Responsible investments
at Nordea Life & Pensions
Nordea Life & Pensions signed the UN Principles for Responsible Investments in 2014 and since then we have been working on implementing the principles in our investment strategy. Integrating environmental, social and governance issues (also known as ESG) into our investment strategy ensures that we invest in a responsible way.

This report describes how we incorporate ESG issues when working with external investment managers. The aim is not only to offer responsible investment solutions to clients but also to contribute in providing competitive long-term returns.

This will be achieved through:
• Analysis, dialogue and engagement with our external investment managers.
• Integration of ESG issues into our investment process.

When choosing an external investment manager, ESG plays an important role. This serves several purposes: showing the extent to which external investment managers consider ESG aspects in their investment and active ownership practices and facilitating our engagement with external investment managers.

Zesper Nørgaard
Group Chief Investment Officer
Nordea Life & Pension

Nordea Life & Pensions

Nordea Life & Pensions is part of the Nordea Group. Our vision is to improve the quality of life for our customers by getting the best possible returns in a responsible way. We provide life insurance, pensions products and services across the Nordic and Baltic regions. We serve both individual and corporate segments with traditional as well as market return products.
What is UN PRI?

The UN Principles for Responsible Investment is a UN supported programme that helps institutional investors like Nordea Life & Pensions to invest responsibly.

The principles were launched in April 2006 at the New York Stock Exchange. Since then the number of signatories has grown from 100 to over 1,600.

The principles consist of six overall principles that Nordea Life & Pensions has implemented in our investment strategy since 2014. It is mandatory for signatories to report each year on how they incorporate the six principles into their investment process. Nordea Life & Pensions’ first public report will be published by UN PRI in the first half of 2017.

**Principle 1**
We will incorporate ESG issues into investment analysis and decision-making processes.

**Principle 2**
We will be active owners and incorporate ESG issues into our ownership policies and practices.

**Principle 3**
We will seek appropriate disclosure on ESG issues by the entities in which we invest.

**Principle 4**
We will promote acceptance and implementation of the principles within the investment industry.

**Principle 5**
We will work together to enhance our effectiveness in implementing the principles.

**Principle 6**
We will each report on our activities and progress towards implementing the principles.
Nordea Life & Pensions and Nordea Asset Management are two separate units but we work closely on issues related to responsible investments.

Nordea Asset Management manages the majority of Nordea Life & Pensions' investments. In its approach to asset management, Nordea Asset Management applies internationally recognised principles of responsible investment and active ownership. Nordea Asset Management has developed its policies, procedures and investment products to ensure that the companies we invest in all live up to various criteria of sound environmental, social and governance performance.

Nordea Life & Pensions is part of the responsible investment committee at Nordea Asset Management.

## ESG approach in Nordea Asset Management

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<th>Active ownership, engagement, proxy voting</th>
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<td>RI-enhanced products</td>
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<td>Investment evaluation to buy/sell explicitly includes ESG factors:</td>
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<td>• STARS portfolios with proprietary ESG ratings</td>
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<td>Actively managed products include ESG as one of the factors used in assessing investments</td>
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<td>Norms-based screening, Exclusions</td>
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Award-winning responsible investments process

One of Nordea Asset Management’s missions is to be ESG proactive. By ESG proactive, Nordea Asset Management means the integration of environmental, social and governance (ESG) issues into the investment processes and product development.

In January 2017, the European magazine Capital Finance International (CFI) awarded Nordea Asset Management for best ESG investment process in Europe in 2016 for the third year in a row.

In February 2017, Nordea Asset Management was named as the best asset manager to use Socially Responsible Investments (SRI) and Corporate Responsibility research in the Responsible Investment survey (IRRI).

For more information, please check www.nordea.com/en/responsibility
Nordea Life & Pensions also uses a wide range of external investment managers in addition to Nordea Asset Management. Typically when Nordea Asset Management cannot offer the product needed or when Nordea Life & Pensions wants to use a manager with local knowledge in a specific market.

The selection of external investment managers is a detailed due diligence process where the external investment manager is assessed based on five overall criteria. One of these criteria is the quality of the responsible investment strategy. The due diligence of the responsible investment strategy is based on a number of questions to ensure that the external investment manager has a process in place to incorporate the ESG issues into the investment process.

Based on the answers to the questions and Nordea Life & Pensions dialogue with the investment manager each investment manager is rated on a scale to A to C, with A being the best.

