



Nordea
ASSET MANAGEMENT

**Responsible Investments
Report 2018**



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Nordea

Nordea is the largest financial services group in the Nordic region (approx. 9.5 million personal customers and 570,000 corporate customers) and one of the biggest banks in Europe. We want to make a real difference – for our customers and for the communities in which we operate – by sharing our extensive expertise based on 200 years in the banking business.

About Nordea Asset Management

Nordea Asset Management (NAM) is part of the Nordea Group. We are an active asset manager with a global business model offering services in Europe, the Americas and Asia. We manage asset classes across the full investment spectrum. Our growing third-party distribution franchise services a wide range of international fund distributors, including many of the leading global wealth managers. We distribute our products through banks, asset managers, independent financial advisors, insurance companies and family offices. Our client base is equally split between Nordea Group related and external clients. With EUR 204.8 bn (31 December 2018) in assets under management, we have been experiencing strong growth over the past decade.

About sustainable finance at Nordea

Sustainable finance at Nordea is about integrating sustainability into the bank and all business activities and products within our core areas of investment, financing and customer advice. At Nordea, the work on sustainable finance is conducted across the group by two dedicated teams, Group Sustainable Finance working at Nordea Group level and a Responsible Investment Team covering the ESG research at Nordea Asset Management. In total there are 33 people working with Sustainable Finance at Nordea, in Group Sustainable Finance and in the Responsible Investment team for Nordea Asset Management together with the fund managers and analysts to help integrate significant environmental, social and governance (ESG) analysis into our investment approach across portfolios. This report reflects the work on responsible investments within the scope of asset management and present highlights of sustainable finance efforts across investments, financing and advice at Nordea.

Integrating ESG in a disruptive world

Last year, the European Parliament voted in favour of a regulation to ban single-use plastics by 2021. Why should investors care about this? Put bluntly, aside from purely ecological considerations, it has the potential to impact their bottom line. As companies are forced to deal with their environmental footprint, waste reduction management is progressing from image control to a serious business challenge. Last year, the number of earnings calls that mentioned “plastic waste” increased by 340 percent compared with the previous year. This is indicative of a broader trend in asset management. The effects of climate change are disrupting myriad industries from oil & gas to utilities to car manufacturers. And the ripple effects of this disruption are making waves in the financial sector.

At Nordea Asset Management (NAM), we consider it our fiduciary duty to evaluate all material factors that can impact the long-term performance of companies in which we invest. In short, it is our job to not only protect investors from changes that may affect a company’s valuation, but also to identify tomorrows winners – those that can offer solutions to meet regulatory and consumer demands in the coming years. We work hard to find companies that have positioned themselves to benefit from the shift toward environmental responsibility while also contributing to a more sustainable world.

Because environmental, social and governance (ESG) issues are an increasing source of risk and opportunity, we seek to integrate these into our investment analysis. ESG integration adds an additional lens to portfolio analysis that gives us a more holistic picture to better identify companies that can sustain longer competitive advantages. Our STARS fund range, which includes both equity and fixed income solutions, is fully ESG integrated. Last year, we added Nordea 1 – North American Stars Equity Fund to the range and we’ll expand into the fixed income space with three new additions in 2019: Nordea 1 – Emerging Stars Bond Fund, Nordea 1 – European Corporate Stars Bond Fund and Nordea 1 – European High Yield Stars Bond Fund. Of course, engagement is an important part of our investment approach as we push companies along the path of social responsibility. Indeed, it is a key pillar of our STARS funds, which invest in companies scoring highly on corporate ESG metrics.

But our sustainability work on the asset management front did not end there. We joined in a UNEP FI (United Nations Environment Programme, Financial Initiative) pilot project seeking to implement TCFD (Taskforce on Climate-related Financial Disclosures) recommendations. The project is a pioneering initiative to develop models to assess climate-related risks and opportunities.

In March, I was honored to participate in a high-level conference initiated by the European Commission to kickstart its Action Plan on Sustainable Finance*. In addition to presentations delivered by Emmanuel Macron, Jean-Claude Juncker and Michael Bloomberg, NAM was invited to contribute to a panel

discussion on how quickly the EU can realistically deliver on its targets. I am convinced that the financial sector has a crucial role to play in this plan and was able to elaborate NAM’s commitment to managing financial risks stemming from climate change, environmental degradation and social issues.

Moving into the new year, NAM’s efforts will be directed towards broadening our product range: we’ll add Nordea 1 – Global Gender Diversity Fund, among the FI STARS solutions and several others. Reporting and transparency will continue to be a priority: we are currently developing a quarterly Sustainability Exposure Report which highlights how companies, through their products and services, align positively and negatively with 15 sustainability objectives closely attuned to the UN Sustainable Development Goals. In keeping with our commitment to client engagement and education, we will launch an e-learning tool that offers clients a comprehensive view of ESG, helping them to facilitate ESG conversations and gain a deeper understanding of this concept in connection with their own investments. Additionally, we plan to continue developing our proprietary ESG research and data platform to support scalability and agility in our sustainability work.

