

# Not sustainable is not an option for institutions

To see how Nordic institutional investors approach sustainability today, we have made an in-depth study of 63 of the region's biggest institutions, with aggregate assets under management of EUR 2.8 trillion. We have categorised every fund of these institutions, using a simple scale, and find that 99% of total Nordic institutional AuM falls under some form of ESG policy. Moreover, the level of ambition and sophistication for these policies is increasing. We argue that it may be difficult for corporate issuers with poor ESG scores to get access to equity or bond funding at all in the future.

*April's Nordea On Your Mind reviewed corporates, how much ESG failures have cost listed Nordic companies in the past five years*

*In this edition, we look at how Nordic institutional investors approach ESG and sustainability*

*Anecdotal evidence of increased institutional ESG focus: the number of ESG specialists invited to events by Nordea Equities has risen more than threefold in three years*

## **We analyse the biggest Nordic institutions for ESG ambition**

In the April Nordea On Your Mind, *Going green and coming clean*, we took a look at ESG (environmental, social and governance) from a corporate and commercial perspective. We reviewed what ESG-related failures and incidents had actually cost shareholders of listed Nordic companies over the past five years. As the costs proved substantial, we concluded that, apart from wanting to show good corporate citizenship and give a positive contribution to society, it makes very strong financial sense for companies to perform strongly on ESG.

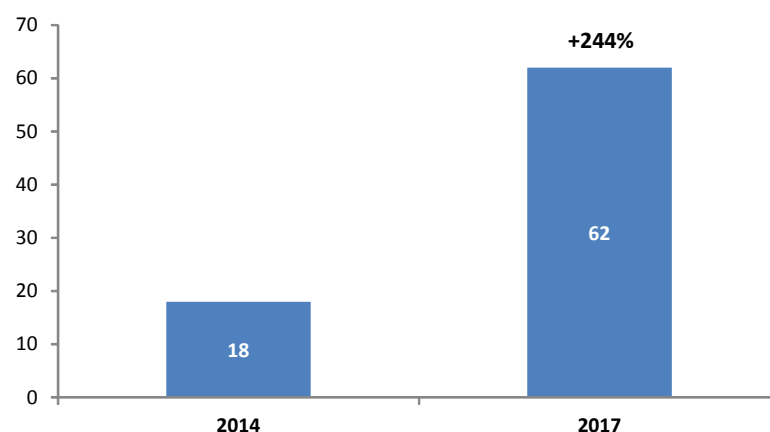
This time, we will take a closer look at ESG from the point of view of institutional investors. With the help of Nordea's FIG (Financial Institutions Group), we have selected 63 of the biggest, most important Nordic institutions, which we believe together represent the overwhelming majority of total institutional assets under management in the Nordics. We analyse this sample of institutions, to give us a snapshot of how Nordic AuM currently look in terms of asset type, what share of assets fall under some sort of ESG or SRI (socially responsible investments) policy, and how sophisticated or ambitious such policies are.

In addition to looking at the AuM and investment policies incorporating sustainability, we wanted to get a feel for how institutional commitment to sustainability has evolved over the past five years in terms of focus and manpower. This can be tricky to measure, so we decided to get a rough idea by looking at a limited sample of institutions. We opted for two different samples from Sweden, the biggest market in the Nordics for institutional investments.

## **Sharply rising number of ESG specialists at institutions**

Our first illustration is from within Nordea. Having talked to our colleagues in Equity Sales, we became curious how institutional investor client interest seen in Nordea Equities in Sweden has evolved in recent years. Nordea Equities is hosting events for clients on an almost daily basis, including quarterly results presentations by management, field trips, seminars, etc. Some of these events are ESG- or sustainability-themed events. For these, there is a specific invitation list of individuals who are dedicated ESG specialists or have a specific interest in ESG among the institutions. The first such ESG-specific invitation list was created in 2014, comprising 18 people. Today, the list has grown to include 62 people – impressive growth of 244% in the number of dedicated (or at least specifically interested) individuals in three years!