### A

An A-rated manager has adopted a responsible investment policy that is deemed to be on a par with or better than Nordea Life & Pensions’ responsible investment policy in terms of content, process and commitment. However, the responsible investment policy needs not be similar to that of Nordea Life & Pensions with regard to all specific issues.

An A-rated manager should further actively screen investments and actively engage with companies that do not comply with their responsible investment policy. Engagement is a requirement for an A-rating. The manager must further be able to show results of the engagement process; either that a non-compliant company changes behaviour or that the company is added to an exclusion list. It is a requirement that an A-rated manager is a signatory of UNPRI.

### B

A B-rated manager has an RI policy in place. However, the policy is seen as sub-par relative to Nordea Life & Pensions’ own policy. An external investment manager will be assigned a B-rating if they do not engage with companies violating their responsible investment policy no matter how diligent their responsible investment policy may be.

### C

A C-rated manager does not have a responsible investment policy. The C-rating is further applied to managers where Nordea Life & Pensions has not reviewed the responsible investment policy. The C-rating is to be seen as the default rating of external investment managers.
2016 was the first year when Nordea Life & Pensions rated all new external investment managers. Nordea Life & Pensions further rated some of our existing external investment managers. The result of these ratings is presented in the table below.

<table>
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<tr>
<th>Rating</th>
<th>A</th>
<th>B</th>
<th>C</th>
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<tbody>
<tr>
<td>Percentage</td>
<td>50</td>
<td>17</td>
<td>33</td>
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The table shows the rating of our external investment managers and does not include internally managed assets or assets managed by Nordea Asset Management. The table shows that 50% of our external investment managers have a responsible investment policy and engage with companies violating their responsible investment strategy. 17% of our external managers are rated B and thus have a responsible investment strategy. For the B rated managers we see the implementation of the responsible investment strategy as lacking, why the manager does not get an A-rating. 33% of our external managers have received a C-rating. The C-rating is given to managers with either a lacking responsible investment strategy or no responsible investment strategy at all.

The long-term objective of the review process is to improve our external managers’ RI practices, and as part of this process all reviewed external managers are provided with feedback. External investment managers that receive a low overall score are expected to improve over time.

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**US Corporate bonds**

Nordea Life & Pensions is invested in US corporate bonds through a number of investment managers. One of the investment managers that Nordea Life & Pensions has chosen is a US investment manager. The US investment manager was chosen to get a manager with local knowledge and a deep understanding of the US market.

European investment managers are in general known for having a higher focus on ESG issues than US investment managers. Selecting a US investment manager with a strong ESG profile was therefore difficult. Instead, NLP had several discussions with one investment manager that had a strong track record and thorough local knowledge of the US market. The discussions were focused on their investment performance but also on the lack of an ESG profile. The result was that Nordea Life & Pensions agreed to invest if the investment manager signed up for the UN PRI. Now, the investment manager has a responsible investment strategy and is working on integrating it into their investment process.
Nordea Life & Pensions want to take an active role in aligning finance and markets to sustainability. We do this partly through our stewardship activities with other units in the Nordea Group. We believe this will benefit companies and investors and contribute to a sustainable economy with prosperity and long-term growth and where urgent environmental and social issues are addressed. We engage with companies and other stakeholders, including policymakers, on different themes individually or through collaborative initiatives with global reach and supported by a large number of investors.

Nordea Life & Pensions is a founding member of the Investment Leaders Group (ILG). ILG is a global network of pension funds, insurers and asset managers committed to advancing the practice of responsible investment. Its goal is to help shift the investment chain towards responsible, long-term value creation, such that economic, social and environmental sustainability are delivered as an outcome of the investment management process as investors go about generating robust returns.

In 2016 the Nordea Group joined a number of new initiatives. Nordea is now on the steering committee of The Corporate Human Rights Benchmark (CHRB) that will rank the top 500 globally listed companies within agricultural products, apparel and extractive industries on their human rights policy, process and performance. Nordea also signed the UN Guiding Principles Reporting Framework Investor Statement, an investor coalition supporting the UN Guiding Principles Reporting Framework and the CHRB. Nordea joined the Sustainable Stock Exchanges initiative as lead investor in the Nordic markets. Nordea became a founding member of the US-based Sustainability Accounting Standards Board (SASB) Investor Advisory Group that will support improving the quality and comparability of sustainability reporting to investors. Nordea is now a board member of the multi-stakeholder Extractive Industries Transparency Initiative (EITI).

For more information on initiatives that Nordea is involved in please visit: sustainablefinance.nordea.com