For NAM, ESG integration is far more than a ‘tick the box’ exercise, rather it is something that truly drives us forward towards sustainable growth. ESG is already having a profound effect across the investment industry, and this is making a real impact on companies around the world. Through our commitment to responsible investment, we are part of the solution.



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

* Published 08 March 2018

Responsible investment approach



RI team in Stockholm: Arvid Bergsten, Katarina Hammar, Marjo Koivisto, Emir Borovac, Katarzyna Salacinska, Olena Velychko, Julien Grouillet.

Governance of NAM’s responsible investment approach is the duty of the Responsible Investment Committee (RIC). The committee is chaired by our CEO while other senior management is comprised of members from various departments at Nordea.

Responsible Investment Committee (RIC)

Our responsible investment strategy and activities are overseen by the RIC which publishes our Responsible Investment Policy, a detailed accounting of the international conventions we subscribe to and the requirements we have of the companies we invest in. The RIC decides which sectors or activities we as a responsible asset manager do not want to be invested in. The committee approves strategies dealing with complex issues such as climate change and proposes implementation by the Responsible Investment Team.

Our responsible investment approach was awarded the Best ESG Approach for the fifth year in a row by CFI Awards.



Nils Bolmstrand

Our responsible investment policy applies to all NAM funds, and the RIC decides the appropriate action to take when a company is found to be in violation of policy. For example, the RIC might decide to exclude, quarantine or engage depending on the type of violation and our ability to influence the company.

ESG Integration

NAM aims to take returns with responsibility to a new level to ensure competitive, consistent and responsible returns for all funds. Environmental, social and governance (ESG) issues are an increasing source of risk and opportunity, and we therefore seek to integrate them into our investment analysis methodology to ensure that investment and portfolio construction decisions are based on a full set of information. Externally- and internally-created ESG data are made available to all investment professionals to use in assessing investments. We believe this will improve risk adjusted returns. To encourage the use of ESG data, we have integrated ESG into the portfolio performance reviews conducted by our Equities Team.

Our research department includes both financial and ESG analysts, and company assessments are shared between fund managers, as well as, through a variety of mechanisms: a research platform; presentations; training sessions; joint meetings, etc. All portfolio managers of our actively managed funds have access to ESG data in their systems.

The STARS concept – a true integration of ESG research and fundamental analysis



Proprietary ESG research

We have created proprietary ESG research models, which we continuously develop and upgrade. Our ESG analysts use a risk model to assess companies and assign them an ESG risk score. The score is based on companies' ability to conduct their business responsibly in relation to their stakeholders— employees, suppliers, customers, investors, the environment and society at large. It also assesses whether the companies' products or services are well-positioned in relation to broader sustainability megatrends such as climate change and changing demographics. The model focuses on the most material ESG risks and tries to appraise the connected financial and reputational risks.

Our ESG risk modelling integrates external ESG data and ESG scores from several different data providers. This offers coverage of over 6,000 companies globally both in terms of their practices and in tracking controversial issues. We also utilise specialised thematic brokers' ESG reports to underpin our analysis. Combining internal and external analysis enables us to better identify which companies are tomorrow's winners.

The final and most important part of our ESG analysis is company dialogue. Going beyond published information and discussing ESG risks directly with company management allows us to enhance the quality of our ESG rating and assessment of the company's performance. During 2018, we conducted in-depth analysis of approximately 135 companies from an ESG perspective. Meetings and on-site visits were part of these analyses, as was feedback to the companies on their ESG materiality analysis.

We also do deep-dive thematic research projects, which help us better understand ESG risks that might be common for an industry or sector. These projects enable us to better compare our holdings performance on a specific issue to their peers as well as identify key performance indicators.



Link to NAM Responsible Investment Policy:
nordea.com/RI-policy



Climate change

Climate change is one of the biggest threats to our economy and NAM is working on an ongoing basis to assess climate change risk and the impact of the low-carbon transition on sectors and companies. For investors, the transition to a low-carbon economy presents both risks and opportunities; our challenge is to identify and quantify them. There is a lot of uncertainty related to issues like data quality and availability, the complexity of models for low-carbon transition scenarios and the financial implications from these scenarios.

We support the TCFD (Taskforce on Climate-related Financial Disclosures) recommendations because we believe that disclosure related to climate change risk and opportunity is key to enabling management of these. We will continue to promote increased transparency and the development of tools and methods to manage climate-related risks and opportunities as well as to contribute to best practice in the industry. We are currently working on our first response to the climate section of the PRI (Principles for Responsible Investment), which we expect to develop over time as tools and methods progress.

