



Nordea

ASSET MANAGEMENT

Responsible Investments Report 2016

About Nordea Asset Management

Nordea Asset Management (NAM) is the largest asset manager in the Nordics with a growing European presence and business. Our assets under management of EUR 217 billion. We are a semi-captive asset manager servicing Nordea Retail Banking, Private Banking and Life & Pensions, as well as Nordic and international institutional clients and third-party fund distributors globally. We employ 675 FTEs and 160 investment specialists. NAM is also the largest Nordic retail fund provider, with a 17% market share, more than 1.7 million unitholders and servicing more than 475 Nordic and international institutional clients. At the same time, we have a growing third-party fund distribution franchise servicing 300 international fund distributors, including 21 global wealth managers.



NAM is the largest fund provider in the Nordics



NAM is the largest asset manager in the Nordics

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Foreword

Nordea Asset Management's Responsible Investment Annual Report 2016

The global momentum for responsible investment continues as corporates increasingly navigate the challenges and opportunities brought by physical, human and technological changes. Investors recognise that environmental stress, social pressures and governance structures can play a material role in determining risk and return and are aware of the role they play in promoting sustainable business practices in financial markets.

It is my pleasure to introduce Nordea Asset Management's Annual Responsible Investment Report for 2016. As we enter our tenth year as a signatory to the Principles for Responsible Investment (PRI), I am very proud of the steps we have taken to take a wider view of ESG (Environment, Social and Governance) issues and account for them in our investment activities. Delivering returns with responsibility is part of our mission as the largest Nordic asset manager with an increasing European presence and business. Not only do we recognise the potential challenges and opportunities presented by ESG factors to our client's assets, but also see the increasing demand from our clients to integrate these factors in our investment decision making, ownership practices and product offering. This is a constant journey and we will continue to evolve our differentiated approach to responsible investment.

In 2016 the World Economic Forum identified failure of climate change mitigation and adaptation, water crises and profound social instability within the top five global risks of highest concern for the next 10 years. These are issues that not only present challenges for countries, but present risks and opportunities for the entities in which we invest, and ultimately the assets we manage. For Nordea Asset Management, we believe company engagement is critical in our action as investors. In 2016 we

continued our commitments and ambitions to address these areas:

- **Climate Change;** By the end of 2016, the required number of countries that produce enough of the world's greenhouse gases signed the Paris Agreement in order for it to enter into force. To remain competitive, companies and investors will need to understand how the Agreement will affect markets, regulation, and operations - and take corresponding action. We are part of several investor initiatives that support corporate resilience in a low-carbon universe and we are proud of our collaborative achievements in 2016 in seeking enhanced climate disclosure by the entities in which we invest.
- **Water;** Given the magnitude of global water crises, the societal impacts and the operational constraints it poses for companies and their suppliers, we lived one of our "proudest moments" when we, as active investors, were able to increase awareness of and action on reducing water pollution in the pharmaceutical industry supply chain.
- **Human Rights;** Businesses benefit from a stable social and political environment for running their operations and respect for human rights issues is essential to this. In 2016, we joined the Corporate Human Rights Benchmark, the first-ever ranking of the world's largest publicly listed companies on their human rights performance. The ranking offers investors a valuable additional tool for the evaluation and engagement of businesses.

One of our commitments to the PRI is to seek appropriate disclosure on ESG issues by the entities in which we invest. To support this commitment, Nordea Asset Management was one of 14 founding



members of the Sustainability Accounting Standards Board Investor Advisory Group, a US-based group that will support improving the quality and comparability of sustainability reporting. We believe the initiative will help investors make more informed investment decisions.

In addition to our active ownership commitments and achievements, we have also further developed our RI product offering, with the launch of the latest member of the Stars fund family, the Global Stars Equity fund, and the launch of Institutionella Aktiefonden Världen, a product that follows the MSCI low carbon target index.

While we are proud of these steps, we acknowledge that there is more to do.

We expect that 2017 will see continued engagement on climate change and on mitigating the physical risks such as water scarcity. The focus on corporate governance and adoption of global standards in Asian capital markets will strengthen. And while we don't expect the results of the 2016 US election to change fundamental long-term ESG trends (due to the economic imperative for action), we do expect

to see some short-term policy uncertainty and weakening of ESG-related priorities. We also expect to see new trends emerge as more corporates commit to the UN Sustainable Development Goals, a set of 17 quantitative and ambitious goals for global sustainable development as stakeholders, including investors, look for evidence of improved ESG outcomes. We anticipate greater demand from clients for increased transparency from asset managers such as ourselves, on the ESG impact of their investments.

As we move into 2017, our focus will be on enhancing our ESG capabilities; working with our fund managers and analysts to integrate ESG factors for enhanced longterm returns. We will also continue to build our active ownership activities to encourage good practice in the entities in which we invest. We shall also strive to find new ways of increasing transparency to assure clients we are delivering returns with responsibility.

Nils Bolmstrand
Head of Nordea Asset Management

Responsible investment approach

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

At Nordea Asset Management (NAM) we deliver on the mandate given to us by our clients – to generate the highest possible return with the lowest possible risk by managing and investing their assets in a responsible way. We achieve this by managing funds actively and delivering alpha. At NAM we fulfill this responsibility by being an active owner and engaging with companies on environmental, social and corporate governance practices (ESG).

The responsible investment strategy and activities are overseen by the Responsible Investment Committee (RIC). The RIC includes members from the Senior Executive Management team and is chaired by the CEO of NAM.

