



WORLDWIDE

ASSET MANAGEMENT

A landscape photograph showing several wind turbines in a field of golden wheat under a warm, hazy sunset sky. The turbines are silhouetted against the bright light of the setting sun.

# ESG Report

Nordic Equities

Q1 2022



## ESG Philosophy

### Core Beliefs

Our active approach to the stewardship of investments ensures ESG commitment

We emphasize active ownership to influence positive change and progress

The integration of ESG factors is key to our long-term investment research process

Prioritising pro-active engagement rather than excluding and divesting

Investing responsibly is aligned with superior risk-adjusted long-term returns

### Our actions

Engaging directly with and voting on investee companies

Researching ESG factors is fully integrated into our overall investment approach

Materiality ensures that we prioritise what matters most

Extensive screening to ensure norm-based alignment

## Quarterly Comments

We are pleased to welcome you to the new design and layout of our quarterly ESG reports. The idea behind the new look is for you as a reader to get an accessible overview of our stewardship practices in the latest quarter and continue to receive detailed insights on our engagements. We hope you value the new look. Enjoy reading.

The first quarter of 2022 was eventful from both an ESG and geopolitical perspective. The already significantly increasing energy prices rose even further, putting pressure on policymakers to act and investors to start focusing even more on energy opportunities. Additionally, there have been more discussions developing regarding the acceptance of potential investments in the weapons industry, anchored in the framework of security, peace, and justice. Although controversial weapons will always remain un-investable for us, perhaps other weapons-related companies will become more investable again from a SRI/Ethical perspective.

In our previous quarterly report, we emphasised the continued focus and progress in setting abatement plans and working with climate matters and specifically emission reduction targets. This quarter, however, the discussions accelerated exponentially with Russia's invasion of Ukraine, particularly in the EU, where significant energy demands depend on supply from precisely Russia. The original ambitious EU climate plan, Fit for 55, announced during the summer of 2021, was replaced by the even more ambitious REPowerEU plan. This plan emphasises scaling down gas, oil and coal (where 45%, 25%, and 45% of the consumption is imported from Russia, respectively) from external suppliers and focuses on developing measures for the EU to be self-sufficient, including further investments in renewable energy sources.

The Fit for 55 plan has already reduced annual fossil gas consumption by 30%, equivalent to 100 billion cubic metres (bcm), by 2030. With the measures in the REPowerEU plan, it is estimated that at least 155 bcm of fossil gas use could gradually be removed, which is equivalent to the volume imported from Russia in 2021. Nearly 2/3 of that reduction is suggested to be achieved within a year and thus ending the EU's overdependence on a single supplier. This has ignited the debate on investments in energy from an ESG perspective, including whether investments in gas and nuclear from more secure and affordable sources might be part of the solution in the transition to a decarbonised world.

Despite more events taking place this quarter than in decades, we continue to view investments from a long-term perspective and focus on companies with thematic tailwinds. Please also refer to our piece '[The Longer-term Investment Consequences of the War in Ukraine](#)' just published for further insights into how we view the implications of the ongoing invasion

## Portfolio Changes

During the quarter, we initiated positions in UPM-Kymmene Oyj. UPM-Kymmene Oyj is a Finnish paper and biomaterials company. The company produces products related to the forestry industry, including paper, pulp, and plywood. UPM is also a major electricity generator.

UPM's forestry products replace products with higher fossil emissions, thereby having a significant positive climate impact. Examples include wood products replacing steel or concrete, paper packaging replacing plastic or biobased energy replacing oil or coal.



## Investment Screenings

### Sanctions Screenings

All investments are screened against Refinitiv World-Check sanctions-screening covering all known sanction bodies

### Norms-Based Global Standards Screenings

Convention Breach screenings, compliance with UN Global Compact Principles, OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights

### Investment Exclusions

None of the companies within the portfolio exceeds a certain level of involvement in the activities specified

- 0% Controversial Weapons
- 5% Military Contracting
- 5% Small Arms
- 5% Adult Entertainment
- 5% Alcoholic Beverages
- 5% Gambling
- 5% Tobacco Products
- 5% Oil Sands
- 10% Thermal Coal
- 10% Shale Energy
- 25% Oil & Gas

In sum, UPM's production of 10.4 million tonnes of pulp and paper, 2.5 million m3 of wood products and 13.8TWh of renewable energy/bioenergy results in a positive substitution effect (reduction in global greenhouse gases) of 17.6 million tonnes of CO<sub>2</sub>e.

According to Sustainalytics, UPM has a low-risk ESG score of 14,7.