In line with the TCFD recommendations, proper models would ideally help highlight the potential risks and opportunities facing companies from constraints of carbon in the economy as well as companies' ability to innovate business models and tackle physical risks. Nordea joined the UNEPFI (United Nations Environment Programme – Finance Initiative) pilot, together with 12 other investors, in 2018 to address the need for analytical tools and indicators to report on the risks and opportunities presented by climate change. The pilot has developed a carbon value and risk model that will be made available to encourage the wider investment community to assess and promote a climate-resilient, low-carbon economy. We analyse the results from the model that includes policy risks, transition opportunities and physical risks and their impact on specific assets in our portfolios. Climate-related events are inherently difficult to assess; climate-related financial risks, being more complex, are thus even more complex to identify and measure. For investors to improve the assessment of these risks and opportunities, companies need to accelerate their climate reporting.



STARS funds

– Finding tomorrow's winners

NAM's premium ESG offerings are collected in a family of investment funds under the STARS brand. The STARS funds are about positive selection and choosing quality companies with well-managed ESG profiles that generate long-term financial value.

Unique for the STARS funds is that every investment undergoes a thorough ESG analysis with our proprietary ESG model. This enables our ESG analysts, who are imbedded in the investment teams, 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 through ESG analysis which identifies companies that integrate environmental, social and governance metrics, as well as, financial metrics, into their business model and strategic decisions. Active

ownership is an important part of our investment approach for the STARS funds and we have developed long-term productive dialogues with several companies, especially those in which we are large long-term shareholders.

In 2018, the STARS family added with a new equity fund: Nordea 1 – North American Stars Equity Fund. While focusing on North American companies, the fund utilizes the same investment process of integrating ESG analysis as do the other STARS funds.



Nordea Emerging Stars

Our **Emerging Stars** equity fund was launched in 2011 and invests in approximately 50 emerging market equities. Below is an example of a holding and ESG highlights.

Samsung SDI

The company's business model is well aligned with solutions to global environmental challenges, e.g. its rechargeable batteries and renewable energy storage solutions. Samsung SDI has been criticized for its use of cobalt and has subsequently done an extensive research project to understand the complexity of the cobalt supply chain. The company is a founding member of the Responsible Cobalt Initiative, which is an industry initiative that seeks to address the issue. It has been working on changing the design of its batteries so that they will need less cobalt. We would like to see the company consider being more proactive and applying the same due diligence it has on its cobalt supply chain to the other minerals in its products.

Nordea European Stars

Our **European Stars** equity fund was launched in 2017 and invests in approximately 50 European equities. Below is an example of a holding and ESG highlights.

Compagnie de Saint Gobain

The company manufactures glass products, high-performance materials and construction materials. We have initiated dialogue on strategy and corporate governance, with good access at board level. This is an interesting case because of the potential connections between corporate governance and stock performance. As a long-term shareholder, we have increasingly started to question whether its corporate governance arrangements are a factor in the mediocre performance of its stock price. We are also exploring how corporate culture translates into decision making and seeking reassurance that the chairman and CEO receive sufficient internal challenge. We have seen some encouraging signs, such as the company facilitating a dialogue at the necessary level, and the recent change of CFO and announcement of an overhaul of the portfolio. This shows awareness of the way the market perceives Saint Gobain and is a good foundation for further dialogue.

Nordea Global Stars

Our **Global Stars** equity fund was launched in 2016 and invests in approximately 70 global equities. Below is an example of a holding and ESG highlights.

Taiwan Semiconductor Manufacturing

The company manufactures and markets integrated circuits, and is an industry leader in water efficiency and reduction. It has constantly achieved a water recycling rate higher than 85% since 2012 and is well on track to meet its 30% reduction goal by 2020. The company has made significant progress with its conflict minerals sourcing compliance mechanisms, and notably all its smelters and refiners have been validated as conflict free by third-party programs for the second year. The company has excelled in low power technologies and established as the most comprehensive ultra-low power platform in the foundry industry. The issues we focused on in our dialogue with the company were talent retention and potential risks influencing the company from the China and US trade dispute. The company has achieved a lower employee turnover than its peers through a strong compensation programs, professional development programs and engagement initiatives.

Nordea Nordic Stars

Our **Nordic Stars** equity fund was launched in 2014 and invests in approximately 40 Nordic equities. Below is an example of a holding and ESG highlights.

Volvo

Volvo is manufacturing trucks, busses and construction equipment that, to a large extent, run on fossil fuel. However, due to its strong focus on R&D, Volvo is well positioned to benefit from increased demand for more environmentally friendly, safer and more automated means of transportation. For many years, Volvo has been committed to sustainability, e.g. the company has been reporting environmental data since 1991. We have, together with other investors, engaged with Volvo to give feedback on their climate related reporting and how investors view the disclosure requirements from the Taskforce for Climate Change Disclosure (TCFD), an initiative by the G20 countries and the Financial Stability board to develop a consistent climate-related financial risk disclosure to investors. NAM supports the TCFD recommendations since we firmly believe that climate change risk disclosure is key to strengthen the stability of the financial system. We expect Volvo to implement TCFD recommendations in their reporting.