In our approach to asset management Nordea applies internationally recognized principles of responsible investment and active ownership. Nordea has developed its policies, procedures and investment products to ensure that the companies we invest in all live up to various criteria of sound environmental, social and governance performance.

NAM was among the first Nordic institutions to sign the Principles for Responsible Investment (PRI) in November 2007. By endorsing the PRI we commit to integrating ESG factors into our investment analysis, decision-making processes and ownership policies and practices. The PRI, together with international norms, are the basis for our Responsible Investment Policy. This way NAM acts as an active owner on behalf of its clients in companies and sectors across the world.

By combining financial performance with responsibility, we strive to offer clients responsible solutions. We believe that we can add value to our clients by actively considering ESG in our analysis and investment decisions – particularly through our investment research, asset allocation and performance monitoring.

We recognize that integrating ESG issues forms part of our fiduciary duty to clients and beneficiaries and want to see their portfolios managed in a way that systematically assesses drivers of risk and return over the long term. We aim to integrate our ESG research into the investment processes of our investment units and also develop and run specialized ESG products and services together with other units.



Link to RI Policy: <http://www.nordea.com/en/responsibility/sustainable-finance/policies/>



Stewardship and engagement

In 2016 we joined a number of **new initiatives**

Corporate governance activities

During 2016 we have attended more than 100 annual general meetings in the Nordics, and voted by proxy in more than 300 companies on thousands of proposals. We thus maintain the high level of engagement we set in 2015.

Our goal is to increase our voting level in the coming years. As before, we engage with companies on a range of topics, including ESG issues, remuneration programmes and capital structure. In 2016, we joined more than 30 nomination committees, accepting almost all requests.

In the companies where Nordea Funds are represented on the nomination committee, we drive the issue of gender balance. In the companies we were represented, the level of female board members was stable at 35 percent at the end of the 2016 season.

Engagements

Our model for outlining engagement activities is supported by structured processes to prioritize our engagement efforts on key issues such as underperformance on ESG, high ESG risk exposure to a certain theme or sector issue, materiality, relevance to our clients and our ability to influence.

We monitor all investments from an ESG perspective on a continuous basis through our ESG-integrated investment research and activities, including company meetings. We also receive up-to-date incident reports relating to our holdings through an external service provider and review our

funds annually to ensure that they continue to meet our criteria for inclusion.

We engage at company and industry sector level as well as with stakeholders and standard setters. We engage on behalf of all of NAM's funds. This supports the ongoing ESG integration activities within NAM. We actively vote our shares across all markets, which include taking voting action in respect of companies where ESG engagement has been unsatisfactory, concerns remain and/or significant controversies have arisen.

International initiatives

We seek to encourage best practices through participation in international initiatives. In addition to having signed the Principles of Responsible Investment (PRI) in 2007, NAM is also a signatory to:

- CDP - CDP is a not-for-profit that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts including climate change, water scarcity and deforestation. We are also represented on the CDP Water Advisory Council and the PRI Water Risk Advisory Committee.
- Institutional Investors Group on Climate Change (IGCC) - IGCC provides investors with a collaborative platform to encourage public policies, investment practices, and corporate behaviour that address long-term risks and opportunities associated with climate change.
- United Nations Environment Programme – Finance Initiative (UNEP FI) - UNEPFI is a partnership between United Nations Environment

Programme and the global financial sector created in the context of the 1992 Earth Summit with a mission to promote sustainable finance. Over 200 financial institutions, including banks, insurers and investors, work with UNEP to understand today's environmental challenges, why they matter to finance, and how to actively participate in addressing them. We are also part of the UNEP FI water and finance work stream.

- The Corporate Human Rights Benchmark (CHRB) – The CHRB is the first ever ranking of the world's largest publicly listed companies on their human rights performance. The Corporate Human Rights Benchmark will rank the top 500 globally listed companies on their human rights policy, process and performance, harnessing the competitive nature of the markets to drive better human rights performance.
- The Sustainability Accounting Standards Board (SASB) Investor Advisory Group - SASB is an independent non-profit. SASB's mission is to develop and disseminate sustainability accounting standards that help public corporations disclose

material with useful information to investors. Accordingly, SASB has created an Investor Advisory Group (IAG). The IAG comprises leading asset owners and asset managers who are committed to improving the quality and comparability of sustainability related disclosure to investors.

- The Extractive Industries Transparency Initiative (EITI) – EITI is a global standard to promote the open and accountable management of oil gas and mineral resources. We are now a Board member of the initiative.
- Sustainable Stock Exchanges' initiative (SSE) as a lead investor in the Nordic markets. SSE was launched in 2009 and is a global partnership platform including most of the world's exchanges and working with exchanges to utilize new research to advance their sustainable business strategies. Through the SSE exchanges have access to consensus and capacity building activities, guidance, research to assist in their efforts to contribute to sustainable development.



Focus areas

We have four areas for our stewardship and active ownership activities within ESG: climate change, water, corruption and human rights. We engage on these issues at company, industry sector and policy level. In addition, we engage with companies that are identified through our norm-based screening process. All of Nordea's funds are screened annually for verified violations of international norms regarding environmental protection, human rights, labour standards and business ethics. We also engage with companies that we have identified as underperforming in terms of ESG and where we see material risks that may not be adequately managed or opportunities that may not be fully capitalised on.

Focus area: Climate change

The World Economic Forum's Global Risks Report 2016 ranks failure of climate change mitigation and adaptation as the highest ranking global risk in terms of impact.