Number of invitees with specific ESG interest to Nordea Equities events in Sweden

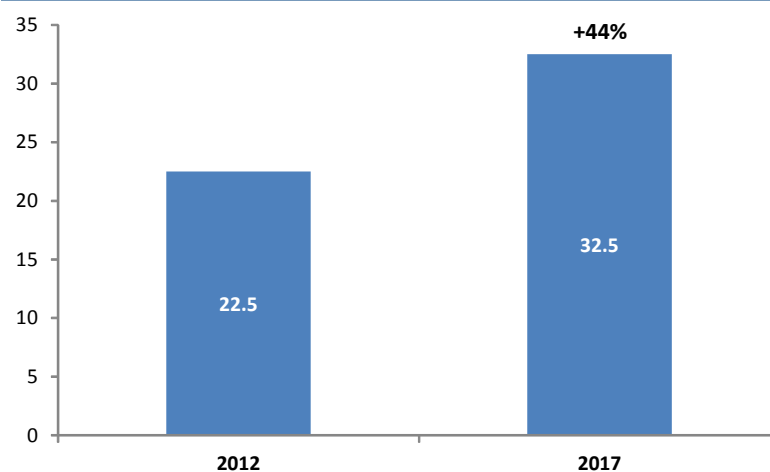


Source: Nordea Markets

*The number of dedicated ESG specialists at 11 of Sweden's biggest institutions has increased 44% since 2012*

Our second illustration is a summary of the number of dedicated ESG specialists working at 11 of the biggest Swedish equity institutions, which together probably represent more than two-thirds of total institutional equity AuM in Sweden today. We compared the number of staff specifically assigned to working with ESG issues in 2012 and in 2017, finding it has increased by 44% from 22.5 to 32.5.

Number of dedicated ESG specialists at top 11 Swedish institutions up 44% since 2012



Source: Company data and Nordea Markets

*At nine out of 11 institutions, each fund manager also has explicit ESG responsibility*

We acquired the information on the number of specialists from the institutions themselves, and we would argue that the underlying change in focus on ESG and sustainability is even greater than the 44% increase in dedicated staff suggests. Nine out of the 11 institutions have introduced an explicit ESG responsibility for each fund manager, who must ensure that the institution's sustainability policy for investing is followed, but can get advice and support from specialists. One of the nine institutions with fund manager responsibility for ESG even had this in 2012, while the other eight have introduced it sometime in the past five years.

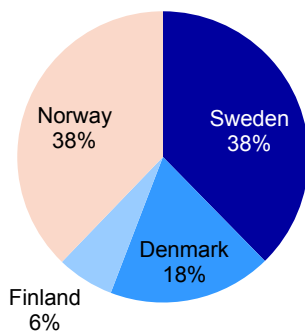
*Our sample of 63 top Nordic institutions had AuM of EUR 2.8tn as of end-2016 (of which Norway's sovereign oil fund represented 29%)*

**Nordic institutional AuM by country and asset type**

Our sample of 63 major Nordic institutional asset managers had aggregate AuM of just over EUR 2.8 trillion as of year-end 2016, and we believe this sample is, for all intents and purposes, a good representation of the total Nordic institutional space. A full breakdown of the 63 Nordic institutions, ranked by AuM, can be found at the end of this section. As the Norwegian oil fund (*Statens Pensjonsfond Utlandet*) is so large, representing almost 29% of total AuM in our sample, in some illustrations we show our data both including and excluding the oil fund (which does not invest in Norwegian domestic securities).

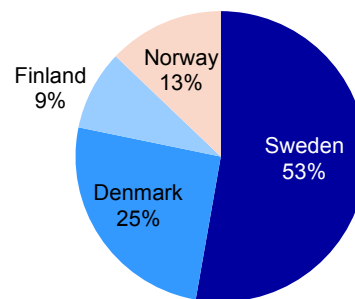
Looking by country, we think it most relevant to use the breakdown excluding the Norwegian oil fund to see the underlying national split of assets under management. Sweden represents about 50% of the market, Denmark 25%, and the final quarter is split between Finland and Norway (again excluding the oil fund), with Finland being a bit smaller than Norway.

