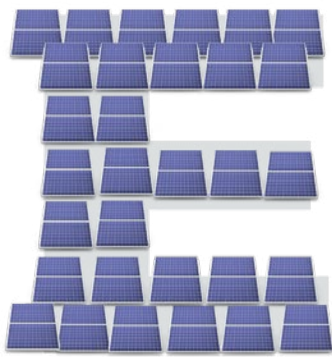
NORDSIP

NORDIC SUSTAINABLE INVESTMENTS

Handbook Series
May 2022

insights



INTEGRATION CASE BOOK

For investment professionals only
Not for public distribution

NordSIP Handbooks are published by
Big Green Tree Media AB
Kungsgatan 8
111 47 Stockholm
+46 70 9993966

Editor-in-Chief
Aline Reichenberg Gustafsson, CFA
aline@nordsip.com

Director, Strategic Relations
Kim Hansson
kim@nordsip.com

Economics Editor
Filipe Wallin Albuquerque
filipe@nordsip.com

Senior Research Director
Julia Axelsson, CAIA
julia@nordsip.com

Senior Research Director
Richard Tyszkiewicz
richard@nordsip.com

Design:
Gülce Demirer
gulce@nordsip.com

For advertising or other sales-related enquiries
email: sales@nordsip.com

FOR INVESTMENT PROFESSIONALS ONLY
Please read important Terms & Conditions on the last page of this document

Photographic Credits © Twenty20, Pixabay, Unsplash, NordSIP

Cover image NordSIP ©

© 2022 NordSIP all rights reserved

TABLE *of* CONTENTS

5 the editor's word
The litmus test

48 about our partners

Investment Cases

6 **Case # 1**
Cool Growith Opportunities
for Sustainable Investors

10 **Case # 2**
Looking for Long-term Stewarts of Capital

the Debt Case

14 **Case #3**
Integrating ESG
in your Credit Portfolio

a Curious Case

40 **Case # 9**
The Curious Case of Weapons & ESG

the Private Side

20 **Case # 1**
Leading the way in
Private Markets ESG Integration

24 **Case #5**The Energy Transition
& the Challenges of Legacy Infrastructure

28 **Case # 6**
Improving Sustainability-related Data
in Private Markets

a Case for Engagement

32 **Case # 7**
Engaging with Working Conditions in the Gulf

36 **Case # 8**
Integrating the SDGs with the UN PRI Framework

Credit: Yulia Panova for Envato

the editor's word

the litmus test

Just as we were congratulating ourselves for surviving a long and exhausting pandemic, the dramatic events of the past few months have re-opened a page in European history that many of us thought was closed.

Faced with war's brutal reality, many asset managers are now forced to re-examine their stance on fundamental issues that seemed set in stone just yesterday. Priorities are shifting as the challenge of securing energy and food supplies becomes palpable. Even weapons, that used to be one of the least controversial exclusion categories for institutional investors, are suddenly being labelled sustainable by some, based on their function in security and defence. It is a watershed moment indeed!

For our 2022 ESG Integration Casebook, eleven Nordic asset managers shared their thoughts on the sustainability of weapons and how the current geopolitical situation has changed their perspective on the defence industry. It seems end-investor demand comes in handy when it comes to calibrating the moral compass.

SDGs continue to be a useful guide too and we looked to the UN PRI for some useful guidance. Checking the latest on another sustainability frontier, private assets, we learned how collaboration between asset owners and asset managers helps tackle the complex ESG data challenge. A systematic approach and rigorous ESG analysis are a must, whether in private assets or credit investments.

This is a case book, of course, so it wouldn't be complete without some specific and engaging cases. Luckily, even in tough times, exciting sustainability opportunities abound if you know where to look: from heat pumps to buildings and infrastructure and from cyber security to diagnosing diseases.

Actively engaging in the material ESG issues that investors encounter is essential, too, as we learn from the case of improving working conditions in the Gulf.

One thing is clear, integrating ESG into investments is as tough as ever. To paraphrase a quote from late Pope John Paul II, *the ultimate test of your sustainability is the way you treat every investment opportunity.*

Aline Reichenberg Gustafsson, CFA

Editor-in-Chief

NordSIP

Credit: Chromatograph on Unsplash

Case #1

Cool Growth Opportunities

for Sustainable Investors

by Julia Axelsson, CAIA

Dutch asset manager NN Investment Partners (NN IP) is known for putting sustainable investing and stewardship at the heart of its business. The company's roots trace back almost 175 years. Building long-term relationships with clients based on a common strive for sustainable outcomes, underpinned by entrepreneurial thinking, innovation, and risk awareness, have been the main drivers of the firm's success ever since.

Recently acquired by Goldman Sachs Asset Management, NN IP remains committed to upholding the same high sustainability standards. "We recognise NN IP's strength in ESG integration and sustainability and believed that combining it with our offering would be of great benefit to clients, helping us to scale and accelerate growth in Europe," shared Fadi Abuali, CEO of Goldman Sachs Asset Management International.

Building on two decades of sustainable equity investing, NN IP's approach aims at identifying high-quality companies that offer sustainable solutions and behaviour. It sounds straightforward enough. However, finding such sustainable businesses that can stand the test of time is neither a quick nor a simple process. It means being selective and narrowing down the investable universe step by step. It also means actively looking for sustainable opportunities across value chains and in niche areas often overlooked by others.

"The future of our sustainable equity strategies is full of opportunities," according to Pieter van Diepen, Head of NN IP's Sustainable & Impact Analyst Team. "We invest in the companies that are developing sustainable solutions in areas such as ESG data, cybersecurity and the green energy transition for which demand is set to increase."

NordSIP met with two of the senior investment analysts on van Diepen's team, Milou Beunk and Dirk-Jan Dirksen, covering the areas of Smart Manufacturing and Digital Revolution, respectively, who provided some insights into a couple of such opportunities. Both cases in point clearly illustrate the benefits of integrating sustainability into the investment process, creating long-term value in financial as well as impact terms.

Heating and cooling, the smart way

First off, we talk to Milou Beunk, who is eager to tell us about the significance of heating and cooling our in-house environment in a sustainable way. She points us in the direction of some useful data supporting her thesis. According to the latest Global Status Report for Buildings and Construction, buildings account for 36 per cent of global final energy consumption and 37 per cent of energy-related CO_2 emissions globally. "Reducing these emissions will be critical to limiting global warming in line with the Paris Agreement," says Beunk. "And tackling the energy use for heating and cooling is perhaps the biggest opportunity to achieve this goal."

That's where air-conditioning and heat pumps come in, according to Beunk. "Heating space and water still rely heavily on direct sources of energy, such as

"Of course, we wouldn't pick a company just based on its sustainability impact."

Milou Beunk
Senior Investment Analyst
NN Investment Partners

oil and gas, unlike cooling systems that are already running mainly on electricity," reminds the analyst. Meanwhile, the current geopolitical situation has made us all painfully aware of the vulnerability of our energy supply chains, according to her. It forces us to speed up decarbonising by, for instance, electrifying based on renewable sources and increasing the use of zero-carbon technologies.

"Heat pumps lower energy consumption through the electrification of heating, avoiding boilers and furnaces that typically burn fossil fuels and delivering improved energy efficiency," explains Beunk. "This is a simple, mature technology, and the heat pump market is fragmented. Companies with dominance in their geography, and a strong sales network are well-positioned to succeed."

One such company that has made it into many of NN IP's portfolios is Daikin[1]. Being the global market leader in air-conditioning and a major player in the heat-pump area is not the only reason why Beunk and her colleagues favour the Japanese company. "Daikin has a strong position in emerging markets, where penetration is rather low, hence the potential for both growth and impact is huge," says the analyst. According to the International Energy Agency (IEA), 44 per cent of the world's population lives in a hot climate, out of whom only about 12 per cent own an AC unit. AC ownership per cent in the United States and Japan might exceed 90 per cent, but in India, for instance, a country currently experiencing its worst heatwave ever, still less than 10 per cent own an AC unit."Daikin has also come very far when it comes to reporting its Scope 3 emissions, something that others still struggle with," Beunk points out.

"This makes it possible to measure the actual CO_2 reduction that the company is able to accomplish over time." Another feature that the analyst talks warmly about is Daikin's reputation for being a true innovator. The company's innovative solutions, such as the world's first split and multi-split air conditioners, make it a pioneer in the strife for energy efficiency.

"Of course, we wouldn't pick a company just based on its sustainability impact," says Beunk. "In the case of Daikin, however, it is a win-win situation, a potentially rewarding investment both in financial and sustainability terms," she concludes.

You can't build firewalls in the cloud

Beunk's colleague, Dirk-Jan Dirksen, seems just as passionate about identifying attractive opportunities and searching for sustainability leaders who offer solutions to real problems as well as financial rewards to investors. Within his area of expertise, the TMT sector, there is certainly no lack of innovative companies leading the way to a brave new world of sustainable digital solutions.

While cheering for the digital revolution that we are all witnessing today, it would be naïve to ignore the challenges that it gives rise to. "Cyberattacks are increasing in frequency and intensity," Dirksen points out.

"At the same time, companies are more vulnerable as they shift operations into the cloud and more employees work outside the office, giving rise to the 'zero trust' security model," he adds.

1 For illustration purposes only. Company name, explanation and arguments are given as an example and do not represent any recommendation to buy, hold or sell the stock, or in any way invest in these companies. The security may be/have been removed from portfolio at any time without any pre-notice

"When looking at companies in this space, you need to focus on their track record and spending on research and development and their ability to attract the right talent."

Dirk-Jan Dirksen
Senior Analyst
NN Investment Partners

The demand for cybersecurity solutions has never been greater, according to Dirksen. "Global cybercrime costs are expected to grow by 15 per cent per year, reaching USD 10.5 trillion annually by 2025, up from USD 3 trillion in 2015," he explains, quoting estimates by Cybersecurity Ventures. "Increasingly, companies realise that there is a whole army of hackers out there trying to attack their data, which is a material risk they cannot ignore. Meanwhile, stiffer regulations such as the General Data Protection Regulation in Europe are raising the reputational risks for companies that get hacked," he adds.

So, how does one identify the right company to invest in within the fast-moving and fragmented sector of cybersecurity? "When looking at companies in this space, you need to focus on their track record and spending on research and development and their ability to attract the right talent," says Dirksen. "The social and governance aspects of sustainability are key when analysing them."

Dirksen gives us an example of a company that has met NN IP's rigorous due diligence standards for both financial returns and sustainability, Palo Alto Networks[2]. "The company has long since outgrown its legacy of building firewalls," says the analyst. "They realised this is an old-fashioned way of protecting your data as firewalls don't work with cloud-based solutions." Nowadays, Palo Alto Networks is best known for its strategic approach to cybersecurity, pioneering the mantra 'trust nothing, validate everything.' Moving away from inherently trusting whatever is inside your security perimeter, the company urges its clients to continually authenticate, authorise and verify who and what can access their environment, granting 'least-privilege' access all along the way. Authorisation is based on who or what is requesting access, the context of the request and the risk level.

This innovative approach and a series of successful strategic acquisitions make Palo Alto Networks stand out among competitors in the cybersecurity space. For Dirksen, the company meets all three criteria that make it a good fit for NN IP's portfolios: it offers sustainable solutions, champions sustainable practices, and has a sustainable competitive position in the market.

However, Dirksen keeps digging into the details true to Palo Alto Networks' own mantra, 'trust nothing, validate everything'. The company's aggressive acquisition strategy has been successful, yet how is the integration of the newly acquired businesses going? And how has it affected the management compensation policy? It seems like an analyst's job is never done, especially when he needs to consider all the various sustainability aspects of a complex investment case.

As we struggle to navigate a period of uncertainty, with climate change, the pandemic, geopolitical turmoil, and economic disruption making it challenging to forecast what the next year or two will bring, the immediate prospects of sustainable equity investments are also hard to predict. Making an effort to identify and thoroughly analyse the sustainable solutions of tomorrow and the companies that have the capacity to provide them feels more important than ever.

2 For illustration purposes only. Company name, explanation and arguments are given as an example and do not represent any recommendation to buy, hold or sell the stock, or in any way invest in these companies. The security may be/have been removed from portfolio at any time without any pre-notice.

Case #2

Looking for Long-term Stewards of Capital

by Julia Axelsson, CAIA

“We favour a broad and rounded approach to assessing sustainability; the opposite of an ESG 'tick-the-box approach.”

Lorna Logan
Co-fund manager
European Sustainability Strategies
Stewart Investors

Stewart Investors has a long tradition of managing high-conviction active equity portfolios, and sustainability is core to its investment approach. The Edinburgh-headquartered firm has applied a consistent philosophy since launching its first investment strategy in 1988. Perhaps best known for its Asian and Emerging Markets funds, the asset manager has expanded its product portfolio gradually over the years to incorporate worldwide and, most recently, European strategies.

NordSIP reached out to Lorna Logan, who co-manages Stewart Investors’ European Sustainability Strategies alongside Rob Harley, to hear more about the way she and her colleagues endeavour to find great sustainability leaders and invest in them for the long run.

Logan is part of a small but diverse team of experienced analysts and managers who have all been sworn to a strict code of conduct, a proprietary ‘Hippocratic Oath’, pledging to uphold the principle of stewardship through their conduct and work practices. According to Logan, being located all around the globe doesn’t prevent the group of dedicated professionals from continuously debating their investment ideas in an open, lively, and collegiate manner. “We are all passionate about sustainability, and believe it is also a key driver of investment returns,” she says.

