



ESG Investing

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Awards 2023 Interview  
Nordea Asset  
Management



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# ESG Investing Awards Interview 2023

## Nordea Asset Management

Nordea Asset Management (NAM) is part of the Nordea Group, the largest financial services group in the Nordic region. NAM offers European and global investors exposure to a broad set of investment funds.

NAM's commitment to be a Responsible Investment manager is deeply embedded in their Nordic DNA, corporate culture, philosophy and business model. They consider it their fiduciary duty to care about all factors that are material to clients' investments, including those that are non-financial, namely Environmental, Social and Governance (ESG) factors.

Nordea Asset Management was awarded Best ESG Investment Fund: Emerging Markets Debt and Best ESG Investment Fund: Green, Social & Sustainability Bonds, and Runner-Up for Best ESG Investment Fund: Thematic at the ESG Investing Awards 2023



# Interview

## Fund and Company Info

### Can you provide a short overview of your company and your funds?

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As such, our journey as a responsible asset manager began over 30 years ago when we launched our first sector screened fund in 1988. In December 2022, our Responsible Investment (RI) AUM reached €167 Bn, representing more than 70% of NAM's total AUM, an increase compared to 66.5% in 2021. Today we have over 250 funds classified as either SFDR Article 8 or 9 and eligible under MiFID II regulation to be offered to clients with sustainability preferences, including our Global Climate and Environment Fund, which is one of the largest Article 9 fund in Europe (and thus globally).

### What is your AUM and size of the investment team?

The Nordea 1 – Emerging Stars Bond Fund and Nordea 1 – Global Green Bond Fund are managed by Nordea's Emerging Markets Debt (EMD) team, which has been investing in EM debt in multi-sector portfolios for more than a decade and launched their first dedicated EMD fund in 2012. The team was purposefully set-up to be a modern EMD team bringing ESG integration to the core of the team and including data driven investment approaches wherever possible.

A proof of the team's competence is the appointment of Thede Rüst, Head of the EMD team, to the European Commission's High Level Expert Group in October 2022, to advise on how to scale up sustainable finance in low and middle-income countries.

It was not Thede Rüst's first experience in such a board, as he became a member of the UNPRI Fixed Income Advisory Committee in 2018.

The team currently comprises 11 permanent team members and co-operates with one of the largest and most accomplished responsible investment teams in the world, the Nordea Responsible Investment team.

### What is your ESG strategy? Do you have an explicit exclusion/integration strategy? What are your exclusion/integration criteria?

NAM's Responsible Investment Framework comprises a wide range of RI approaches. Some are decided and deployed at the corporate level – “overlays” – while others are product-specific and apply to solutions with a stronger ESG focus. The corporate “overlays” apply to all funds managed by NAM and set the standard for the sustainability level of our holdings. The corporate overlays consist of four pillars: norms-based screening, our corporate-level exclusion list (based on the exclusion of controversial sectors), active ownership and sustainability risk integration.

Today we have over 250 funds that have additional ESG filters and policies that go beyond our corporate overlays. Our Article 8 and 9 funds include additional approaches, such as the consideration of Principal Adverse Impact and Sustainable Investments in the decision making and they adhere to our Paris Aligned Fossil Fuel Policy (“PAFF”).

Going a step further, we have special ESG flagship strategies in the ESG STARS family and our ESG Thematic range. The ESG STARS funds follow an approach of full ESG integration and positive selection, while the ESG Thematic strategies seek solutions to specific sustainability challenges. Our credentials extend to international ESG-labels such as LuxFLAG ESG label (Luxembourg), Label ISR (France) and the Towards Sustainability label (Belgium).

### How do you assess a firm's ESG criteria? How dependent are you on third party ratings?

Leveraging more than a decade of ESG analysis NAM has developed proprietary scoring models which are implemented on our ESG data platform. The data platform aggregates information from multiple sources, supporting our analysts as they carry out in-depth research. This includes the alignment of company revenues to the EU Taxonomy and to the UN's SDGs. In addition to the ESG scoring model, the team has developed modules to collect, analyse and manage data on Principal Adverse Impacts, Sustainable Investments and Climate metrics. The data platform uses AI features and analyst-structured weights and formulas to generate ESG scores for more than 120,000 securities – almost full coverage of the main benchmark indices. Our automation of part of the process allows the team to provide the full research coverage we believe our strategies deserve while allowing time to dive deeper into more difficult cases. This results in internal scoring that is consistent, forward-looking and nuanced to reflect company actions rather than solely relying on third party scores, which must – by definition – be backward looking.