Total Nordic AuM by country (including Norwegian oil fund) – 2016



Source: Company data and Nordea Markets

Total Nordic AuM by country (excl Norwegian oil fund) – 2016

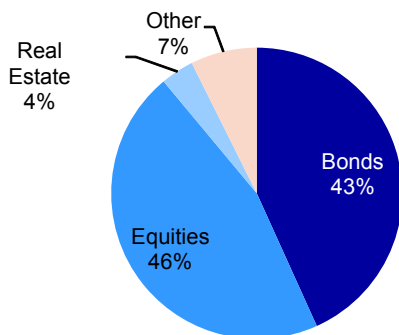


Source: Company data and Nordea Markets

*Nordic institutional AuM split 47% bonds, 39% equities, 4% real estate and 10% other assets*

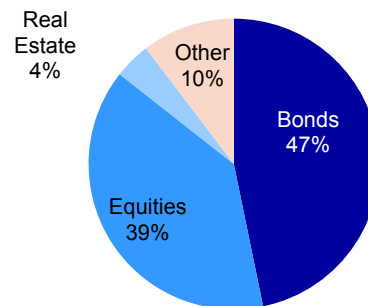
When we look at the breakdown by asset type, we again believe it most appropriate to exclude the equities-heavy Norwegian oil fund. Excluding it, total AuM are split 47% bonds, 39% equities, 4% real estate and 10% other assets. We have made our own categorisation for each institution's reported asset breakdown, typically including short-term fixed income securities such as treasury bills and time deposits as bonds. Other assets include direct loans, private equity funds and direct infrastructure investments.

Total Nordic AuM by asset type (incl Norwegian oil fund) – 2016



Source: Company data and Nordea Markets

Total Nordic AuM by asset type (excl Norwegian oil fund) – 2016



Source: Company data and Nordea Markets

*No major change in Nordic institutional asset mix since 2012*

There have been no major changes in the total breakdown by asset type between 2012 and 2016. The only really notable change on the aggregate level is that equities have increased as a share of the total by a few percentage points, at the expense of bonds. We suspect this is both a function of deliberate weighting changes in some portfolios, as institutions hunt for yield in an ultra-low interest rate environment, and a function of buoyant stock markets in the past few years raising values of share portfolios.

**ESG policies now almost universal for Nordic institutions**

Next, we have tried to determine how much of institutional assets under management fall under some form of sustainability policy, how ambitious and sophisticated such policies are, and if they have become more widespread between 2012 and 2016.

*We have split institutional ESG policies into four categories, ranked by level of ambition/sophistication*

We have put a major effort into this analysis, checking asset splits and policies on the individual fund level for all of the 63 Nordic institutions included in our study. There is no standard for defining sustainability policies, whether they are called SRI, sustainability or ESG. To be systematic, and to be able to give at least a rough categorisation that can offer a reasonable indication of where the institutions are from a sustainability point of view in their asset management, we have put each fund's policy into one of four categories we define:

- No screening
- Negative norm-based screening
- Negative screening and voting engagement
- Positive screening, negative screening and voting engagement.

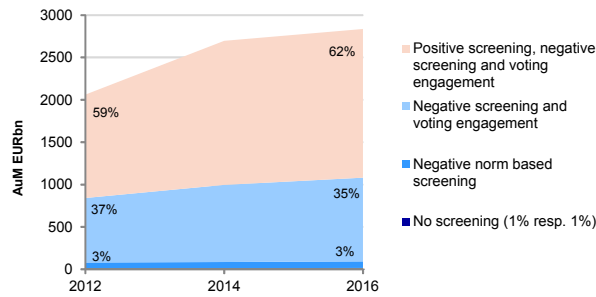
These categories are in increasing order of ambition and sophistication:

- **No screening** is for funds with no meaningful sustainability policy, which accordingly have the freedom to invest in any assets they see fit.
- **Negative norm-based screening** means the fund is prohibited from investing in securities from issuers with exposure to issues or activities that are not considered acceptable, such as arms manufacturing, tobacco, human rights violations, environmental pollution or corruption.
- **Negative screening and voting engagement** means the fund is prevented from investing in securities with undesirable ESG profiles as per above, and it also has a policy of active ownership, seeking to engage with the boards, management and AGMs of companies in which it owns a significant stake.
- **Positive screening, negative screening and voting engagement** is similar to the category above, but with an added proactive investment strategy of selecting highly ESG-scoring companies, or companies with a business that is a play on sustainability, for the fund to generate outperformance.