Nordea North American Stars

The latest star in the Nordea Stars family is our **North American Stars equity fund**, which was launched in 2018 and invests in approximately 60 North American equities. Below is an example of a holding and ESG highlights.

Alphabet Inc

From an ESG perspective, Google is an interesting fit for the Nordea 1 – North American Stars Equity Fund. The company continues to have a profound impact on society. Google Search facilitates easy access to information for 1 billion users all over the world and is expanding into other transformative areas like self-driving cars (Waymo). When visiting the company at their headquarters at the end of 2018, we engaged in discussions around EU GDPR, recent EU Antitrust rulings and competition in general. We believe that there are risks associated with all of these and, going forward, expect the company and its stakeholders to provide more clarity in terms of said risks.

Nordea Swedish Stars

Our **Swedish Stars equity fund** was launched in 2011 and invests in approximately 30 Swedish equities. Below is an example of a holding and ESG highlights.

ABB

The company contributes towards mitigating climate change mainly through its products and services. Over half of its revenues are derived from products and solutions related to energy efficiency and renewable energy and the company plans to increase this number to 60% by 2020. ABB has a good understanding of the material ESG risks and opportunities associated with its industry and its geographical presence. Due to the company's previous incidents and current exposure to corruption and antitrust, ABB is focused on strengthening its anti-corruption program and setting up standards and processes to promote fair competition practices. The company has a very robust supply chain management system, which approves, evaluates and to also educates its suppliers. Every year ABB assesses hundreds of suppliers on sustainability topics, mitigates old risks and identifies new ones. During 2018, we visited ABB's factory in Västerås, Sweden to further examine certain ESG risks and controls relevant to the Robotics and Automation sector.

Nordea Swedish Bond Stars

In 2017, Nordea also introduced its fixed income fund under the STARS concept.

The Nordea Swedish Bond Stars was our first ESG enhanced fixed income product. It is a pioneer among bond funds using ESG research to meet the requirements of a sustainable portfolio and NAM will continue to build on this concept in the future. The universe for the funds consists of green bonds and Nordic investment grade bonds where the issuer has been evaluated by NAM's Responsible Investments team. Like Swedish Stars, Nordic Stars, North American Stars, Global Stars and European Stars, the threshold for investments is an ESG rating of B+ on a scale from A to C. Green bonds are bonds aimed at funding projects that have positive impacts on the environment, like reducing fossil fuel emission, renewable energy or sustainable property construction.

The Sustainable Development Goals (SDGs) are a collection of 17 global goals set by the United Nations General Assembly for the year 2030. They address the global challenges we face, and at NAM we try to align our risk assessment with the SDGs. Furthermore, we engage with companies where SDG related themes might represent a significant material risk.

Complete list of SDGs:



Source: un.org/development/desa/en/news/sustainable/sustainable-development-goals.html

Stewardship

An integral part of responsible investment is active ownership and participation in international initiatives. We believe that this will benefit companies and investors and contribute to a sustainable and prosperous economy with long-term growth where pressing environmental and social issues are being addressed. NAM follows internationally recognised principles of responsible investment and stewardship.



Corporate governance activities:

During 2018, we attended more than 100 annual general meetings in the Nordics and voted on about 445 AGM/EGMs (Annual General Meetings/Extraordinary General Meetings) on thousands of proposals, including proxy voting. We continue to engage with companies on a range of topics, including ESG issues, remuneration programmes and capital structure. Nordea funds are represented on several nominations committees; in 2018 we joined about 35 nomination committees where we pushed the issue of gender balance.

"We strongly believe that large owners having a say in board nomination is a good thing" says Erik Durhan, Head of Corporate Governance, at Nordea Funds. "In Sweden and some other Nordic countries, ownership led nomination committees are either the norm or common, and we work to spread this model. Last years, we worked with other owners to introduce

an ownership-lead nomination committee in a company based in a market where this procedure is less common. The initiative was successful, and we aim to introduce more such proposals in the future if the right situation present itself in specific companies or markets."

Voting portal

We strive for transparency. In November 2017, Nordea Asset Management launched a Voting Portal to showcase our voting. It includes information on all AGMs we attend, proxy voting statistics and voting details on each company. The portal is updated continuously and contains our voting record since the 2016 season.



Link to Nordea Voting Portal:
nordea.com/voting-portal

International initiatives:

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

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

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

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

Corporate Human Rights Benchmark: The benchmark ranks the top 500 globally listed companies on their policies, processes and performances as they relate to human rights.

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

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

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

Principles for Responsible Investments: PRI is a commitment to incorporate ESG in investment processes.

