

Responsible Investments Annual Report 2015



About Nordea Asset Management

Nordea Asset Management (NAM) is the largest asset manager in the Nordics with a growing European presence and business. Our assets under management exceed EUR 189 billion. We are a semi-captive asset manager servicing Nordea Retail Banking, Private Banking and Life & Pensions, as well as Nordic and international institutional clients and third-party fund distributors globally. We employ 600 FTEs and 165 investment spe-

cialists. NAM is also the largest Nordic retail fund provider, with a 17% market share, more than 1.7 million unitholders and servicing more than 475 Nordic and international institutional clients. At the same time, we have a growing third-party fund distribution franchise servicing 300 international fund distributors, including 21 global wealth managers.

Our vision

Being a leading European Asset Manager

Our mission means...

Deliver returns...

Right assets

Excess performance

...with responsibility

Risk & performance management

ESG pro-active

Operational excellence & transparency

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Photographer: Oskar Lind



Sasja Beslik, Head of Responsible Investments
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Editorial leader

*By Sasja Beslik, Head of Responsible Investments
Nordea Asset Management*

Our commitment to being a responsible asset manager has deep roots in our corporate culture and business model and our mission is to deliver returns with responsibility. Asset management is all about value creation and we believe that responsible investment creates long-term value.

The ESG integration process that we have developed at Nordea Asset Management is one way to do it that we find promising, although it will take time to see the full results and conclusions of this ESG integration. Nevertheless, it is our ambition to leverage ESG analysis and engagement solutions in order to embed ESG into all our investment processes. We are committed to assisting clients with the adoption of responsible investment strategies that enhance long-term investment performance.

The next challenge ahead lies in increasing transparency and accountability, to prove that the industry does not only talk the talk but also walk the walk. At Nordea Asset Management we strive to be transparent and find new communication methods that will assure clients that we are creating returns with responsibility.

2015 was in many ways shaped by the climate negotiations in Paris (COP21). After four years of negotiations, the conference in Paris produced the first universal agreement on climate change. The legally binding agreement is to limit global warming to “well below” 2°C this century and “to pursue efforts to limit the temperature increase to 1.5°C” – an outcome that is being hailed as a great success by those whose hopes were chilled by the failed negotiations in Copenhagen.

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What the world really needs is a meaningful price on carbon. Paris failed to deliver that. Behind the headlines, the crux of our attempt to avoid global warming lies in consumption behaviour and the fluctuations of commodity prices versus the price of clean energy alternatives.

Herein lies the investment story: climate change will still happen (2°C is expected by ~2040) but the Paris outcome gives structure and momentum to the engineers and entrepreneurs that are

heralding in the sustainable energy era. While the political ambition can rightly be praised and we finally have a consensus on the urgency to act, the technical challenge of simultaneously decarbonising and growing the economy is still daunting. The reality is that countries will not ditch fossil fuels until the clean energy alternatives are viable. We clearly see that this challenge is also present in the asset management industry where more and more investors just like us explore ways to build investment bridges to 2030.

Responsible investment approach

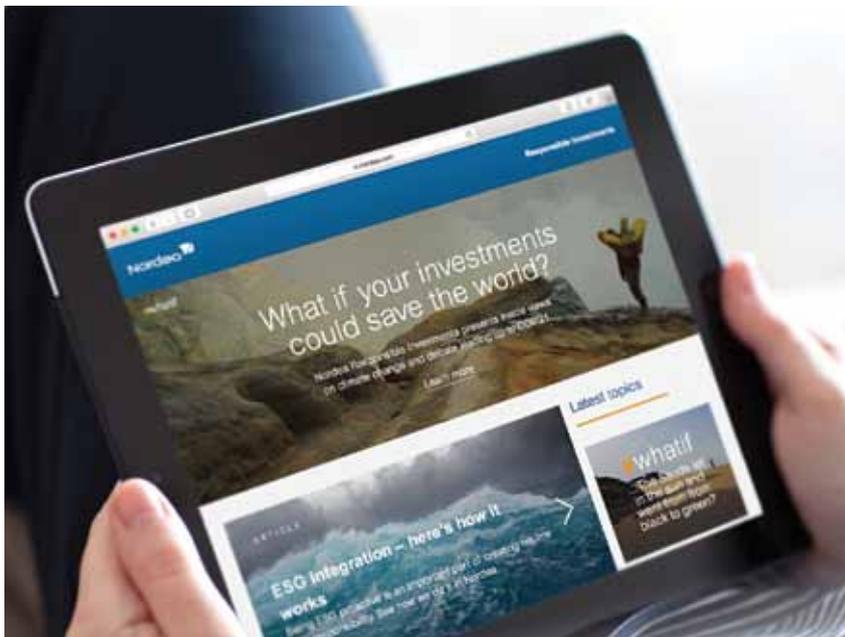
At Nordea Asset Management (NAM) we deliver on the mandate given to us by our clients – to generate the highest possible return with the lowest possible risk by managing and investing their assets in a responsible way. We achieve this by managing funds actively and delivering alpha. At Nordea Asset Management we fulfill this responsibility by being an active owner and engaging with companies on environmental, social and corporate governance practices (ESG).

