



WORLDWIDE  
ASSET MANAGEMENT



# ESG Report

Nordic Equities

Q2 2022



## ESG Philosophy

### Core Beliefs

Our active approach to the stewardship of investments ensures ESG commitment

We emphasize active ownership to influence positive change and progress

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

Prioritising pro-active engagement rather than excluding and divesting

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

### Our actions

Engaging directly with and voting on investee companies

Researching ESG factors is fully integrated into our overall investment approach

Materiality ensures that we prioritise what matters most

Extensive screening to ensure norm-based alignment

# C WorldWide Nordic Equities

## Quarterly Comments

The second quarter of 2022 may not have been as eventful as the first, but nonetheless, the ESG agenda never stands still. We continue to see countries around the world establishing and implementing ESG regulations, from climate reporting in the US to general ESG disclosure requirements in China.

More locally, we participated in the annual Nordic Sustainable Investment Forum (SIF) conference that this year was held in person in Iceland. Following two years of virtual meetings and conferences this was a welcomed change. The key topic for the sustainability conference was "The Ocean". The obvious choice from a fishing nation like Iceland that depends on the ocean surrounding the country to survive. Nonetheless, the conference addressed everything ESG-related to the ocean, such as biodiversity, climate change, healthy living, and future food and the challenges and opportunities within these areas.

Projected increasing ocean temperatures will likely result in changes in the distribution of marine species and can significantly influence the reproductive cycles of fish. Pressures on coastal and marine biodiversity continue to increase. As per the UN, an estimated 40% of the world's population lives within 100 km of the coast, putting an unsustainable strain on coastal resources. The human population is projected to increase to close to 10 billion people by 2050, bringing increasing pressure to marine and coastal resources. Interestingly, oceans have absorbed as much as half of all human-caused carbon emissions over the past two centuries. "Blue carbon" ecosystems such as mangroves, seagrass beds, tidal marshes and other marine and coastal vegetated ecosystems are among the most intense carbon sinks on the planet.

However, although the ocean is 70% of the planet Earth, little focus is on this from an investment opportunities angle. When discussing biodiversity, many instantly think of deforestation and the loss of fertile lands. We have previously discussed biodiversity impact and frameworks available to monitor and assess data and found that coverage was still quite limited. Today, we still see only a minor part of portfolio companies disclosing water-related reporting figures. This is according to the CDP, which collects corporate data and rates corporates within three environmental areas: climate change, forests, and water security. Respectively, 17 of the 30 companies in the nordic equity portfolio report to and are scored by CDP on water, but only 2 have an A-rating. This highlights the continued challenge of sufficient and reliable data to properly assess from an investment perspective. But despite this, we see some interesting long-term trends within the ocean as a topic that could prove relevant for investment themes in the future.

During the quarter, we updated our climate approach and commitments to more initiatives. We officially support and are a member of the TCFD and Climate Action 100+; to add to these initiatives, we joined the Net Zero Asset Managers (NZAM) in June of this year. NZAM is an international group of asset managers committed to supporting the goal of net-zero GHG emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5C degrees. The key focus of the initiative is not to exclude investee companies but rather to engage with investee companies to take part in the transition needed. This is fully aligned with our current approach. Within the next 12 months, we will set specific targets aligned with the NZAM initiative based on recognised frameworks such as the Science-based Targets Initiative (SBTi).



## Investment Screenings

### Sanctions Screenings

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

### Norms-Based Global Standards Screenings

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

### Investment Exclusions

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

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

## Portfolio Changes

During the quarter, we bought the Danish company GN Store Nord, which consists of two businesses, GN Hearing and GN Audio.

GN Hearing offers hearing aids, competing globally with Sonova, Demant, Starkey, Sivantos, and Widex. GN Audio provides headsets and speakerphones to the enterprise market (contact centres and offices), as well as to the consumer market, and recently acquired SteelSeries in the gaming market.

ESG focus for GN Store Nord is mainly concentrated on the "S" and "G", as environmental issues are not as crucial for an innovation-driven organisation, whereas R&D and sales play a significant role. We have noticed that GN has stepped up on ESG in recent years. For example, their CSR work has moved from the communication department to the risk/compliance department, and GN has moved from reactive to proactive in its ESG work.

As we advance, our ESG focus will be on product governance, including unsafe features, insufficient transparency, misleading marketing, suppliers living up to GN's code of conduct, and turnover among executives and the R&D department.

## Direct Engagements

During the second quarter of 2022, we engaged with several companies, including Atlas Copco, and SalMar.