Paris agreement

The agreement made at the successful COP21 meeting in December 2015 in Paris was ratified by USA and China on September 3, 2016. Although some concerns have been raised after the US-election, countries are now bound by a ratified agreement to keep global temperatures from rising more than 2°C by 2100, with an ideal target of keeping the temperature rise below 1.5°C. The agreement will affect markets, regulation and operations.

- We played an active part in calling for the agreement and have during 2016 continued to push for a transition to a low-carbon economy.
- In September and ahead of COP22, Nordea was one of 130 investors that signed a letter calling on G20 to take steps to meet the Paris climate agreement.
- We participated in the COP 22 climate conference which took place in Marrakech, Marocco in November 2016.

Aiming for A

In 2016 Nordea joined the shareholder coalition called "Aiming for A", requesting that the companies stress test their business strategies against a scenario where climate change is limited to two degrees Celsius or less as agreed in the Paris agreement. The shareholder initiative filed shareholder resolutions at the largest UK-listed extractives and utilities companies' annual general meetings (AGM), demanding deeper disclosure of climate change risk and opportunity management.



Climate change

The World Economic Forum's Global Risks Report 2016 ranks failure of climate change mitigation and adaptation as the highest ranking global risk in terms of impact.



Water

Water-related risks and opportunities are becoming increasingly important for our investments.



Corruption

We have seen growing evidence of a correlation between corrupt business practices and negative effects on long-term financial returns.



Human rights

We expect companies to observe internationally recognized human rights principles and to prevent negative effects and manage their impact on human rights.

At the AGMs of Anglo American, Rio-Tinto and Glencore, the Aiming for an initiative won landslide victories with 96 per cent, 99 per cent and 98 per cent of the votes.

Climate lobbying

We continued being part of the IIGCC investor initiative on corporate lobbying in an EU climate and energy policy context during 2016. A letter signed by 50 investors from eight countries representing over EUR 4.4 trillion in assets under management was sent to 75 companies.

We continued our participation in the collaborative investor engagement on Climate Lobbying with more than 60 investors coordinated by the PRI. The initiative calls for improvements in practice and transparency from investee companies on their climate change lobbying practices.

We are a long-standing member of the CDP (Carbon Disclosure Project), which aims at encouraging companies to measure and disclose through self-reporting climate change, water and forest-risk data. This information is used in our ESG analysis and investment decision-making.

Carbon footprint disclosure

We believe that increased transparency of funds' carbon footprints contributes positively to tackling climate change. We signed the Montreal Carbon Pledge launched on 25 September 2014 at PRI in Person in Montréal and supported by the Principles for Responsible Investment (PRI) and the United Nations Environment Program Finance Initiative (UNEP FI). By signing this pledge we commit to measuring and publicly disclosing the carbon footprint of our investment portfolios on an annual basis. In December 2015 we disclosed the carbon footprint as part of the ESG score cards for our STARS funds. Going into 2017, we are expanding the disclosure and will initially be publishing carbon footprints for all of our equity funds.

Focus area: water

Water-related risks and opportunities are becoming increasingly important for our investments.

Water pollution in the pharma supply chain

The pharmaceutical industry is one of the fastest growing segments of the Indian economy. The market is expected to grow to \$100 billion by 2025.

As part of our engagement with pharmaceutical companies regarding their supply chain management and the evidence of poor waste water

management within pharmaceutical manufacturing in India found during Nordea's visit to Hyderabad and Visakhapatnam in April 2015, we commissioned an on-the-ground report on water pollution in Hyderabad and Visakhapatnam in early 2016 from the NGO Changing Markets. The resulting report documents and show local impacts of drug pollution and severe contamination of waterways and agricultural lands. The report can be accessed through our website: Nordea.com.

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

CDP Water Advisory Council

In 2016 Nordea continued our work with CDP's Water Advisory Council and another collaborative engagement initiative that we continued with is the PRI-coordinated project focusing on water risks in agricultural supply chains.



Focus area: human rights

We expect companies to observe internationally recognized human rights principles and to prevent negative effects and manage their impact on human rights. Poor management conflicts with the long-term interest in promoting a responsible and sustainable development and may impact companies' license to operate. Human rights related issues include complicity in human rights abuses, modern slavery and child labour, occupational safety and health, the rights of indigenous people and displacement of local communities, freedom of association and collective bargaining and international humanitarian law.

Collaborative engagement on human rights in the extractive sector

We are part of a collaborative engagement coordinated by the PRI (Principles of Responsible Investment) on human rights in the extractive sector. Extractive companies can face significant operational and reputational risks if they do not take adequate steps to manage human rights issues. Such risks include boycotts, project delays and cancellations, lawsuits and negative press coverage. The engagement targets 50 global large cap mining and oil and gas companies with high exposure to human rights risks. The selection is based on operating regions, existing corporate human rights policies and systems, and human rights incidents and allegations.

The Access to Medicine Index

Two billion people around the world have no access to medicine. We believe that pharmaceutical companies have an important role to play in addressing the access to medicine issue and that this particular issue is potentially material to long-term shareholder value creation. In order to promote better business practices in this area we work with the Access to Medicine Index. The Access to Medicine Index analyses the top 20 research-based pharmaceutical companies on how they make medicines, vaccines and diagnostics more accessible in low- and middle-income countries. It highlights best and innovative practices, and areas where progress has been made and where action is still required. The latest assessment- 2016 Access to Medicine Index - was published in November 2016.