Partnering for the long term

Stewart Investors’ portfolios are relatively concentrated and purely conviction based. “We start with a blank sheet of paper and seek out high-quality companies that are also sustainability leaders,” explains Logan. “For us, it’s not a question of either one or the other; both requirements are equally important. There are plenty of great sustainability companies out there, but we are only interested if they also have strong and competitive franchises, exceptional people and cultures, and resilient financials.”

According to the manager, the quality of the people running the companies is essential. “Our investment time horizon is ten years or longer, so we look for companies owned and operated by people with similar time horizons, who we can trust with our clients’ capital,” she says. “We dedicate a lot of time to getting to know the people behind the businesses we invest in and to understanding their motives, their approach to sustainability, and their track record.” A critical question to ask, according to Logan, is how they treat their various stakeholders - customers, suppliers, employees, and the communities where they operate. “Do they walk the talk?” she says.

“Our long-term horizon often leads to a preference for companies that have a family founder, or foundation

"There are plenty of great sustainability companies out there, but we are only interested if they also have strong and competitive franchises, exceptional people and cultures, and resilient financials."

"Our comprehensive approach to assessing quality and sustainability helps us find interesting companies that might be less well-known or might operate further up or down the supply chain than the usual high-profile sustainability names."

at the helm, as these stewards tend to have a similar long-term focus," reflects Logan. "Many of these owners are there to look after the company for the next generation, not just the next quarter," she adds. This approach seems to work, judging by the fact that some of the companies in Stewart's portfolios have been held for more than 25 years.

What is a sustainable company?

"We favour a broad and rounded approach to assessing sustainability; the opposite of an ESG 'tick-the-box' approach," says Logan. Many investors are turning to third-party data providers nowadays to help them with their ESG analysis and even to help them decide whether a company is sustainable or not. While Logan admits that some ESG data can be useful in certain circumstances, she believes that an overreliance on simplistic scores can be dangerous when building investment portfolios. Moreover, it is unlikely to help reorient capital towards more sustainable companies, according to her.

"At Stewart Investors, we look to invest in companies that can help reduce our ecological footprint, or advance human development, or ideally both. These attributes are difficult to identify by relying solely on ESG scores, so we prefer to do our own research, which is highly qualitative in nature and based on a wide variety of information sources, including bespoke commissioned research."

To illustrate the type of companies that Stewart Investors selects, Logan leads us through a couple of topical investment cases. Both holdings that she picks up, Nemetschek and DiaSorin, are great examples of sustainable companies that might be overlooked by investors who only focus on ESG scores, according to her.

Reducing buildings' ecological footprint

Nemetschek's products help incorporate energy and resource efficiency into building and architectural plans, including circular economy principles. They also aim to optimise the ongoing operations of buildings to reduce energy and resource requirements. The idea to invest in the company was born on a trip to Germany, exploring various investment options, recalls Logan. Set up and managed by an inspirational founder who provides long-term stewardship, it is an entrepreneurial company focused on innovation and driving industry change. Professor Nemetschek, who founded the company in 1963, still sits on the Board, and his family owns half of the business. Nowadays, the venture has grown into a conglomerate of 13 companies which are involved in making software used in the construction industry.

"The buildings and construction sector is one of the most resource-intensive industries, and contributes between 30 and 40% of global carbon emissions", explains Logan, "so the positive impact of Nemetschek's software can be huge." As it turns out, it is a high-quality franchise as well, exhibiting high returns, recurring revenues, and consistent cash-flow growth. "The company is also well-positioned to benefit from changing regulations, such as the Circular Economy Action Plan (CEAP), one of the main building blocks of the Green Deal," Logan points out.

"George Nemetschek has also set up a Foundation and dedicates a considerable portion of his wealth to charitable purposes," adds Logan. There should be no lack of money flowing into the philanthropic venture, given that the share price is up 340% in the last five years and 2900% over the previous ten years.

Advancing human development by setting the correct diagnosis

"One of our favourite healthcare companies is DiaSorin, an Italian-listed maker of in-vitro diagnostics," says Logan, moving on to a somewhat different investment case. DiaSorin offers one of the largest menus of speciality diagnostic tests in the world, including gastrointestinal infections, oncology, and autoimmunity tests. Having recently acquired Luminex, the business is advancing into the fast-growing 'multiplex molecular diagnostics' segment. Another growth area is offering solutions for localised 'point of care' diagnostics, such as pharmacies and clinics.

"DiaSorin's products and services help improve early diagnosis and treatment of diseases as well as reduce costs in the healthcare system," comments Logan, explaining the sustainable rationale behind the investment. "Accurate and early diagnosis can also reduce the use of unnecessary medicines such as antibiotics, helping to reduce the ever-increasing risk of antimicrobial resistance," she adds.

The investment case is underpinned by stable and long-term focused stewardship, as 45% of the business is owned by the Denegri Family. "The long-tenured executive team and the family have a 20-year track record of working together successfully, and the executives also have ownership stakes in the business," says Logan.

"The franchise is robust, with recurring revenues in the region of 90% and cash flows that are typically strong through the cycle. Consumable sales are growing due to an expanding installed base of machines and their increasing menu of new tests," she adds.

Daring to be different

Given the substantial contribution to solving material environmental and social problems, and the stellar long-term performance of both Nemetschek and DiaSorin, one would expect to find them in any sustainable investor's portfolio. And yet, these and many other similar companies might get a rather average ESG score in the mechanical assessment of data providers. A qualitative process and a broad and deep assessment of sustainability help uncover cases like these and channel more capital into the right companies.

Logan believes Stewart Investors' portfolios offer something different. "Our highly qualitative, bottom-up approach tends to produce portfolios that have an active share of over 90 or 95%; meaning they differ quite substantially from the benchmarks," says the portfolio manager. "Our comprehensive approach to assessing quality and sustainability helps us find interesting companies that might be less well-known or might operate further up or down the supply chain than the usual high-profile sustainability names. We believe this highly active approach is the best way to deliver good risk-adjusted returns for our clients over the long-term," concludes Logan.

Case #3

Integrating ESG

in your Credit Portfolio

by Davide Guberti, FRM
Passive & ETF Investment Analytics
UBS Asset Management
&
Philippe Kybourg
Passive & ETF Investment Analytics
UBS Asset Management

Corporate bonds represent a key component in many investors' portfolios. With an investment universe that is vast and heterogenous, a well-constructed approach plays a key role in building a sustainable corporate exposure. We will showcase how our sustainable approach allows investors to achieve various ESG improvements while keeping a limited tracking error.

A multi-layer approach

Before discussing ESG integration, let us start by focusing on the different steps that are required to create the Liquid Corporates universe. As shown on Figure 1, we first apply a credit filter that excludes all issuers which are not Investment Grade. In a second step, we filter issuers for which the currency and country of risk are different. By taking the US exposure as an example, we select only bonds denominated in USD and from issuers that have the United States as country of risk. This step is important, as it allows our solutions to avoid unwanted issuer or country risks.. In a third and final step, we apply a broad set of criteria to further enhance the selection and to focus on the most liquid issuers of the remaining universe.

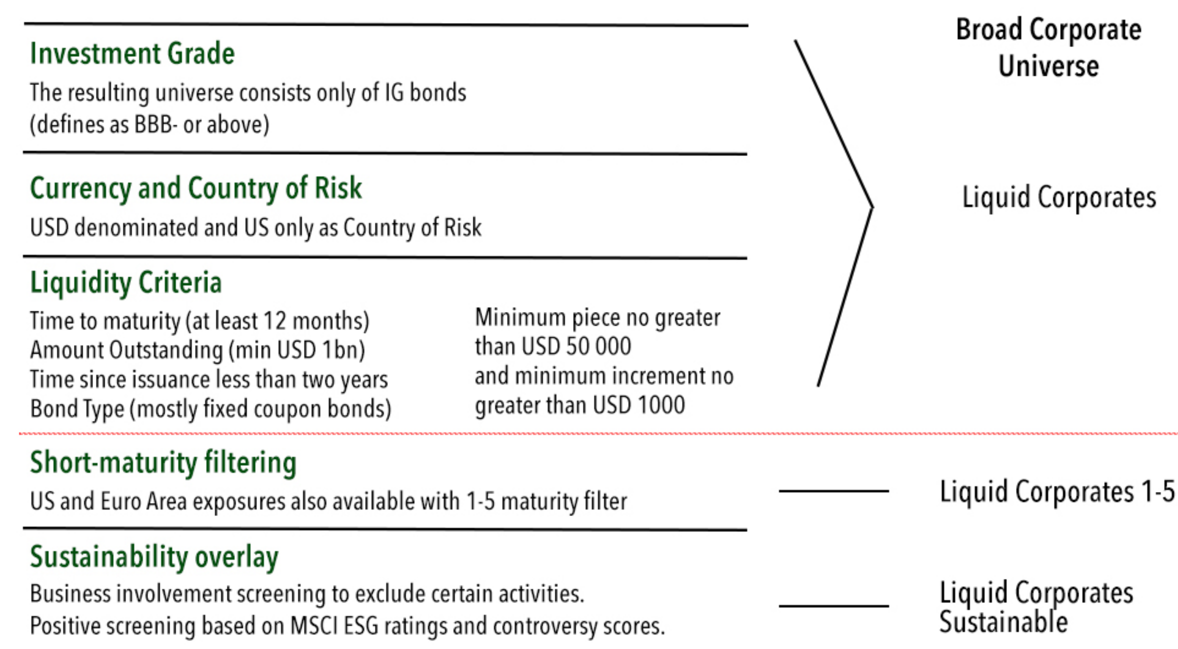
The Liquid Corporates universe that is created with the steps described above serves as the basis for our UBS Bloomberg family of indices. From this universe, we can derive shorter duration solutions by applying a 1 to 5 years maturity filter, as well as also being able to create sustainable versions as we will demonstrate in the next section.

Sustainability integration

Using the Liquid Corporates universe that we have described previously as a starting universe, we can create a sustainable version that integrates ESG characteristics to further refine the bond selection process.

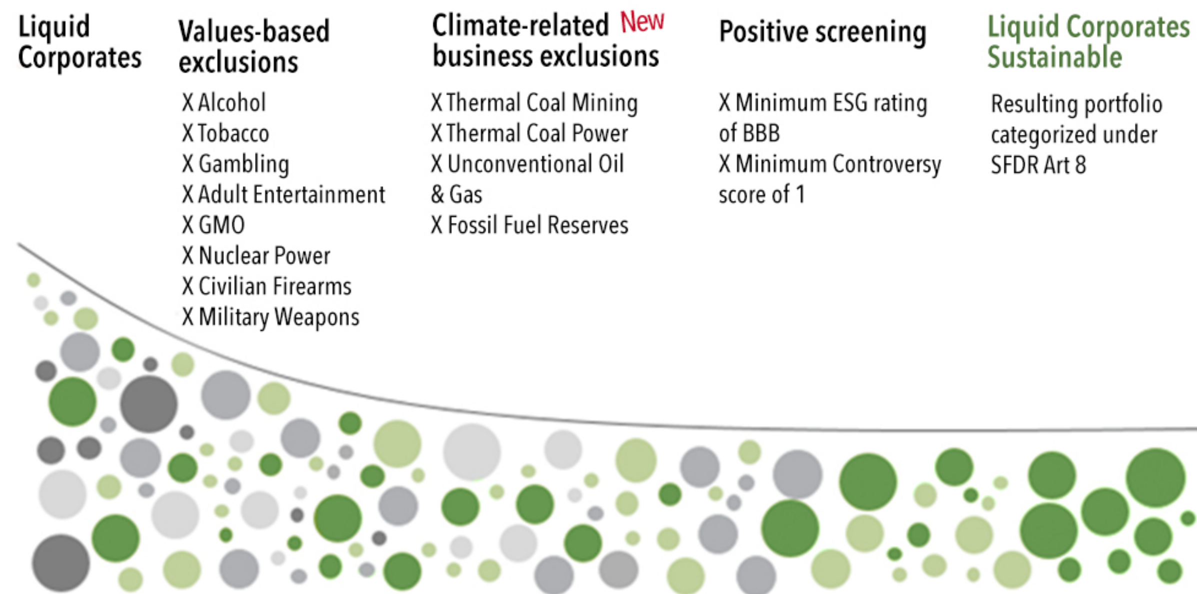
The process to create the sustainable version of the Liquid Corporates follows a multi-step approach, that

Figure 1: Bloomberg US Liquid Corporates index framework



Source: Bloomberg MSCI, UBS Asset Management.

Figure 2: Bloomberg MSCI Liquid Corporates Sustainable methodology



Source: Bloomberg, MSCI, UBS Asset Management. For illustration purposes only

combines business-involvement exclusions and ESG-based exclusions. The first values-based exclusions are designed to exclude issuers tied to activities seen as controversial, such as Weapons, Tobacco and Alcohol to name a few. In a second step, as climate change is becoming an ever increasing concern for investors, the methodology excludes issuers involved in a broad set of activities that are more impactful for the environment (e.g. Thermal Coal mining and Unconventional Oil & Gas). As we will see later on, this reduces the carbon intensity of the final portfolio compared to its starting universe. Finally, only issuers with a minimum MSCI ESG rating of BBB (and above) and an MSCI ESG Controversy score of 1 (and above) are selected for inclusion in the final index.

While the impact of ESG integration on an equity index has been well documented, what is the impact of these ESG screens on the characteristics of a credit portfolio? Keeping the example of the US exposure (Bloomberg MSCI US Liquid Corporates Sustainable index), if we start with ESG metrics in Figure 3, we can observe that removing the worst ESG-rated issuers results in an improved ESG Quality Score for the sustainable index compared to the non-sustainable version.

