

# Active ownership and Engagement

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

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

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

## Engagement

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

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



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

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

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

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

## Engagement streams

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



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

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

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

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

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

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

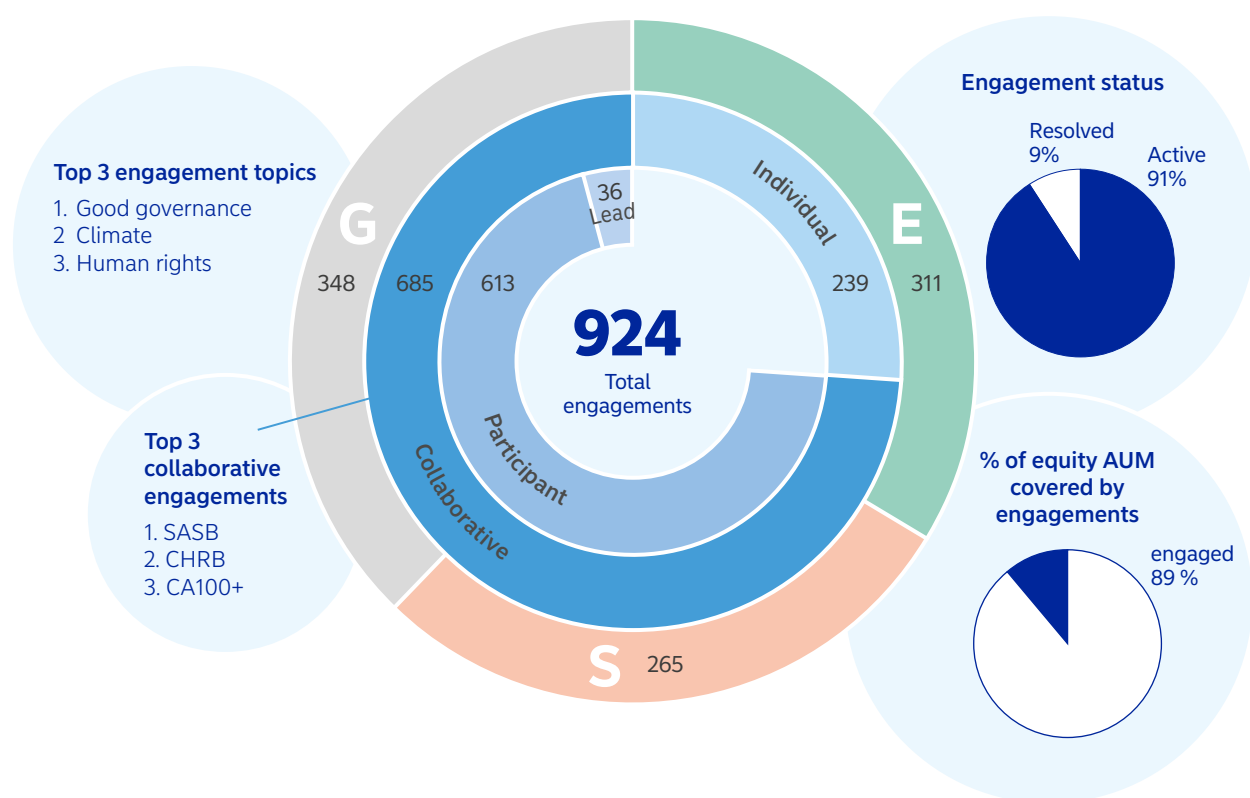
In 2020 the Advisory Panel of PSCI met twice and we also attended the PSCI annual meeting and the PSCI conference for Indian suppliers. Finally, this year the Indian government issued a draft bill to limit concentrations of antibiotics discharged by pharmaceutical factories into waterways.