Corporate Human Right Benchmark

In 2016 Nordea joined the Corporate Human Rights Benchmark (CHRB) which aims to drive better human rights performance through the creation of a transparent, credible and publicly available benchmark. It will compare 500 of the largest companies in the agricultural products, apparel, and extractive industries globally based on indicators

measuring human rights related policies, processes and practices. The Corporate Human Rights Benchmark will raise the level of awareness of the materiality of human rights and help companies meet investor expectations on human rights. It will also enable financial institutions such as Nordea to assess and help clients to ensure they are not linked to human rights abuses. A pilot benchmark of 100 companies will be launched in early 2017.

We also signed the UN Guiding Principles Reporting Framework Investor Statement, an investor coalition supporting the UN Guiding Principles Reporting Framework and the CHRB. The coalition includes 85 investors representing \$5.3 trillion assets under management.

Focus area: corruption

We have seen growing evidence of a correlation between corrupt business practices and negative effects on long-term financial returns. Transparency requirements, both voluntary and mandatory, are being developed, requiring companies to disclose information on corporate and ownership structures and their anti-corruption programs and provide country-by-country reporting of taxes and government payments.

Promoting our corruption handbook

We initiated already last year an engagement project on corruption management involving 20 companies among our largest holdings. The aim is to promote a proactive approach to corruption, implementation of adequate anti-corruption measures and improved transparency.



Engagement with companies

We use an external service provider to annually screen all funds managed by NAM against our exclusion criteria as well as for verified violations of international norms regarding environmental protection, human rights, labour standards and business ethics. We also receive on a continuous basis incident alerts related to our holdings to ensure that the companies we are invested in continue to meet our criteria for inclusion.

If a company is identified as breaching our inclusion criteria or international norms, we will undertake an internal assessment of the company and the incident. We may decide to engage with the companies identified through this process and through active ownership encourage them to improve their ways of working. In 2016 we had seven in-depth engagements on norm violations. If a company is found to be in breach of our inclusion criteria or does not change its norm-breaching behaviour within a certain time period, NAM's Responsible Investment Committee may decide to exclude or divest the company. In some cases we put companies on a watch list or quarantine them.

In 2016, we engaged with 153 companies that we have identified as underperforming in terms of ESG and where we see material risks that may not be adequately managed or opportunities that may not be fully capitalised on. These companies include some of our largest holdings as well as companies identified for our ESG-enhanced funds.

The dialogues were part of the around 170 company meetings we had during the year. Through these engagement efforts we are also able to identify new investment opportunities.



3. We base our Responsible Investment Policy and strategy on international conventions and norms, including:

- The United Nations Global Compact
- The OECD Principles of Corporate Governance
- The OECD Guidelines for Multinational Enterprises
- The Universal Declaration of Human Rights
- The UN Guiding Principles on Business and Human Rights
- The Children's Rights and Business Principles
- The ILO conventions on labour standards
- The Rio Declaration on Environment and Development
- The UN Convention on Corruption
- The Convention on Cluster Munitions

http://www.nordea.com/Images/33-99083/RI_Policy_JAN2016_3.pdf

Engagement case: Phoenix Mills Limited

NAM is a shareholder in The Phoenix Mills Limited, a company that operates in the Indian real estate sector. The Company is involved in the ownership, management and development of retail mixed use properties that include shopping, entertainment, commercial, residential and hospitality assets in at Mumbai, Pune, Bengaluru, Chennai, Lucknow, Bareilly and Agra.

We have been a long-term shareholder in Phoenix Mills, and the intention of our dialogue over the years, has been to support them to be a sustainable real estate developer in India. The country and sector context in which Phoenix Mills operates is challenging; weaker labour laws, environmental considerations down-played and potential legacy issues with land acquisition.

Our constructive dialogue with Phoenix Mills has informed our view that Phoenix Mills can withstand these challenges credibly, where we encouraged enhanced transparency, through reporting on management of sustainability issues, to confirm to investors that they are a quality company in India.

In May 2016 we met with Phoenix Mills, in Mumbai, India. 2016 marked a good year in terms of the company's commitments of a more strategic and coherent approach to material ESG issues. They have made progress in capturing the low-hanging fruit which can be seen on their progress in the following areas:

- Lower cost of maintenance with positive environmental features. E.g. Lighting / HVAC / water consumption and publication of their green initiative
- Systems and processes to monitor suppliers and regular reporting on compliance with labour laws
- Publication of their code of conduct which among other things includes anti-corruption and anti-bribery commitments

Engagement case: Stora Enso

NAM is a shareholder in Finnish/Swedish pulp and paper producer Stora Enso through various funds. In 2013, NAM downgraded Stora Enso from an ESG perspective and the share has not been investable for any of our Stars funds since then.

Ever since the divestment of Stora Enso shares in the Stars funds, the RI-team has been involved in an engagement process in order to track Stora Enso's ESG progress with a special focus on human rights issues. Over the last couple of years Stora Enso has had reoccurring incidents concerning child labor in the supply chain of its joint venture operation in Pakistan and land conflicts in China and Brazil.

In 2016 the RI-team planned to visit Stora Enso's operations in both Pakistan and Brazil. This follows previous field visits to their operations in Pakistan and China. In February 2016 we sent two ESG analysts to Stora Enso's joint venture operations called Veracel in the Bahia region in northeastern Brazil.

Veracel operates in a region with political conflicts and high inequality in terms of income distribution and ownership of land. It's also a region that used to be dominated by the Atlantic Rain Forest. 97 percent of the rain forest was harvest in a non-sustainable way up until the 1970's – majority of land became pasture. The land that Veracel operates on has also been claimed by the so called Landless movement, that consists of poor and unemployed people from both the region but also from larger cities, objecting to the skewed distribution of landownership in the country. There are also signs of some form link between the Landless movement and unions and also the Labor party.