## Quarterly Direct Engagements

This year we have set out key focus areas for our engagement throughout 2022. We will focus on three areas with two underlying topics in each area. The key areas have been decided through a materiality assessment across all holdings in our strategies:

- 1) Climate change (Decarbonisation and Alignment with international standards such as SBTi and TCFD)
- 2) Environmental impact (Biodiversity and Water management)
- 3) Business Ethics (Bribery & corruption and Signatory to UN Global Compact)

The topics were discussed throughout the quarter, where we met with Mowi, Wärtsila and Alfa Laval. Notable highlights from the meetings are detailed below.

### Wärtsila

We participated in an ESG meeting with Wärtsila, where the company described its role in helping clients decarbonise the marine and energy sector. Today Wärtsila already has a few products within fuels and battery technology to help reduce CO<sub>2</sub> emissions and balance the volatile output from green energy sources like wind and solar.

In the coming years, Wärtsila is planning to introduce engines running on ammonia and hydrogen, products the company expects to start selling in 2023. Furthermore, Wärtsila will present solutions to help convert powerplants running on gas to run on new green fuels. We believe that Wärtsila will become a key player in the green transition within the marine and energy sector with its broad product portfolio and services.

### Alfa Laval

We participated in Alfa Laval's presentation of its ESG strategy. Alfa has recently updated its Code of Conduct, and its ESG strategy is built around that. This has resulted in many relevant ESG targets within environmental aspects, where Alfa now targets energy, waste, water, and recycling. Many of the targets are interrelated, for example, recycling and Scope 3. The good thing about these targets is that we can begin to track Alfa's ESG strategy development. The quantification is not as explicit as the environmental targets regarding the social and governance metrics. Still, Alfa will work with issues like human capital, internal working conditions, bribery, ethics, etc.

## Proxy Voting

The proxy season kicked off in Q1, and several portfolio companies held their general meetings.

### Kone

We voted against approval of the remuneration report and election of the board as we believe the board is not sufficiently independent and that the remuneration report reveals several practices that are considered below market standard.

### Stora Enso

We did not vote for the election of the board. We find it unfortunate that the audit committee chairman is a non-independent member of the board. In addition, the proposed remuneration committee does not have more than 50% independent members.

### Novozymes



We voted to abstain from the re-election of some of the directors due to issues related to dual roles, lack of gender diversity, non-independent chairmanship status on the audit committee, and overboarding. We would like to see the board improve in these areas. On the other hand, we voted for the suggested remuneration as we see this as being fair from an international perspective.

**ABB**

We agreed with the recommendation from ISS that there is insufficient gender diversity among the board members, and we thus voted against the chairman of the nomination committee, Peter Voser, as being the responsible person for possibly changing this.

**Essity**

We voted for the re-election of Per Boman despite ISS's recommendation to vote against it. We regard Per Boman as very experienced, and he does not hold a critical executive role anywhere else. Additionally, given his proven capacity, we do not view him as overboarded for being on four boards.

**Novo Nordisk**

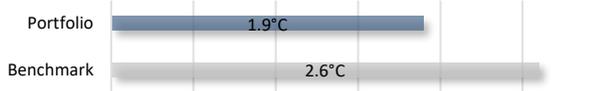
For Novo Nordisk, we voted for the re-election of Martin Mackay, which was not in line with ISS recommendations. Mackay is a strong profile for Novo, has been a member of the board since 2018 and is currently chairing the company's R&D committee. We currently do not have any worries about overboarding impacts. His role as CEO of 5:01 ACQUISITION CORP (a SPAC and as such with no business) must be considered very limited for now.

# C WORLDWIDE NORDIC EQUITIES COMPOSITE

Average Sustainalytics Risk Rating: 21.35

## Emissions Exposure

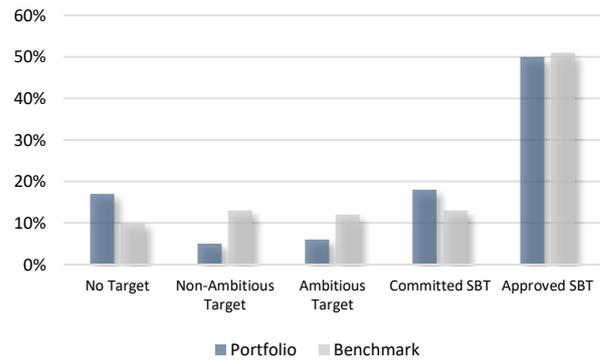
	Emission Exposure		Relative Emission Exposure	Sustainable Development Scenario
	tCO <sub>2</sub> e		tCO <sub>2</sub> e/mill. USD revenue	
	Scope 1 & 2	Incl. Scope 3	Carbon Intensity	2050 Target Paris Aligned
Portfolio	108	747	258.74	88.30%
Benchmark	66	614	175.39	291.64%
Net Performance	-64.3%	-21.6%	-47.5%	-



In the above table, the portfolio and benchmark are compared regarding their emission exposure and relative emission exposure, enabling us to see the difference between the two.

