supportive investor for Xcel Energy, Walmart, TC Energy, Volvo, SSAB and Fortum.

## Petrobras – an example of collaborative engagement

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 energy would allow Petrobras to play a key role in achieving the goals of the Paris Agreement.

Representing the more than 500 investors in the Climate Action 100+ (CA100+) coalition, NAM has led the engagement with Petrobras since 2017 to communicate what steps we believe they need to take going forward. As with all other CA100+ engagements, the dialogue has been centred on our expectation on Petrobras to take action to reduce their emissions in line with the Paris Agreement's objectives, strengthen their governance around climate risks and opportunities, and become more transparent in their climate reporting and risk management.

During 2020, we reached a milestone with the company when they significantly enhanced their climate reporting and announced their support for the Task Force on Climate-Related Financial Disclosures (TCFD). This will enable stakeholders to better assess the company's commitment to the clean energy transition. Going forward, our expectation on Petrobras is to work more actively to curb emissions. The company set its first emissions-intensity targets in 2019, and following our feedback that these were not sufficiently aligned with the Paris Agreement, they introduced more ambitious targets in November 2020. We still believe there is further room for improvement. In our ongoing dialogue with the company, we continue to recommend improvements to the company's target-setting, including using an approach that benchmarks their performance against the Paris Agreement and encompasses more of the company's total emissions.

### The Investors Policy Dialogue on Deforestation (IPDD) initiative

Nordea is a founding and advisory committee member of the Investors Policy Dialogue on Deforestation (IPDD) initiative, which was formally established in July 2020. The initiative was developed in response to the increasing rates of deforestation in Brazil as well as other countries. The dialogue started with a letter to the Brazilian government on the issue of deforestation which was signed by 29 financial institutions. Following the letter, the investors were invited to a meeting with the governor of the Brazilian Central Bank and the Speaker of the House, and congressmen from the House of Representatives of Brazil. The objective of the IPDD initiative is to ensure long-term financial sustainability of investments by promoting sustainable land use and forest management and respect for human rights.

### Vung Ang 2: Engagement underway

In October 2020, we initiated a collaborative engagement against the construction of the planned coal-fired Vung Ang 2 power plant in Vietnam. We have a critical position on any of our investments being involved in the construction of new coal-fired power plant projects, as we believe that it is inherently inconsistent with the goals and timelines of the Paris Agreement. Vung Ang 2 would further expand development of a site proximate to two other plants which have already caused major environmental pollution accidents in the area including spilling toxic chemicals into the ocean, devastating the coastline and marine life.

The consortium of 21 investors, gathered by NAM, sent a letter urging companies associated with Vung Ang 2 to withdraw from the project citing the high climate-related risks – both financial and reputational – associated with the project. The letter stresses the important role listed companies play in addressing climate change, as well as the risk they pass along to investors when failing to address climate risk exposure.

NAM is committed to continuing its engagement activities concerning the Vung Ang 2 and is urging the companies involved to withdraw from the construction project and to make commitments to end involvement in new coal projects in line with the recommendation of the United Nations Secretary General. Thus far, the work carried out by the collaborative group has contributed to Kepco, Samsung C&T, Mitsubishi Corporation and SMFG all announcing an end to coal projects going ahead.

### Human rights engagement

The Corporate Human Rights Benchmark (CHRB), of which Nordea has been a funding member, published its 2020 corporate human rights benchmark assessment of 230 of the world largest companies in November. The CHRB data enables us to systematically and over time track and monitor the human rights performance of companies that we are invested in.

We have continued to engage on the CHRB results and together with fellow CHRB investors, Aviva Investors and APG Asset Management, we initiated in-depth engagements with six top priority companies. As a member of the Investor Alliance on Human Rights, a collaboration of 175 investors, we sent letters sent to the Chairmen of 95 companies that scored zero on human rights due diligence in the CHRB assessment. These letters will be followed-up in 2021.

### The CHRB data is very important as a driver for our work on human rights.

**Katarina Hammar**, Head of Active Ownership,  
Nordea Asset Management



# Keeping active in the RI Community

We are actively taking part in the discussions around responsible investment and promoting the best practices across the investment community.

## EU Non-Financial Reporting Directive consultation

Standardised, complete and accurate ESG disclosures are vital to enable investors to make informed investment decisions. The EU's Action Plan for Sustainable Finance is addressing this through both its own legislation and amendments to already existing legislation. Some of these disclosures fall within the Non-Financial Reporting Directive, which is currently undergoing revisions to reflect the need for transparency on ESG matters. We have contributed to the consultation, recommending a minimum standard disclosure requirement. We suggest that this should be informed by existing frameworks, most importantly, Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB).

## NAM in SASB Community

NAM is a founding member and current chair of SASB's Investor Advisory Group (IAG), which includes asset owners and asset managers committed to improving the quality and comparability of sustainability-related disclosure.

During 2020, SASB has arranged three large Corporate-Investor Dialogues webinars with breakout sessions, with strong turnout of 279 companies. We led one of the sessions to share investor perspective and use of SASB with the companies present. Positive feedback from the participants emphasised how companies find it helpful to discuss ESG reporting with peers and investors.

## Supporting RI in academia

During the spring Nordea participated in the SIPA (School of International and Public Affairs), Columbia University Capstone project - a project with Master program students and external clients outside of SIPA. Students made a case study on three companies - BHP, Iberdrola, LUKOIL - regarding their performance in managing community impact and a gap analysis of their policies and management measures against benchmarking standards. Their research identified key factors explaining why controversies related to community impact occur and reoccur. The results were presented in a publicly available report.