Based on our visit we think that Veracel shows good understanding of the risks and challenges associated with operating in the area, both from

an environmental and social point of view. Veracel has deemed it to be in their own interest to reach out and conduct dialogues with stakeholders in the region.

The company has learnt the lesson the hard way, historically being exposed to violent occupations with very bad outcomes on both sides. Needless to say, the opposing party (the unions/movement of Landless workers) has also digested the fact that collaboration will yield the best outcome.

Veracel seems to have an acceptable relation with the indigenous people stakeholders. Concerning the Landless movements (see description above), Veracel has an agreement with six organizations within the movement stating that they can use 16.000 hectares for farming. Veracel also supports the community with education and equipment.

However, there are other similar organizations that also want to use land owned by Veracel with whom Veracel does not have any agreement or any dialogue at this point. It's important to understand that the root to this conflict has a historic and political context, both on a region and national level. It's difficult to see that Veracel and all stakeholders will be able to reach mutual understandings without political actions taken in Brazil. This issue will remain a risk for Veracel going forward, and the company will be reliant on political processes that are very unpredictable. The company has long-term plans of expanding their land area even more, which would obviously put them under increased pressure.

The RI-team's planned trip to Pakistan was unfortunately postponed due to security reasons. The plan is to conduct the field visit in 2017. In the meantime NAM has not changed its position on Stora Enso from an ESG perspective and the share is not eligible for investment in the Stars funds.

ESG integration

Our aim is to include ESG analysis as an element within all investment processes.

We believe this will improve risk management and thereby risk adjusted returns.

NAM aims to take returns with responsibility to a new level to ensure competitive, consistent and responsible returns for all funds.

Environmental, social and governance issues are an increasing source of risk and opportunity, and we therefore seek to integrate ESG issues into our investment analysis methodology for our internal boutiques to ensure that investment and portfolio construction decisions are based on a full set

of information. ESG data is made available to all investment professionals to use in assessing investments. We believe this will improve risk management and thereby risk-adjusted returns. To encourage the use of ESG data we have integrated ESG in the portfolio performance reviews of our Equities team.

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

Our responsible investment (RI) team of 9 ESG analysts forms an integral part of our investment team and works with the fund managers and analysts to help integrate significant ESG analysis into our investment approach across portfolios.

Active ownership, engagement, proxy voting

RI-enhanced products

ESG integration in traditional funds

Investment evaluation to buy/sell explicitly includes ESG factors:

- Niche portfolios with sector screens
- STARS portfolios with proprietary ESG ratings
- Thematic portfolios (e.g. Climate and Environment)

Actively managed products include ESG as one of the factors used in assessing investments

Norms-based screening, Exclusions



ESG integration

“Working with the RI team as an integrated unit has clearly benefited our unit holders also from a performance point of view. ESG is an integrated part of our investment process and by doing research jointly, and interact with companies with representatives from both the investment organization and the RI team, we have both identified attractive investment opportunities as well as risks and events that helped us to avoid poor investments.

I really look forward to deepen the collaboration further into 2017 as we are convinced that ESG will be an even more important factor to consider when finding sustainable winners.”

John Hernander, portfolio manager, Nordea Asset Management

Proprietary ESG research

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

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

We underpin our approach with externally sourced ESG research and ratings. This provides coverage of over 4,000 companies globally both in terms of their practices and in terms of tracking controversial issues. All portfolio managers of our actively managed funds have access to ESG data in their systems.

During 2016 we conducted in-depth analysis of approximately 200 companies from an ESG perspective. Meetings and on-site meetings were part of these analyses, as was the providing of feedback to the companies on their ESG materiality analysis.

In 2016 NAM also won Capital Finance International's (CFI) award for best ESG investment process in Europe for the third consecutive year. According to the jury's statement Nordea has consistently been at the forefront of responsible investing, using ESG as a means to mitigate risk and maximize opportunity.





ESG data

“ We have had access to ESG data since 2013 and we have recently added carbon data. We have used this data in different ways and started to look at different ESG metrics to find factors that could enhance our quantitative models.

We have concluded that gender equality on board level has a positive impact on long term returns and it is a factor that we take into account when selecting companies.”

Robert Næss, portfolio manager, Nordea Asset Management

Product development

Our new Stars

Global Stars – the new star of 2016

On May 23, 2016, a new star was born in the Nordea Stars-family. With the launch of our fourth Stars-product, Global Stars, our customers can now buy into the Stars-concept and also get a truly international exposure in their portfolios.

When picking stocks for Global Stars we proactively select high-quality ESG companies rather than negatively screening out poor ESG industries. We do this through a combination of engagement, thematic research, field trips and ESG analysis – with each element serving its own specific purpose.

Key to the success of Global Stars will be what the portfolio managers and the RI-analyst achieve together in close collaboration.

“Since we actually are sitting next to each other, we can have dialogues about our investments, events and different trends on a daily basis. We believe that ESG gives a new dimension to the analyses that helps us finding stocks that we believe give long term returns and bring positive contributions to some of the challenges that the world faces”, says Johan Swahn, one of the PM’s managing Global Stars.

According to Johan Swahn, the Stars concept is more than just stock picking.

“ESG in an integrated part of the whole investment process and reflected in the investment philosophy, the valuations and the structuring of the portfolio”.

Since Nordea launched its first Stars fund, Swedish Stars, in 2011, we have proved that it is possible to deliver returns with responsibility and

we are convinced that the integrated ESG process is adding value.