The responsible investment strategy and activities are overseen by the Responsible Investment Committee (RIC). The RIC includes members from the Senior Executive Management team and is chaired by the CEO of NAM.

In our approach to asset management Nordea applies internationally recognised principles of responsible investment and active ownership. Nordea 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. During 2015 we revised our Responsible Investment Policy, which is published on Nordea.com.

Nordea Asset Management was among the first Nordic institutions to sign the Principles for Responsible Investment (PRI) in November 2007. By endorsing the PRI we commit to integrating ESG factors into our investment analysis, decision-making processes and ownership policies and practices. The PRI, together with international norms, are the basis for our Responsible Investment Policy. This way NAM acts as an active owner on behalf of its clients in companies and sectors across the world.

By combining financial performance with responsibility, we strive to offer clients responsible solutions. We believe that we can add value to our clients by actively considering environmental, social and governance issues (ESG) in our analysis and investment decisions – particularly through our investment research, asset allocation and performance monitoring. We recognise that integrating ESG issues forms part of our fiduciary duty to clients and beneficiaries and want to see their portfolios managed in a way that systematically assesses drivers of risk and return over the long term. We ensure that our ESG research is integrated into the investment processes of our investment units and also develop and run specialised ESG products and services together with other units.



Go to ri.nordea.com and follow content related to COP21



COP21, signing the deal, Paris 2015

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Stewardship and engagement

Our model for outlining engagement activities is supported by structured processes to prioritise our engagement efforts on key issues such as under-performance on ESG, high ESG risk exposure to a certain theme or sector issue, materiality, relevance to our clients and our ability to influence.

We monitor all investments from an ESG perspective on a continuous basis through our ESG-integrated investment research and activities, including company meetings. We also receive up-to-date incident reports relating to our holdings through an external service provider and review our funds annually to ensure that they continue to meet our criteria for inclusion.

We engage at company and industry sector level as well as with stakeholders and standard setters. We engage on behalf of all of Nordea Asset Management's funds. This supports the ongoing ESG integration activities within Nordea Asset Management. We actively vote our shares across all markets, which includes taking voting action in respect of companies where ESG engagement has been unsatisfactory, concerns remain and/or significant controversies have arisen.

International initiatives

We seek to encourage best practices through participation in international initiatives. In addition to having signed the Principles of Responsible Investment (PRI) in 2007, Nordea Asset Management is also a signatory to the CDP (Carbon Disclosure Project), which aims to collect and spread information on greenhouse gas emissions, climate change strategies and water-related risks. In 2015 we became a member of the CDP's Water Advisory Council.

Other initiatives we are involved in are for example the Institutional Investor Group on Climate Change, the United Nations Environment Programme Finance Initiative (UNEP FI), Water & Finance Work Stream, The Montréal Pledge and local sustainable investment forums.



Four focus areas

We have four focus areas for our stewardship and active ownership activities within ESG – climate change, water, corruption and human rights. We engage on these issues at company, industry sector and policy level. In addition, we engage with companies that are identified through our norm-based screening process. All of Nordea's funds are screened annually for verified violations of international norms regarding environmental protection, human rights, labour standards and business ethics. We also engage with companies that we have identified as underperforming in terms of ESG and where we see material risks that may not be adequately managed or opportunities that may not be fully capitalised on.

Focus area: climate change

The COP21 meeting in December 2015 resulting in a new global agreement on climate change showed that investors can be a voice in climate policy. Countries will aim to keep global temperatures from rising more than 2°C by 2100, with an ideal target of keeping the temperature rise below 1.5°C. The agreement includes a provision requiring developed countries to provide USD 100 billion annually to developing countries. Nordea Asset Management played an active part in calling for the

agreement and will continue to push for a transition to a low-carbon economy. The World Economic Forum's Global Risks Report 2016 ranks failure of climate change mitigation and adaptation as the highest ranking global risk in terms of impact.

Carbon footprint disclosure

We believe that increased transparency of funds' carbon footprints contributes positively to tackling climate change. We signed the Montreal Carbon Pledge launched on 25 September 2014 at PRI in Montréal and supported by the Principles for Responsible Investment (PRI) and the United Nations Environment Programme Finance Initiative (UNEP FI). By signing this pledge we commit to measuring and publicly disclosing the carbon footprint of our investment portfolios on an annual basis. In December 2015 we disclosed the carbon footprint as part of the ESG score cards for our STARS funds. The Nordea group also signed the Paris Pledge that was launched at the United Nations Climate Change Conference (COP21) in December 2015 in Paris in which Nordea Asset

Management participated. By joining the pledge all signatories commit to ensuring that the ambition set out by the Paris agreement to limit the global temperature rise to less than 2°C is met or exceeded.