## Covid-19 Response

The Covid-19 pandemic has created a plethora of ESG issues. Over the year we have carried out various Covid-19-response activities. We have engaged a number of companies in sectors with high exposure to the pandemic. Together with other investors we co-signed investor statements directed to the management teams and boards of directors of companies we are invested in, including pharmaceutical companies and meat processors, asking them to prioritize worker protection and health and safety, workers' rights and the highest level of ethical financial management and responsibility. We also signed an open letter to EU leaders urging them to work towards making the economic recovery from Covid-19 green and sustainable. The Corporate Human Rights Benchmark (CHRB) will publish a Covid-19 response study by companies included in its 2020 corporate human rights benchmark assessment of 230 of the world largest companies. We will use the findings in our research and follow-up dialogues with companies.

## Founding member of Net Zero Asset Managers initiative

During 2020, NAM further cemented our commitment to the Paris Agreement by becoming **a founding member of the Net Zero Asset Managers (NZAM)** initiative, a global coalition of asset managers working for the achievement of net-zero greenhouse gas emissions by 2050, and adopted a historic set of climate targets to support this ambition. We also co-developed a **Net Zero Investment Framework** together with other members of the Institutional Investor Group on Climate Change (IIGCC). This framework is the first-ever practical blueprint for investors to maximise the contribution they make in tackling climate change, and its emphasis on achieving real-world emissions reductions in our investee companies is the foundation for our climate targets.

# Our ESG credentials

## ESG labels



Nordea 1, SICAV Funds	European SRI Transparency Code <sup>1</sup>	LuxFLAG ESG Label <sup>2</sup>	FNG ESG Label <sup>3</sup>	Towards Sustainability Label <sup>4</sup>	Label ISR <sup>5</sup>
Emerging Stars Equity	●	●	***	●	●
Global Stars Equity	●	●		●	●
European Stars Equity	●	●	***	●	
Nordic Stars Equity	●	●			
North American Stars Equity	●	●		●	●
Global Climate and Environment	●			●	
Emerging Stars Bond	●	●		●	
European Corporate Stars Bond	●	●		●	
European High Yield Stars Bond	●	●		●	

1) The European SRI Transparency logo signifies that Nordea Investment Funds S.A. commits to provide accurate, adequate and timely information to enable stakeholders, in particular consumers, to understand the Socially Responsible Investment (SRI) policies and practices relating to the fund. Detailed information about the European SRI Transparency Guidelines can be found on [www.eurosif.org](http://www.eurosif.org), and information of the SRI policies and practices of the Nordea STARS range can be found at: [Nordea.lu/STARS](http://Nordea.lu/STARS). The Transparency Guidelines are managed by Eurosif, an independent organisation. The European SRI Transparency Logo reflects the fund manager's commitment as detailed above and should not be taken as an endorsement of any particular company, organisation or individual. 2) LuxFLAG is an international and independent non-profit association and labelling agency. To promote sustainable investing in the financial industry, LuxFLAG awards an independent and transparent label to eligible investment vehicles in Microfinance, Environment, ESG (Environment, Social, Governance), Climate Finance and Green Bonds. The objective is to reassure investors that the labelled investment vehicle invests in a responsible manner. The LuxFLAG ESG Label is valid for one year. Investors must not rely on LuxFLAG or the LuxFLAG Label with regard to investor protection issues and LuxFLAG cannot incur any liability related to financial performance or default. 3) Forum Nachhaltige Geldanlagen (FNG), founded in 2001, is the industry association promoting sustainable investment in Germany, Austria and Switzerland. FNG's goal is to improve quality standards for sustainable investment products, to secure the adherence to internationally recognized minimum norms. The FNG ESG label (1 to 3 stars) is awarded on an annual basis. 4) We have received recognition from the Belgian Central Labelling Agency in the form of "Towards Sustainability" label. The label was launched in 2019 and it aims to install trust and reassure potential investors that the financial product is managed with sustainability in mind and is not exposed to very unsustainable practices, without requiring of investors to do a detailed analysis themselves. For more information on the "Towards Sustainability" label, visit [www.towardsustainability.be](http://www.towardsustainability.be) 5) Label ISR is created and supported by the French Finance Ministry. The label's goal is to increase the visibility of SRI products among savers in France and Europe. For more information on the Label ISR, visit <https://www.llelabelisr.fr/en/what-sri-label/>.

## Awards



## PRI signatory since 2007



Strategy & Governance



# Initiatives



## Access to Medicine Index

The benchmark 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.



## AMR Cross Industry Expert Group, Business Council for the UN

Nordea is a member of this expert group first convened in May 2020. A cross-industry group to advance governance and collective action around anti-microbial resistance (AMR) and share insights and best practices.



## Antimicrobial Resistance (AMR) Benchmark

The AMR Benchmark tracks how pharmaceutical companies are responding to heightened drug resistance. We were a member of the expert committee between 2017 and 2019.



## Carbon Disclosure Project (CDP)

We are a signatory to the CDP, a project that aims to collect and share information on greenhouse gas emissions and climate change strategies. We are also represented on the CDP Water Advisory Council.



## Climate Action 100+

We are a signatory of the 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.



## Corporate Human Rights Benchmark (CHRB)

The first ever ranking of the world's largest publicly listed companies on their human rights performance. The 2020 CHRB ranks the top 230 globally listed companies on their human rights policy, process and performance. Between 2016 and 2020, we were a funding and steering committee member of the CHRB which has now been integrated with the World Benchmarking Alliance (WBA).



## Extractive Industries Transparency Initiative (EITI)

EITI's aim is to promote the transparent and accountable management of oil, gas and mineral resources. Nordea has been a member since 2016.



## FAIRR

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.



## Institutional Investors Group on Climate Change (IIGCC)

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



## International Corporate Governance Network (ICGN)

International Corporate Governance Network's mission is to promote effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies worldwide.



