

# NAM's engagement overview

NAM is an active owner; it is our policy to engage with companies in our portfolios. We believe that ensuring good ESG practices in our funds' holdings is an important part of safeguarding the long-term interests of shareholders and society.

**Engagement at NAM** generally falls into one of three categories:

1. Norms- and incident-based engagement: engaging with companies breaching the international norms or conventions or companies having ESG related incidents
2. Risk based engagement: engaging with companies on their material ESG risks
3. Thematic engagement: engaging on specific themes such as corruption, human rights, water and climate change

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



## Engagement selection process

We focus our ESG engagement efforts on companies representing our largest holdings, especially those with the highest ESG risk exposure, and those selected for our ESG-enhanced STARS funds. We prioritise our engagements on issues such as ESG underperformance, high ESG risk, and materiality.

## Engagement plan with objective

An engagement plan is drafted, which defines our objective, establishes milestones, and tracks our progress.

## Research and meeting

Meetings are held with the companies where the engagement

process' purpose and milestones are communicated. We also hold research meetings with other stakeholders to better understand the company's ESG performance.

## Progress report or escalation

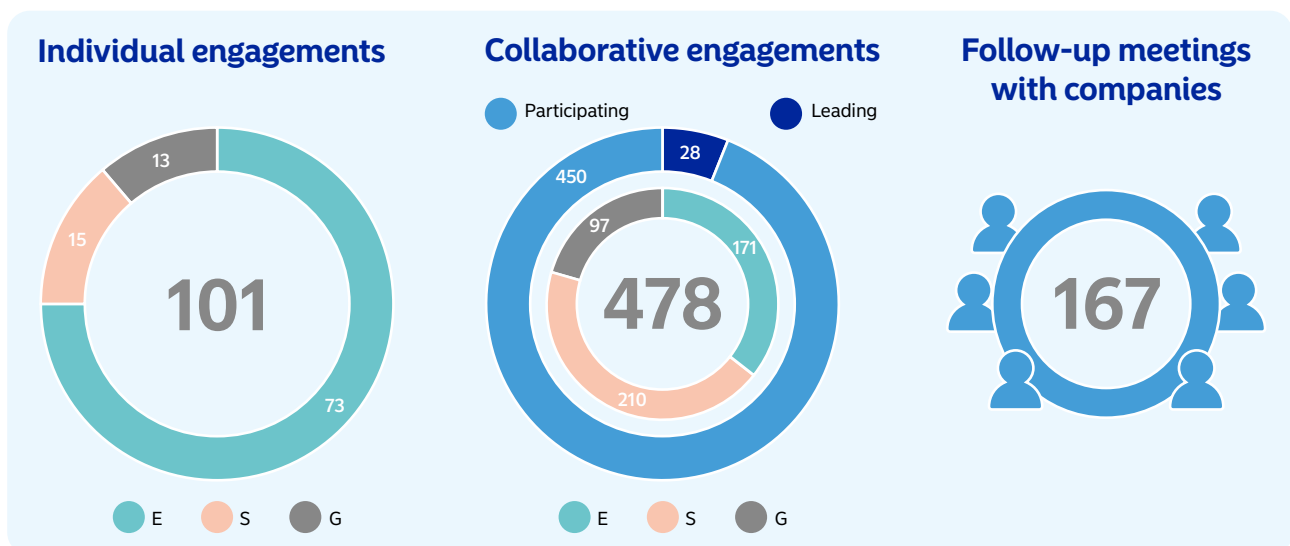
Finally, we review the engagement progress and the company's willingness to address the relevant issues. If there has been no progress or if the progress is too slow, then we assess how to escalate the engagement.

There are several different active ownership tools which we use in our engagement process:

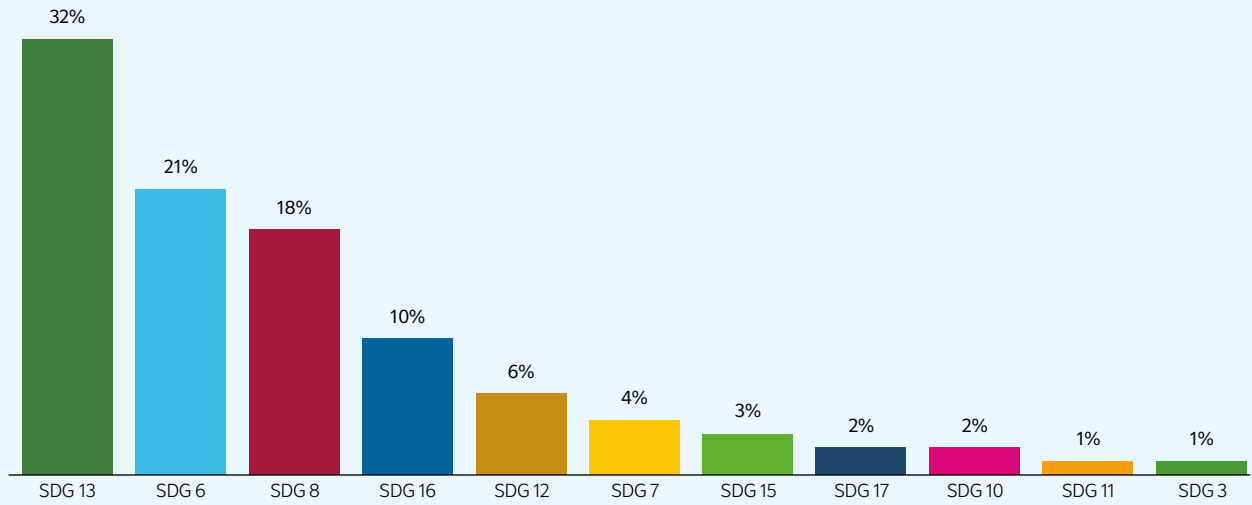
- Letters to management & board of directors
- Management visits
- Field visits
- Proxy voting and filing shareholder proposals
- Collaboration with other investors

The effectiveness of the different tools depends on the individual engagement case. Engagement is always our preferred approach, but the ultimate tool is exclusion of the company from all NAM portfolios. The RIC can decide to exclude a company if its operations are incompatible with our responsible investment policy or if the company does not respond to our engagement efforts.

In addition to individual engagement cases, we also collaborate with other investors. Collaborative engagements often address a specific topic, and we might take the role of lead investor in companies where our investments are substantial.



## Engagement – SDGs



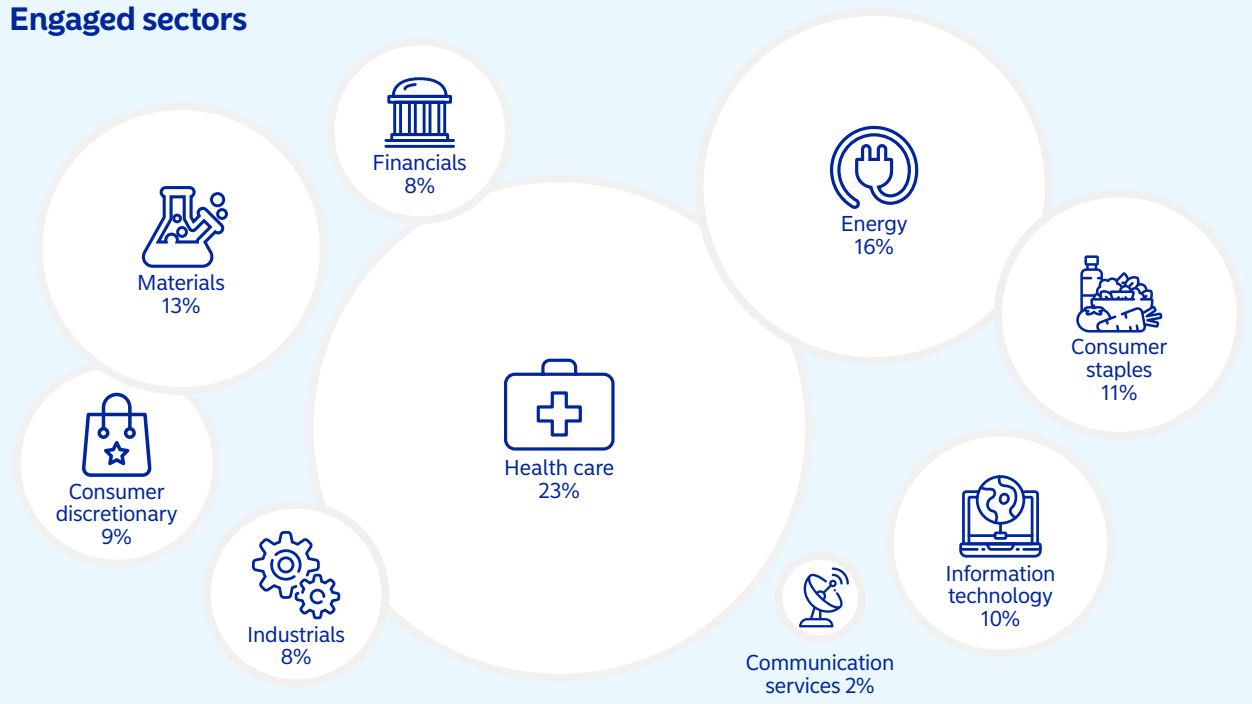
The **Sustainable Development Goals (SDGs)** are a collection of 17 global goals set by the United Nations General Assembly for the year 2030. They address the global challenges we face, and at NAM we try to align our risk assessment with the SDGs. Furthermore, we engage with companies where SDG related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