Exclusions

In March 2015 Nordea Asset Management decided to exclude 28 companies with 75% of their revenue derived from sales of coal products and without a meaningful opportunity to diversify from coal. Please visit Nordea.com to see the exclusion list.

Stewardship and engagement activities

We engage with companies and other stakeholders including policymakers on climate change, individually or through collaborative initiatives with global reach and supported by a large number of investors.

We are a member of The Institutional Investors Group on Climate Change (IIGCC). This is a forum for collaboration on climate change for investors to encourage public policies, investment practices and corporate behaviour that address long-term risks and opportunities associated with climate change. IIGCC develops and publishes investor guides aimed at creating a greater understanding of the risks and opportunities posed by climate change and climate policy. These guides are used as part of our analysis and in some engagements with companies on climate change related issues.

In May 2015 we were among the 120 investors that sent a letter to the finance ministers of the Group of Seven (G-7) urging them to support a long-term global emissions reduction goal in the COP21 Paris agreement as well as the submission of short- to medium-term national emissions pledges and national action plans.

In 2015 we joined a collaborative investor engagement on Climate Lobbying with more than 60 investors coordinated by the PRI. The initiative calls for improvements in practice and transparency from investee companies on their climate change lobbying practices. As part of the initiative The Investor Expectations on Corporate Climate Lobbying statement was prepared.¹ The Expectations document states that company lobbying on climate change related policy and regulation must be in line with the universally accepted goal of limiting global temperature rises to 2°C. Investors expect that companies when engaging with public policymakers support cost-effective policy measures to mitigate climate change risks and support a transition to a low-carbon economy.

We also joined the IIGCC parallel investor initiative on corporate lobbying in an EU climate and energy policy context. A letter signed by 50 investors from eight countries representing over EUR 4.4 trillion in assets under management was sent to 75 companies.

We are a member of the CDP (Carbon Disclosure Project), which aims at encouraging companies to measure and disclose through self-reporting climate change, water and forest-risk data. This information is used in our ESG analysis and investment decision-making.

¹www.unpri.org/wp-content/uploads/Investor-Expectations-on-Corporate-Climate-Lobbying_en-GB.pdf



Photographer: Thomas Sonne



Focus area: water

Water-related risks and opportunities are becoming increasingly important for our investments.

During a field visit in Hyderabad and Visakhapatnam in India in April 2015, we found some disturbing evidence of poor waste water management within pharmaceutical manufacturing and the effect this can have on the surrounding environment and community. We summarised the findings in a video that we shared with a number of pharmaceutical companies that we are invested in.

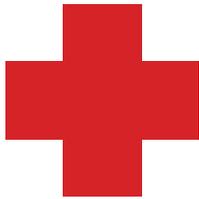
We did this as part of an industry engagement initiative on waste water management by pharmaceutical companies in their supply chains in India that involved 28 companies. The pharmaceutical sector faces risks related to waste water from manufacturing sites. Hyderabad in India is one of most polluted areas in the world and a dumping ground for many of the western pharmaceutical industry's suppliers. Companies in this sector need to know if and how their own manufacturing processes as well as the manufacturing processes of their suppliers can harm the water security of others and cause adverse impact on human and environmental health. We expect that the pharmaceutical companies that we are invested in ensure water security in their value chains, as they may be exposed to a number of risks including financial, physical, regulatory, litigation and reputation risks that can have a detrimental impact on the financial value of our holdings.

We will continue this pharmaceutical industry initiative on supply chain management as regards waste water in 2016.

In 2015 we joined the CDP's Water Advisory Council. We were also involved in a CDP initiative to protect emerging market investments from current and future water-related risks. The selected companies received free training and support from the CDP as well as regular requests to provide water information.

Another collaborative engagement initiative that we participated in is the PRI-coordinated project focusing on water risks in agricultural supply chains.

We co-chaired the United Nations Environment Programme Finance Initiative's (UNEP FI) Water and Finance Work Stream (WFWS) in Tokyo.



Focus area: human rights

We expect companies to observe internationally recognised human rights principles and to prevent negative effects and manage their impact on human rights. Poor management conflicts with the long-term interest in promoting a responsible and sustainable development and may impact companies' license to operate. Human rights related issues include complicity in human rights abuses, modern slavery and child labour, occupational safety and health, the rights of indigenous people and displacement of local communities, freedom of association and collective bargaining and international humanitarian law.

Collaborative engagement on human rights in the extractive sector

We joined a collaborative engagement coordinated by the PRI (Principles of Responsible Investment) on human rights in the extractive sector. Extractive companies can face significant operational and reputational risks if they do not take adequate steps to manage human rights issues. Such risks include boycotts, project delays and cancellations, lawsuits and negative press coverage. The engagement targets 50 global

large cap mining and oil and gas companies with high exposure to human rights risks. The selection is based on operating regions, existing corporate human rights policies and systems, and human rights incidents and allegations.