## Investor Alliance for Human Rights (IAHR)

We are a member of this investor initiative focusing on the investor responsibility to respect human rights, corporate engagements that drive responsible business conduct, and standard-setting activities that push for robust business and human rights policies.



## Investor Initiative on Sustainable Forests

IISF works to foster investor collaboration and engagement to eliminate deforestation from soy and cattle supply chains in South America.



## Investor Mining and Tailings Safety Initiative

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 Policy Dialogue on Deforestation (IPDD)

We are a founding and advisory committee member of the IPDD initiative, which was formally established in July 2020. The objective of the IPDD initiative is to ensure long-term financial sustainability of investments by promoting sustainable land use and forest management and respect for human rights.



#### Investor Statement on Coronavirus Response

We have signed the investor statement on Coronavirus response covering 5 recommended measures for companies to consider during the crisis, and for investors to use as basis for company engagement dialogues. The recommendations address: paid leave, additional health and safety measures, maintaining employment, maintaining supplier and customer relationships, and exercising fiscal prudence.



#### Investor statement on deforestation and forest fires in the Amazon

Initiative where 251 investors together urged companies to assess their operations and supply chain for deforestation risks.



#### Montreal Carbon Pledge

We signed the Montreal Pledge in 2014 as one of the first signatories. By signing this pledge, we commit to measuring and publicly disclosing the carbon footprint of our investment portfolios on an annual basis.



#### The Net Zero Asset Managers initiative

In December 2020, we became an early joiner, committing to support the goal of net zero emissions by 2050, in line with the global efforts to limit warming to 1.5 degrees through our investments.



#### Partnership for Carbon Accounting Financials (PCAF)

Nordea joined PCAF in 2020, a global partnership of financial institutions launched in 2015 to develop a harmonised approach to measure and disclose GHG emissions associated with loans and investments. A harmonised accounting approach provides financial institutions with guidance in developing risk management and regulatory compliance as well as a starting point required to align their portfolio with the Paris Agreement.



#### Pharmaceutical Supply Chain Initiative (PSCI)

Since 2018 we are on the Advisory Panel of this industry-led organization aimed at establishing and promoting responsible practices for pharma supply chains. The dialogue and relationship with PSCI is part of our engagement with the world's largest pharma companies to address pharma water pollution in India, one of the largest drug manufacturing hubs in the world.



#### Principles for Responsible Investments (PRI)

PRI is an investor initiative to incorporate ESG in investment processes. We were an early adopter of RI and signed the PRI as early as 2007.



#### Sustainability Accounting Standards Board (SASB)

We are founding member and current chair of the SASB's Investor Advisory Group (IAG). As part of this work we lead disclosure engagements with companies, and demonstrate how SASB standards are used by investors in different fora.



#### Task Force on Climate-related Financial Disclosures (TCFD)

We are an official supporter of TCFD. The recommendations provide a foundation for climate-related financial disclosures for all companies, aimed at encouraging companies to report on the climate-related risks and opportunities that are most relevant to their business activities.



#### Transition Pathway Initiative

We are a supporter of the Transition Pathway Initiative (TPI), which is a global, asset-owner led initiative assessing companies' preparedness for the transition to a low carbon economy.



#### UN Environmental Programme Finance Initiative (UNEP FI)

We signed the UNEP FI in 1994. It is a partnership between UNEP and the global financial sector to mobilise private sector finance for sustainable development. We became a member of the UNEP FI Banking Committee in 2018 and now since August 2020 holds the Scandinavian seat on the UNEP FI Banking Board.



#### UN Global Compact (UNGC)

Initiated by the UN to encourage businesses to align their strategies and operations with ten universal principles building on UN conventions in the fields of human rights, labour standards, environment and anti-corruption. We became a signatory to the UN Global Compact in 2002, first through Nordea Bank Finland. From December 2004 the coverage was extended to the whole Group.



#### World Benchmarking Alliance (WBA)

Since 2017, we have been part of WBA Allies representing organisations working at global, regional, and local levels to shape the private sector's contributions to achieving the SDGs.

# Climate change: a key focus area

Climate change presents long-term risks to companies, industries and society at large. Our mission is to deliver returns with responsibility and integrating climate risk into our investment decisions is therefore critical.

Climate change has been a strategic focus for NAM since we became a signatory to the UN PRI in 2007. Our work on climate change represents both our fiduciary duty and a means by which we help meet the goals of the Paris Agreement (to limit the increase in the global average temperature to well below 2°C above pre-industrial levels). We have a process to identify the most exposed sectors and companies and we implemented our first climate-related divestment from coal mining in 2015 and our approach has continued to evolve since then. We also vote and engage to achieve climate-resilient portfolios.

**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 2019, we made a public commitment to align our investment portfolios with the objectives of the Paris Agreement. This means that we have a long-term strategic objective to **reduce the greenhouse gas emissions impact of our investments**, increase our **investments based on climate-related opportunities**, and ensure that our **investment portfolios are resilient to climate-related risks**. To support this, we developed NAM's Climate Change Strategy, which was adopted by the RIC in 2019. This strategy is built on five pillars, each one of which has made progress this year – ESG integration, active ownership, divestment and mitigation, product development and policy support. These pillars support our commitment to the TCFD recommendations, which we meet fully in our separate Climate Report.

During 2020, NAM became a founding member of the Net Zero Asset Managers (NZAM) initiative, a global coalition of asset managers working for the achievement of net-zero greenhouse gas emissions by 2050, and adopted a historic set of climate targets to support this ambition. We also co-developed a Net Zero Investment Framework together with other members of the Institutional Investor Group on Climate Change (IIGCC). This framework is the first-ever practical blueprint for investors to maximise the contribution they make in tackling climate change, and its emphasis on achieving real-world emissions reductions in our investee companies is the foundation for our targets.