### Atlas Copco

In the meeting with Atlas Copco's Vice President Sustainability, we discussed its process by outlining its decarbonisation strategy and setting climate targets since committing to the SBTi. Waste management, recycling and upcycling programmes are also a crucial part of Atlas Copco's sustainability framework. Their key KPI is 100% recycling. A key topic for the meeting was the discussion regarding Atlas Copco's business ethics practices, a field where they have strong policies and very detailed disclosures. Nevertheless, allegedly Atlas Copco has had practices where equipment was sold to or used by the Russian military. A practice that should not be possible shows signs that procedures have not been followed. A detailed investigation is taking place internally to address the incident thoroughly and prevent anything similar from happening again. We also discussed attracting and retaining women to the workforce. Atlas Copco has a target of 30% women by 2030, but due to a somewhat decentralised organisation, it is challenging to have the same increase across different divisions. Atlas Copco tries to combat this by D&I programs fitted to different divisions and markets, where local legislation can play in. Additionally, they offer more flexible working hours, female focus in engineering in the local community, e.g., Mexico, and having Atlas Copco Group meetings to share initiatives to develop and attract across divisions.

### SalMar

The meeting with SalMar's Head of Investor Relations was to get an update on SalMar's ESG work and ambitions within Sustainability. We also wanted to get an idea of how close fish farming is to becoming a part of the EU taxonomy, how well-positioned SalMar is, and what it will mean to the entire fish farming industry.

SalMar's Head of Investor Relations was convinced that fish farming will become in scope for the taxonomy. Today, the industry and SalMar are closely aligned with the demands to become a part of the EU taxonomy. Still, the negotiations with the EU go on via governmental talks, and SalMar is unaware of the timeline. Suppose the industry keeps progressing on biodiversity, fish escape and use less or no antibiotics. In that case, the fish farming industry stands in a strong position in relation to the taxonomy, with its low CO<sub>2</sub> footprint and high feed conversion rate compared to other protein producers like beef, pork and chicken.

SalMar has committed to the SBTi and will meet up with them in August to hopefully get their approval. Most of the improvements will be within scope 3, as they account for



97% of CO<sub>2</sub> emissions, mainly from feed and transport. SalMar is already discussing with its suppliers how to reduce emissions. SalMar aims to bring down scope 3 by 42% in 2030.

Overall, SalMar seems to be doing a good job within ESG. We think it is strange that they haven't signed UN Global Compact, although they do follow the principles. A newly hired Head of Sustainability will hopefully help that situation soon.

## **Proxy Voting**

As always, Q2 is the peak proxy voting period. Most of our holdings held AGMs throughout the quarter, and again a decent amount of shareholder proposals were suggested across markets and industries.

### **Atlas Copco**

Contrary to ISS recommendations, we voted for the election of directors to the board following a discussion on independence and potential overboarding with representatives from the nomination committee. As for chairman Bohman, he is regarded as an independent board member according to regulations and why we voted for the re-election; however, Bohman is 73, and by the time for his replacement, we would encourage the nomination committee to replace him with a candidate with an even more apparent independence. We also voted for the election of the other directors to the board.

### **Storebrand**

We supported ISS in voting against the approval of remuneration policy, thus against management. The proposed remuneration policy is broadly in line with market practice. Still, the CEO is entitled to up to 24 months of severance pay after the notice period of six months, leading to total potential termination benefits equal to 30 months. This is not in line with market practice.

### **Scatec Solar**

We agree with ISS, thus against management. We voted against the remuneration strategy and statement as Scatec's incentive programs are measured shorter than 3 years, some down to 1 year, and it seems that bonuses are sometimes paid on a discretionary basis, where KPIs are not mentioned.

We also agree on voting against proposals concerning share purchase program authorisations that may be used under circumstances that enable a company to use capital to thwart takeovers.

### **Bravida Holding**

We vote with ISS, thereby against management. We believe that the election of Fredrik Arp as chairman of the board would lead to overboarding as Mr Arp is chairman of three other public companies.

### **SalMar**

We agree with ISS, thereby voting against management and the proposal on approval of a share-based incentive plan. We believe it does not include enough details regarding the performance conditions that must be fulfilled, and the vesting period is below three years. SalMar does say that 1/3 is that EBIT/kg fish has to be beyond benchmark in the sector, which as such is ok, while another 1/3 is that total shareholder returns must exceed a peer group, but that peer group is not revealed. Furthermore, the last 1/3 is discretionary without any targets.

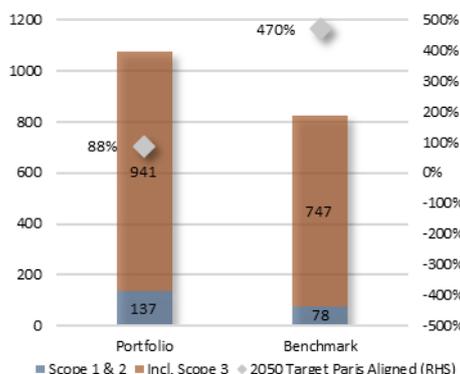
### **Munters Group**

We voted against ISS recommendation and thereby approved the changed remuneration policy. The policy consists of both long- and short-term goals. ISS is against the short-term variable bonus, which maximises 50% of the salary.