The Access to Medicine Index

Another potential business risk for global companies in the pharmaceutical sector is the issue of access to medicine in developing countries. Two billion people around the world have no access to medicine. We believe that pharmaceutical companies have an important role to play in addressing the access to medicine issue and that the issue of access to medicine is potentially material to long-term shareholder value creation. In order to promote better business practices in this area we joined the Access to Medicine Index during 2015. The Index publicly recognises companies for their investments in access to medicine, raising awareness of relevant issues within pharmaceutical companies and providing them with a transparent means by which they can assess, monitor and improve their own performance as well as their public and investment profiles.

Focus area: corruption

In 2015 we saw growing evidence of a correlation between corrupt business practices and negative effects on long-term financial returns. Transparency requirements, both voluntary and mandatory, are being developed, requiring companies to disclose information on corporate and ownership structures and their anti-corruption programmes and provide country-by-country reporting of taxes and government payments.

During 2015 we initiated an engagement project on corruption management involving 20 companies among our largest holdings. The aim is to promote a proactive approach to corruption, implementation of adequate anti-corruption measures and improved transparency. We will continue to follow up on this in 2016 and onwards.



Engagement with companies identified through our norm-based screening process

We use an external service provider to annually screen all funds managed by Nordea Asset Management against our exclusion criteria as well as for verified violations of international norms regarding environmental protection, human rights, labour standards and business ethics.² We also receive on a continuous basis incident alerts related to our holdings to ensure that the companies we are invested in continue to meet our criteria for inclusion.

If a company is identified as breaching our inclusion criteria or international norms, we will undertake an internal assessment of the company and the incident. We may decide to engage with the companies identified through this process and through active ownership encourage them to improve their ways of working. In 2015 we had seven in-depth engagements on norm violations. If a company is found to be in breach of our inclusion criteria or does not change its norm-breaching behaviour within a certain time period, Nordea

Asset Management's Responsible Investment Committee may decide to exclude or divest the company. In some cases we put companies on a watch list or quarantine them.

Our exclusion criteria are defined in our Responsible Investment Policy.³ Nordea Asset Management does not invest in companies that are involved in the production of illegal or nuclear weapons, or in sovereign bonds issued by governments subject to broad sanctions or that fail to respect human rights. In 2015 we decided to exclude 28 companies because 75% of their revenues derives from sales of coal products and they do not have a meaningful opportunity to diversify from coal. Some funds also apply tailored investment guidelines and additional exclusion criteria. The list of companies that have been excluded is published on Nordea.com. The exclusions are present for all actively managed funds.

The VW case

Equity markets got a rude awakening this September when automaker Volkswagen proved to be involved in one of the biggest emissions scandals in the auto industry. The rapid disclosure of information and subsequent drop of the share price over a short period of time made the Responsible Investment Committee decide to quarantine the Volkswagen stock for six months.

Given the events surrounding VW, certain necessary steps were taken to voice Nordea Asset Management's standpoint as a shareholder. Besides having a dialogue with the company we also had internal meetings with the members of the Responsible Investment Committee (RIC) to discuss how the situation should be handled with the shareholders' best interests in mind. When the quarantine period is over, a new decision will be made regarding the VW stock. We will review the progress that the company has made in terms of recalling vehicles and also what the company has done in order to prevent anything similar from happening in the future.

²We base our Responsible Investment Policy and strategy on international conventions and norms, including:

- The United Nations Global Compact
- The OECD Principles of Corporate Governance
- The OECD Guidelines for Multinational Enterprises
- The Universal Declaration of Human Rights
- The UN Guiding Principles on Business and Human Rights
- The Children's Rights and Business Principles
- The ILO conventions on labour standards
- The Rio Declaration on Environment and Development
- The UN Convention on Corruption
- The Convention on Cluster Munitions