*We have categorised every fund for each of the 63 Nordic institutions in our sample*

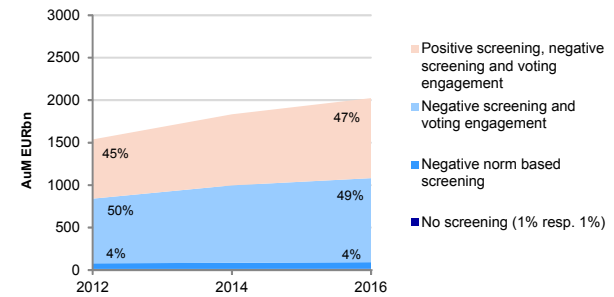
We have categorised each fund for all of the 63 institutions, according to our interpretation of the public sustainability policy or investment policy of the fund, or of the institution. We do not intend to create a perfect sustainability policy scale, or perfect classification by fund or by institution. This is an attempt at a simple but systematic review of how sustainability issues play into institutional investing in the Nordics today.

Total Nordic AuM by ESG policy (incl Norwegian oil fund) 2012-16



Source: Company data and Nordea Markets

Total Nordic AuM by ESG policy (excl Norwegian oil fund) 2012-16



Source: Company data and Nordea Markets

We have added up all of the funds at all of the institutions in our sample, to determine what share of total Nordic institutional assets under management fall into each category of ESG policy. As the Norwegian oil fund is so sizeable, alone representing nearly 30% of Nordic AuM, we show both the total by category including the oil fund, and the "underlying" split, excluding the oil fund.

*Norway's sovereign oil fund has an ambitious ESG policy, so its size pulls up the average for Nordic institutions*

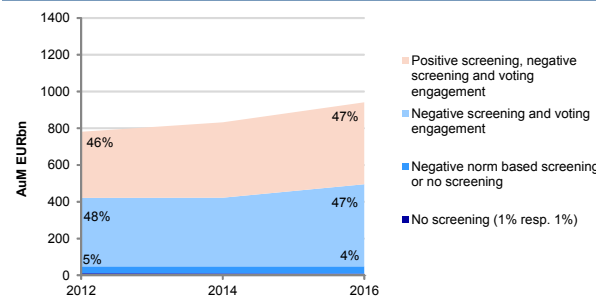
As the oil fund has an ambitious ESG policy for all of its investments, its total EUR 813bn of assets (as of year-end 2016; by September 2017 it was above EUR 1tn) fall under the highest ESG policy category. This pulls up the share of total Nordic AuM in this highest category significantly, to 62%, from 59% in 2012. So when the oil fund is included, 62% of Nordic AuM fall into the most ambitious ESG policy category, 35% into negative screening with voting engagement, and 3% into simple negative screening.

When we exclude the oil fund from Nordic AuM, we get a more accurate picture of the current ESG policy coverage and ambition level among Nordic institutions. For the roughly EUR 2tn of institutional AuM not managed by the oil fund, 47% falls under the most ambitious ESG policy, 49% under negative screening and voting engagement, 4% under simple negative screening, and a mere 1% has no ESG policy at all.

*With or without the oil fund, 99% of Nordic institutional AuM fall under some form of ESG policy!*

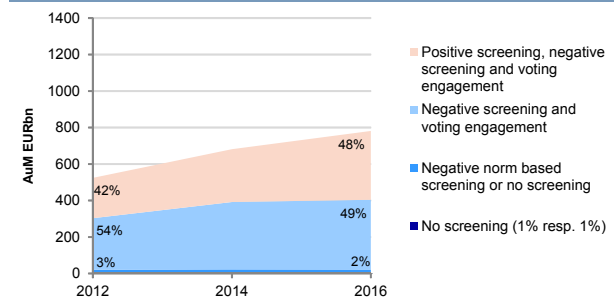
With or without the oil fund, ESG policy coverage has been almost universal at 99% of AuM in both 2012 and 2016. Nonetheless, the level of ambition, or sophistication, in ESG policies has been on the rise, with positive screening growing its share of total AuM by a couple of percentage points, at the expense of the no. 2 category negative screening and voting.