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

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

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

Engagement



NAM subscribes to a policy of active ownership and engagement. We interact with the companies in our portfolios to enhance their ESG performance in general or on a specific issue where we believe improvement can be achieved. Engagement is conducted individually and through collaborative initiatives with other investors.

We use an external service provider to screen all funds managed by NAM against our exclusion criteria as well as for violations of international norms and conventions. The service provider continuously monitors and alerts us if one of our holdings is in violation of our responsible investment policy. If a company is found to be in breach, then the incident is reported to our Responsible Investment Committee, which determines NAM's response. This could include engagement or exclusion of the company from all of our funds. In 2018, we had eleven in-depth engagement cases on norms breaches.

We initiate engagement with the companies representing our largest holdings as well as those with high ESG risk exposure and those identified for our ESG enhanced funds.

Our engagement activities are supported by structured processes to prioritise our engagement efforts on key issues such

as underperformance on ESG, high ESG risk exposure to a certain theme or sector issue, materiality, relevance to our clients and our ability to influence. We engage at the company and industry level as well as with stakeholders and standard setters. When we engage with a company, we do so on behalf of all NAM's funds, which supports the ongoing ESG integration activities within NAM. Finally, we coordinate our engagement activities with our voting activities.

Collaborative engagements are done with other investors. These often tend to be connected to a specific topic and we take the responsibility as lead investor in companies in which we have significant investments.

Engagement case

Below are a few engagement case examples in which we participated during 2018.

PRI tax advisory working group

We are part of the working group which focuses on tax transparency within the pharmaceutical and IT sector. It is a two year engagement process and we are lead investor on engagement with two companies within the IT sector. During the year, we had an effective dialogue with one of the companies regarding its tax transparency.

Pharma engagement

Based on the two reports Nordea commissioned on water discharge from the pharmaceutical industry in India, we have continued to engage with the pharmaceutical industry regarding supply chain management. Water pollution resulting from pharmaceutical manufacturing drives antimicrobial resistance. Last year, we went to New York to meet several US-based pharmaceutical companies and engage on their supply chain management.



Poluted river outside Hyderabad, India.

Corporate Human Rights Benchmark

Nordea is part of the CHRB's Advisory Council. In 2018, the second ranking of 108 companies from the agriculture products, apparel and extractive industry was published. The ranking was based on the companies' performance on human rights indicators. Nordea is lead or co-lead investor on engagement with 10 companies in the CHRB engagement. The 2018 ranking saw several companies improve their CHRB score, which was largely due to changes in their approach to human rights management and increased transparency.

MTG

In 2018, the Board of Directors of Modern Times Group MTG (MTG) decided to initiate a process to split MTG into two companies by distributing all of the shares in Nordic Entertainment Group (NENT) to MTG's shareholders and listing these shares on Nasdaq Stockholm. Both companies approached us asking us for inputs to their sustainability materiality assessments and new sustainability strategy. The new MTG is comprised of MTG's current e-sports, online gaming and digital video content operations. One of the key topics is human capital management and specifically increasing gender diversity, e.g. promoting female players, and preventing sexual harassment. Equally important is prevention of gaming addiction, which is being increasingly studied and recognized by major public health organizations – e.g. WHO (World Health Organisation) included gaming disorder into its revised International Classification of Diseases in September 2018.

NMC Health Plc

NMC Health is a diversified health care company which has a wide network of hospitals, medical centres, and pharmacies mainly in the Middle East. We initiated dialogue on its remuneration system and nascent ESG reporting. We wanted to understand the change in metrics the company used to incentivise its executives, transparency around related party transactions, and the apparent effort to provide more information on material ESG issues. We sought reassurance that the remuneration system is not incentivising M&A over organic growth, and additional clarity regarding the numerous transactions with related parties. The company appears to be refining its governance practices through investor feedback. It has managed to substantially reduce the amount of votes against the remuneration policy received over two years and works with an external remuneration consultant. This level of responsiveness is not a given among controlled companies, so further engagement is likely to be productive.

Samsung Electronics

We visited the company and focused on corporate governance and labour unions. The company confirmed that it would

continue its work on making improvements to its corporate governance structure. The vice-chairman of the board, who was convicted of corruption, is still in the process of appealing his verdict in the lower courts. The supreme court has taken longer than expected to review the case – the company originally expected the case to have been concluded by the end of 2018. The vice-chairman is up for re-election during 2019. We continue to see positive steps and it has taken concrete measures to improve oversight and transparency as well as board diversity on corporate governance from the company. The current environment in South Korea is changing toward more openness.



Facebook

We noted quite early on a couple of issues going against Facebook in the middle of 2017. Throughout 2018, some of the issues materialised, mostly impacting the company on the cost side: compliance with EU GDPR and building up an infrastructure resilient enough to ensure that the platform was not exploited in an unintended manner. However, there are still some outstanding issues related to the full regulatory response to the turbulence surrounding the company in 2018. During the year, we met the company at its headquarters and our assessment is that the company is trying to steer the ship in the right direction. Whether or not this will be enough is up to the broader public and the regulators to determine. Within that context, at year end 2018 we were still reluctant to change our ESG views of the company, which is below the threshold for the Global Stars. We will be following this closely going forward and will react accordingly.