http://www.nordea.com/Images/33-99083/RI_Policy_JAN2016_3.pdf



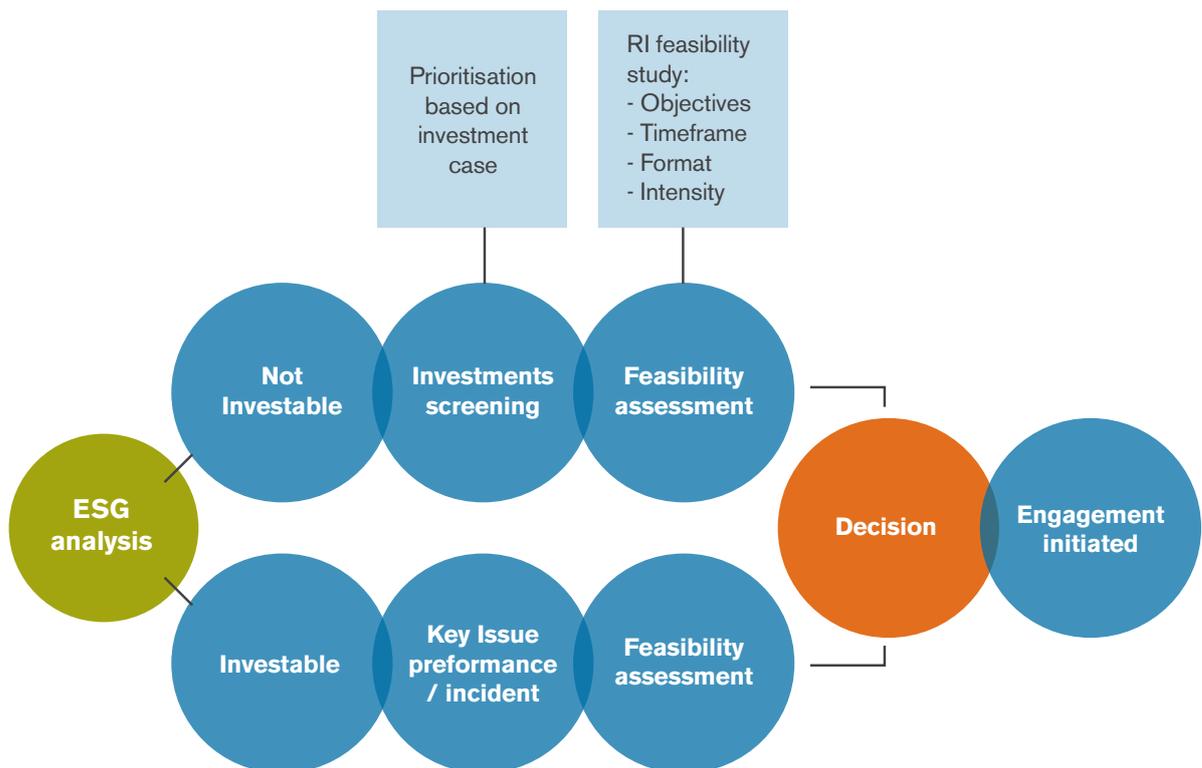
Addis 2015

Materiality-based engagements

We also engaged with 56 companies that we have identified as underperforming in terms of ESG and where we see material risks that may not be adequately managed or opportunities that may not be fully capitalised on. These companies include some of our largest holdings as well as

companies identified for our ESG-enhanced funds. The dialogues were part of the around 150 company meetings we had during the year. Through these engagement efforts we are also able to identify new investment opportunities.

Selection process for materiality-based engagements



Engagement case: Tele2

Nordea Asset Management is one of the largest shareholders in Tele2, controlling more than 5% of the capital and the votes. Tele2 is a holding in both the Swedish Stars and the Nordic Stars funds.

Tele2 operates on nine markets, of which eight are in Europe. Outside Europe, Tele2 is present in Kazakhstan – a high-risk country according to the Transparency International's ranking of corruption in different countries.

Although Tele2 demonstrates awareness of the industry's key risks and has strong management systems in place, the operation in Kazakhstan and the ownership of Tele2's business partner Asianet have been areas of concern. Our dialogue with Tele2 took place at management as well as board level. In addition, we visited Kazakhstan in 2014 to meet the business partner – to see how the company manages corruption risks. During 2015, we visited Tele2's operations in Croatia in order to ascertain whether the company's anti-corruption work is systematic and embedded throughout the group.

Nordea also assisted Tele2 in working together with Transparency International in Kazakhstan to ensure proactive management of corruption risks. In late 2015, Tele2 announced the purchase of Asianet's stake in Tele2 Kazakhstan and at the same time entered into a joint venture with state-owned Kazakh Telecom, with an option to sell its stake after three years.

Nordea believes that these changes are positive. There is clear ownership of Kazakh Telecom and the option to exit the market if the risks in relation to corruption cannot be managed in an acceptable way is good. However, being closer to the state might increase reputational risks and expectations for the company to work proactively on topics such as anti-corruption and privacy/freedom of expression.