### Do you have an explicit commitment to Net Zero? If so, how does this manifest itself in your engagement with companies you invest in?

As an early signatory to Net Zero Asset Managers Initiative we are committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C. Our overarching long-term goal is to achieve net-zero emissions for all assets under management by 2050.

As active owners we use our influence to improve the climate resilience of our investments. We expect all companies exposed to climate risk to have strong climate governance and demonstrate how they integrate climate change challenges into their business strategies, investment decisions and risk management. This includes identifying and capitalising on opportunities related to climate change; reporting in line with TCFD recommendations and acting to reduce greenhouse gas (GHG) emissions across their value chains in accordance with the Paris Agreement.

We participate in multiple international investor initiatives and collaborative engagements around climate topics. One such

example is our participation in Climate Action 100+ collaborative engagements with the world's most carbon intensive public companies.

### What is your policy regarding engagement and proxy voting?

Our active ownership efforts begin with voting on our holdings, attending Annual General Meetings (AGMs) and representation on nomination committees. Voting is an effective tool to influence companies in the right direction. Sound corporate governance contributes to shareholder value. We regularly engage with companies to explain our voting rationale, and we try to be as proactive as possible to get companies, if possible, to alter their proposals in line with our principles.

Engagement is the next step of being an active owner and is a crucial component of our RI philosophy and framework. Our engagement activities combine the perspectives of portfolio managers, financial analysts and ESG specialists to form a holistic opinion and establish coherent engagement objectives. We conduct engagements through constructive dialogues with companies through face-to-face meetings, conference calls, letters or even field visits. As such, it provides an opportunity to improve our understanding of companies that we invest in as well as the ability to influence them. We engage proactively with companies and other stakeholders on behalf of all Nordea funds.

### Could you provide an example how you have engaged with a company that scored poorly on ESG?

Air Liquide is an example of one of our focus engagements due to the company's important role in the transition of the economy to net zero. The company tends to score rather badly in conventional carbon foot-printing tools and its status as a heavy emitter has historically tended to penalise it with ESG research and data providers.

Due to the company's important role in the transitioning of the economy to net zero, we decided early in 2022 to increase our engagement with the company by stepping into a co-lead role within the Climate Action 100+ (CA100+) initiative.

Overall, the company has been receptive to our feedback and we believe that its climate performance could be further improved through engagement on aligning its capital allocation and the decarbonisation of its asset base. As of now, we are proud to say that the company has: announced its Net Zero ambition; explicitly committed to align its capital expenditure plans with its long-term GHG reduction target; committed to a Paris Agreement-aligned climate lobbying position and to align all of its direct lobbying activities; provided further explanation and assurance on Paris-aligned accounting and audit on the potential impacts of climate risk.

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### **Going forward, what do you think are the biggest risks to your fund and to the ESG investment sector as a whole?**

At NAM, we are not afraid to exclude companies or issuers when we find it necessary, for example because of breaches of international norms, or of the specific ESG standards of individual portfolios. We believe engagement can be a powerful tool to foster positive change, while protecting shareholder value and enhancing long-term returns.

However, while not all ESG risk is financially material in the short term, the trend is for regulation and policy goals to change this: Only recently, the EU introduced regulation on supply chain due diligence, which will make the environment for companies ignoring biodiversity and human rights risk increasingly difficult. In the same way, the fact that higher carbon prices and direct regulation of emissions are coming is beyond debate. And finally, higher fossil fuel prices in themselves will, together with the underlying geopolitical considerations, support the decisions now taken by national governments to dramatically increase the pace of renewables coming online.

We are working hard to stay at the forefront of ESG through engagement, regulatory expertise and development of new solutions. Since 2020 the pandemic has shone a light on ESG issues, driving interest and investment in sustainable solutions. The momentum continues to increase, and we're ready.

For further information on anything you've read, please don't hesitate to get in contact with one of our team:

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