Complete list of SDGs:



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

## Engaged sectors



# Engagement deep dives



Melayani Dengan Setulus Hati

## Bank Rakyat Indonesia

Bank Rakyat Indonesia (BRI) is the largest and oldest commercial bank in Indonesia. Nearly three quarters of its loan book is connected to microfinancing, a type of banking service provided to low-income individuals or groups who otherwise would have no access to financial services. This is an important contribution to improving financial inclusion and socioeconomic resilience in Indonesian society.

### ► Material issue: financing of palm oil production

Palm oil production has been associated with a number of ESG risks such as indigenous people's rights, labour rights, deforestation and threatening endan-

gered species. Since palm oil production is a large industry in Indonesia (the world's biggest producer of palm oil), it is no surprise that BRI, as a leading lender in the country, has some exposure to the industry through its loan book.



Woman working at palm oil plantation.  
Source: Shutterstock.

### ► Engagement process and goal: palm oil risk management

NAM has discussed with BRI its exposure to the palm oil industry. BRI acknowledges it is exposed to ESG risks

related to palm oil and in 2018 it began implementing ESG risk management for palm oil plantation loans. It requires palm oil plantation clients to have an ISPO or an RSPO certification, which are the two main sustainable palm oil certifications in Indonesia. BRI is also collaborating with WWF Indonesia to develop in-house sustainable palm oil assessment capabilities for its credit officers.

### ► Outcome: ongoing engagement

NAM has recommended a few improvements, such as expanding its in-house training programme to credit officers in the field. Existing BRI clients without certification were given in 2018 a two-year grace period to obtain one, so NAM's RI team will follow up in 2020 to track the bank's progress in this and other related areas.

## Samsung

Samsung Electronics is a South Korean multinational company that manufactures and sells electronics and computer peripherals. Its businesses include consumer electronics, information technology and mobile communications and device solutions.

### ► Material issue: corruption

In 2016, the company was involved in a corruption case which led to the arrest of Vice-Chairman (VC) of the board on cor-

ruption charges. After being released from jail the VC maintained his position on the board while he was appealing his conviction, although during this time he was not participating in any activities or meetings of the board.

### ► Engagement process and goal: corporate governance

NAM has engaged with Samsung Electronics for several years since the revelation of the corruption allegations against the Vice-Chairman. We were satisfied with the corporate governance and transparency improvements the company had taken in the aftermath of the allegations. NAM informed the company that we would not accept the reappoint-

ment of the VC to the board once his ongoing term-limit was up.

### ► Outcome: removal from board

In October 2019, the company informed NAM that the VC would not be re-appointed to the board.



Samsung conference.  
Source - commons.wikimedia.org.





## Hennes & Mauritz

H&M Group is a fashion and design company established in Sweden in 1947. Nowadays H&M has around 4900 physical stores in 73 markets and online shops available in 50 different markets. H&M group consists of eight brands that offer consumers goods mainly in fashion, beauty and homeware sectors.

### ► Material issue: fair living wage

Because H&M has a strong brand, global presence and large operational footprint, the company needs to identify and manage sustainability concerns proactively; this includes the fair living wages for workers – including those working for H&M's suppliers. Since 2010, NAM has been discussing living wages with H&M. A fair living wage is one that covers the

basic needs of workers and their families, including food, clothing, shelter, healthcare, education, transport to work and a little extra for unforeseen circumstances.



Textile worker in Cambodia.

### ► Engagement process and goal: continuation of Fair Living Wage work

We welcomed the H&M Fair Living Wage Roadmap 2013-2018, a coherent and ambitious plan aiming to provide a long-term systematic solution to the living wage dilemma. It addresses the problem through four channels: purchas-

ing practices, wage management systems, workplace dialogue and minimum wage setting mechanisms by the government.

However, despite wage improvements in some regions, there is still much to be done. Wages have not risen sufficiently, and we still lack outcome-related KPIs, such as worker perception.