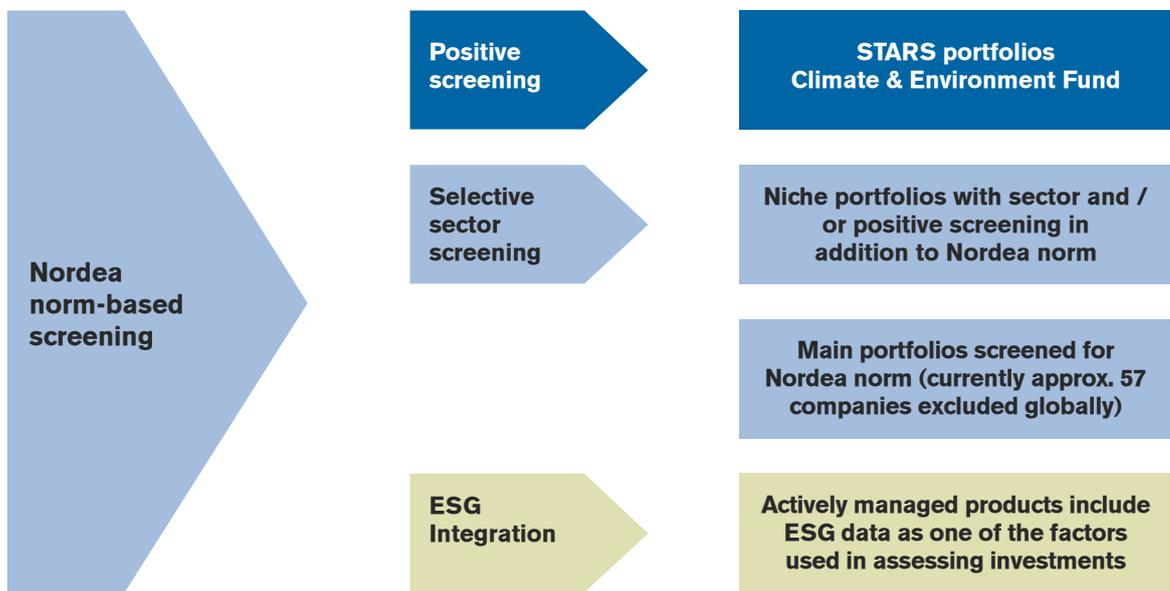
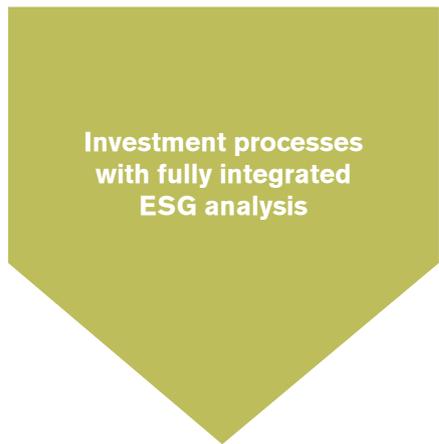
We believe that Tele2 has strong policies and control systems in place to manage risks related to business ethics, protecting privacy/integrity as well as supply chain and labour management. The company should continue to develop in order to be an industry leader in terms of both sustainability and transparency about risks and opportunities.

Quote from Tele2:

"We value the proactive dialogue we have with Nordea Asset Management and the advice we receive as part of this dialogue. Although we do not always agree on specific issues, what is important is that Nordea is an active owner - available as a discussant partner, takes necessary action and provides independent analysis on issues related to our business. By being an active owner and engaging in dialogue, Nordea is using the leverage they have through their investments. An approach fully in line with the UN's recommendations and also appreciated by us."

ESG integration

- In addition to the traditional application of ESG, our strategy is to include ESG analysis as an element within all investment processes.
- We believe this will improve risk management and thereby riskadjusted returns.



Nordea Asset Management (NAM) takes returns with responsibility to a new level to ensure competitive, consistent and responsible returns for all funds. With our integrated approach, our clients will have the added benefits of increased transparency and a better understanding of how their money is invested.

Environmental, social and governance issues are an increasing source of risk and opportunity, and we therefore seek to integrate ESG issues into our investment analysis methodology for our internal boutiques to ensure that investment and portfolio construction decisions are based on a full set of information. NAM's processes include ESG data as one of the factors used in assessing investments. We believe this will improve risk management and thereby risk-adjusted returns.

Our research department includes both financial and ESG analysts, and company assessments are shared between fund managers as well as financial and ESG analysts. All company analysis should include an ESG assessment from the internal ESG team or from external sources. Our responsible investment team of 12 ESG analysts forms an integral part of our investment team and works with the fund managers and analysts to help integrate significant ESG analysis into our investment approach across portfolios.

ESG research

As part of our ESG analysis efforts we continuously assess and evaluate transformative themes and areas which we believe will shape the

future landscape of investment. Social and technology changes as well as climate change and other environmental issues impact business models. The ESG research methodology at company level is a combination of two distinctive approaches.

First, companies are assessed based on whether they conduct their business responsibly in relation to their stakeholders – employees, suppliers, customers, investors, the environment or society at large. Second, we assess whether the companies' products or services are well-positioned in relation to broader sustainability megatrends such as climate change or changing demographics.

We underpin our approach with externally sourced ESG research and ratings. This provides coverage of over 4,000 companies globally both in terms of their practices and in terms of tracking controversial issues. All portfolio managers of our actively managed funds have access to ESG data in their systems. In 2015, we issued thematic research reports on community risk management, corruption and climate change and on corporate responsibility in conflict times.

During 2015 we conducted in-depth analysis of more than 100 companies from an ESG perspective. Meetings and on-site meetings were part of these analyses, as was the providing of feedback to the companies on their ESG materiality analysis.

In 2015 Nordea was voted best user of responsible investment research in the IRRI survey.

The survey is conducted by the London-based research firm Extel and the responsible investment research platform SRI-Connect. This year's survey is based on responses from 1,287 analysts, portfolio managers, corporate social responsibility managers and investor relations managers from 681 firms. We are also the biggest contributor to the debate about these subjects, according to a poll made by research providers.