# C WORLDWIDE NORDIC EQUITIES

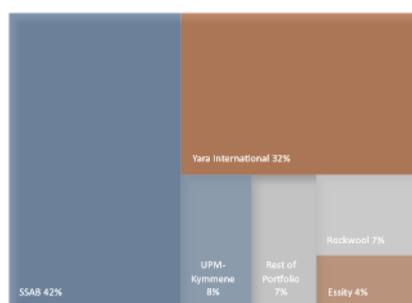
Sustainalytics Portfolio Risk Rating: 20.9

## Emissions Exposure & SDS (tCO<sub>2</sub>e)

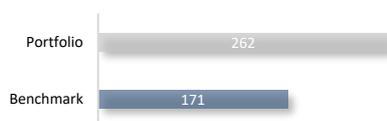


The above graph summarises the portfolio's carbon footprint compared with the benchmark. The Sustainability Development Scenario (SDS) pathway on the right-hand side of the graph is fully aligned with the Paris Agreement. The graph indicates whether the portfolio and benchmark are expected to over-/undershoot against the allocated carbon budget until 2050.

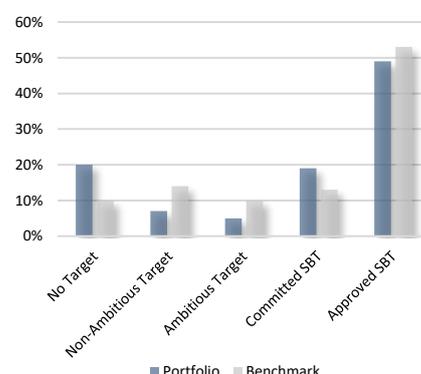
## Top 5 Contributors to Portfolio Emissions



## Carbon Intensity (tCO<sub>2</sub>e/mill. USD revenue)



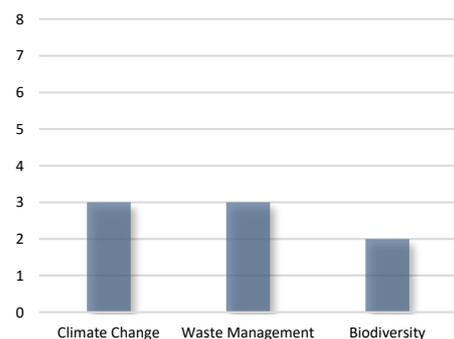
## Climate Target Assessment



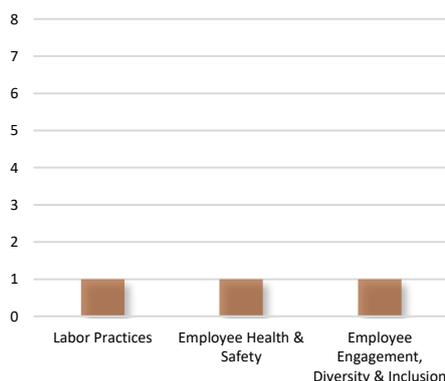
The above graph shows how many of the companies in the portfolio have set climate targets and how ambitious these are. Having ambitious targets, being committed to Science-Based Targets (SBT) or having approved SBT shows close alignment with the Paris Agreement.

## Direct Engagement Topics

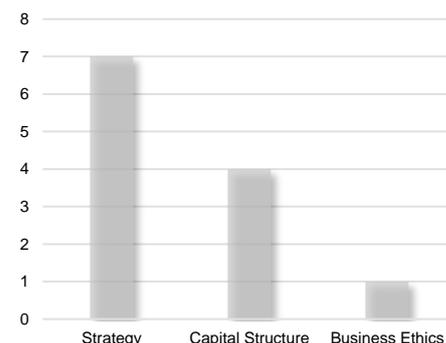
### Environment



### Social



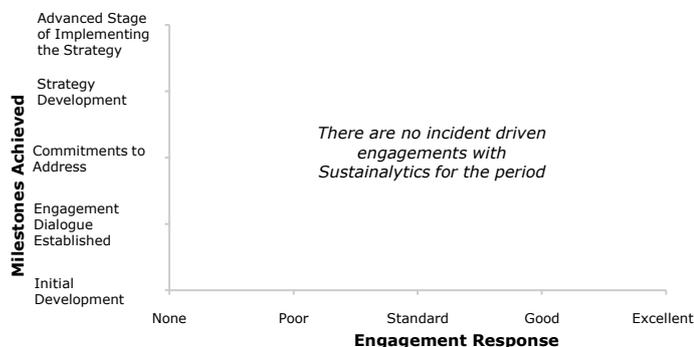
### Governance



**Total direct company engagements for the portfolio: 8**

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

## Collective Engagement



The above graph illustrates our collective engagements with Sustainalytics. The companies are shown within what milestone they have reached thus far and rated according to their communication in relation to the specific engagement topic.

## Proxy Voting

Meetings Voted	100%	22
Proposals Voted	100%	606
Meetings with at Least One Vote Against Management	55%	
Proposal Categories (Top 3)	37%	Routine/Business
	29%	Directors Related
	22%	Director Election

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

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