### ► Outcome: ongoing

Since we believe the success of H&M in achieving living wages depends to a larger extent on the progress of the whole industry in advancing collective bargaining agreements and securing improved purchasing practices, we will continue to engage on this issue. For example, we encourage other apparel companies to join relevant industry initiatives and especially ACT (Action, Collaboration, Transformation - a foundation focusing on the living wage in the garment industry) agreement.

## Kerry Group

Kerry Group is a market leader in nutrition and taste solutions for the food and beverage industry, with global leading positions in "clean label" solutions (especially natural preservation and natural taste).

### ► Material issue: labour practices

Agriculture is a sector with a high risk of labour rights abuses and the most severe ones – such as child labour and slave labour. NAM's engagement with Kerry is focused on labour practices in agricultural supply chains. Because most of Kerry Group's procurement is done via

intermediaries, the group needs proper supply-chain procurement practices in order to ensure that its supply chain is free from labour rights abuses.

### ► Engagement process and goal: collective engagement on supply chain labour rights

As the investor leading engagement in Kerry Group, we are part of a collaborative engagement coordinated by the UNPRI on labour practices in agricultural supply chains. The engagement targets 41 global large cap food producers and retailers with high exposure to supply-chain labour rights risks.

### ► Outcome: improvements

The UNPRI has developed an evaluation framework for assessing how companies address labour rights risks in their supply chains. The metrics cover both the policy

and the implementation aspect. Since the start of the engagement, Kerry Group's score has improved by 84%. Kerry Group still scores below brand-name companies, but this is essentially down to its position as a middleman/supplier company to the bigger names.



Labour practices in agriculture. Source - Shutterstock.

# Field visits



NAM's Senior ESG Analyst Marjo Koivisto visiting Levi Strauss in the US.

## USA

A trip to the USA in June 2019 included a visit to Levi Strauss, the global garment manufacturer. NAM initiated an engagement with this new holding both on wage costs in the supply chain, and on the sustainability of raw materials.

Levi Strauss has already taken steps towards sustainable materials including joining the Better Cotton Initiative and exploring hemp and waterless jeans. Following years of collaboration between the group's R&D and sustainability teams, Levi Strauss has introduced lasers at some vendor sites for a 'clean' way to finish jeans instead of chemical finishing. We like to see sustainability integrated into the beginning of the product lifecycle and continue to monitor related progress across the apparel sector.

Wage costs are an issue because Levi Strauss has almost 100% of its production in emerging markets. We suggested that the company should join ACT (a foundation focusing on the living wage in the garment industry). Commitment to paying 'living wage' is best practice and makes wage costs more predictable. Going forward we will monitor how the company manages wage cost pressures in its supply chain.



NAM's Senior ESG Analyst Arvinder Tiwana meeting locals in Brumadinho, MG, Brazil.

## Brazil

In May 2019, NAM conducted a field trip to the city of Brumadinho in the Brazilian state of Minas Gerais. Four months earlier, a nearby tailings dam - an earth-filled embankment dam used to store the by-products of mining operations - failed catastrophically. The subsequent mudflow destroyed everything in its path, creating a human and environmental disaster.

We spent several days visiting stakeholders affected by the incident. We met families directly impacted by the breach; unions representing employees of the mine; communities displaced by the clean-up activities; the city's mayor, who highlighted both the grieving community and the economic importance of the mine; and rescue workers.

With this first-hand knowledge, we met the company in its headquarters, asking it not only to take responsibility for the clean-up, but also to improve its communication with the local community, increase its transparency around its other tailings dams, improve its safety management system, and secure and decommission high-risk tailings dams. We have subsequently seen positive steps from the company to address our concerns and we continue to monitor the situation closely.



NAM's Senior ESG Analyst Michaela Zhirova drinking purified waste water in Finland.

## Finland

In October 2019, NAM conducted a field trip to Finland to look at some green bonds, as this segment expands. Green bonds raise funds for climate or environmental projects; we visited two Finnish wastewater treatment projects.

At the Turku treatment plant, the municipality is issuing a green bond to finance a drainpipe. The new pipework will enable the plant to cope better with the overload of stormwater in the sewage system, a result of climate change.

We also visited a state-of-the-art wastewater treatment plant being built by the municipality of Mikkeli. This will supply clean water with very low environmental impact, provide freshwater for irrigation and industrial processes, and includes research cooperation with the local university. The research is resulting in new materials such as ultra-fine membranes, which reduce the need to aerate the wastewater through circulation. As this is the most energy intensive step of the process, these materials bring a big energy saving.