As we alluded to earlier, the exclusion of certain carbon intense activities reduces the carbon intensity of the sustainable index compared to its parent counterpart in a substantial manner (-58%). As one would expect, most companies that are captured by climate-change related exclusions are part of the "Energy" and "Electric" sectors. If we look at the sector breakdown in more detail in Figure 4, we see that the sector composition of the ESG index is kept broadly in line with the parent. Having said that, there are a few exceptions in certain sectors where the underweight is driven by the exclusion of large issuers that have a 'BB' ESG rating.

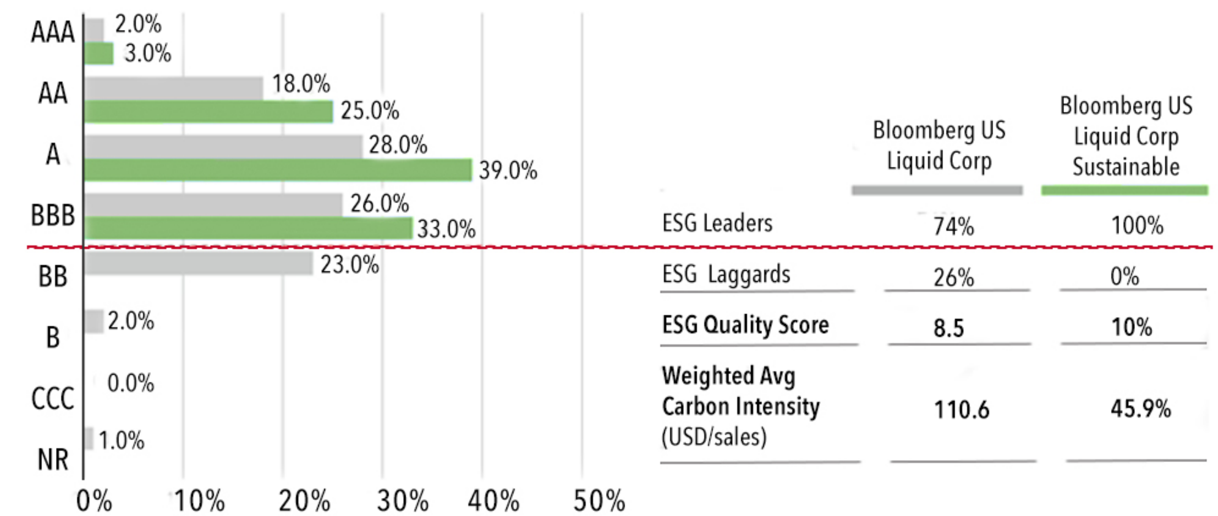
Considering the sustainability improvements and the sector composition mentioned above, it is also interesting to analyze how the ESG overlay influences more traditional metrics. As shown in Figure 5, the Yield-to-Worst and modified duration are comparable between the sustainable and the standard version, while credit rating appears to be higher for the ESG portfolio. This can be explained by the slightly positive relationship that is present between ESG ratings and credit ratings, such that a company with a superior credit rating tends to also exhibit a higher ESG rating (and vice versa).

Thanks to these metrics being in line between the sustainable and the standard portfolio, the tracking error is relatively limited at 56bps. This confirms how a well-constructed sustainable approach allows clients to add an ESG overlay without changing the nature of the exposure. Similar results can also be found when focusing on the Euro Area exposure (Bloomberg MSCI Euro Area Liquid Corporates Sustainable index).

Does focusing on the shorter end of the curve matter?

In periods of high uncertainty regarding potential increases in interest rates, many clients look for ways

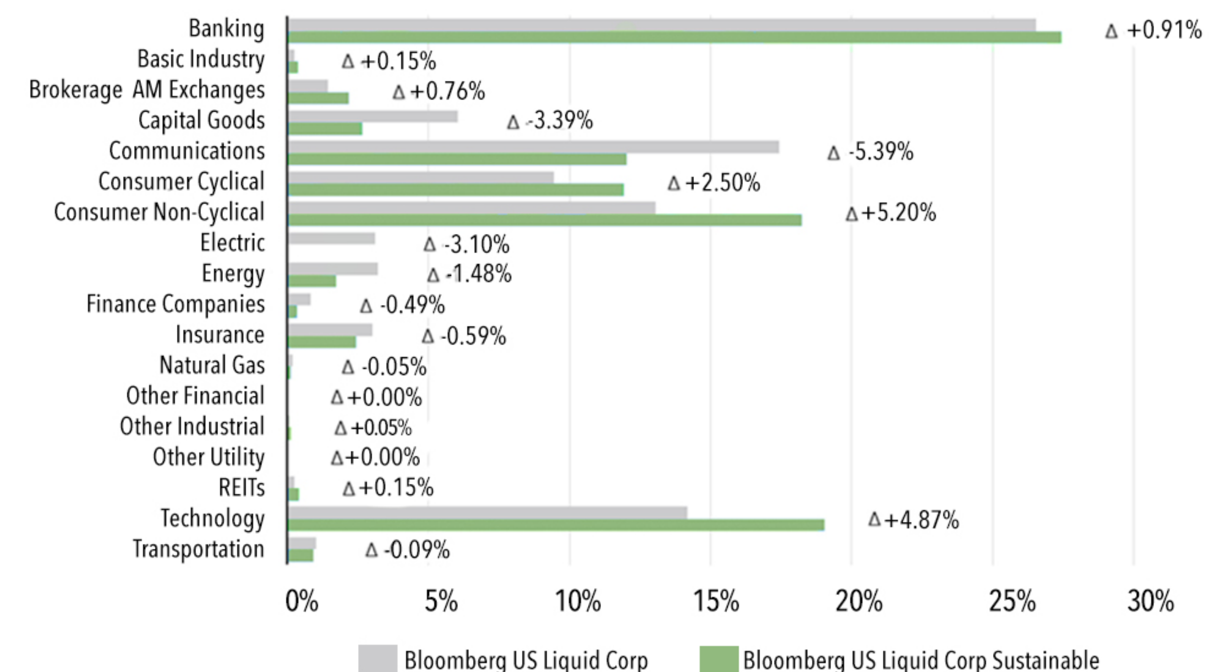
Figure 3: ESG Rating distribution



	Bloomberg US Liquid Corp	Bloomberg US Liquid Corp Sustainable
ESG Leaders	74%	100%
ESG Laggards	26%	0%
ESG Quality Score	8.5	10%
Weighted Avg Carbon Intensity (USD/sales)	110.6	45.9%

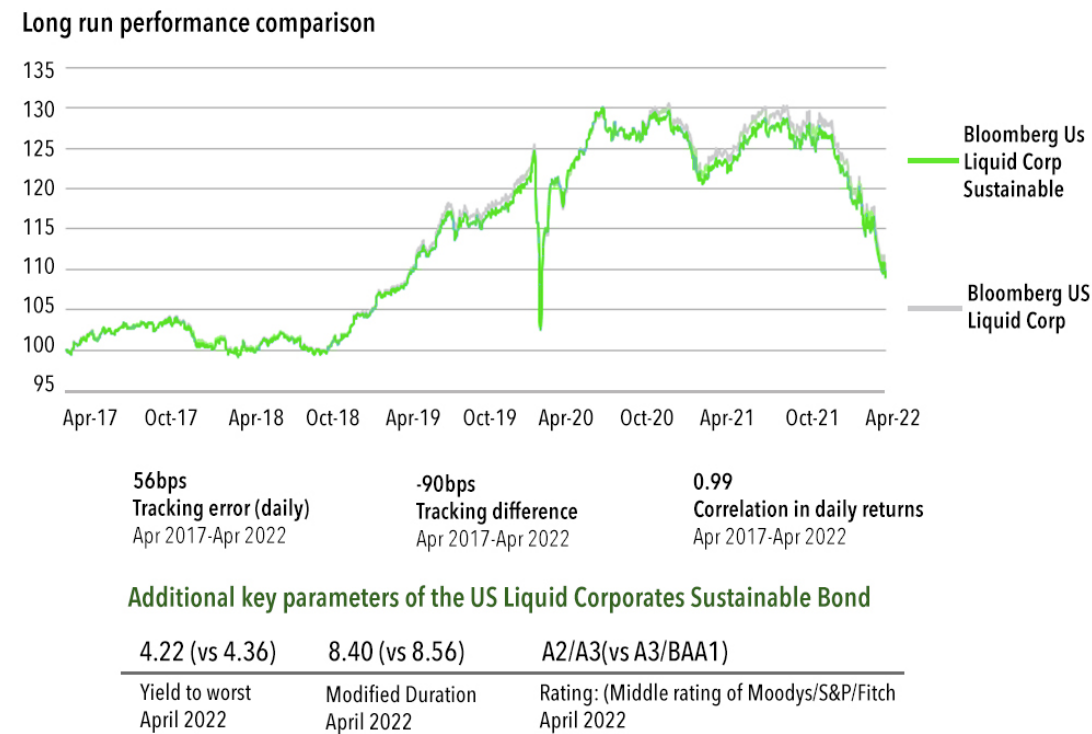
Source: Bloomberg, MSCI, UBS Asset Management. Data as of 29th April 2022. ESG Ratings as of 9th May 2022.

Figure 4: Sector Comparison



Source: Bloomberg, UBS Asset Management. Data as of 29th April 2022

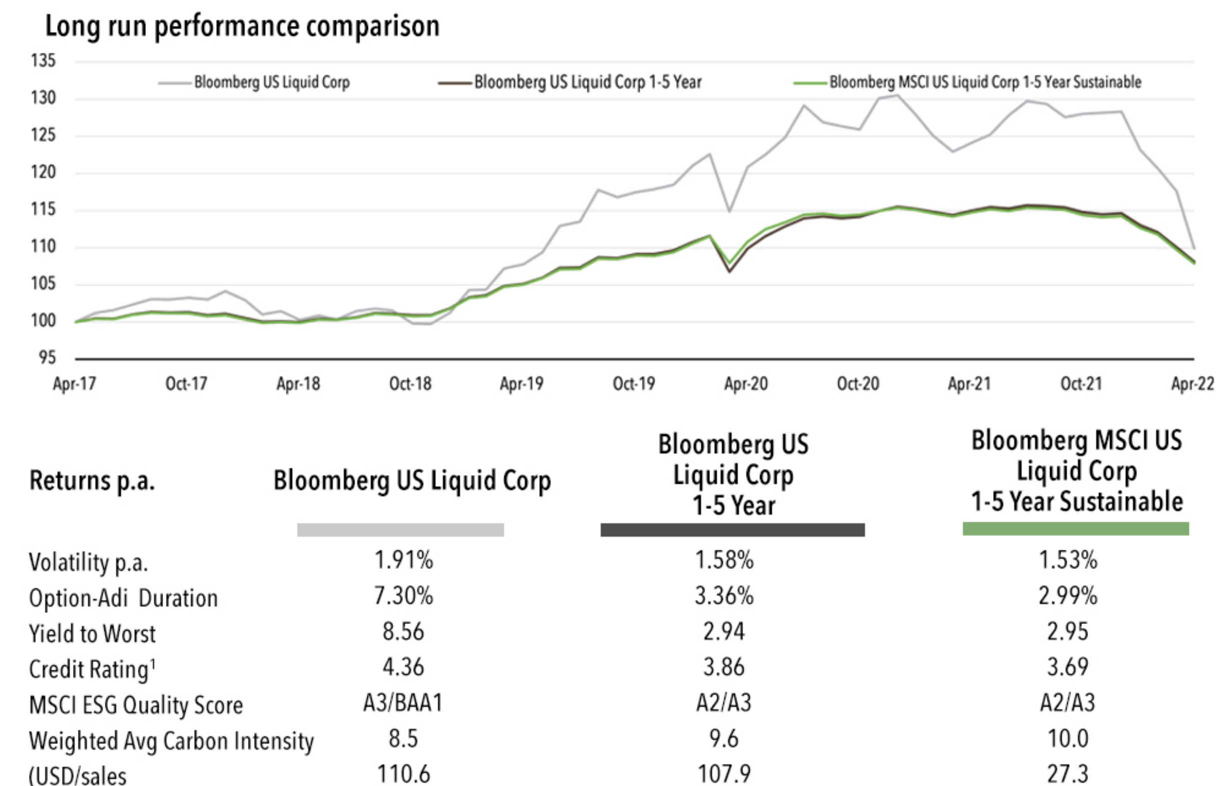
Figure 5: Index performance and characteristics



*Please note that past performance is not a guide to the future.

Source: Bloomberg, UBS Asset Management. Data from 28 April 2017 to 29 April 2022.

Figure 6: Index performance and characteristics



Returns p.a.	Bloomberg US Liquid Corp	Bloomberg US Liquid Corp 1-5 Year	Bloomberg MSCI US Liquid Corp 1-5 Year Sustainable
Volatility p.a.	1.91%	1.58%	1.53%
Option-Adj Duration	7.30%	3.36%	2.99%
Yield to Worst	8.56	2.94	2.95
Credit Rating[1]	4.36	3.86	3.69
MSCI ESG Quality Score	A3/BAA1	A2/A3	A2/A3
Weighted Avg Carbon Intensity	8.5	9.6	10.0
(USD/sales	110.6	107.9	27.3

Includes backtested data. Past performance is not a reliable indicator of future results 1 Middle rating of Moodys/S&P/Fitch)

Source: Bloomberg, MSCI, UBS Asset Management. Data from 28 April 2017 to 29 April 2022

to reduce the interest rate risk of their portfolio to partially offset the negative effect that higher yields have on bond prices. To offer a solution that clients could use in such challenging environments, UBS recently launched two ETFs tracking the Liquid Corporates 1-5 Year Sustainable segment of the credit market (US and Euro-Area).