“There are many academic studies out there showing the correlation between environmental, social and governance issues and long term performance”, says Hetal Damani, co-head of the RI-team and ESG-analyst.

Besides integrating ESG in the investment process in order to find long term performers, it’s also vital that the customers trust us with managing their money in a responsible manner.

“There was a lot of demand for a global fund that employed the same ESG considerations as the previous Stars funds”, says Hetal Damani.

Nordea Global Stars consists of about 50 stocks and has a mandate to invest all over the world. The fund has a carbon filter, meaning that it will not invest in companies involved with more than 50 percent of its revenues from production of fossil fuels.

Nordea Swedish Bond Stars – the new star of 2017

In 2017 Nordea’s RI team will break new ground when the Stars concept will be expanded to fixed income with the launch of Nordea Swedish Bond Stars.

In 2016, with the launch of Global Stars, we made it possible for customers who appreciate the ESG approach in the Stars concept to have a truly international exposure. In 2017 we take it one step further by using the Stars concept of integrating ESG analysis in the investment process in the first



ESG enhances fixed income product.

"This is a very natural step for us. We started with equity and that's where we have had all focus up until now. But clients who want us to manage their money responsibly and who share our deep belief that environmental, social and governance issues are essential to manage in order to deliver long term returns, also want fixed income alternatives to match their allocation strategies", says Katarina Hammar, co-head of the RI-team.

The universe for the Nordea Swedish Bond Stars will consist of green bonds and Nordic investment grade bonds where the issuer of the bond has been evaluated by an ESG analyst from the Nordea RI-team. Just like the Swedish Stars, Nordic Stars and Global Stars the threshold for investments will be an ESG rating of B+ on a scale from A to C.

Green bonds are bonds that are aimed to fund projects that have positive impacts on the environment, like reducing fossil fuel emission, renewable energy or sustainable property construction.

Stars Funds

We have created a family of investment funds under the Stars brand

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

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

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

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

Swedish Stars

Our Swedish Stars was launched in 2011 and invests in approximately 30-50 Swedish equities. Below some examples of holdings and ESG highlights.

Atlas Copco

The Swedish producer of mining equipment,

compressors and industrial tools is one of the largest holdings in Swedish Stars portfolio. Purchased components represent 75 percent of product cost, so supply chain management is a key issue from an ESG-perspective. Company recognizes the risks and has developed proper responsible sourcing practices to mitigate risks, including both self-assessment process and audits of significant suppliers.

The company operates all over the world and also in countries with high risk for violation of human rights when selling and maintaining equipment. Company conducts human rights Due Diligence both on own operations and business partners. It has developed a customer sustainability tool to investigate potential risks based on environmental, labour rights, human rights and corruption in markets and industries where Atlas is present. Atlas Copco has also shared the sustainability tool with industry peers to increase the standards in industry.

During the year Atlas Copco has changed its sustainability management and is also overseeing its long term targets, which has raised some concern from our side. Nordea is however keeping close contact with the company in order to feel comfortable that Atlas Copco continues its efforts to manage its ESG risks as good as we believe it has done in the past. During the year, Nordea met with the company both in its Stockholm headquarters and on the field in Columbia to verify that Atlas Copco's strong ESG policies are implemented on the ground.

Volvo

AB Volvo is manufacturing trucks, busses, construction equipment that to a large extent is run on fossil fuel. But with strong focus on R&D, Volvo is well positioned to benefit from increased demand on environmental friendlier, safer and more





automated means of transportation. With both sales and production in various parts of the world the company is exposed to changes in environmental and social legislations, business ethics risks and variations in taxations between countries.

Volvo shows very good understanding of ESG related risks and has implemented policies and procedures to mitigate risks – both in its own operations but also in the supply chain. It is however a weakness that the supply chain management is to a large degree dependent on a self-assessment process. Although the company meets its suppliers on a regular basis and argues that it has very good insights, we believe that there is room for improvements in this area and that the company in the long run would benefit from a more comprehensive and systematic audit process.

Volvo has a good understanding of the opportunities that arises from increased awareness on climate issues and tougher environmental legislations.

Nordic Stars

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

Wärtsilä

Finnish based Wärtsilä is a producer of power solutions for the energy market and the marine industry. The company is highly focused on innovation and develops energy saving products that are flexible fuel based. This is also where the company focuses its environmental initiatives. Environmental risk exposure is moderate. But with a global presence, and sales potential all over the

world the company faces heightened risks from both supply chain and from business ethical point of view.

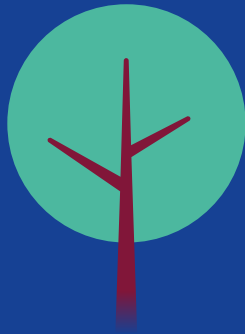
All ESG work is based on a thorough risk assessment and company has strong policies for all relevant issues. Long term environmental targets from own production is a bit weak, but to some extent understandable since environmental footprint mainly derives from the usage of its products.

Production is both environmentally and socially certified. Wärtsilä has a strong supply audit system. Corruption risk is recognized by and monitored by the company and high risk personnel are identified and trained. Company has a whistle-blowing function which unfortunately does not guarantee anonymity. Nordea believes this to be a weakness of the company. The company is using sales agents to some extent and has a pre-qualification process when selecting these agents. Nordea's RI team met with Wärtsilä in Helsinki during the year to discuss the company's ESG performance.