## Core elements of recommended climate-related financial disclosures



### Governance

The organization's governance around climate-related risks and opportunities

### Strategy

The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy and financial planning

### Risk Management

The processes used by the organization to identify, assess and manage climate-related risks

### Metrics and Targets

The metrics and targets used to assess and manage relevant climate-related risks and opportunities



**Nordea's response to the TCFD recommendations is reflected in our Climate Report**

To continue building climate resilience and managing our climate risk exposure, NAM has also developed and implemented a range of metrics that allow us to identify and respond to systemic climate risk, which are laid out in our Climate Report. During 2020, we expanded our efforts to provide asset owner clients, regulators and internal stakeholders with information and analytics on net-zero investing and climate risk and opportunity, through workshops with our climate experts as well as augmented reporting and transparency. Alongside our participation in industry-leading initiatives like NZAM, IIGCC, and Climate Action 100+, collaboration with asset owner clients will remain a critical part of managing climate risk across all our assets under management.

### Our climate targets

Our overarching long-term target is to achieve net-zero emissions for NAM's operations and investments by 2050 (Target 1). To support the fulfilment of this goal, we have also devised a set of short- and mid-term goals, illustrated in the figure below. Since the Paris Agreement effectively requires a halving of global emissions every decade, NAM has set a target to reduce the weighted average carbon intensity (WACI) of our investments by 50% by 2030, compared to a 2019 baseline (Target 2). In addition to the focus on reducing overall emissions, another key for achieving net-zero is to focus on climate solutions, which is why we have also included a target to increase such investments by 2030 (Target 5). The exact extent of this target for climate solutions investments still remains to be defined, and our work in this area is evolving in line with regulations and industry standards.

Achieving such substantial reductions in our carbon intensity requires efforts across assets, sectors and portfolios. In practice, this will be achieved through three mechanisms, which in order of priority are:

- Pushing current investee companies towards accelerated decarbonization
- Investing in companies that facilitate real-world decarbonization
- Shifting portfolio allocation away from high-emitting companies and sectors

Since the average carbon intensity of our investments does not reflect company- or sector-specific decarbonization efforts, we strive to reach our intensity targets by continuing to link our investment processes as closely as possible to real-world decarbonization.

To this end, we will also phase out all our investments in coal-related companies<sup>11</sup>, since the reduction of coal use is one of the most critical levers for achieving the Paris goals (Target 3). Additionally, we also set a target for companies in other sectors critical to the climate transition, to engage with them to set Paris-aligned transition plans by 2025, and phase out investments in those who fail to present such plans (Target 4). Critical sectors in this context are those sectors that must undertake the most decarbonization for the Paris targets to be achieved. Our exact definition of which sectors fit this definition may evolve over time, but as a minimum includes fossil fuel-related sectors.



As we work towards these specific targets, we will continue to implement our climate approach through the five pillars defined in our climate strategy; ESG integration, active ownership, divestment and mitigation, product development and policy support. For more detail about our climate strategy please see our 2020 Climate report.

<sup>11</sup>) We define coal-related companies as those that are involved in the mining for coal or use it for electricity generation. NAM already excludes companies with more than 10% of their revenues from coal production from all its portfolios, and applies our Paris-Aligned Fossil Fuel (PAFF) policy or even stricter exclusion criteria to all portfolios designated ESG (currently approx. 30% of NAM AuM).

# Interview – All in: NAM's Fundamental Equities Team goes full ESG

A conversation with Hilde Jenssen, Head of Fundamental Equities.



**The Fundamental Equities Team (FET) has always worked with ESG strategies, but the team recently transitioned to all ESG products. Why the shift in focus?**

It's true that ESG is nothing new to Nordea, as we have been offering our clients sustainable products, and have been undertaking analysis in this space for over thirty years—we've built up a lot of expertise. This transition to full ESG integration across the FET's products allows us to completely utilise our core skills and gives ESG greater visibility within the solutions we offer.

Also, ESG investing is truly aligned to our thinking. As our name suggests, we are fundamental investors and we take a long-term view on the companies we invest in. Pricing sustainable competitive advantages, which includes ESG factors, is part of this.

Finally, the long track record of many of our ESG-enhanced solutions demonstrates that ESG factors can contribute positively to performance when compared both to competitor products and relevant market indices.

**What does a full ESG focus mean in practice?**

To achieve full integration, we work very closely with NAM's Responsible Investments Team (RIT) to synthesize fundamental analysis and ESG research. We have embedded in each strategy's investment team a dedicated ESG specialist. Our ESG analysts are there every step of the way through the investment process – participating in daily and weekly meetings, as well as in idea generation and case presentations.

We believe that a more sustainable company will find both opportunities and risk reduction arising from its treatment of ESG issues. This should be reflected in the valuation of the company. However, we often find that the market is not an efficient price setter in this regard. Hence there is an opportunity for us as fundamental, long-term investors to earn excess returns compared to benchmarks for our clients. We specifically take our internal ESG assessment into consideration when we value a company, so that a more sustainable business will enjoy a greater excess returns on its invested capital than a less sustainable one. Intuitively, this makes sense, but our methodology ensures it is applied consistently across our ESG funds.

### Can you give us an example of how this collaboration plays out in stock selection?

Our holistic investment approach allows us to identify competitive advantage and tailwind which are some of the most important concepts in investing. If you are aligned with positive trends it is easier to grow, but it also reduces the risk. Some time ago, our team became interested in an Indian company, Varun Beverages, which are exclusive distributors of PepsiCo's products in India. From a financial perspective, the company looked interesting with good growth and profitability prospects from growing Indian income levels, but our ESG analysis identified the company's water consumption as an ESG risk.

Certain areas of India have been regularly hit by drought for the last several years. With global climate change, the Responsible Investments team expects that India will increasingly experience climate challenges that may take the form of floods and / or droughts.