Given that the Liquid Corporates 1-5 Year Sustainable index is built on the same concept outlined in the previous section, it allows us to analyze whether the results shown in the previous paragraphs are valid regardless of the portfolio duration profile.

In Figure 6 we compare the short-maturity indexes to the full maturity standard index and, as expected, we can see that the short-maturity version (1-5 Year) offers lower duration and lower yield compared to the standard Liquid Corporates exposure. In addition to these key characteristics, we can also see how the short-maturity approach appears to be a more risk-mitigating exposure, having offered less returns but paired with substantially lower volatility. This dynamic suggests how the two solutions could potentially fit clients with different risk profiles or could be used during different market cycles.

If we compare the Liquid Corporates 1-5 Sustainable index and its parent, we can see that, in line with our previous results, the ESG integration has only a small impact since all metrics (e.g. yield, duration and credit quality) are roughly in line between the Liquid Corporates 1-5 Index and its ESG variant.

Florian Cisana
Head UBS ETF & Index Fund Sales Nordics
UBS Asset Management

Finally, looking at the sustainability metrics, we can see how the ESG overlay when applied to a portfolio that focuses on bonds with shorter maturity, offers substantial improvements in terms of ESG quality score and reduced carbon footprint.

In summary, these results confirm how a well-constructed sustainability overlay can offer ESG improvements while not changing the nature of the portfolio, and this being true regardless of portfolio duration (full-maturity or 1-5 Years) and geography (US or Euro Area).

For marketing and information purposes by UBS.

For professional clients / qualified investors only.

Before investing in a product please read the latest prospectus and key investor information document carefully and thoroughly.

Any decision to invest should take into account all the characteristics or objectives of the fund as described in its prospectus, or similar legal documentation. Investors are acquiring units or shares in a fund, and not in a given underlying asset such as building or shares of a company. The information and opinions contained in this document have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith, but is not guaranteed as being accurate, nor is it a complete statement or summary of the securities, markets or developments referred to in the document. Members of the UBS Group may have a position in and may make a purchase and / or sale of any of the securities or other financial instruments mentioned in this document. Units of UBS funds mentioned herein may not be eligible for sale in all jurisdictions or to certain categories of investors and may not be offered, sold or delivered in the United States. The information mentioned herein is not intended to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. Past performance is not a reliable indicator of future results. The performance shown does not take account of any commissions and costs charged when subscribing to and redeeming units. If whole or part of the total costs to be paid is different from your reference currency, the costs may increase or decrease as a result of currency and exchange rate fluctuations.

Commissions and costs have a negative impact on the investment and on the expected returns. If the currency of a financial product or financial service is different from your reference currency, the return can increase or decrease as a result of currency and exchange rate fluctuations. This information pays no regard to the specific or future investment objectives, financial or tax situation or particular needs of any specific recipient. Future performance is subject to taxation which depends on the personal situation of each investor and which may change in the future. The details and opinions contained in this document are provided by UBS without any guarantee or warranty and are for the recipient's personal use and information purposes only. This document may not be reproduced, redistributed or republished for any purpose without the written permission of UBS Asset Management Switzerland AG or a local affiliated company. Source for all data and charts (if not indicated otherwise): UBS Asset Management

This document contains statements that constitute "forward-looking statements", including, but not limited to, statements relating to our future business development. While these forward-looking statements represent our judgments and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from our expectations.

A summary of investor rights in English can be found online at: ubs.com/funds.

More explanations of financial terms can be found at ubs.com/glossary

© UBS 2022. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.

Case #4

Leading the Way in the

Private Markets ESG Integration

by Julia Axelsson, CAIA

Credit: Donald Giannatti on Unsplash

Jennifer Signori
Manager Director, Private Markets
ESG & Impact Investing
Neuberger Berman

Asset managers catering to an increasingly demanding institutional clientele have in recent years witnessed first-hand how ESG integration in private markets is rapidly becoming a question of good underwriting. Early adopters have also realised that their efforts are not without rewards. Integrated properly throughout policies, processes, and organisational capacity, ESG can potentially create value.

Independent, employee-owned investment manager Neuberger Berman (NB) has a reputation for being a frontrunner when it comes to sustainability. In 2020, the UN PRI named the firm a Leader, a designation awarded to fewer than one per cent of investment firms that are PRI signatories for excellence in ESG practices. The PRI also awarded NB an A+ for ESG integration across every eligible asset class and for its overarching approach to ESG Strategy and Governance.[1]

NB Private Markets has been an active investor since 1987. It has seen strong and prudent growth over the past ten years, largely driven by product innovation and an increased focus on delivering customised client solutions. The NB Private Markets platform invests in funds, both on a primary and secondary basis, as well as direct equity co-investments, private credit and specialty strategies, including brand licensing ("Marquee"), direct Italian investments ("Renaissance" and "Aurora"), health care credit ("Athyrium") and real estate investments ("Almanac").

To find out more about how ESG is embedded into the NB Private Markets investment process, we talk to Jennifer Signori, Managing Director, Private Markets ESG and Impact Investing. "We believe the most effective way to integrate ESG into an investment process is for investment teams to consider ESG as part of rigorous due diligence and portfolio management," she says. "We are able to leverage the broader firm's ESG capabilities and processes, from initial due diligence to ongoing investment monitoring, which allows us to integrate ESG throughout the lifecycle of the investment process[2]," adds Signori.

1 Additional information on PRI Leaders group and scoring available here
2 Shared firm resources. Subject to Neuberger Berman's policies and procedures, including certain information barriers within Neuberger Berman that are designed to prevent the misuse by Neuberger Berman and its personnel of material information regarding issuers of securities that have not been publicly disseminated

“We also engage with many of our private equity managers to share ESG best practices and resources where possible and aim to take an active leadership role in ESG-related industry collaborations.”

The importance of a stable base

Signori reveals that ensuring ESG is truly ingrained in the backbone of the firm means laying the foundations right. At NB Private Markets, this is generally done in three ways. “Firstly, we typically apply robust oversight and responsibility to our process,” she explains. “Our investment teams are responsible for conducting the ESG analysis, which is then complemented by the Investment Committee’s evaluation of ESG considerations when the final investment decision is taken. Our ESG team can leverage the broader firm’s ESG capabilities and resources, including Neuberger Berman’s ESG policy, proprietary ESG materiality assessments, and ESG data and analytics.”

The second part of the process is due diligence and selection. “ESG analysis is included in Investment Committee memorandums and forms an important part of the due diligence in the direct investments we consider,” comments Signori. “This analysis includes an assessment of material ESG factors specific to the potential investment’s industry sector. We also measure and assess the ESG integration of the lead private equity managers with which we invest before making a final investment decision.”

“Thirdly, we are frequently able to continue considering ESG once the investment decision is made, through careful monitoring and ownership,” continues the managing director. “Importantly, we monitor direct investments for ESG violations and risks. We also engage with many of our private equity managers to share ESG best practices and resources where possible and aim to take an active leadership role in ESG-related industry collaborations.”

Focusing on what matters

In private markets, rigorous company due diligence tends to be a time-consuming, resource-intensive process. Assessing the materiality of ESG factors is essential to cope with it all. “We focus on ESG factors likely to be material on an industry and asset class basis,” explains Signori. “When conducting diligence on primary fund commitments, we aim to assess the lead GP’s level of ESG integration at both the firm and the fund strategy level based on industry best practices. For example, we look to assess the GP’s commitment to ESG by evaluating the firm’s ESG policy and governance, as well as how ESG is incorporated at the investment strategy level, that is, in due diligence, selection, ownership, monitoring, and reporting.”

The team conducts due diligence on each specific co-investment opportunity to ensure that the potential portfolio company and underlying private equity manager appropriately manage ESG risks. “We use our proprietary NB Materiality Matrix to assess industry-specific ESG factors that are likely to be financially material, as well as the private equity manager’s level of ESG integration based on Neuberger Berman’s manager ESG Scorecard,” says Signori.

“Lastly, we have introduced specific investment screening and monitoring tools,” she explains. “For private market investments where disclosure is more limited, we use a reputable data science monitoring tool to identify past ESG issues at private companies. This helps us supplement direct dialogue with the private equity manager when making co-investments. Our investment professionals are also responsible for considering international standards violations and other topic areas in accordance with our Responsible Avoidance Policy. Last but not least, we engage with the private equity co-investment managers to understand how the company is managing and mitigating material ESG factors and how the manager intends to improve on this over time.”

“The private markets are generally where innovation and growth can be found. Private equity has an important role in safeguarding the planet – providing opportunities to invest in climate solutions, transition, and adaptation.”

Speaking of materiality, Signori is eager to point out the vital role that private equity plays in tackling the challenge of climate change. “We believe that climate change can be a material driver of investment risk and return across industries and asset classes and, as such, cannot be ignored. Private equity companies generally have lower carbon intensities based on sector representation. Furthermore, the private markets are generally where innovation and growth can be found. In our view, Private equity has an important role in safeguarding the planet – providing opportunities to invest in climate solutions, transition, and adaptation.”

Collaboration: the key to tackling the data challenge

Commenting on the quality, availability, and reliability of ESG data, Signori admits that there is a greater abundance of publicly available data and metrics in the public markets relative to the private markets. “This is not only related to the data metrics themselves but also the mechanism in which the data is shared and aggregated among investors,” she points out. “However, this is a rapidly evolving area with more private equity managers more systematically tracking and reporting material ESG metrics. Collaboration is key. We recently became a signatory to the ESG Data Convergence Project which aims to help standardize ESG metrics among both GPs and LPs.. We are also investing in our data systems and processes,” adds Signori.

Once you realise the importance of collaboration, it is also imperative to act on it. “We actively participate in industry engagement and collaborate with other PE managers,” says Signori. “For example, in December 2021, NB co-hosted a webinar with the Institutional Investor Group on Climate Change to help educate private equity managers on how to implement net-zero objectives in private equity investing. We are also a member of the ILPA Diversity in Action working group, highlighting our engagement on diversity and inclusion initiatives.”

Looking ahead

NB Private Markets has a lot to be proud of when it comes to recent ESG achievements. In 2018, the firm launched a Private Equity Impact strategy that invests in direct and fund investments that seek to achieve positive social and environmental outcomes. Later, in 2021, NB implemented a formal step in the ESG due diligence process for co-investments to collect carbon footprint information. “We are also a supporter of the CDP’s private equity technical working group to encourage greater carbon disclosure in the private equity industry, among other initiatives such as Initiative Climate International, adds Signori.

So, what is next for NB? And what are the firm’s sustainability aspirations? “We want to be our clients’ partner of choice for their most innovative and forward-looking ESG objectives. We continually seek to improve how we incorporate ESG in our investment process in a way that is consistent, rigorous, and evidenced. We also remain focused on solving collective challenges facing the private equity industry, such as greater ESG data consistency and transparency, and helping our clients understand the sustainability characteristics of their portfolios and how their investments have real-world outcomes,” concludes Signori.

Case #5

The Energy Transition *& the Challenge of Legacy Infrastructure*

by Filipe Albuquerque

Peter Dahl
Investment Manager
Polhem Infra

While much is said of the need for our energy systems to transition towards more sustainable approaches, the macro discussion is often dominated by good intentions and aggregate fact, that ignore the complexities of implementing such a transition on the ground.

To dig deeper into what the energy transition looks like in practice, we reached out to Peter Dahl, Investment manager at Polhem Infra, to understand the work he has been doing to nudge Swedish companies in the right direction and his concerns.

Founded in April 2019 as a joint venture of Sweden's AP1, AP3 and AP4 public pension funds, Polhem Infra specialises in long-term investments in infrastructure assets and operations, such as renewable power generation, energy storage, energy distribution and digital infrastructure.

Dahl's main concern is that the slow pace at which Swedish municipal energy companies are coming to grips with the harsh realities of the energy transition may hinder Sweden's ability to fulfil its net-zero emissions goal on time.

Change is coming

"Polhem Infra operates as an institutional investor on behalf of the AP funds. We are in the business of long-term infrastructure investments such as energy companies, for instance. As our economies are going through a transition the likes of which we have not witnessed since the end of World War 2 there are new risks that have to be taken into account. The environment investors operate in changes over time so we need to consider whether we are investing in the right solutions" Dahl says. "We are low risk investors, ill equipped for the more uncertain future than technology companies focusing on developing the inventions that will fuel the energy transition over time."

"Polhem Infra is constantly looking for the right long-term sustainable investments. That is not a trivial task," Dahl argues. "We need to dive into the details and determine what we believe society will look like far ahead in the future. Things change and new facts emerge that need to be incorporated into our understanding of the challenges. For example, the world spent the 1970s focusing on acid rain. We thought that by eliminating sulphur from emissions we were overcoming the problem, but that was not the case. The fundamental climate problem remained," Dahl adds.

"Despite our low risk-return profile, we have to be flexible to be able to adapt to potential changes through the long time horizon of our investment. This requires us to take more of an active ownership role and support management," Dahl says. "For example, district heating companies are an important part of infrastructure, but they are built on a volume model. It takes a lot of units to generate the revenue necessary to make big investments," Dahl continues.

"Slowly but surely, change is coming. As society moves into more sustainable energy sources the pressure to transform the business model in legacy assets is going to be a big challenge for long term investors," he warns.

The Legacy Assets

Part of the problem with the energy transition is what to do with the old investments that are no longer viable in the new paradigm. "The problem for

companies holding on to legacy energy assets is that the transition triggered by technological innovation will consequently require investments to ensure that the legacy assets are able to interact with the new technology," Dahl explains.