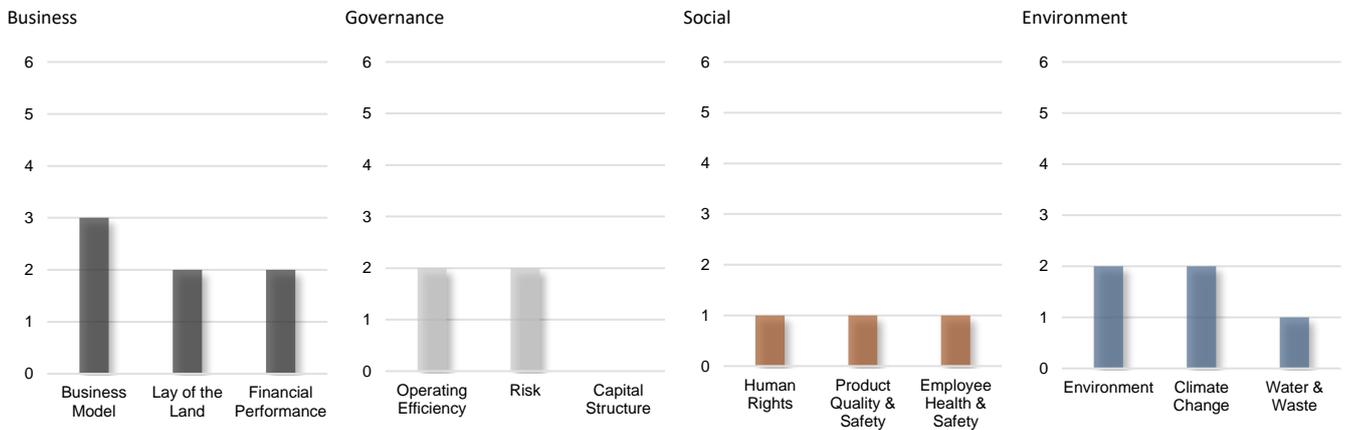
The bottom chart shows the alignment of the portfolio and the benchmark according to the Paris Agreement, thereby the 1.5°C scenario.

## Climate Target Assessment



The graph above shows how many of the companies in the portfolio have set climate targets and how ambitious these are. Having ambitious targets, being committed to Science-Based Targets (SBT) or having approved SBT shows close alignment with the Paris Agreement.

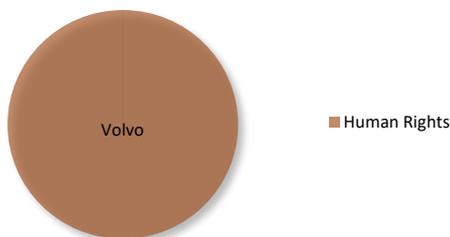
## Direct Engagement Topics



Total direct company engagements for the portfolio: 6

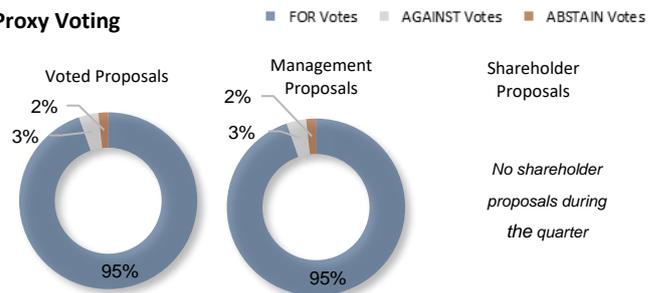
Throughout the quarter, we conducted several direct engagements with the portfolio companies. Our ESG engagements have most often incorporated an aspect of each subject E, S, and G. The above graphs show the top three engagements topics within business, governance, social and environmental aspects. There are several sub-topics within each category that can overlap within one engagement.

## Collective Engagement



The collective engagement approach gives us access to a proven process and highly qualified specialists with strong knowledge and network that can be leveraged in monitoring and follow-up with the investee companies on key ESG issues. As we are minority shareholders, Sustainalytics' ability to pool our engagement and assets with other like-minded investors and shareholders amplifies our influence and our ability to encourage change.

## Proxy Voting



Total votes for the portfolio: 169

We utilise proxy voting to emphasise the topics discussed with the investee companies in our ongoing engagement with them and vote on critical issues important to the governance of the investee companies. The chart above shows vital topics and how votes have been cast during the quarter.

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