Varun Beverages uses groundwater from the local area of their production facilities, which from an ESG perspective places great demands on their water management and consumption. To gain a better understanding of the company's actions, one of our portfolio managers travelled to India with an ESG analyst from our Active Ownership team. They met with representatives from the board, management and visited one of the production facilities.

Although Varun had implemented several measures to address their water consumption, our team made recommendations for further improvements. The company today has a positive water account in relation to how much groundwater they use and how much rainwater they collect and return to the groundwater. In addition, water consumption in all their production facilities is today being audited by an independent third party. While the company improved its ESG profile, we also saw improving financials, as the company has grown its profits from \$30mil in 2017 to an expected \$100mil in 2021. Today, Varun is the most profitable bottling company globally, posting a 20% EBITDA margin. We continue our engagement with the company on the ESG front and expect further profitable growth from the company.

### How do you see the ESG market evolving?

My experience tells me our clients will increasingly want more information on how we generate returns and how their investments impact society, particularly as new ESG regulations come into force. One of the big trends we are seeing in Europe is the movement towards a common set of standards for ESG investing – which is a positive development. At the same time, it means greater scrutiny on documentation and reporting as well as access to reliable data. Country-specific or regional labels are the first step; we are extremely proud to have 21 ESG label designations across our ESG STARS products.

We currently share information on the many company engagement efforts we are undertaking with our clients, as well as other various metrics – such as the carbon intensity of our portfolios versus benchmarks. In addition, we produce online training, investment-led engagement cases, insights and other user-friendly tools clients can access to deepen their understanding. We welcome the dialogue on ESG impact, as we can share more of our thinking, our process and our view of the path moving forward.



# Outlook 2021



Source: iStock

Looking towards the year ahead, we are convinced that ESG factors will continue to grow even further in importance for our clients. And despite having built, over more than a decade, one of the leading ESG approaches, and perhaps the broadest ESG product suite, in the industry – we too must continue developing our approach to ESG and sustainability.



**Eric Pedersen**  
Head of Responsible Investments

because client demand has finally swung fully towards integrating ESG and sustainability concerns, the mainstreaming of ESG will continue. Asset managers who do not in one way or another claim to take ESG factors into account will become rare indeed.

2021 will be the year when the European Union's Sustainable Finance Disclosure Regulation (SFDR) comes into force. This will transform the asset management industry in Europe – and in fact globally, as asset managers from now-no-longer-member country United Kingdom, and even further afield, count European entities among their clients. For both this reason and be-

For clients, and for those in the industry (NAM among them) who have integrated ESG into their business for years, this is a boon. Even if the regulation is rigid in places, and generally very demanding in terms of data, it will facilitate greater transparency and make it easier – though not necessarily less complex – for clients to gain insight into the ESG characteristics of the products of the industry. This, in turn, means that those managers who have already started their ESG journey will have to ensure that their ESG processes are formalised and rigorous enough to withstand scrutiny. For managers who have still to embark on the work of integrating ESG, the task is proportionately larger. Many will be surprised at the scale of the demands that they face, as they attempt to claim the ESG mantle and remain compliant with the regulation.

At NAM, we are fully ready to welcome this brave new, and more sustainable world. We have worked intensively with the categorisation of our products according to the SFDR, and have chosen a conservative approach, e.g. labelling only those prod-



**// We believe it is our responsibility to be transparent and educate our clients on topics around ESG and sustainability.**

ucts Article 8, which have heightened ESG focus beyond our already extensive firm-wide ESG integration. We are also ready to document even further our integration of ESG/sustainability risks in investment processes, and we have developed a methodology for handling Principal Adverse Impacts, or PAI for short. This work has built on our long experience within ESG and in most cases has not meant significant change to our underlying processes, as these were already broadly in line with the Commission's goals.

Moving beyond the Commission's initiatives, we believe it is our responsibility to be transparent and educate our clients on topics around ESG and sustainability in general. In our efforts to share our knowledge, we are developing a new version of our ESG E-learning, which is already available to our clients in 8 languages. Of special interest to our clients in the UK, it is relevant to mention our intention to become compliant with the UK Stewardship code in 2021, which will add further transparency to our work in the area of active ownership.

In conclusion, although we feel confident in our capabilities, ESG and sustainability will remain an area of constant development for NAM. On many fronts, and perhaps especially in the areas of Climate Risk and Human Rights, every ESG challenge met presents several new avenues to potentially pursue. This is why we continue our work with the Institutional Investor Group on Climate Change, Climate Action 100+, the Corporate Human Rights Benchmark, SASB and many other industry initiatives, and why we expect to expand further our industry-leading engagement programme. Here at NAM, therefore, we aim to make 2021 a year of further strides in our effort to provide Returns with Responsibility, both in terms of depth of analysis, product capabilities and client relationships – and in our contribution to realising the Paris Agreement, the United Nations SDG's, and the Green Deal of the European Commission.

# Appendixes

A decorative graphic consisting of several yellow rounded rectangles of various sizes and orientations, scattered across the lower half of the page. Some rectangles are vertical, some are horizontal, and some are tilted. They are arranged in a way that they appear to be floating or scattered, with some overlapping.