"Take, for example, district heating companies. They might need to find new sources of energy and change the business model to facilitate new customers that are switching from fossil fuels or electricity to district heating in order to become carbon neutral. These customers could require the heat for other purposes than heating space, for example melting snow on roads, drying services, etc. An adjustment of that sort will require investments from companies with legacy technology," Dahl continues.

According to Dahl, the transition starts with engaging the legacy asset owners. "The first step in the discussions we are having with the Nordic public owners of legacy assets is focused on helping them transform. This transformation is possible if they can take ownership of the legacy assets to consolidate and rationalise operations. In the next step, we'll need to focus on the transformation of the business to ensure that the legacy assets are able to interact with the new technology and new demands. I believe that the business model that a lot of traditional legacy companies have has to change. They have to meet both new consumer oriented technology and the demands from society," Dahl explains.

Impact on the Swedish Municipal Energy Market

The energy transition will also need to cope with the specific institutional and market structures of each country. Sweden, for example, has a decentralised political system. This spills over into the energy market, where a lot of the municipalities own energy companies that produce and distribute energy locally. "To produce energy, these companies have had to acquire a lot of assets, such as power plants. Some of these power plants, such as hydro power and windmills, are compatible with the energy transition. But not all of them are consistent with net-zero carbon emissions."

"The price and volume pressures that the transformation towards net-zero will put on municipal energy companies is such that they will have to adapt its business model and repurpose some of these legacy assets to accommodate the customers' need of access to energy and power at specific point in time and place," Dahl explains. "The challenge for investors is to pinpoint what value legacy technology will have in the future and how to exploit that value. At the moment they can only increase their revenues by expanding their coverage and any such expansion is limited by their municipal mandate, which caps their expansion to within the confines of their respective municipality."

"The energy transition towards net-zero carbon emissions will force energy companies to progressively repurpose the technology. They will have to reframe and reprioritise the legacy business to find better business models. Municipal energy companies will have to revalue their assets and assess the risks linked to the legacy technology," Dahl explains.

Polhem Infra's Mission

"These are urgent issues and we need to accelerate the pace of transformation . We are well suited to this partnership because we have the same very long term investment horizon as the municipality-owned companies and the competence. Without this shared horizon, the transformation will be out of sync," Dahl adds.

Ideally, Dahl believes that the best would be for municipal companies to release some of the pressure of the energy transition by inviting new owners with competence, such as Polhem Infra,for instance. "This would allow those assets to be consolidated. The local municipalities could redirect their efforts towards accelerating the transformation to net-zero emissions. The funds from those sales could be shifted towards upgrading other areas of the municipalities responsibilities and focusing on getting to the net-zero goal on time," Dahl argues.

The Challenge

The challenge is that not all municipal companies are receptive of the strategic necessities of the new paradigm. "When it occurs, this resistance towards the upcoming wave of changes can be due to institutional resistance on the part of municipalities which are unwilling to share control of their asset for the relative uncertainty of the new roles and responsibilities in a newmodel Investors must adapt too and try to build trustworthy long-term relationships with municipalities and, ultimately, the society. Then the transformation pace can be accelerated so we can still have a chance to meet our climate goals." Dahl explains.

"It all comes down to trust. Distrust can be institutional or political, depending on whether it is driven by the energy companies' leadership or by citizens' initiatives, such as municipal referenda on the sale of municipal owned companies But if the society, and thus the public owners, feel that they can trust the investor, change and new ways of collaborating will take place," Dahl concludes.

For more than 30 years, we've been quietly building solutions for the world's most sophisticated and progressive ESG investors.

There's no need to make noise when results speak for themselves.

- $168 billion of sustainable AUM [1]
- Pioneering ESG investing since 1988
- Managing four of the world's ten largest ESG index funds [2]
- Active Quality U.S. ESG strategy ranks in top quartile of performance for three and five years [3]
- Best-performing U.S. asset manager on environmental and social shareholder resolutions [4]

Introducing our latest innovation — The Northern Trust ESG Vector Score™

Learn More

SASB Investors Advisory Group | TCFD Supporter | UNPRI Member | One Planet Asset Manager Initiative Founding Member | Climate Action 100+ Founding Signatory

[1] Data as of December 31, 2021. [2] Source: eVestment. Data as of September 30, 2021. Universe for comparison consists of 48 total passive equity products within "All ESG Universe." [3] Source: eVestment. Data as of December 31, 2021. [4] ShareAction 2021 report *Voting Matters* — Northern Trust Asset Management ranked 34th overall globally and first among U.S. asset managers.

Northern Trust Asset Management is composed of Northern Trust Investments, Inc., Northern Trust Global Investments Limited, Northern Trust Fund Managers (Ireland) Limited, Northern Trust Global Investments Japan, K.K., NT Global Advisors, Inc., 50 South Capital Advisors, LLC, Belvedere Advisors LLC and investment personnel of The Northern Trust Company of Hong Kong Limited and The Northern Trust Company. © 2022 Northern Trust Corporation. Head Office: 50 South La Salle Street, Chicago, Illinois 60603 U.S.A.

Case #6

Improving Sustainability-related Data Flows *in Private Markets*

by Richard Tyszkiewicz

"I believe private companies will appreciate getting one standard instead of ten different questionnaires from ten different investors."

Susanne Røge Lund
Senior Director of ESG
ATP

On May 4, 2022, ATP, Industriens Pension and PenSam, three Danish pension funds with combined assets exceeding EUR 160 billion announced their collaboration on a project to improve sustainability-related data flows in private markets. While investors have long had access to a wide range of Environmental, Social and Governance (ESG) metrics in listed markets, the alternatives side of the portfolio has been somewhat late to the party. Keen to understand more about the project and the thinking behind it, NordSIP spoke to Susanne Røge Lund, Senior Director of ESG at ATP and Mikael Bek, Head of ESG at PenSam. Sustainability seems to be a particular field where it is increasingly the asset owners rather than the managers driving things forward. Nevertheless, this data gathering project looks likely to ultimately benefit all parties concerned.

Susanne Røge Lund joined Danish supplementary pension scheme ATP in 2018 and was tasked with building a framework for ESG integration in the group's unlisted holdings, including a substantial portfolio of both direct investments and private equity funds. With the aim of enhancing ATP's ESG asset management, an ESG questionnaire was created, to be completed by the underlying portfolio companies, whether held directly or via a fund. As Røge Lund explains, "I have talked to a lot of GPs (General Partners) since I started and there is a very clear development towards collecting and utilising data, but that being said a lot of the funds don't have the framework or structure in place to collect the data, or to select which data to collect." The standard questionnaire provides the basis for getting the information flowing. The first one was sent out at the height of the COVID-19 pandemic, and Røge Lund was surprised and relieved to nonetheless get a good response rate. The third iteration of the questionnaire is currently being distributed, the results of which will help to begin identifying trends over a 3-year period.

A positive feedback loop

One key to the success of the project is the deliberate creation of a symbiotic relationship between all the parties involved. "We were very aware that we were not going to just ask for a lot of data without giving something back," explains Røge Lund. The input is analysed by ATP and a report is produced for each of the investee companies, which not only includes their specific sustainability feedback, but also relevant aggregated peer group information that can help them address any weak points. This is where the collaboration with PenSam and Industriens Pension is also mutually beneficial, as the resulting larger volume of gathered data helps to build statistically significant peer groups. The questionnaires and subsequent reports are even sent out to previous non-respondents in an effort to nudge them into action, once they start to understand the potential benefits of this positive feedback loop. The intent is not to rate the companies, but rather to provide concrete, relevant information to start a constructive conversation on sustainability criteria.

This data gathering initiative clearly stems from an asset owner, and it could be argued that the fund managers or General Partners (GPs) should have taken on this role. Røge Lund understands that, apart from a few exceptions, the overall level of dedicated ESG expertise within private equity was still lagging and points out that the managers have broadly been very collaborative. They also play a crucial role as a conduit for the data. The GPs also benefit from the feedback loop, with the analysis identifying ESG improvements that help increase the resale value of portfolio companies. Røge Lund mentions the example of one of ATP's direct holdings achieving annual cost savings of USD 100,000 thanks to the installation of water recycling, which were identified based on the data.

"You also have the issue of data quality, but still three years ago we didn't have any data at all and today we have some, and it's getting better day by day. We are building the road while driving, you could say!"

Lightening the regulatory reporting burden

In designing the questionnaire, every effort was made to align it with emerging reporting standards such as the Sustainable Finance Disclosures Regulation (SFDR) and the European Union's taxonomy for sustainable finance. Mikael Bek, Head of ESG at PenSam explains: "It's a complex environment, but the questionnaire integrates both the SFDR principal adverse impact (PAI) indicators and the taxonomy, so we should be able to report according to these based on the questionnaire."

Most of PenSam's investments are outsourced, but as Bek points out they have gradually weeded out the external managers with weak ESG credentials thanks to a scoring system they put together with Sustainalytics.

This means they are working with a progressively better group of managers who are well suited to work with the new ESG questionnaire. Legacy investments will be run down and excluded from the new process, and as Bek says "we are starting with about 10 managers in private equity and infrastructure, and we will take it from there – there's a bit of learning by doing I think." This will be the first time PenSam and Industriens Pension send out the new questionnaire. Bek's main concerns are the ever-evolving taxonomy and SFDR, but he is generally positive about these "as you get a common playing field, when you talk about green you know what it means. You also have the issue of data quality, but still three years ago we didn't have any data at all and today we have some, and it's getting better day by day. We are building the road while driving, you could say!"

A potential new standard

In terms of future developments to the reporting framework, Susanne Røge Lund does not expect major changes other than those imposed by regulators or the development of new metrics, perhaps emerging from the Taskforce on Nature-related Financial Disclosures (TNFD). ATP believes the current questionnaire is enough to gauge companies' ESG credentials and form the basis for a constructive dialogue on improvements – the low-hanging fruit, as she puts it. "If we make it too granular, the response rate will definitely be lower." ATP appear to have succeeded in addressing the problem of ESG data in unlisted markets by designing a finely balanced framework that encourages the flow of information and motivates all the parties involved to keep the system working efficiently.

Danish pension funds are well-known for their collaborations, but could the questionnaire become a new industry-wide standard beyond their home market? "Those are big words, but why not if it's good?" says Bek, "and I believe private companies will appreciate getting one standard instead of ten different questionnaires from ten different investors." Røge Lund is open to the idea but emphasises that it is still at an early stage, "we haven't decided yet, but stay tuned." NordSIP certainly will do so, as the framework can be expected to continue improving in line with the underlying companies' response rates and the accumulation of statistically significant data. The usefulness of the data to all the links in the private markets chain is key - as Røge Lund puts it "we all get better if we collaborate."

Case #7

Engaging with Working Conditions in the Gulf

by Filipe Albuquerque

Kiran Aziz
Head of Responsible Investments
KLP

While environmental concerns, climate resilience and the energy transition dominate sustainable investments strategies, taxonomies and policies, the social aspect of ESG is often forgotten. For all its data and standardisation difficulties, the global externalities of CO_2 emissions provide a relatively straightforward perspective from which to tackle climate change. On the other hand, social investments are still somewhat incipient and can include anything from social accommodation in developed countries to labour rights in emerging markets, which are much more controversial and hard to tackle.

Among these issue, the working conditions of poor migrant workers in the Gulf countries should be particularly concerning to investors. "Poverty and unemployment are the main drivers for migrant inflow of people from Africa and Asia seeking economic opportunities in the Middle East. However, Gulf countries have been repeatedly exposed for undermining the fundamental rights of immigrants, forcing them to work in poor conditions, with weak social protection and a lack of freedom of association," says Kiran Aziz Head of Responsible Investments at KLP, Norway's largest pension company, mainly owned by the municipalities and state health enterprises.

A high number of immigrant workers in relation to population is common to many of the Gulf states, not least of which Qatar, whose two million migrant workers from Southeast Asia and Africa represent 95% of the workforce. Since it was announced in 2010 that it would be the host of the 2022 FIFA World Cup, Qatar has faced more scrutiny than perhaps other Gulf countries. However, neighbours such as the United Arab Emirates (UAE) are also making substantial investments in infrastructure, which requires the use of migrant labour and invites scrutiny from foreign investors.

The Conditions of Migrant Workers

According to Aziz, migrant workers in Gulf countries can be subjected to forced labour, tantamount to modern slavery. "Traditionally, migrant workers in the region have been often exposed to violence, extremely long working days, an inability to change jobs or leave the country and an economic vulnerability connected to a precarious residence status or lack of language skills. All of these are conditions that pose a risk to modern slavery," Aziz says.

Aziz highlights two particular examples of the pernicious effect of the conditions plaguing migrant workers in the Gulf. "The cost of travel

“Several reports from Amnesty International and the Business & Human Rights Resources Centre (BHRRC), among others, document that migrant workers are exploited and suffer from poor working conditions in the hotel industry.”

from their country of origin to their host country can be unbearably high for migrant workers. The recruitment fees that workers themselves must pay can facilitate conditions of forced labour for migrants. Workers who pay to get a job in countries such as the UAE often do so by taking out high-interest loans or by selling assets, leaving them in a position of 'debt bondage' and constraining their ability to live a financially independent life,” Aziz explains.

“This exploitative relationship can be exacerbated by other risk factors in forced labour, such as the requirement to hand-over ID documents. Qatar’s Kafala sponsorship system, which links migrant workers' residence permits to their employment contract, gives employers unreasonable control over employees. The practice has been criticised b y human rights organizations because it createss easy opportunities for employers take away passports and abuse their workers,” Aziz adds.