The trip provided a useful insight into the kind of fundamental research and cooperation that are needed to enable the shift to a more circular economy. The technology used in these plants is enhancing their efficiency and not only purifies wastewater, but also enables the creation of natural gas from the waste product.



NAM's ESG Analyst Olena Velychko visiting Autoliv in Shanghai, China.

## China

NAM's field trip to China in December 2019 comprised meetings with several Swedish and Chinese companies, experts, and government officials to learn more about the impacts of environmental challenges and policies in China.

Since China is responsible for almost a third of global greenhouse gas (GHG) emissions, its actions have a substantial impact on limiting the global temperature rise to below 2 degrees centigrade. Hence, China's plans to launch the national carbon emissions trading system in 2020 has been a hot topic. Once the system is fully operational, it will be the largest in the world trading 8 billion tons of GHG annually.

China's forceful "war on pollution" is having a short-term economic impact as companies need to invest to meet new requirements. Autoliv, a Swedish automotive safety producer, told us that for example its factories in China upgraded their wastewater discharge systems. Another Swedish company, the fashion retailer H&M, has been working with its suppliers for a long time on wastewater treatment, which was helpful for its suppliers: many other textile factories have had to shut down following government inspections.

In China, the environmental disclosure to government has been increasing, mainly driven by the requirements from the Chinese government. However, the level of public ESG disclosures by corporates is still very poor. For us as ESG investors, transparency on material issues is key for making more informed decisions and it was a focus of our meeting with the Chinese companies.





Offshore drilling. Source: Shutterstock.

## Thematic engagements

Thematic engagement focuses on companies' exposure to certain themes. These themes are typically valid across STARS funds and defined jointly by the RI team and the portfolio managers. They focus on topics that tend to align with the UN Sustainable Development Goals (SDGs) - issues such as climate, gender diversity, corruption, environmental protection.

**NAM believes that companies** that align their strategies with the SDGs will be successful in the long term, because they are adjusting to global society's future needs.

We have identified four thematic focus areas for our engagement and active ownership activities:

- Corruption
- Human rights
- Water
- Climate change

In 2019, we engaged with a number of companies on all four focus areas, both individually and through collaborative engagements. We will use whichever approach appears the most

effective, and often we will use both styles of engagement on a single topic.

This has been the case in NAM's long-term engagement with the pharmaceutical industry on water pollution (falling under the Water theme). Pharmaceutical water pollution is a particular issue because of its link to Anti-Microbial Resistance. Here we engage both directly with the companies we invest in and through the industry-led Pharmaceutical Supply Chain Initiative (PSCI), where we have a seat on the advisory board.

An area NAM addresses primarily through collaborative engagement is human rights. Nordea is a funding member of the Corporate Human Rights Benchmark (CHRB), the first public



benchmark of corporate human rights performance created by investors and civil society organisations, and has a seat on the organisation's Advisory Council. The CHRB measures the human rights performance of the world's largest companies in sectors with high exposure to human rights risk and is today an internationally recognized standard on business and human

rights. Since 2017 NAM has been part of an investor coalition engaging on human rights with companies assessed in the benchmark. This coalition includes over 85 asset managers with more than USD 5.3 tn in AuM.

### **HG Petrobras: a thematic engagement example**

Nordea is part of the Climate Action 100+ ("CA100+") investor initiative on climate change. CA100+ was launched in 2017 to ensure that the world's largest corporate greenhouse gas emitters take the necessary action on climate change. The aim is to curb emissions, improve governance and strengthen the companies' climate disclosures.

NAM is the lead investor in the CA100+ collaborative engagement with Petrobras. 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 would allow Petrobras to play a key role in achieving the goals of the Paris Agreement. Representing a group of investors, NAM has discussed with Petrobras what steps we believe they need to take going forward.

First, NAM has advised Petrobras that its climate governance framework should be strengthened. While the company has made significant strides in this field in recent years, it is still lacking in certain areas, such as linking the CEO's compensation to climate-related factors.

Second, we expect Petrobras to work more aggressively to curb emissions. The company has recently set emissions-intensity targets for parts of its operations, but these are insufficient to meet the 2-degree target. We have recommended improvements to the company's target-setting, including using an approach that encompasses more of the company's total emissions.

Third, Petrobras should become more transparent in its climate-related disclosure. On a high level, this will involve meeting the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD) for climate reporting and improving the transparency of the company's climate-related scenario analysis.

Petrobras is now constructively discussing our points. This engagement will continue in 2020.