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

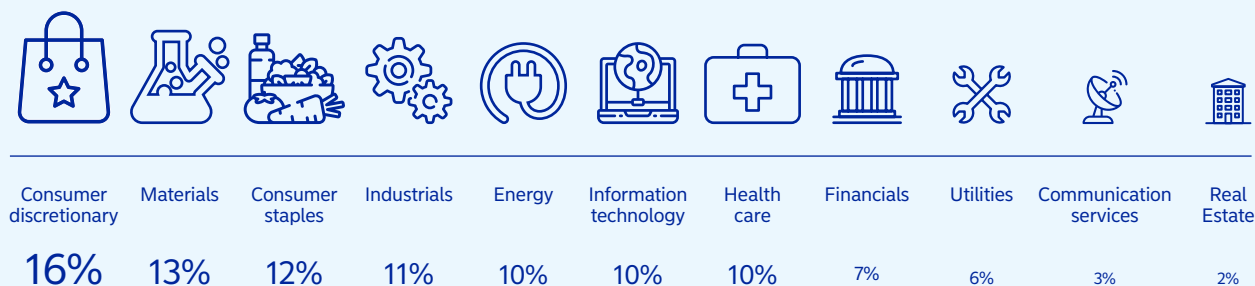
# Engagement overview 2020

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

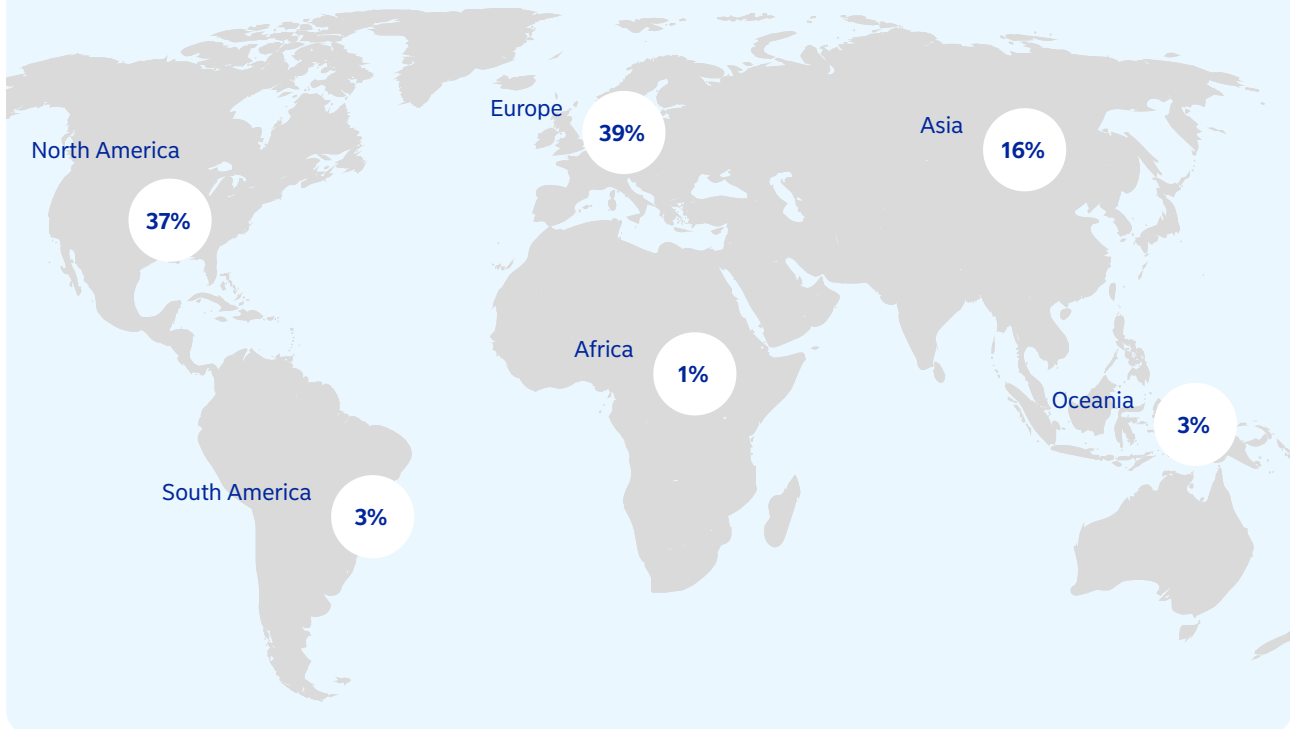
## Engagements in 2020



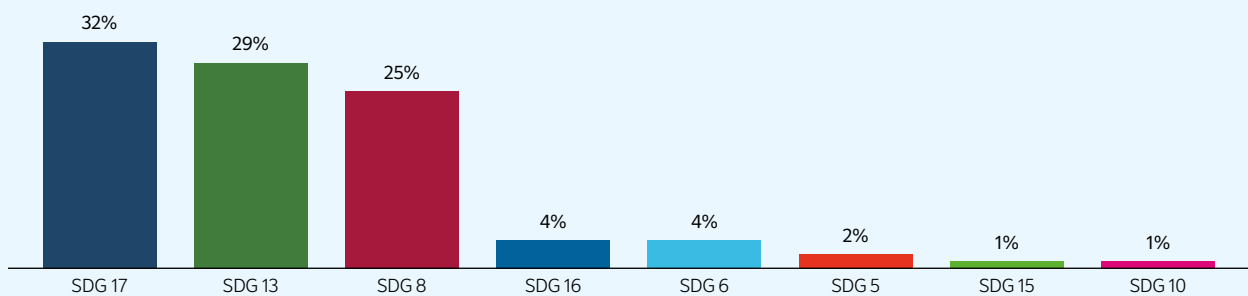
## Engaged sectors



## Geographical breakdown of engagements



## Engagement – SDGs



Complete list of SDGs:



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



# Voting

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



Source: Shutterstock

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

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

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

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

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

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

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

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

# Voting overview 2020

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

During 2020 we voted in about 701 Annual General Meetings/ Extraordinary General Meetings on thousands of proposals, including ESG issues such as climate, data privacy, diversity, as well as remuneration programmes and capital structure. In 2021 our voting activities will cover the majority of our holdings.

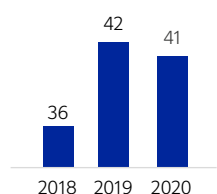
We regularly engage with companies to explain our voting rationale, and we try to be as proactive as possible to get companies, if possible, to alter their proposals in line with our principles.

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

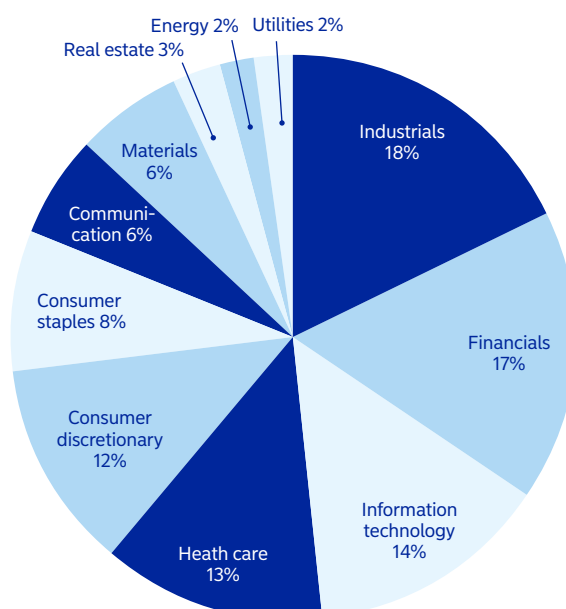
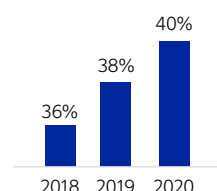
Increasingly we are being invited by companies in the Nordics to join their nomination committees. Membership of nomination committees is a very efficient way to engage with the companies we have large holdings in, and it enables us to drive real change – for instance in the Board gender ratio. For the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

## Meetings by sector

### Nomination committees



### Gender diversity in nomination committees



### Meetings by country

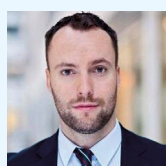


USA	25%	UK	4%
Sweden	11%	Finland	4%
China	7%	Denmark	4%
Japan	6%	Other	39%



Voted on 701 AGM/EGMs

### Alignment with management



**Erik Durhan**  
Head Corporate Governance



**Jan Särtilvik**  
Corporate Governance Specialist

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



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



# Engagement Deep Dives

## Xcel Energy



Power plant interior. Source: Shutterstock

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

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

## Samsung SDI



Cobalt mine. Source: Shutterstock

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



## Varun Beverages

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



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

## Millicom

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



Telecom operators. Source: Shutterstock.



# Highlights of our collaborative engagements

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

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

## Engagement around SASB reporting standards

The Sustainable Accounting Standards Board (SASB) aims to help businesses identify, manage and report material sustainability topics. In November 2018, SASB published a set of 77 industry-specific standards that help investors to compare companies' sustainability performance within an industry. NAM is a founding member and the current chair of SASB's Investor Advisory Group (IAG).

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

## Climate Action 100+ engagement

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

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

## Petrobras – an example of collaborative engagement

Petrobras is a partly state-owned Brazilian petroleum company, and one of the largest oil and gas extraction companies in the world. A sound strategy for a transition to low-carbon energy would allow Petrobras to play a key role in achieving the goals of the Paris Agreement.

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

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

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

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

### Vung Ang 2: Engagement underway

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

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

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

## Human rights engagement

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

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

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

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