Although the 2022 FIFA World Cup hosted by Qatar has made the headlines, Aziz suggests that investors should not only focus their attention on the construction sites of football stadiums but also be mindful of the infrastructure adjacent to these projects. “Several reports from Amnesty International and the Business & Human Rights Resources Centre (BHRRC), among others, document that migrant workers are exploited and suffer from poor working conditions in the hotel industry,” Aziz continues.

Engagement Opportunities

Faced with these risks, KLP has pursued efforts to engage with businesses in Qatar. However, much still remains to be done. In 2021, the Norwegian pension fund, used the findings in the BHRRC report "Checked out" to engage with the hotel industry in Qatar, which has experienced enormous growth and upgrading ahead of the World Cup. The sector includes companies such as Hilton, Marriott, Hyatt and Four Seasons Hotels & Resorts.

“Although KLP contacted all 19 of the companies mentioned in the report to request more information about the hotel chain's practices and guidelines, only five of them responded to our inquiry, and only four of these provided answers to questions. One of the chains claimed that they have no business in Qatar. KLP will continue to follow up on the relevant companies in Qatar, and focus on the rights of migrant workers in the Gulf states in general,” Aziz explains.

KLP is a member of the investor collaboration "Find it, Fix it, Prevent it" developed by the CCLA Investment Management LTD and supported by investors, academics and civil society organizations to prevent various forms of forced labour in companies and their value chains. Together with the other members of this initiative, KLP also sent letters to 55 companies with direct activities or value chains where migrant workers are relevant and where the risk of violations of human and employee rights is high. These companies include Technip FMC, Starbucks, Skanska, McDonald’s, and Total.

"The investors sent letters to the companies in question with questions about the use of labour from recruitment companies or immigrants within the company's activities or value chain in the emirates," Aziz says.

“Through engagement, investors can push the agenda forward in the region and defend the rights of workers and the quality of our investments.”

If they reported employing such workers, KLP encouraged the companies surveyed to pursue five steps towards ensuring appropriate labour conditions.

First, the investors recommended that the companies hire independent specialists to interview all migrant workers, including those who may have recently left roles, to find out about the paid recruitment fees to get the job. The investors also suggested that the companies commit to reimbursing the recruitment fee to the employees who have paid the fee. These firms were also recommended to use labor from recruitment companies that can ensure that they are diligent and can document that they have not used recruitment fees from workers. KLP and its partners also recommend that the firms adopt and enforce the “employer pay principle” in the guidelines - so that all employees in their business and value chain are not expected to pay for a job. Finally, the pension fund suggested companies establish a transparent, realistic, confidential and secure complaint mechanism for employees to report unfair conditions.

“The response from the companies has been varied. Some have been engaged and specific in their feedback, while others responded at a very general level with reference to general policies. KLP led the dialogue with SNC-Lavalin, a Canadian company that provides engineering services to various industries. SNC-Lavalin adopted a new policy in 2019 which means that they no longer offer contracts with turnkey contracts. As a result, they have fewer suppliers and thus greater control over the workforce. They had registered some cases in the emirates where a recruitment fee had been paid. We are still waiting for an answer on how the company will solve this,” Aziz says, noting that these efforts are ongoing.

“The concerns of the international community have not fallen on deaf ears,” Aziz explains, noting that Qatar has introduced a minimum wage, equivalent to NOK2,500 per month, as well as restriction on outdoors work between 10am and 3:30pm in the summer months. “Exit permit requirements have also been lifted so as to decrease the constraints imposed on workers by their employer,” Aziz adds.

In another example, Qatar recently abolished the No Objection Certificate, a clear note from an employer that if the employee wants to change jobs, the employer does not have any objection. However, according to reports in BHRRC report, the measure is more talk than action. “To be honest, it’s just there on mere paper because these employers are not signing the resignation letters. Instead, they go ahead and cancel your visa and, before you know it, they forcefully repatriate you back to your country. On extreme cases they go further and report you as a runaway worker to the CID [Criminal Investigation Department],” a Hotel driver from East Africa is reported as saying in that report.

“There has been progress, but much still remains to be done on the legislative front. Employees are still not allowed to join a trade union and for the laws that have been passed there are still major challenges associated with the implementation and enforcement of new laws. Through engagement, investors can push the agenda forward in the region and defend the rights of workers and the quality of our investments,” Aziz concludes.

Case #8

Integrating the SDGs with the UN PRI Framework

by Filipe Albuquerque

At the launch of the UN Sustainable Development Goals (SDGs) in 2015, all the countries of the world agreed on a sustainability agenda, covering economic, social and environmental development and comprising 17 global goals, further developed in 169 targets, to be reached by 2030. Inherent to the agreement was the inevitable role of both companies and institutional investors in solving some of the most urgent problems the world is facing, through their business activities and investment decisions.

The United Nations Conference on Trade and Development (UNCTAD) estimates[1] that meeting the SDGs by 2030 would require US$5 trillion to US$7 trillion per year from the private sector. Despite great strides in filling this void, in March 2022 the UNCTAD warned that the US$ 3.6 trillion gap between that annual funding goal and reality was not only not being bridged, it could actually widen due to the Russian invasion of the Ukraine.

The Role of the UN PRI

Now, more than ever, strategies to help asset managers and owners combine their responsibilities to find the means to support these goals is crucial. Investors need to understand how contributing to the SDGs will help them fulfil obligations and their clients' expectations about risk-adjusted returns.

Armed with a combined US$121.1 trillion in assets under management, signatories to the UN-supported Principles for Responsible Investment (PRI) are in a position to help investors address these concerns. The investor network argues[2] that the SDGs are best seen as a set of macro and micro risks and opportunities that investors should face and tackle.

Poverty (SDG 1) Hunger (SDG 2), inequality (SDGs 5 and 10), climate change (SDG 13) are macro risks that investors cannot afford to ignore. According to the PRI, failure to achieve the SDGs will create macro financial risks that impact all countries and sectors to some degree. "Universal owners' portfolios are inevitably exposed to these growing and widespread economic risks – which are in large part caused by the companies and other entities in which they are invested," the PRI warns.

Similarly, the promotion of good health and well-being (SDG 3), quality education (SDG 4), clean water and sanitation (SDG 6), affordable and clear energy (SDG7), sustainable communities and responsible economic practices (SDGs 11 and 12) and peace, justice and strong institutions (SDG 16), are key to achieving long term economic growth and development.

Moreover, the SDGs also provide a map to tackling micro regulatory, ethical and operational risks and to identifying new investment opportunities in sustainable business practices, products and services materially relevant to investors across the economic activities.

To help its signatories tackle these risks and opportunities, the PRI argues that investors need to broaden their assessment of individual investees' financially material ESG issues to also incorporate considerations of the most important outcomes to society and the environment at a system level.

Investing with SDG Outcomes

The PRI proposes a five-part framework to integrate the SDG outcomes, focusing on identifying outcomes, setting policies and targets, shaping outcomes, the role of the financial system in shaping outcomes and stakeholder collaborations in pursuit of these SGD aligned outcomes.

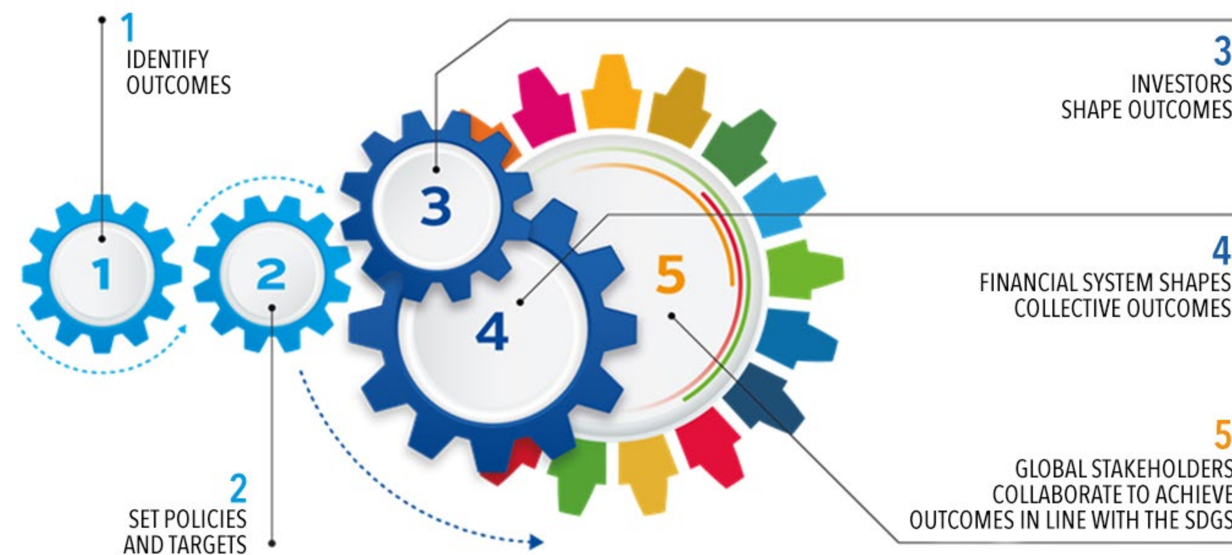
First, the PRI argues that investors should seek to identify and understand the unintended outcomes of their investments and their own operations. "To support meeting the SDGs, investors must understand how they can increase the positive and decrease the negative outcomes arising from their actions," the PRI argues[3] In practice, investors can start by mapping existing investments to the SDGs and determine the scale of investments in explicitly SDG-aligned activities and identify misaligned activities along their existing ESG screening tools. There are also a number of publicly available tools listed by the PRI that can assist with identifying the positive and negative real-world outcomes related to investees' operations, products and services . The responsible investment network points investors towards the Sustainable Development Investment (SDI) taxonomy developed by APG and PGGM, which identifies investments in companies whose products and services contribute to the SDGs. The PRI also points to the EU taxonomy for its technical screening criteria which offer performance thresholds, and to the Task Force on Climate-related Financial Disclosure (TCFD) recommendations for carbon footprint, among others.

Once this identification of negative and positive SDG-aligned outcomes has been achieved, the PRI argues that investors need to set effective and credible policies and targets, and take intentional steps to shape outcomes. The recommendations advise investors to take a holistic approach to achieve a complete view of the effect of their investments since outcomes are often connected to different SDGs.

1 Ukraine war risks further cuts to development finance, UNCTAD, 23 March 2022
2 The SDG Investment Case, UN PRI, 12 October 2017
3 Investing with SDG outcomes: a five-part framework, UN PRI, 15 June 2020

Figure 1: Five-part SDG outcomes framework for investors

Source: UN PRI, Annual Report 2021



Investors can look to their responsible investment policy or on engagement with internal and external stakeholders to prioritise which SDGs to focus on. The PRI points its members to the experience of the UN-convened Net-Zero Asset Owner Alliance[4] (NZAOA) – a group of asset owners committed to achieve net-zero carbon emissions within their entire portfolios by 2050 – with its regular progress reports and intermediate 5-yars targets. The NZAOA provides an updated target-setting protocol with detailed recommendations on engagement, sector, sub-portfolio and financing transition targets. An example of "outcome level" targets, according to the PRI, is emission intensity per unit of energy generated (g/kWh), rather than at an 'activity level' such as x% invested in green bonds. "Setting targets can include targets for existing and new investments, whether internally or externally managed, public or private market and beneficiary-, board- or client-led," the PRI notes.

Thirdly, the PRI notes that having identified positive and negative outcomes and incorporated them into their own goals and targets, investors should seek to actually shape outcomes via their investment decisions, stewardship of investees and engagement with policy makers and key stakeholders. impact investing strategies, such green bonds, micro-finance, green real estate or renewable energy infrastructure, are a good example of investment decisions consistent with investing in SDG outcomes. Stewardship aligned with SDG outcome includes taking actual action through voting decisions and public policy with regulators and policy-makers.

Once investors have identified, incorporated and implemented the SDG-aligned investments, the PRI argues that collective action and cooperation can multiply the results that they responsible asset owners and managers would achieve if they merely acted individually. Through collaborative initiatives with credit rating agencies, index providers, proxy advisors, banks, insurers and multilateral financial institutions, investors are able to not just shape their own outcomes but also the outcomes of the whole financial system. The approaches that work for individual SDG-aligned outcomes can be scaled up through collective action to ensure system-wide outcomes. The effectiveness of exclusions, specific strategies, voting behaviour, company and policy or regulatory engagement will be multiplied through cooperative initiatives and become more than the sum of its parts. To an extent, the Council of Ethics plays a similar coordinating role for some tasks for AP1-AP4 in Sweden.

Last but not least, the PRI recommends investors join other global "stakeholders not typically thought of as partners" in new initiatives. "The investment community will need to receive insights, data and tools that match the global societal and planetary thresholds. These can be used to work top-down to the needed outcomes at the level of the asset owner, investment manager and investee entity – and vice versa, bottom-up," the PRI argues. Examples of this type of atypical stakeholder engagement includes Finance Against Slavery and Trafficking (FAST) initiative and the "Deep Track" in the Dutch pension funds agreement on responsible investment, which

4 https://www.unepfi.org/net-zero-alliance/

has been developed by pension funds, NGOs, labour unions and the Dutch governments. Investors can also rely on outside tools developed by policy makers for monitoring performance against the global goals, including the SDG Tracker[5], UN Environment's Emissions Gap report[6] and the global stocktake process within the Paris Agreement[7].

Once these actions are implemented at asset owner and collaborative industry networks, data, transparency, reporting and disclosures are crucial to ensure that the investors stay on track. The PRI Investing with SDG Outcomes framework also reviews[8] a list of 30 free to use, globally applicable tools that may be relevant for identifying outcomes, and setting and tracking progress against outcome objectives.

