

## The Nordea STARS approach – at the forefront of Responsible Investment

By Hilde Jenssen, Product Manager Fundamental Equities

### **Responsible Investment at Nordea: it's in our Nordic DNA**

In the last few years Environmental, Social and Governance (ESG) investments have been gaining more recognition. In fact one could say that today ESG has finally gone mainstream. Additionally, there is more and more evidence that ESG factors can be material to long term investment returns. At Nordea Asset Management (NAM), we have been focusing on such issues for over a decade. Since becoming an early signatory of the UN Principles for Responsible Investment in 2007, we have been developing and fine-tuning our Responsible Investment (RI) framework and various RI-focused investment solutions.

We consider it our fiduciary obligation to care about all factors that are material to our clients' investments, whether financial or non-financial; responsible investing is part of this. At Nordea, all our active funds are subject to sustainability-related eligibility criteria. We do not, for instance, invest in companies involved in the production of illegal or nuclear weapons or in companies deriving more than 30% of their revenues from coal.

To take the idea of RI investment a step further we have developed the STARS approach. It seeks to find tomorrow's sustainable corporate leaders with 3 key objectives: only invest in companies living up to Nordea's ESG standards, beat the benchmark and create lasting impact. Let's see how this works in practice.

### **How the STARS approach lives up to Nordea's ESG Standards**

When our investment team presents an investment candidate, i.e. a company that they've identified with attractive fundamentals, a detailed ESG assessment is performed by our RI team. NAM was one of the first asset managers to install its own RI team and to develop and establish a proprietary in-depth ESG rating system. Over the years the team has received awards from several external entities for example for the "Best ESG Investment Process in Europe".

During the assessment all critical ESG issues of a company are identified and its ESG risks as well as opportunities are evaluated. Afterwards an in-depth analysis is carried out using data from multiple sources. The final result is an ESG score that reflects NAM's view on how well a company is positioned from an ESG point of view.

### **How the STARS approach beats the benchmark: true ESG Integration**

Our goal is to identify tomorrow's winners. Therefore it is crucial that we incorporate the findings of the ESG analysis throughout the entire investment process, from idea generation and valuation to portfolio construction and risk management. In order to ensure this, each STARS strategy has a dedicated ESG analyst participating in team meetings and giving input at all stages of the investment process. This is so we make sure that fundamental research and ESG analysis are intertwined. In this way, the portfolio manager gets a 360-degree understanding of the company and its ability to deliver sustainable long-term shareholder value and to maintain its competitive advantages.

### How the STARS approach creates impact

Sometimes it happens that a company with good fundamentals still has some ESG issues, which are not conformable with our ESG criteria. In such cases we start our engagement with the company. Engagement is a key part of the STARS concept. It means having an active and constructive dialogue with the companies we invest in or are considering for investment. Such dialogue enables us to understand how a company is thinking about and addressing ESG risks or opportunities that are relevant for its business. Engagement can take various formats, from conference calls to face-to-face meetings and field visits: the RI Team holds upwards of 150 meetings a year. We see engagement as a way to preserve or enhance the long-term shareholder value, to foster change as well as creating a positive impact for the broader society. Through this level of interaction with our holdings or potential investment candidates we have been able to effect change on issues as diverse as child labour, cobalt mining and shareholder protection. If our active dialogue shows that there is no progress in the company's handling of the ESG issues, the company will end up on the exclusion list of all STARS strategies. But this should only be the means of last resort.

### Why Invest in the STARS?

Our STARS strategies target outperformance while standing at the forefront of Nordea Asset Management's ESG offering. They represent a unique concept and approach, where STARS investment teams fully integrate ESG factors into the investment process and use dialogue and engagement to make a real impact. By doing so, the STARS not only aim to deliver outperformance but allow investors to shape tomorrow's world. Everybody wins.

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### About Nordea Asset Management

Nordea Asset Management (NAM, AuM 213.4 bn EUR\*), is part of the Nordea Group, the largest financial services group in Northern Europe (AuM 307 bn EUR\*). NAM offers European and global investors' exposure to a broad set of investment funds. We serve a wide range of clients and distributors which include banks, asset managers, independent financial advisors and insurance companies.

Nordea Asset Management has a presence in Cologne, Copenhagen, Frankfurt, Helsinki, London, Luxembourg, Madrid, Milan, New York, Oslo, Paris, Sao Paulo, Singapore, Stockholm, Vienna and Zurich. Nordea's local presence goes hand in hand with the objective of being accessible and offering the best service to clients.

Nordea's success is based on a sustainable and unique multi-boutique approach that combines the expertise of specialised internal boutiques with exclusive external competences allowing us to deliver alpha in a stable way for the benefit of our clients. NAM solutions cover all asset classes from fixed income and equity to multi asset solutions, and manage local and European as well as US, global and emerging market products.

*\*Source: Nordea Investment Funds, S.A., 30.06.2018*

### For further information:

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