# Implementation of Principles for Responsible Investment (PRI)

## **Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.**

- We have a RI policy that is applicable to all our funds
- We have a dedicated ESG research function whose analytical process is subject to constant development. We run and maintain an internal ESG scoring platform
- We source ESG research from brokers and specialist research providers
- We collaborate with academic and other researchers to further knowledge on ESG
- We run a series of workshops internally on ESG issues, and we teach investment professionals how to integrate them in their analysis
- We work closely with PMs running ESG-enhanced products to enhance the integration of ESG into their investment processes

## **Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.**

- We publish a RI policy which extensively covers active ownership and has the Principles at its core
- We vote our holdings and frequently use the vote as an engagement tool
- We have a track record of filing, co-filing or supporting shareholder resolutions with a long-term ESG focus
- We have extensive engagement capabilities and an award-winning engagement program
- We are active participants in policy development, regulation and standard setting through bodies such as the SASB Investor Advisory Group, TCFD pilot group, and Swedish nomination committees
- We participate in numerous collaborative engagement initiatives, such as Climate Action 100+ and the Corporate Human Rights Benchmark (CHRB)
- Investment managers are encouraged to include ESG engagement in their reporting

## **Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.**

- We advocate for standardised reporting on ESG issues and are active and prominent supporters of SASB
- We consistently encourage companies to include ESG issues in their annual reports
- We are a part of the TCFD pilot group, and systematically promote better climate disclosure across industries

## **Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.**

- We include indicators related to the Principles in performance evaluation and incentives
- We extensively collaborate with service providers to help them meet our ESG requirements
- We support regulatory and policy developments that promote the Principles

## **Principle 5: We will work together to enhance our effectiveness in implementing the Principles.**

- We collaborate with selected fellow investors to enhance our practices
- We participate and lead various collaborative initiatives, see list under Principle 2

## **Principle 6: We will each report on our activities and progress towards implementing the Principles.**

- Our RI annual report contains a section that explains how ESG issues are integrated in investment practices
- Our RI annual report contains a section that details active ownership activities
- We report on achievements related to the Principles in our RI annual report
- We seek to determine the impact of integration activities throughout our portfolios, for example by benchmarking carbon footprint and SDG exposure

# UK Stewardship Code

The UK's Financial Reporting Council's (FRC) is the body that establishes the UK Corporate Governance and Stewardship Codes. Its mission is to promote transparency and integrity in business.

The UK Stewardship Code sets high stewardship standards for asset owners and asset managers, and is encapsulated in 12 key principles. At Nordea, we strive to meet the highest of

expectations in our Responsible Investment, Corporate Governance and Stewardship methods. Below, we list the Principles of the UK Stewardship Code and highlight which sections of this report demonstrate how we live up to the FRC's standards.

## PRINCIPLES FOR ASSET OWNERS AND ASSET MANAGERS

### Purpose and governance

#### Principle 1: Purpose, strategy and culture

Information regarding:	Can be found:
NAM's philosophy and culture	p 3 CEO foreword p 7 Sustainability in our Nordic DNA p 8 Responsible Investment approach
How NAM's activity implements this philosophy	p 3 CEO foreword p 8 Responsible Investment approach p 12 Sustainable choice p 32 Outlook 2021
The outcomes of our approach	p 3 CEO foreword p 5–6 2020 Highlights p 14–23 Active ownership, Engagement, Voting p 40–41 Examples of important votes

#### Principle 2: Governance, resources and incentives Information

Information regarding:	Can be found:
Governance structures, processes and incentivisation	p 8 Responsible Investment approach p 14–17 Active ownership p 18–19 Voting
Third-party service providers	p 38 Additional information
The outcomes of our approach	p 14–25 Active ownership, Voting, Engagement Deep Dives, Keeping active in the RI Community, Our ESG credentials

#### Principle 3: Conflicts of interest

Information regarding:	Can be found:
Conflicts policy, actual or potential conflicts	p 38 Additional information

#### Principle 4: Promoting well-functioning markets

Information regarding:	Can be found:
Management of systemic risks	p 18–19 Voting p 26 RI initiatives p 29 Climate change

#### Principle 5: Review and assurance

Information regarding:	Can be found:
Review process	p 8 Responsible Investment approach
Assurance	p 25 Our ESG credentials

### Investment approach

#### Principle 6: Client and beneficiary needs

Information regarding:	Can be found:
Client base and assets	p 39 Asset breakdown
Meeting clients' needs	p 3 CEO foreword p 12 Sustainable choice p 5–6 2020 Highlights p 32 Outlook 2021

#### Principle 7: Stewardship, investment and ESG integration

Information regarding:	Can be found:
ESG through the investment lifecycle	p 14–21 Active ownership, Voting, Engagement Deep Dives
ESG Integration	p 10 NAM's ESG research approach p 11 ESG Integration
Third-party providers	p 38 Additional information

## Principle 8: Monitoring managers and service providers

Information regarding:	Can be found:
Third-party service providers	p 38 Additional information

## Engagement

### Principle 9: Engagement

Information regarding:	Can be found:
Engagement approach, activities and outcomes	p 14–25 Active ownership, Voting, Engagement Deep Dives, Collaborative Engagements, Keeping active in the RI Community and Our ESG credentials

### Principle 10: Collaboration

Information regarding:	Can be found:
Collaborative engagement activities and outcomes	p 22 Highlights of our collaborative engagements
Active in the RI Community	p 24 Keeping active in the RI Community p 26 RI initiatives

### Principle 11: Escalation

Information regarding:	Can be found:
Escalation of engagement activities and outcomes	p 8 Responsible Investment approach p 14–17 Active ownership

## Exercising rights and responsibilities

### Principle 12: Exercising rights and responsibilities

Information regarding:	Can be found:
Voting approach, activities	p 18–19 Voting p 40–41 Examples of important votes
Voting outcomes and reporting	p 18–19 Voting p 40–41 Examples of important votes

# Additional information

## How we handle conflict of interest

In all our activities, we act in the best interests of our clients and we act honestly, fairly and professionally. We have a documented Conflict of Interest policy, covering situations that may arise in the normal course of business, to which all employees are expected to adhere, on which they receive training and which is reviewed annually. The policy sets forth the organizational and administrative procedures to identify, prevent and manage Conflicts of Interest in order to ensure that the clients' best interest is always considered and to prevent that clients' interests are damaged by Conflict of Interest. A review of all identified potential Conflicts of Interests are conducted, at least, on a yearly basis to ensure that preventative measures are deemed sufficient to ensure clients' best interest is not damaged. Where a conflict of interest is identified, it is recorded in writing. Nordea also has internal rules and controls that prohibit employees from having external engagements that interfere with their ability to perform their duties and functions or undermine trust and confidence in Nordea.