Case Studies of Investing with SDG Outcomes

To guide investors through the complex process of investing in SDG outcomes, the PRI also publishes case studies produced by its signatories discussing examples of how they have implemented any part of the 5-part framework.

AP2 and Human Rights

In 2020, Swedish National Pension Fund AP2 discussed[9] how it assessed the human rights outcomes of its internally managed, quantitative, global listed equities portfolio and identify which of its companies to engage with further.

"When assessing the potential human rights risks within our global equity portfolio, we limited our analysis to focus only on negative human rights outcomes. The analysis sought to identify common risks for negative human rights outcomes in sectors in which our portfolio companies operate. For example, risks in an industry with wide-ranging problems such as the use of slave labour would be assessed as severe," the AP2 case study explains.

AP2 focused on the scale, scope and irremediable character of potentially negative human rights outcomes when determining their severity. In this process, AP2 found prioritising the identified negative human rights outcomes a challenge. Although the asset owner identified "potential severe negative human rights outcomes" in all the sectors it analysed, limited data availability on those outcomes at a company level was a problem.

AP2 decided to develop an in-house quantitative data model that will analyse specific issues, such as child labour to provide a better overview of negative human rights outcomes and decide which companies to engage with.

East Capital and SDG outcomes in Emerging Markets

In 2022, Swedish asset manager East Capital described[10] how it is integrating SDG outcomes into its sustainable global emerging markets (GEMS) fund. Here too, data was an issue.

"Since 2016 our analysts and portfolio managers have been using a proprietary ESG scorecard. We find that external ESG data providers don't add much value to our investment processes, given their coverage of emerging and frontier markets is often sporadic and employs a tick-the-box approach focused on the availability of policies. We believe this hinders emerging markets companies, which are often at an early stage of their ESG journey. Our internal research leverages our local knowledge, understanding, network and track record of constructive engagement," East Capital says.

To address this problem, East Capital developed a SDG value chain analysis (VCA) tool, which incorporates Sustainability Accounting Standards Board (SASB) metrics that have been mapped to the SDGs by the Value Reporting Foundation. According to the asset manager, SASB's 12-14 material and largely outcome-based sustainability metrics per sector are broken down into 77 highly specific sub-sectors that provide a list of a company's SDG outcomes.

The VCA tool allows East Capital to identify the 2 most important SDGs for a company, assess the company's impact on the SDGs and apply a simple five-point rating based on materiality, intentionality, additionality and criticality to calculate an overall score.

"We have started embedding the VCA tool into our investment process and have already used it to make portfolio decisions. We have divested two companies in the GEMS fund because their scores were too low and have added exposure to one company because it received a high score, and we found the valuation and fundamentals sufficiently attractive," East Capital concludes.

5 http://www.sdg-tracker.org/
6 https://www.unenvironment.org/interactive/emissions-gap-report/2019/
7 https://unfccc.int/topics/global-stocktake/global-stocktake
8 Investing with SDG outcomes: a five-part framework (Appendix 1 - 3 Tools & Investor examples)
9 PRI Case Study – SDGs - AP2: Human Rights, 3 August 2020
10 PRI Case Study – SDGs - East Capital: Incorporating SDG outcomes into emerging markets investments , 8 February 2022

Case #9

The Curious Case of Weapons & ESG

by Filipe Albuquerque

Credit: Jay Rembert on Unsplash

Anette P. Andersson
Senior Sustainability Investment Specialist
SEB

The Russian invasion of Ukraine has had overwhelming and far-reaching effects, with the IMF projecting that the war will set back the global recovery.[1] Within sustainable investments, the geopolitical turmoil has also not gone unnoticed. As survival instincts sharpen society's focus, politicians such as Latvia's Defence Minister Artis Pabriks have warned against Swedish investors who take a dim view of the defence industry.

"Altor strongly condemns the illegal invasion of Ukraine and we have requested all portfolio companies to stop all business activity with Russia."

To understand what investors' stance is on this issue and whether recent developments influence their positions, we reached out to Nordic asset managers to understand their views. The consensus view seems to be investments in weapons are not all alike.

Of the eleven respondent asset managers, nice including Altor, Captor, Brummer, Coeli, Danske Bank , DNB, Nordea, SEB and Storebrand focused on the distinction between controversial and conventional weapons, and the application of differentiated

"By making this change, we hope we can meet and satisfy the needs of all our customers."

thresholds. Spiltan chose to not emphasise this distinction and only SBB Norden endorsed defense investments without any reservations, which can be attributed to its regional and sectoral focus.

The SEB Trigger

The issue of defence investments came back to the attention[2] of sustainable investors in the present geopolitical context following SEB's decision to allow some of its equities and corporate bonds funds to invest in companies that generate more than 5% of their revenue from the defense sector. However, much like all its peers, it continues to exclude companies involved in production and/or sales controversial weapons from all is.

"Our policy was updated following the dramatically changed security and geopolitical situation during the last year and also based on some of our investors' revised view on investing in the defense industry. Many of our customers and unit-holders still do not want to or cannot invest in the defense industry and going forward many of SEB Investment Management's funds therefore will continue to exclude such investments. The policy change

Stephanie Hubold
Head of ESG
Altor

1 IMF
2 https://nordsip.com/2022/03/04/a-change-of-heart/

Sanna Pettersson
Head of Responsible Investment
Captor

currently affects six funds out of SEB Investment Management's more than 100 funds. By making this change, we hope we can meet and satisfy the needs of all our customers," says Anette P Andersson, Senior Sustainability Investment Specialist at SEB Investment Management.

Drawing a Line

SEB is not exactly an outlier, although the timing of its decision did put a spotlight on the topic. Most investors chose to draw a line between controversial and conventional weapons.

"Our exclusions on weapons are unchanged and can be found in our Responsible Investment and Ownership policy", says Stephanie Hubold, Head of ESG at Altor, a Stockholm-based private equity company. Altor Funds will not invest in companies relating to controversial weapons but they will invest in other military equipment if the direct exposure does not exceeds a 10% revenue threshold[3]. "Altor strongly condemns the illegal invasion of Ukraine and we have requested all portfolio companies to stop all business activity with Russia and Russian companies as well as Belarus and Belarusian companies," Hubold argues.

"Weapons manufacturers (defined as weapons, small arms, munitions) are excluded on a 5% level, and manufacturers of controversial weapons (defined as cluster bombs, landmines, chemical and biological weapons, and nuclear weapons) are excluded on a 0%

"We see a continued wish to exclude weapon manufacturers from a majority of our investors."

level," says Sanna Petterson, Head of Responsible Investment at Captor, a Swedish Asset Manager. "There are several sustainability factors that can be included in an ESG strategy of a fund. For us it is important to have a dialogue with our investors on this subject and we see a continued wish to exclude weapon manufacturers from a majority of our investors," Petterson adds.

Danske Bank's focus is on controversial weapons. "We exclude companies linked to weapons that are illegal, as their production and use is prohibited by international legal instruments, or deemed particularly controversial because of their indiscriminate effects and the disproportionate harm they cause. We refer to these weapons as 'Controversial weapons' and it includes the following weapon types: anti-personnel mines, cluster munitions, biological weapons, chemical weapons and nuclear weapons," Erik Eliasson, Head of Responsible Investment, Danske Bank Asset Management says.

Although no reference is made by Danske Bank's "Responsible Investment Instruction"[4] to conventional weapons, Eliasson does single out another category." The restriction of "Military equipment" (i.e. equipment that have been developed, designed or modified for military use based on military specifications, covering both combat equipment as well as other military equipment with non-lethal functionality) is part of our efforts to reduce activities within non-ethical/controversial areas and is as such offered to customers that share these specific values. From a fund perspective only a limited range of products are subject to these kind of value based restrictions. We are in constant dialogue with the client base in order to calibrate the definitions and criteria and do also survey them from time to time. It is not unlikely that we will review certain aspects of this restriction area in the future; it could for instance potentially be the case that this client segment would like to be financially exposed to an area that they feel is of great value from a national/ sovereign perspective," Eliasson adds.

Eric Pedersen, Head of Responsible Investments at

3 https://altor.com/app/uploads/2022/04/20220404-altor-rio-policy.pdf
4 https://danskebank.com/-/media/danske-bank-com/file-cloud/2021/3/danske-bank---responsible-investment-instruction-2021.pdf

"We are in constant dialogue with the client base in order to calibrate the definitions and criteria and do also survey them from time to time."

Nordea Asset Management at Nordea Asset Management, chooses to highlight the continuity of criteria. "Our policies remain as they have been all the time: We exclude companies involved in controversial weapons, including nuclear weapons, from all our funds – and we exclude the arms manufacturers that are left from our flagship ESG funds, including our Art 9's, our ESG STARS funds, and funds with the word "sustainable" in the name. For other funds, including some Art 8's, we can in principle hold defense companies – but then you have to find some that do not have serious controversies attached, and that is not easy," Pedersen explains.

"Even if they are necessary in some situations [...] you cannot really argue that, as a thing in itself, a weapon does not do any harm"

Eric Pedersen
Head of Responsible Investment
Nordea Asset Management

Erik Eliasson
Head of Responsible Investment
Danske Bank Asset Management

"We believe that the typical end-investor into a fund that specifically markets itself on its ESG or sustainability profile, will not expect to find arms manufacturers as part of the portfolio. Military weapons are designed to kill, and unfortunately they do not discriminate between who they kill. So even if they are necessary in some situations – and right now with the invasion of Ukraine by Russia that this is clearly very much the case – you cannot really argue that, as a thing in itself, a weapon does not do any harm," Pedersen continues

"It's a little bit like Oil & Gas in the current situation: Just because there are very good reasons to find sources for it that are independent of Mr Putin, and especially gas can be said to be very much needed in Europe in the short term, that does not make it sustainable. Yes, we all agree that you need to burn it to keep warm and keep the factories running, but you are harming future generations through climate change – and that harm goes directly against the very definition of sustainability," Pedersen argues.

No Criteria for Conventional Weapons

Other investors, do not apply revenue thresholds on weapon investments to every one of their funds. "At Coeli, we manage assets for our clients across several different asset classes and investment strategies. Each fund manager is responsible for their strategy, and they actively consider material environment, social, governance, and ethical matters within their investment process and decision-making. Across the

"Regarding defence industry and conventional weapons, there are different views, where some of our funds do not consider an investment in a defence company controversial in any way, whereas others do not buy companies in the arms industry."

range of strategies and funds, Coeli refrains from investing in controversial weapons such as APM and cluster munitions," Ulrika Hasselgren, Chief Sustainability Officer at Coeli.

"However, regarding defence industry and conventional weapons, there are different views, where some of our funds do not consider an investment in a defence company controversial in any way, whereas others do not buy companies in the arms industry, e.g., aircraft, radar, communications, etc. that have more than 5% of their turnover towards the customers," Hasselgren adds.

Janicke Scheele, Head of Responsible Investments at DNB Asset Management echoes a similar view. "Regarding weapons we have made a distinction between controversial and conventional (typically defence) weapons. DNB has a Group Standard for Responsible Investments that applies to all financial investments and covers all asset classes. We have strict guidelines and exclude companies involved in production of controversial weapons from all portfolios," Scheele explains.

"Regarding conventional weapons we do not have a general exclusion criteria that applies to all assets like we do for controversial weapons. However, we do have some funds that, in addition to general exclusion criteria in the Group standard for Responsible Investments that applies to all AUM, also excludes production of alcohol, gambling and conventional weapons. These funds are targeted for clients that do not want to be invested in these areas," she adds.

Weapon's Complex Web

"Weapons manufacturing is a complex and broad area, and this is reflected in our policies, where we apply two levels of ESG criteria," Kamil Zabielski - Head of Sustainable Investment at Storebrand. "At a

Ulrika Hasselgren
Chief Sustainability Officer
Coeli

first level, controversial weapons are an absolute no-go zone for us. The Storebrand Standard, which guides basic investment policy for all our funds, rules out any investment in controversial weapons. This means weapons that intrinsically violate international humanitarian law - and are not justifiable even for defensive purposes. Some examples of these are: nuclear weapons, anti-personnel mines, cluster munitions and the fast-emerging category of lethal autonomous weapons systems (LAWS). The web of involvement in controversial weapons is broader than many people realize, such as in our recent exclusions of Adecco Group and Doosan.

Secondly, some of our funds apply enhanced ESG exclusion criteria that further rules out investment in weapons of any type at all, whether controversial or conventional. This enhanced policy applies to slightly more than half of our funds, 48 out of 93 in total.

"Currently, we have excluded a total of 29 companies on the controversial weapons criteria, and a total of 64 companies under the enhanced criteria for conventional weapons.The practical outcome of this policy is that in the rest of our funds which do not explicitly exclude conventional weapons, we have we have some limited exposure to weapons manufacturing," Zabielski continues.

Storebrand's logic is to "aim to solve what's actually a complex ethical challenge, as well as to respond to the needs of some customers who have strong and clear preferences to avoid weapons investment entirely,

Janicke Scheele
Head of Responsible Investment
DNB Asset Management

Zabielski explains. "The more straightforward parts are that: controversial weapons are illegal under international humanitarian law; and there is an established constituency of clients who have a clear market preference to not invest in weapons," he adds.

"We have not chosen to go further and entirely rule out conventional weapons from the rest of our funds, because of the legal conventions surrounding the use of weapons."