Field visits

We believe in going on field trips to gain knowledge about ESG issues in a local context and to engage with our holding companies in person. Below are a few examples of our field trips during 2018.



Field trip to Getinge, Germany, Oleana Velychko, Nordea's ESG Analyst.

Germany

Nordea went on an onsite visit to one of Getinge's production facilities in Germany.

Getinge is well-positioned to make a significant contribution to sustainable development by providing solutions for better healthcare. The current management of the company seem to have a good understanding of the environmental, social and governance risks relevant to their operations. However, the company has been faced with significant quality issues. Consequently, we decided to visit the Rastatt production facility in Germany. The main purpose of the trip was to formulate a better understanding of Getinge group's quality management system and developments against the Consent Decree with the U.S. Food & Drug Administration.

The conclusion of the trip is that Getinge is currently undergoing a transformational change and it requires time to implement the identified improvements and restore trust. There is a strong focus on executing the planned initiatives within risk assessment, product quality & safety KPIs and supply chain due diligence.

Even though Getinge has established relevant processes and procedures, we believe there is still room for improvement around company's long-term sustainability strategy. As a follow up, a meeting with the CEO and new CFO was arranged to discuss priorities, progress and ambitions.

South Korea

Nordea visited South Korea to talk about corporate governance with holding companies.

During a visit to Seoul, we met with selected holding companies, such as Samsung Electronics and Hyundai Motor, to raise ESG issues and talk about changes to South Korean corporate governance regulation. Under the current government there has been increased focus on chaebols' power in the South Korean economy and minority shareholder rights. The five largest chaebols currently account for around half of the country's benchmark index, which indicates how powerful they are in the local context. The country has taken steps toward boosting transparency and accountability of family-run conglomerates.

We have also seen significant corporate governance improvement within our South Korean holding, however, there is still room for improvement. During the coming years, we might see an untangling of cross-shareholdings in chaebols' subsidiaries, which will significantly improve transparency and minority-shareholder rights. The cross-shareholding structures can give the founding families control of a company even though they do not have majority shareholdings.

Examples of positive corporate governance steps we saw in 2018 are: increase of management diversity through higher levels of non-Koreans in senior management positions, increased share buybacks to address excessive unused cash on balance sheets, and an increase in company and union collaboration.



Myeongdong district, Seoul, South Korea.



Nordea's ESG Analyst Olena Velychko on a field trip to Cambodia factory.

Cambodia

Nordea joined a Fair Living Wage summit for garment workers in Cambodia

In 2018, we went to H&M's Fair Living Wage Summit in Phnom Penh, Cambodia and visited one of their suppliers. In 2013, H&M set an ambitious 5-year roadmap for achieving fair living wages for workers in its global supply chain and the purpose of the summit was to share and discuss H&M's progress as well as reflect on the approach taken and the lessons learned. During the summit, we interacted with H&M staff from different functions and markets, trade unions, suppliers and NGOs. During the deep dive sessions, we covered how H&M is implementing workplace dialogues and wage management systems with their suppliers as well as how H&M is engaging with ACT (Action, Collaboration, Transformation), an agreement between brands, trade unions and the garment sector to achieve living wages through collective bargaining at industry level.

During the factory visit outside of Phnom Penh, we had a tour at the site and had an opportunity to meet the workers' representatives and members of the labour union. H&M has a long-standing relationship with the supplier and has been engaging with them on ESG. The supplier has implemented several productivity measures including equipment and trainings and has been able to achieve better efficiency. On the human capital side, absenteeism and employee turnover rates have improved as well. Overall, the company has been able to increase salaries for their employees and implement a transparent wage and benefit system.

We conclude that H&M is progressing and currently leading the industry in the living wage approach from the holistic perspective. There is still room for improvement, especially in continuously increasing transparency on the progress and strengthening implementation of purchasing practices commitments. We are also going to monitor closely H&M's progress in moving into recycled or other sustainably sourced materials.

India

Nordea went on a fieldtrip to India to investigate the how progressive regulation on plastic can influence business.

During 2018, India announced a progressive commitment to ban single use plastics by 2022. Some states have implemented hard regulations only to ease them shortly after. Enforcement of the current regulations is inconsistent, which creates some confusion for local businesses.

The Indian plastic collection and recycling system is informal and ineffective. Ragpickers are the first link in the collection system and are keenly aware of the value of different types of plastic waste. They will only collect the most valuable plastic discarding the worthless plastic, which ends up in waste streams and landfills. The recyclable plastic, on the other hand, ends up at small informal recyclers who lack the technical capability to analyse it and therefore contaminate the resins, which leads to lower quality plastic with limited recycling ability.