## Third-party providers

### Corporate Governance: Use of proxy advisor

For Nordea's funds we receive proxy-advisor research from both the Nordic Investor Service and the ISS for upcoming general meetings. This is, however, only one component of our voting decisions. We will also be informed by company reporting, company engagements, engagements with stakeholders and the views of portfolio managers and analysts. It is important to stress that our own research is also integral to our final voting decision; this will be conducted by both our financial and ESG analysts. All voting decisions are made by Nordea; our external advisors only provide input and second opinions, when prompted. The ISS technical platform is used for execution of proxy votes. We continually monitor our voting and make sure our voting record is updated on the [Voting Portal](#).

### RI Team: External data providers

The RI Team uses external providers for a number of purposes. All of Nordea's funds and index funds undergo annual portfolio screenings by ISS-ESG to identify companies that are in violation of international norms regarding environmental protection, human rights, labour standards and business ethics. The RI team verifies and evaluates all screening data provided by ISS-ESG.

For market data and ESG ratings, we use Bloomberg, MSCI ESG/Carbon Delta, ISS ESG and Truevalue Labs. We source data from the following providers into our ESG platform: CDP, Impact-cubed, Verisk Maplecroft, RepRisk, as well as the SASB's Industry Classification System. All of these sources provide complementary additional information for our ESG research process.

### Asset Management: Third-party managers

All third-party asset managers who manage Nordea sub-funds must be PRI Signatories. In addition, the funds they manage for Nordea must adhere to Nordea's exclusion list. ESG-related questions are incorporated within the Request for Information (RFI) which is sent to all short-listed candidates as part of an external manager search. Our selection managers comment on ESG aspects for all short-listed candidates, and finally send a dedicated ESG questionnaire to the preferred candidate. We evaluate the completed questionnaire and give the candidates an ESG score (on a scale A-E). This score is reviewed annually as part of our standard process, but can also be done on an ad-hoc basis if we see a need for it.

## Review and assurance of policies and procedures

The RI policy and procedures are reviewed at least annually.

The regulatory requirements and the compliance risk related to "active ownership" are included in the compliance risk assessment performed annually and updated continuously. The outcome of the risk assessment forms the basis for the risk-based compliance monitoring program. Activities in the monitoring program are prioritized to ensure comprehensive monitoring of the compliance risk.

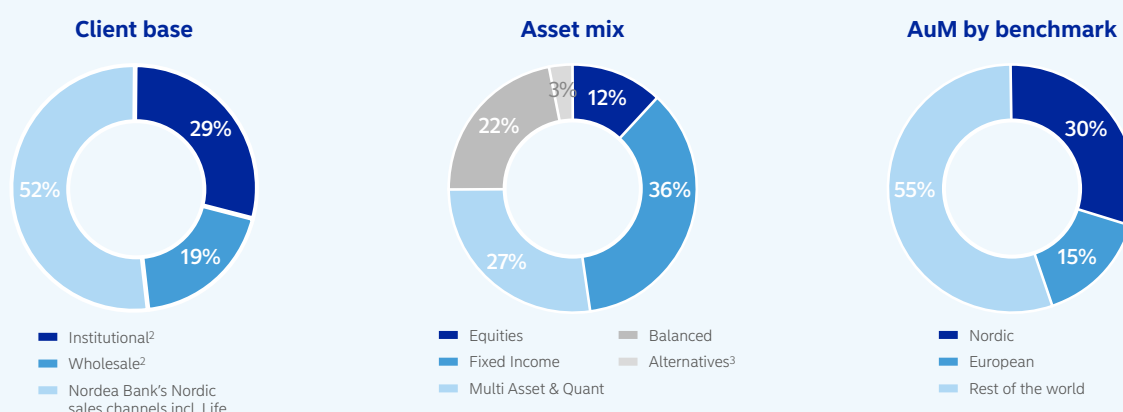
Internal Audit prepares an audit plan that covers all activities and functions of NIM over a multi-year period (typically three years), taking into account both the risks of a given activity or function of NIM, including its Branches, and the effectiveness of the organisation and internal control in place for that activity or function.

In addition, PRI are performing an annual assessment on our fulfilment of the six principles of responsible investing.

# Asset breakdown

Nordea Asset Management is active asset manager with a global business model, offering services to institutional clients in Europe, the Americas and Asia. We manage investments across the full spectrum of asset classes. Our client base is equally split between Nordea Group-related and external clients.

## Assets under Management € 254bn<sup>1</sup>



## ESG Assets

NAM's corporate-level overlays are applied to all funds managed by NAM. This represents 180.1bn, or 71% of NAM's total AUM of 254bn. These overlays include ESG Integration and ESG Screening. Product specific ESG approaches may be added on top of the overlays, such that all assets with product-specific approaches, including the sustainability themed strategies, also incorporate ESG integration and screening as well as other corporate-level overlays.

For more information on the corporate overlays and product-specific approaches please see "NAM's Responsible Investment Approach", p 8.