In 2015 Nordea Asset Management also won Capital Finance International's (CFI) award for best ESG investment process in Europe for the second consecutive year. According to the jury's statement Nordea has consistently been at the forefront of responsible investing, using ESG as a means to mitigate risk and maximise opportunity.

On-the-ground research in 2015

As part of our engagement and ESG analysis approach, we regularly visit company sites to improve our understanding of relevant issues and to get a closer view on how investee companies are managing their social and environmental challenges. In 2015 we made the following field trips:

We made two trips to India during the year. One was to visit Indian companies in Mumbai, Calcutta and Delhi. These visits included a bank, a water sanitation plant, a coal mine and environmental NGOs.

The other field trip went to Hyderabad in India, which is one of the world's most polluted areas and a genuine dumping ground for many of the western pharmaceutical industry's suppliers. We travelled to the area to deepen our understanding of the supply chain management of large global pharmaceutical companies that source from India. The trip resulted in an engagement project involving 20 pharmaceutical companies (see 'Focus area: water' above in the Stewardship section).

We visited Ethiopia to assess how garment companies mitigate risks in high-risk countries and how they deal with among other things environmental and labour management issues. Ethiopia is in the early phase of its industrial development and the textile industry is a very important contributor to the development. Companies imposing strict requirements on their suppliers can really have a positive impact on the progress of the environmental and labour challenges.

We visited Singapore, Manila and Jakarta to meet some of the Emerging Stars companies. At our meetings with the companies we made enquiries about health and safety issues, labour issues, supply chain management, corruption, governance etc. The answers the companies provided were satisfactory for the most part. For some companies we have followed up on these meetings upon our return as we needed further clarification of specific issues to be comfortable with the companies' implementation of policies and procedures.

In Croatia we met with ICT companies to assess how they implement sustainability policies and identify risks and opportunities in this area, which has a high exposure to corruption.

During a field trip to Kyiv and Lviv in Ukraine we gathered data for a thematic report on corporate responsibility in conflict times, which was written as a part of our broader ESG in-house analysis work.

London-based magazine CFI:

“Nordea Asset Management has developed a winning investment formula that incorporates the full spectrum of environmental, social and governance (ESG) parameters in all actively managed fund products.”



Stars Funds

In line with Nordea Asset Management's (NAM) ambition, we have created a family of investment funds under the Stars brand. The Stars funds are about positive selection and selecting quality companies with well-managed ESG profiles that generate long-term economic value. We currently have three Stars funds.

Swedish Stars was launched in 2011 and invests in approx. 40 Swedish companies. Emerging Stars, launched in 2011, invests in approx. 50 emerging market equities in countries such as Brazil, India and China. Nordic Stars was launched in 2014 and invests in 40-50 Nordic companies.

All investments in our Stars funds undergo thorough financial analysis and proprietary in-house ESG analysis. This enables us to identify material risks and opportunities relating to the companies' medium- to long-term operational performance and strategic positioning in the market.

Our ambition is to create shareholder value by identifying companies that integrate environmental, social and governance metrics, as well as financial metrics, into their business model and strategic decisions. Active ownership is an important part of our investment approach for our Stars funds and we have developed long-term productive dialogues with several companies, especially companies in which we are large long-term shareholders.

We actively engage with companies when we see material risks that may not be adequately managed or opportunities that may not be fully capitalised on. When assessing companies for our Stars funds, we do so on behalf of all NAM's funds, which supports our ongoing ESG integration activities.



See film:
What is a Nordea Stars fund?
<http://bit.ly/1SRVSOB>



Swedish Stars

Major investments for the fund during the year are ABB, Kinnevik and Investor. The best contributors to performance were Autoliv and Thule, while Millicom and ABB made negative contributions.

Below some examples of holdings and ESG highlights.

Dometic

Dometic is a Swedish producer of air conditioners, refrigerators, cookers, water heaters, furnaces and portable coolers for motor homes, caravans and boats.

The company has conducted risk mapping of relevant key ESG issues, resulting in the company focusing on product safety, supply chain risks and environmental impact. Most of its production sites are environmentally certified in accordance with ISO 14001. Dometic still has some ESG areas to develop further, but with a firm commitment from management we truly believe that it is on the right track.

It is also promising to see that Dometic is planning to raise the bar on sustainability to include strategic alignment, innovation for efficiency as well as increased transparency along the supply chain. Environmental factors always play a vital part of its R&D and the development towards energy efficient products is driven by a desire to gain a competitive edge and increase sales. For example, the company is looking into developing solar-driven products.

Millicom

Telecom operator Millicom specialises in emerging markets in Africa and Latin America. It's most popular brand Tigo offers digital services tailored to low-income markets and clients, which enables small-scale farmers to access weather reports or the latest market prices and entrepreneurs to take their business to places where no banks or formal financial institutions operate.

There is a strong board level commitment to sustainability at Millicom, and the company has conducted a materiality analysis to identify key risks and opportunities. Key risks identified are related to business ethics, protecting privacy/integrity as well as supply chain and labour management and they are present in some very high-risk markets. The company has strong policies and continuously improves its risk management.