After gaining insight into the Indian recycling industry, we know where to focus our attention in NAM's Indian holdings regarding plastics. Companies with high exposure to bottom of the pyramid strategies will be more likely to sell single-serve products in multi-layered wrapping containers. Because recycling multi-layered wrapping is complex, the Indian collection system does not collect it. Hence, it ends up in landfills or waste streams. We will now engage with companies with bottom of the pyramid strategies to ensure that they are prepared for potential stricter regulation and are researching more environmentally friendly packaging.



The New Indian Express online news, 05 June 2018.

Case Study: Varun Beverages



Varun manufacturing plant, India (Daily Post, India 19.10.2017).

Varun Beverages Ltd (VBL) is an Indian based bottling company specialising in carbonated soft drinks and non-carbonated beverages. VBL has 20 manufacturing plants in India and 5 outside India. Its main client is PepsiCo.

During 2018, we travelled to India together with one of our portfolio managers to visit VBL. The trip included a manufacturing plant visit, where we met with plant management, senior management and the chairman.

We were very interested in learning about the company's water usages and conservation efforts. India has recently seen an increase in water conservation regulation, and more states have implemented regulation on rainwater harvesting for new buildings.

VBL's state of the art manufacturing plant is equipped with water recycling and conservation technology. The roof-tops were created in such a way that rainwater is collected and reintroduced into the groundwater through a recharge pit. The groundwater level is constantly monitored and reported

to government agencies, which ensure that the company does not deplete this natural resource. In the surrounding area, VBL maintains large ponds which the local farmers can utilise.

Our assessment is that the company is addressing the issue of water usage and conservation seriously. The company ensures that it does not have a negative impact on the groundwater level. However, we will follow up with the company to learn about its contingency plans in case of abnormal weather phenomena, such as extreme droughts.



Field trip to Varun factory in India: Portfolio Manager Juliana Hansveden & Senior ESG Analyst Arvinder Tiwana.

Thematic research

– Understanding anti-money laundering



Money laundering is fast emerging as the main regulatory challenge facing financial institutions. Prompted by the developments at Danske Bank, we met with several banks to gain a deeper understanding of the challenges they face in their anti-money laundering (AML) and know your customer (KYC) processes.

Our aim was to build a framework that would allow us to make an informed judgement, as outside observers, about their risk of being misused for money laundering and penalised accordingly. From our conversations with ING, Danske Bank, BNP Paribas, Swedbank, and Nordea's own compliance function, we were able to identify a range of industry wide issues, and to identify indicators of individual exposure to AML risks. A standout issue is the sheer number of suspicious transactions flagged by AML algorithms – the number of false positives was generally stated in the region of 95%. Banks need to allocate enough staff, develop new technical solutions, and to

some extent work together to properly analyse these volumes of red flags. We integrated the insights gained from company meetings and the industry's own guidelines to develop a scoring template that rates operational risk, internal controls, and enforcement action track record to create a comprehensive picture of an institution's practices. We will use it to have more focused conversations with affected companies, and to enhance our internal ESG risk scoring. Ultimately, it will help us make ESG risk scoring for financial institutions more specific and more accurate. We will also continue to engage on the topic with Emerging Markets companies.

Other 2018 ESG Highlights

2018 was a busy year for NAM in terms of ESG-related activities. We expanded our product range, raised client awareness via ESG oriented events, received awards and labels and found new ways of engaging with our clients to help better understand and gain deeper insights into the terminology of Responsible Investment.



During the first half of the year NAM became a member of the "Forum Nachhaltige Geldanlagen" (FNG). This industry association is committed to more sustainability in the financial sector in Germany, Austria and Switzerland and is working

towards improving legal and political frameworks for sustainable investments. In addition, the Nordea 1 – Emerging-, Global- and European Stars Equity Funds were awarded the FNG Seal 2019. They received two out of a possible three stars for their particularly ambitious and comprehensive sustainability strategies, which gained them additional points in the areas of "institutional credibility", "product standards", and "transformation & impact".

NAM's strength in the sustainable investing area was also recognized by the UNPRI Assessment Report where we received the highest possible score (A+) in the category "Strategy & Governance"¹. Another public acknowledgement came from the European magazine "Cfi.co", which has awarded NAM's RI team for the "Best ESG Investment Process in Europe" for the fifth year in a row².