# Examples of important votes 2020

COMPANY	SUMMARY OF THE RESOLUTION	OUR VOTE	RATIONALE FOR THE VOTING DECISION	OUTCOME
Oracle	Advisory note to ratify named executive officers' compensation	AGAINST	We think that bonuses and share based incentives only should be paid when management reach clearly defined and relevant targets which are aligned with the interest of the shareholders. For a majority of executive officers targets are lacking and for some the levels are extremely high. We also voted against re-election of the proposed board members in the Compensation Committee.	FOR
Oracle	Report on Gender Pay Gap (shareholder proposal)	FOR	Oracle is lagging other large IT companies when it comes to reporting on gender pay gap.	AGAINST
Cisco	Require Independent Board Chairman (shareholder proposal)	FOR	Our opinion is that it is in the best interest of shareholders to separate the CEO and COB functions and therefore we supported the shareholder proposal as well as voted against Charles H. Robbins as COB.	AGAINST
Amazon	Require Independent Board Chairman (shareholder proposal)	FOR	Our opinion is that it is in the best interest of shareholders to separate the CEO and COB functions and therefore we supported the shareholder proposal as well as voted against Jeffrey Bezos as COB.	AGAINST
Amazon	Report on Potential Human Rights Impacts of Customers' Use of Recognition (shareholder proposal)	FOR	We see potential risks with the company's face recognition technology, which not least hundreds of the company's own employees and human rights groups have noticed and protested against. We also supported the shareholder proposal to publish a report on customers' use of its surveillance and Computer Vision Products or Cloud-Based Services	AGAINST
Starbucks	Elect Director Jorgen Vig Knudstorp	AGAINST	Nordea Funds has together with other Investors been engaged with the company for several years. Since Starbucks' new sustainability goals do not include any human rights related issues we voted against re-election of Mr. Knudstorp as director since he is Chair for the Nominating and Corporate Governance Committee, responsible for sustainability.	FOR
Alphabet	Establish risk oversight committee (shareholder proposal)	FOR	At the Alphabet AGM we supported a number of shareholder proposals, besides Establishment of a risk oversight committee, such as Report on takedown requests and Report on whistle-blower policies and practices. Management voting recommendations was against on all these proposals. The dominant position of Google, its impact on society and integrity of individuals is very important for us as investors.	AGAINST

COMPANY	SUMMARY OF THE RESOLUTION	OUR VOTE	RATIONALE FOR THE VOTING DECISION	OUTCOME
Procter & Gamble	Advisory Vote to Ratify Named Executive Officers' Compensation	AGAINST	This is a typical incentive program for an US company, and we vote against most of them. We think that bonuses and share based incentives only should be paid when management reach clearly defined and relevant targets which are aligned with the interest of the shareholders. In this case the total dilution is high. We also voted against election of David S. Taylor as COB since he is CEO.	FOR
Procter & Gamble	Report on efforts to eliminate deforestation (shareholder proposal)	FOR	PG lags on implementing its existing no-deforestation commitment, achieving RSPO certification for only one-third of its palm oil supply. Additionally, PG lacks a comprehensive plan to mitigate exposure to deforestation and forest degradation throughout its operations; its current sourcing policies allow the Company to source from critical ecosystems.	AGAINST
FedEx	Report on Lobbying Payments and Policy (shareholder proposal) and integrating ESG metrics in executive compensation	FOR	FedEx spends large sums direct and through memberships in different organizations on lobbying with very limited transparency for shareholders.	AGAINST
Tesla	Additional reporting on Human rights (shareholder proposal)	FOR	Several existing and potential controversies in regards to employee rights and suppliers warrant a FOR vote.	AGAINST
Mizuho Financial Group	Disclose plan to outline business strategy to Align Investments with the goals of the Paris Agreement (shareholder proposal)	FOR	We support that the company shall disclose in its annual reporting a plan outlining the company's business strategy, including metrics and targets, to align its investments with the goals of the Paris Agreement.	AGAINST
Barclays	Board proposal on commitment to tackling Climate Change and shareholder proposal to set and disclose climate related targets	FOR/ FOR	Multiple climate proposals aimed at tackling climate change, being net zero bank by 2050 and limit financial services to energy companies that does not live up to the Paris goals.	FOR/AGAINST
Chr Hansen Holding A/S	Apply the Recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) as the Framework for Climate-Related Disclosure in the Company's Annual Report	FOR	Report according to Task Force on Climate-related Financial Disclosures (TCFD). The aim is to ensure transparency on how considerations regarding climate change are integrated into strategic business decisions, and the risk exposure identified.	AGAINST

# Glossary

## 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.

NAM's engagement activities can be divided into three different categories:

1. Investment-led engagements: Engagement on ESG-related risks or opportunities identified by portfolio managers and financial analysts via our company assessments.
2. Norms- and incident-based engagement: Engagement with companies breaching the international norms or conventions or companies having ESG related incidents.
3. Thematic engagements: Focuses on companies' exposure to specific sustainability themes in focus. We have identified 5 focus themes: biodiversity, climate, human rights, good governance, and water. We engage with these companies both individually and through collaborative engagements.

## Environmental, Social and Governance (ESG):

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## 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.

## Exclusion list:

NAM excludes companies involved in serious breaches of international norms, where engagement is deemed not to be possible or effective. For example, we ban investment in companies active in the production of controversial weapons, including – but not limited to – cluster munitions and anti-personnel mines, as well as nuclear weapons. NAM also does not invest in companies deriving more than 10% of their revenues from thermal coal, and excludes companies involved in the production fossil fuels with thresholds for revenues coming from oil sands (10%) or arctic drilling (5%). The NAM level exclusion list can be found [here](#).

## 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-based screening:

NAM's investment products are subject to norms-based screening, which identifies companies that are allegedly involved in breaches of international law and norms on environmental protection, human rights, labour standards and anti-corruption. If a company is identified in this screening process, an internal assessment of the company and the incident is initiated. Typical actions can consist of engagement, quarantine or exclusion. For more information please refer to the [NAM RI Policy](#).

## 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.

## 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.

For more information:



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