Gjensidige

Gjensidige, a Norwegian insurance company with high exposure towards property and casualty, was a new investment for the Nordic Stars fund in 2016. The company also offers life, saving and pension solutions. From an ESG-perspective, we believe that there is a strong management commitment and that key issues are identified and managed. ESG risks are relatively low since the company is mainly operating in Norway. There is high level of financial inclusion in the Nordics and thereby limited opportunities from that perspective.

Key issues for the company are human capital, responsible investments, environment/climate



policy, cyber security and business ethics. Labour management is very well managed. Climate change is the greatest environmental risk for the insurance industry but also changing demographics. Gjensidige conducts annual climate change risk analysis to capture impact on costs and claims.

Gjensidige is managing ESG related risk in relation to its investments through an external monitor (GES) and excludes companies that do not meet requirements in relation to human rights, labour standards, environment, corruption and weapons. We believe that there is potential to strengthen ESG integration on the investment side and possibilities to strengthen ESG-requirements on external portfolio managers.

Emerging Stars

Our Emerging Stars was launched in 2011 and invests in approximately 50 emerging market equities in countries such as Brazil, India and China. Below some examples of holdings and ESG highlights.

Antofagasta

Antofagasta is a Chilean Copper mining company and part of the Emerging Stars portfolio. Mining is per definition a risky business from an ESG point of view. Therefore we travelled to Chile to get a better understanding of how Antofagasta is handling its risks and opportunities regarding environmental and social issues. Copper mining is twofold; Copper plays an important part in the transition to a low-carbon economy since it's used for grids for renewable electricity, in electrical vehicles and also for green buildings. On the other hand, mining is exposed to almost all issues you can think of in terms of environmental and social risks.

What we learned at Antofagasta is, how crucial access to water is for mining and how much they are committed to find new technologies to secure water access. Using untreated and desalinated seawater techniques comes at a cost since it consumes more energy and also results in higher CO2 emissions, which the company is trying to off-set by installing renewable energy. In general, Antofagasta is a pioneer in many areas in terms of their approach to handling water risk.

Health and safety is another issue, which is very important for a mining company and it is clear that this is a top priority for the company. For example it is incentivizing reporting on near misses to reduce the risk of severe accidents and fatalities and it is also conducting campaigns towards workers to increase awareness of health and safety.

Another very material issue for the company is community relations. At the mine Los Pelambres this was becoming a threat to the business and the company has succeeded in making an agreement with a local community in near proximity of a tailings dam. This has secured the company's ability to continue operation in the area and eventual expansion.

Taiwan Semiconductor Manufacturing (TSMC).

TSMC has a business model that is very well positioned to provide technologies that will be an enabler for solutions so sustainability challenges. The company has sold off its LED subsidiary and closed its solar facility because they were not economically viable and will instead focus on providing more advanced power efficient and ecologically sound chips that can be used for supporting sustainable city infrastructure, greener vehicles, smart grids, etc. The company is very strong in R&D with continuous innovation and also

has R&D expenses that are above peers. The company continues to show good understanding of risks including its suppliers. It has management systems, is continuously improving its processes, performance and has also set new long-term targets, and this all relates to its climate change response, water management, green buildings, manufacturing and products. They also show improvements in its supply chain management and raw materials sourcing. In 2016 TSMC reported that 100% of the smelters and refiners from which the company's suppliers source the conflict minerals have been fully audited, vetted and certified under the CFSP.

The major challenge for TSMC remains water related compliance and operational costs, since the majority of its facilities are in water scarce areas – 90% of production is in science parks in Taiwan that have seen droughts during recent years and where the regulatory requirements for water recycling has become more stringent.

Human capital is one of the main risk factors for the company, since it is crucial for the business model to be able to attract and retain highly skilled employees to ensure continuous innovation. Competition for talent is growing. TSMC shows strong human capital management, with competitive benefits for employees, profit sharing schemes, flexible leave programs, individual development plans and diverse learning resources. As a result they have a very low turnover rate of 5%, 3.8% for the age group 30-50 years.

Global Stars

The latest star in the Nordea Stars family is Global Stars that was launched in March 2016. Below are some examples of holdings and ESG highlights.

Schneider Electric

Smart grid technology, electro-mobility and energy-efficient solutions. These are some of the key areas for French electricity giant Schneider Electric. The company has an ambitious focus on energy optimization and wants this area to grow by 7 per cent more than the overall growth. Energy optimization is considered vital if the world is to reach the global warming target of maximum two degree set at the COP15 summit, and Schneider is also on the right track in terms of turning green thinking into good business.

The company is also working with co-partners to realise projects in developing countries, for instance increasing access to electricity and teaching

electrical skills to unemployed youth in rural areas. Schneider has developed an inclusive business model aimed at contributing to poverty alleviation and environmental protection. The company is ranked as one of the world's 100 most advanced companies in the area of sustainable development, especially in energy efficiency, which is crucial for the future well-being of our planet.

Grupo Nutresa

Grupo Nutresa processes, distributes, and markets food products both in Columbia and internationally. It is a dynamic and high-quality company that is well managed from several angles.

The principal activity of the Columbian company is to produce and distribute globally a wide range of foods marketed under 70 different brands. Grupo Nutresa is one of the most dynamic companies in Latin America and the only food company in the region that is a member of the Dow Jones Sustainability Index.

We believe that Grupo Nutresa's activities have a strong sustainability focus. They are well positioned within health improvement and strive to keep up with health trends. The company has a long-term strategy to improve the nutritional profile of its products with a 2020 goal to double the products that have an appropriate nutritional profile (e.g. reduced sodium, saturated fats, transfats, sugar and natural dyes). Furthermore, they have strong efforts to reduce the impact of their own operations and their suppliers within social and environmental areas.