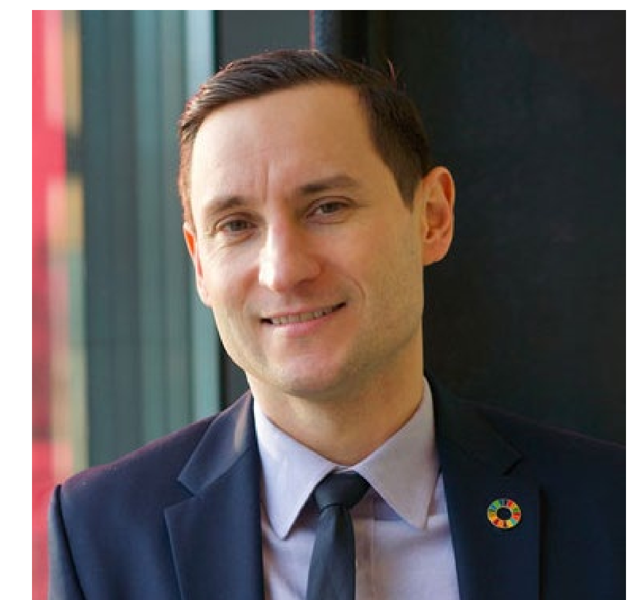
"We have not chosen to go further and entirely rule out conventional weapons from the rest of our funds, because of the legal conventions surrounding the use of weapons. In particular, Article 51 of the UN Charter, which on the one hand; states that nations have the right to utilize weapons to defend themselves against an armed attack; yet also states that nations must regulate any such defensive actions accordance with UN conventions and the Geneva Convention on how the weapons may be used, and establishes a responsibility to do everything in their power to resolve disputes peacefully. This sets up a situation where, while the use of conventional weapons clearly isn't desirable, there are legitimate grounds for their manufacture and deployment, if well-regulated and limited to only what is necessary to

"Regarding conventional weapons we do not have a general exclusion criteria that applies to all assets like we do for controversial weapons."

maintain basic security, rather than for offensive purposes. Conventional weapons are not sustainable, but within the limited and controlled use cases we have just described, they can be classified similarly to typical investments.

We therefore believe that conventional weapons can be investable for some funds, even though they don't promote sustainability," Zabielski argues.

"It's important to distinguish between what is defined as a sustainable investment/company (which the EU taxonomy is now establishing), versus what is defined as sustainable methods/strategies for investment. For many of our funds, the companies we invest in, do not necessarily actively promote sustainability - but that doesn't make them non-investable. We therefore must apply various methods (such as exclusion, integration and active ownership), as a way to assess and reduce exposure to the inherent risks, and engage with companies to try to influence them," Zabielski concludes.



Kamil Zabielski
Head of Sustainable Investment
Storebrand

Ann-Sofie Odenberg
Head of Sustainability
Brummer & Partners

The Hedge Fund View

Brummer & Partners, a hedge fund manager, does not deviate from the other asset managers# consensus. "Weapons are covered in our Responsible investment policy when their production and use is prohibited by international legal instruments, or deemed particularly controversial because of their indiscriminate effects and the disproportionate harm they cause (so called controversial weapons). We are assisted by ISS-ESG who has developed and maintain a methodology to identify relevant corporate involvement in certain weapons categories. Corporate involvement in relevant weapon programs encompasses companies involved in complete weapon systems, relevant components, or servicing of these systems,"

Ann-Sofie Odenberg, Head of Sustainability at Brummer & Partners explains.

"Technical definitions of weapons and involvement as given in relevant conventions are used where available, such as for anti-personnel mines and cluster munitions in the Mine Ban Treaty and in the Convention on Cluster Munitions. There is a zero revenue threshold and our criteria covers the following types of weapons categories: anti-personnel mines, biological weapons, chemical weapons, cluster munitions, depleted uranium ammunition and armour as well as nuclear weapons. We avoid both long and short exposures to such companies across direct equities and bonds, as well as derivatives such as options and warrants

"Controversial weapons are also avoided by many of our clients, especially Nordic clients. Therefore, we have decided to avoid both long and short exposure to companies involved in controversial weapons."

where one single underlying issuer can be identified," Odenberg continues.

"Brummer Multi-Strategy (BMS) and the alternative investment strategies that BMS invests in, do not exclude investments in so called conventional weapons. We do not treat such investments as "ESG" or "sustainable investments", nor do we treat them as "unsustainable", that is, we do not label it. Conventional weapons can be a lot of different things, with dual purpose or not. We do acquire ESG data and research related to potential investee companies' exposure to conventional weapons, for example military equipment and services, but we do not label them as either sustainable or unsustainable. However, we do categorise controversial weapons as unsustainable," Odenberg explains.

"Controversial weapons constitute material ESG risks and they are also something we wish not to be

Emma Englén
Sustainability Manager
Spiltan

"We consider national defence not only ethical, but also a core responsibility of the state. We aim to support the Nordics with the infrastructure needed for this. This includes police stations, defence buildings and prisons just to give a few examples."

involved in. Further, controversial weapons are also avoided by many of our clients, especially Nordic clients. Therefore, we have decided to avoid both long and short exposure to companies involved in controversial weapons," Odenberg continues argues.

The Equal Excluder

While some investors chose to only focus on controversial weapons, Spiltan appears to draw no distinction and exclude all of them equally. "In 2020, Spiltan Fonder adopted a stricter approach regarding exclusions for all our funds. Our funds do not invest in companies having >5% of its turnover referring to activities attributable to weapon, gambling, cannabis, pornography, tobacco, alcohol, and fossil fuels. Weapon includes any company manufacturing or selling weapons (or related critical components)," Emma Englén, Sustainability Manager at Spiltan explains.

"Our customers/investors are most important to us, and our 'weapon-free funds are highly requested. We have made a promise to our customers/investors accordingly and have no plans of making changes to our policy. Investments in the defence industry is complex, and the likelihood of such i.e., sales to counterparties violating international laws, agreements, and standards in terms of business ethics and human rights, is considered as high risk of non-compliance with our policy. Additionally, we continuously review and evaluate our investment criteria to ensure compliance with changes in the business environment and legal requirements," Englén concludes.

Investing in Defense Infrastructure

SBB Norden's view on this topic stands out and is informed by its sectoral focus. "We are in the business of property development and management, specifically social infrastructure. We do not have a policy with regards to weapons manufacturing for instance, because it is outside of our investment scope," Martin Andersson, sustainability analyst at SBB Norden explains.

Echoing Pabriks' comments, Andersson asks how national defence can be considered unethical. "We consider national defence not only ethical, but also a core responsibility of the state. We aim to support the Nordics with the infrastructure needed for this. This includes police stations, defence buildings and prisons just to give a few examples. We consider this task just as important as providing access to healthcare, schools, elderly care, and housing. Therefore, we believe that this kind of infrastructure should be considered to significantly contribute to the sustainability agenda set out by the SDGs," Andersson says.

Andersson points towards SDG Targets 16 which call on investors to promote the rule of law and to strengthen relevant national institutions to prevent violence and combat terrorism and crime as supporting SBB Norden's stance.

"In our current Sustainable financing framework, we have omitted some of these categories (police stations for instance) from the list of social assets aligned with the SDG's because our third-party opinion provider did not agree that these were sustainable at the time. We believe that this will change and that we can recognize all necessary social infrastructure to this framework," Andersson concludes.

Martin Andersson
Sustainability Analyst
SBB Norden

about our partners

NEUBERGER | BERMAN

Neuberger Berman was founded in 1939 to do one thing: deliver compelling investment results for our clients over the long term. This remains our singular purpose today, driven by a culture rooted in deep fundamental research, the pursuit of investment insight and continuous innovation on behalf of clients, and facilitated by the free exchange of ideas across the organization.

As a private, independent, employee-owned investment manager, Neuberger Berman is structurally aligned with the long-term interests of our clients. We have no external parent or public shareholders to serve, nor other lines of business to distract us from our core mission. And with our employees and their families invested alongside our clients–plus 100% of employee deferred cash compensation directly linked to team and firm strategies–we are truly in this together.

From offices in 37 cities across 25 countries, Neuberger Berman manages a range of equity, fixed income, private equity and hedge fund strategies on behalf of institutions, advisors and individual investors worldwide. With more than 669 investment professionals and over 2,500 employees in total, Neuberger Berman has built a diverse team of individuals united in their commitment to client outcomes and investment excellence. Our culture has afforded us enviable retention rates among our senior investment staff and has earned us citations as first or second (among those with 1,000 or more employees) in the Pensions & Investments "Best Places to Work in Money Management" survey each year since 2014.

NN Investment Partners is an asset manager headquartered in The Hague, the Netherlands and manages approximately EUR 282 bln* (USD 314 bln)* in assets for institutions and investors worldwide. NN Investment Partners employs over 900 staff and has offices in 15 countries, servicing clients across Europe, North America, Latin America, Asia and the Middle East.

NN Investment Partners is part of Goldman Sachs Asset Management.

* Figures as of 31 March 2022

Stewart Investors

Founded in 1988, Stewart Investors run Worldwide, Emerging Markets, Asia-Pacific, European and Indian Sub-continent equity investment strategies. Pioneers of sustainable investing, the Group launched its first sustainability fund in 2005, and to this day sustainability remains integral to their investment process. They believe companies that deliver benefits to society and the environment face fewer risks over the long term and are therefore better placed to deliver positive returns to shareholders.

Their investment philosophy centres around the principle of good stewardship - careful, considered and responsible management of client's funds - with sustainability at the heart of this process. Every member of the investment team is a sustainability analyst in their own right, and are sworn to a strict code of conduct known as the Hippocratic Oath. By signing, they pledge to uphold the principle of stewardship through their conduct, and commit to always act in the interests of clients and society.

UBS Asset Management is a large scale investment manager with a presence in 23 countries. We offer investment capabilities and investment styles across all major traditional and alternative asset classes.

Our goal is to provide you with access to the best investment ideas and superior investment performance. We serve institutions, wholesale intermediaries and wealth management clients.

Across each of our traditional investment areas we have established a general approach to environmental, social and corporate governance. We are signatories to initiatives such as the Principles for Responsible Investment and the UK Stewardship Code.

ESG Integration
Case Book 2022
May 2022

GENERAL TERMS AND CONDITIONS

These are the terms and conditions which govern the use of NordSIP Insights, an online magazine edited and distributed electronically and owned, operated and provided by Big Green Tree Media AB (the "Editor"), Corporate Number: 559163-7011, Kungsgatan 8, 111 43 Stockholm, Sweden.

DISCLAIMERS AND LIMITATIONS OF LIABILITY

1. The Content may include inaccuracies or typographical errors. Despite taking care with regard to procurement and provision, the Editor shall not accept any liability for the correctness, completeness, or accuracy of the fund-related and economic information, share prices, indices, prices, messages, general market data, and other content of NordSIP Insights ("Content"). The Content is provided "as is" and the Editor does not accept any warranty for the Content.

2. The Content provided in NordSIP Insights may in some cases contain elements of advertising. The editor may have received some compensation for the articles. The Editor is not in any way liable for any inaccuracies or errors. The Content can in no way be seen as any investment advice or any other kind of recommendation.

3. Any and all information provided in NordSIP Insights is aimed for professional, sophisticated industry participants only and does not represent advice on investment or any other form of recommendation.

4. The Content that is provided and displayed is intended exclusively to inform any reader and does not represent advice on investment or any other form of recommendation.

5. The Editor is not liable for any damage, losses, or consequential damage that may arise from the use of the Content. This includes any loss in earnings (regardless of whether direct or indirect), reductions in goodwill or damage to corporate.

6. Whenever this Content contains advertisements including trademarks and logos, solely the mandator of such advertisements and not the Editor will be liable for this advertisements. The Editor refuses any kind of legal responsibility for such kind of Content.

YOUR USE OF CONTENT AND TRADE MARKS

1. All rights in and to the Content belong to the Editor and are protected by copyright, trademarks, and/or other intellectual property rights. The Editor may license third parties to use the Content at our sole discretion.

2. The eader may use the Content solely for his own personal use and benefit and not for resale or other transfer or disposition to any other person or entity. Any sale of Contents is expressly forbidden, unless with the prior, explicit consent of the Editor in writing.

3. Any duplication, transmission, distribution, data transfer, reproduction and publication is only permitted by

i. expressly mentioning Nordic Business Media AB as the sole copyright-holder of the Content and by

ii. referring to the Website www.nordsip.com as the source of the information provided that such duplication, transmission, distribution, data transfer, reproduction or publication does not modify or alter the relevant Content.

4. Subject to the limitations in Clause 2 and 3 above, the reader may retrieve and display Content on a computer screen, print individual pages on paper and store such pages in electronic form on disc.

5. If it is brought to the Editor's attention that the reader has sold, published, distributed, re-transmitted or otherwise provided access to Content to anyone against this general terms and conditions without the Editor's express prior written permission, the Editor will invoice the reader for copyright abuse damages per article/data unless the reader can show that he has not infringed any copyright, which will be payable immediately on receipt of the invoice. Such payment shall be without prejudice to any other rights and remedies which the Editor may have under these Terms or applicable laws.

MISCELLANEOUS

1. These conditions do not impair the statutory rights granted to the readers of the Content at all times as a consumer in the respective country of the reader and that cannot be altered or modified on a contractual basis.

2. All legal relations of the parties shall be subject to Swedish law, under the exclusion of the UN Convention of Contracts for the international sale of goods and the rules of conflicts of laws of international private law. Stockholm is hereby agreed as the place of performance and the exclusive court of jurisdiction, insofar as there is no compulsory court of jurisdiction.

3. Insofar as any individual provisions of these General Terms and Conditions contradict mandatory, statutory regulations or are invalid, the remaining provisions shall remain valid. Such provisions shall be replaced by valid and enforceable provisions that achieve the intended purpose as closely as possible. This shall also apply in the event of any loopholes.