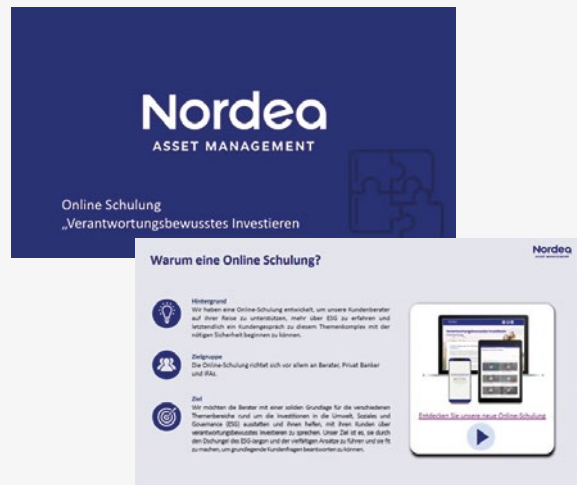
In autumn, NAM hosted special ESG Day events in more than a dozen cities throughout Europe to raise awareness about our ESG capabilities and expertise as well as showcase the STARS funds. We used the events as a platform to engage in discussions with clients around the importance of ESG factors and to introduce the broad toolbox of RI approaches NAM applies to offer cutting-edge ESG funds.

In November, we enlarged our ESG STARS fund range with the addition of the Nordea 1 – North American Stars Equity Fund. Now the STARS equity family consists of six strategies that represent a unique concept where portfolio management teams fully integrate ESG factors into the investment process and use dialogue and, together with the RI team, engagement to make real impact. Following our goal to increase reporting and transparency we have introduced ESG quarterly reports for most of the STARS funds. These allow investors to inform themselves about the progress and outcome of our company engagements.

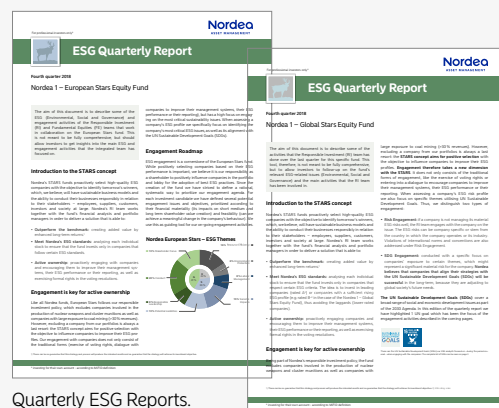
Exploring new ways of engaging with our clients, NAM launched an interactive ESG e-learning tool at the end of 2018. The goal was to equip advisors with a solid foundation on the various themes and topics that surround ESG investing, to guide them through the ESG jargon and to help them have a conversation with their clients about responsible investment. Due to its huge success and high demand, the language selection for the e-learning will be expanded to seven during 2019.



ESG Day event in Milan, Italy.



Interactive e-learning tool.



Quarterly ESG Reports.

¹ Source: UN PRI Assessment Report 2018

² Source: cfi.co. is a London-based magazine whose annual awards focus on best practice



Outlook for 2019

In 2019, we will focus on product development, active ownership and research. We are scaling our experience in managing ESG risk and launching new ESG equity and fixed income funds. We are also innovating research. Sustainable winners of tomorrow have attractive unit economics and are set up to monetize emerging sustainable consumption and industrial trends—thematic research will allow us to size up these attractive players. Going forward, we aim to launch our proprietary ESG data platform, which will enable us to increase the number of data-driven inhouse ESG risk scores we deliver.

As we are getting better at ESG integration, there is increasing interest from different departments, including investment teams across asset classes to partner with Responsible Investments. We will therefore continue to grow our Responsible Investment team with profiles from sustainability, finance and data science.

Last year we participated in a UNEPFI pilot financial task force for advancing reporting on climate in investments. During 2019, we will continue our work with investor coalitions and increase our active ownership activities related to issues in the financial industry like AML and palm oil. We will also continue to work

on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations in order to manage our climate-related risks and opportunities. We will increase our work with international investor coalitions, where, together with other investors, we can engage with companies, industries and governments on ESG issues.

Overall, in 2019 we will draw on our increasingly developed ESG research capability to drive more deeply integrated ESG fund, in an effort to allocate more capital to sustainable winners of tomorrow.

Sustainable finance approach

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



Sustainable finance at Nordea (NAM's parent company) is about integrating sustainability into all our business activities and products within our core areas of investment, financing and customer advice. By acting on behalf of our clients we can contribute to economic growth and prosperity through capital allocation and interaction with companies. Sustainable business is a prerequisite for upholding trust and confidence. Nordea is committed to sustainable business and development by combining financial performance with environmental and social responsibility as well as sound governance practice. Nordea's Sustainability Policy, a group directive, contains principles of investment, financing and advice. Nordea adheres to the policy as a guideline by which we conduct our business decisions and daily work. Nordea is committed to taking these principles and other relevant environmental, social and governance principles into consideration when evaluating business risks and opportunities in connection to advice, investing and financing.

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

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

Snorre Storset*



Link to Sustainability Policy:
nordea.com/sustainability-policy



Link to Climate Position Statement:
Nordea.com/position-climate

* Snorre Storset, Chariman of the Sustainability committee & Head of Wealth Management at Nordea.

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