The company aims at increasing awareness and action in the areas of nutrition, education and human rights, and they collaborate with various partners to boost capacities in healthy lifestyles in developing countries. Thousands of farmers have received technical, social and business counselling in developing their crops and strengthening their organizations. Moreover, Grupo Nutresa has a strong green focus in all their activities.



Field visit: Colombia

We **visited Colombia** to meet some of the companies in the Stars funds

As part of our engagement and ESG analysis approach, we regularly visit company sites to improve our understanding of relevant issues and to get a closer view on how investee companies are managing their social and environmental challenges.

We visited Colombia to meet some of the companies in the Stars funds covering the telecom, consumer and security sector.

The market is very regulated according to the companies we met but there still seem to be room for improving enforcement. The impact from the ongoing peace process was also highlighted and the expectations are very positive.

The main ESG risks that companies in Colombia are exposed to are related to business ethics, worker's rights, land rights and the rights of indigenous people. We confirmed the ratings we already had after meeting them on the ground.





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Katarina Hammer,
Co-Head of Responsible Investments





“Our on the ground research informed our company analysis and also deepened our knowledge about India’s growing sectors, and their ESG challenges and opportunities.”

Olena Velychko
ESG Analyst





Field visit: India

ESG risks appeared to be slowly improving

In May 2016, the RI team visited several cities in India to meet with Indian companies in the Emerging Stars fund and engage with Nordea's top Indian holdings. Our on the ground research informed our company analysis and also deepened our knowledge about India's growing sectors, and their ESG challenges and opportunities. Growing sectors included energy, construction and infrastructure services, manufacturing and consumer.

We were positive to the fact that management of sector-related ESG risks appeared to be slowly improving. In Bangalore, we met Wipro, an IT services company focused on supporting companies in increasing the efficiency of products and processes. We also visited a construction site of Sobha Developers, a real estate developer, to understand how labour issues and safety risks are managed in an unorganised sector.

During two days in Mumbai we visited ICICI Bank and Phoenix Mills, as well as other Nordea holdings such as Reliance Industries and Tata Motors to get a better understanding of the Indian context and how their key ESG issues were currently managed. Other site visits during the trip included Adani Ports Special Economic Zone in Bhuj, Gujarat, followed by a visit to cotton farmers who are beneficiaries of Cotton Connect's farmer development program done with the support of Primark. Our take on the visit is that corruption risks are improving at the central government level, but are still problematic to tackle at state level.

There is a lot of discussion on how a growing population is to be included in the economy and how to ease doing business in Indian states; while we noticed that there is still a down-prioritisation as far as more stringent environmental regulations and their respective enforcement. ESG opportunities noted included India's rural areas as untapped markets for inclusive growth (e.g. microfinance offerings, access to nutrition and hygiene) and solutions for smart cities, clean energy and water in India's growing urban areas.



Field visit: Chile

Water issues have a **direct impact** on the risk profile of Chile's mining companies

In November 2016, the RI team visited Chile to get a better understanding of how ESG risks are managed in Chile's mining sector and to evaluate Antofagasta's ESG profile, for inclusion in our Stars funds. In Chile, we understood that Corporate Governance regulatory framework has strengthened in past years. We also understood that Chile is the second most transparent and least corrupt country in Latin America. And while scores are high on a wide range of human development indicators, there is still some income equality.

One of Chile's most pressing issues however, included environmental (water) issues given recurrent drought. This has a direct impact on the risk profile of Chile's mining companies, as many operate in arid land where severe water shortages could pose potential operational risk. Also, numerous large-scale mining projects have been delayed and cancelled in the past due to real or perceived threats to traditional land uses, biodiversity or natural resource quality.

We visited 3 sites of Antofagasta; Los Pelambres mine, El Mauro Tailings Dam (and neighbouring community Caimanes) and Centinela mine. Here we learned how Antofagasta is applying their new approach to community engagement, pioneering technologies to manage water and safety risks such as use of untreated sea water and thickened tailings, and health and safety practices at the mine sites. Our on the ground visit helped us confirm that what Antofagasta reports in their investor presentations and reports, is actually what is being implemented on the ground.





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Hetal Damani,
Co-Head of Responsible Investments





“The outcome of the US election has put the development under pressure, since it is dependent on especially large American companies having production in Mexico.”

Susanne Røge Lund
ESG Analyst





Field visit: Mexico

Mexico is increasingly becoming **a residence** for foreign companies

In November 2016, the RI team visited the Mexican company Vesta, which develops and operates industrial buildings. Mexico is increasingly becoming a residence for foreign companies, moving production into one of Mexico's numerous industrial parks with convenient geographical location. The outcome of the US election has thus put this development under pressure, since it is dependent on especially large American companies having production in Mexico.

The purpose of the visit was to update our analysis of an existing holding in the Emerging Star Fund and to get on the ground knowledge of their business in terms of practices and developments. During the visit we visited one of their industrial parks in the outskirts of Mexico City to see how they have built facilities for companies with a focus on building materials, building methods and environmentally friendly solutions such as solar panels, LED lighting, etc. We also visited a local school, which the company has adopted as part of their community engagement. From the management we learned how they are pushing LEED certified buildings towards their clients which is an important part of the business model in terms of maintaining tenants and making buildings attractive for reletting when contracts end. The company still has work to do in terms of anti-corruption where they have found inspiration in the corruption handbook that Nordea has published.



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