Millicom is a founding member of the Industry Dialogue for protecting privacy and freedom of expression and the company has a strong process in place to manage law enforcement requests. Despite the very high risk exposure to corruption there has been few allegations related to the company, which is evidence of a well-functioning anti-corruption system. The company self-reported potential illicit payments in Guatemala to US and Swedish authorities during 2015.

Nordic Stars

New investments for the fund during the year are Sectra and Nokia. The best contributors to performance were Autoliv and Skistar, while Millicom and Electrolux made negative contributions.

Below some examples of holdings and ESG highlights.

ABB

ABB is an international producer of power and automation technologies. It has identified mitigation of climate change, renewable energy and energy efficiency as key drivers and growth opportunities for its business. About 51% of the company's revenues already derives from products and services that help customers save energy and reduce greenhouse gas emissions. Product innovation is a high priority at ABB. ABB recently completed one of China's largest district heating projects to date. The project will result in a significant reduction in greenhouse gas emissions in the city of Harbin – a city with one of the harshest climates in China with freezing temperatures six months of the year.

Besides producing good products and services for its customers, the company has a management team that is committed to controlling its ESG-related risks in a structured manner. 95% of ABB's sites comply with environmental standard ISO 14001. ABB is also working actively with its

suppliers to control supply chain risks. Last year, the company conducted over a thousand environmental audits of its suppliers. In order to secure a safe working environment for its employees, 82% of ABB's operations are OHSAS 18001 certified and also externally audited.

KONE

The international engineering and service company KONE was recently listed as one of the World's Most Innovative Companies of 2014 by Forbes Magazine. KONE's environmental work focuses on reducing the carbon footprint and improving energy and material efficiency as well as lowering the water consumption, waste and use of hazardous substances. The company works with its suppliers and customers to minimise emissions and other adverse environmental impacts of its business operations and to prevent such emissions and impacts whenever possible. Between 2008 and 2014, KONE has managed to reduce its energy use relative to orders received by 60%.

KONE is a company that we believe is a good holding for our Nordic Stars Fund based on its integrated sustainability work. One of the challenges in growing cities is to design buildings that are environmentally efficient. For example, a lift may account for between 2% and 10% of a building's total energy consumption. Changing a lift can therefore have a significant effect on the building's total footprint. KONE has cut the energy consumption of its most common lifts by over 70% between 2008 and 2012.



Tele2, Zagreb 2015

Emerging Stars

The holdings in Kroton and Tata Motors increased during the year. The best contributors to performance were Tencent Holding and Baidu, while Kroton and Itau Unibanco made negative contributions.

Below some examples of holdings and ESG highlights.

Delta Electronics

Delta Electronics, a Taiwan-based company, has a business model that is closely linked to a sustainable development from an environmental perspective. Consequently, it enjoys substantial tailwinds from the increasing focus on one of the main contemporary global challenges: climate change. On a tangible level we find strong links between the Sustainable Development Goals (SDG's) and the company's operations.

Delta Electronics provides a wide range of products and services that effectively address climate change; switching power supply solutions and power management products. The product segments "Smart Green Life" and "Energy Management" account for an increasing share of total revenues, which constitute a solid base for further development within the field of environmentally-friendly technologies. This is also supported by a substantial commitment to R&D – an area on which the company spends a minimum of 5% of annual revenues.

Delta Electronics has initiated many risk management activities within its supply chain focusing on conflict minerals and environmental aspects in general, which is usually a tricky area for the industry. There is still a gap to catch up on in terms of social and environmental aspects but Delta Electronics shows a clear commitment showcased by the increasing focus on supplier due diligence.

Bank Mandiri

The role of banks in contributing to the overall development of economic activity cannot be understated; deploying capital that feeds into the various economic activities plays an essential role. Indonesian Bank Mandiri is contributing to the development of Indonesia by directing capital to the economy in an efficient and meaningful manner.

When visiting Bank Mandiri in November 2015, we discussed cyber security aspects in the context of ESG risks for banks as they carry highly sensitive information. We gained assurance that the bank works extensively with standardising its systems and building internal capabilities in terms of technology and security aspects. The bank has implemented Threat Intelligence, which protects Bank Mandiri's IT systems from cyber-attacks and phishing, and Security Awareness and Data Leakage Protection to ensure the security and confidentiality of internal bank data. In addition, Bank Mandiri also continuously improves the security of e-channels, including ATM physical security.

As regards social issues, the bank has consistently increased the share of micro lending as part of the total loan book, an area where it has a good process in place. It uses a standardised assessment that prevents misconduct by sales agents, it provides training for borrowers in simple accounting and economic principles and finally it has implemented a humane collection process as well. That said, the bank still has some work to do in terms of the social aspects of the rest of the loan book and responsible lending.



With returns that outperform the market, the Emerging Stars fund is one of the best examples of how to provide returns with responsibility.

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