Nordic bonds by ESG policy (excl Norwegian oil fund) – 2012-16



Source: Company data and Nordea Markets

Nordic equities by ESG policy (excl Norwegian oil fund) – 2012-16



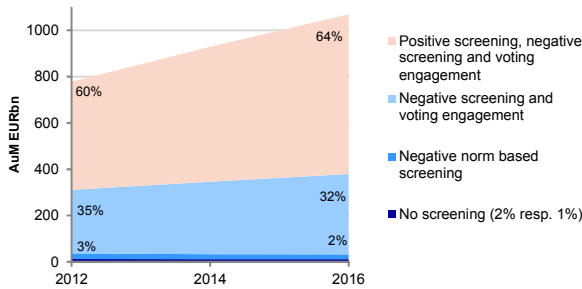
Source: Company data and Nordea Markets

*Ambition in ESG policies has increased the most for equities since 2012, and only slightly for bonds*

If we focus on asset types and stick to the two dominating categories of equities and fixed income securities, we find that both already had 99% of AuM covered by ESG policies in 2012 and still do today. However, the difference lies in the level of ambition and sophistication for ESG policies, which is higher for equities than for fixed income, and has risen much more significantly with equities than fixed income over the past five years. Fixed income has seen a slight migration to more sophisticated ESG

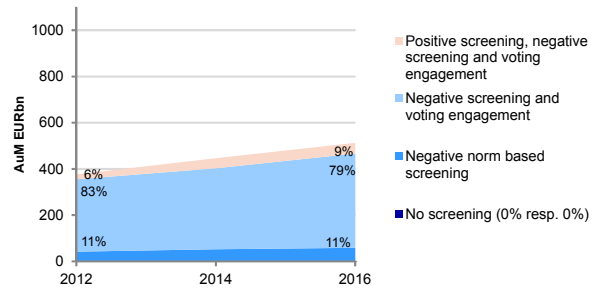
policies, while the share of equities AuM in the top category has grown to 48%, from 42% in 2012. For fixed income, the top category has grown its share from 46% to 47%.

Total AuM by ESG policy in Sweden for 2012-16



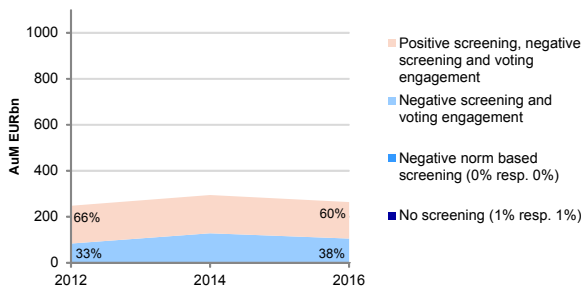
Source: Company data and Nordea Markets

Total AuM by ESG policy in Denmark for 2012-16



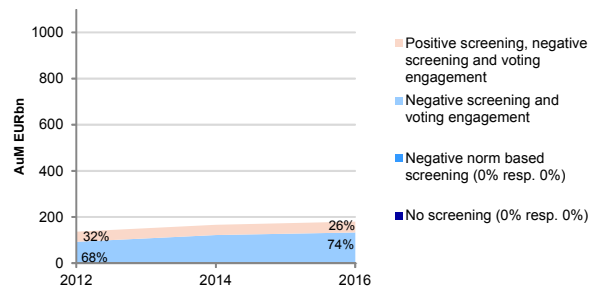
Source: Company data and Nordea Markets

Total AuM by ESG policy in Norway (excl oil fund) for 2012-16



Source: Company data and Nordea Markets

Total AuM by ESG policy in Finland for 2012-16



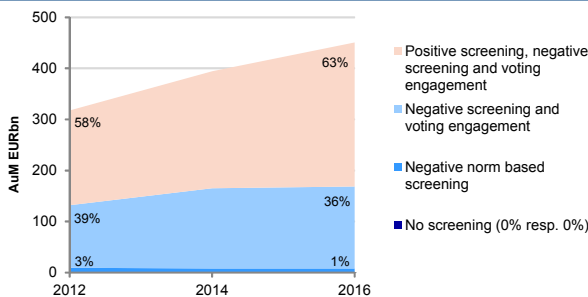
Source: Company data and Nordea Markets

Looking at the individual Nordic countries, we again exclude the Norwegian oil fund, since it is in a size league of its own and does not invest in domestic Norwegian securities. The charts above show the breakdown of AuM by ESG policy category for each country. We can see the sizes of the markets, with Sweden's EUR ~1.1tn of AuM by far the biggest, ahead of Denmark's EUR ~500bn and the EUR ~200bn each for Finland and Norway (excluding the oil fund).

*Sweden and Norway lead, with 60% or more of AuM under the most sophisticated type of ESG policy, versus 26% and 9% for Finland and Denmark, respectively*

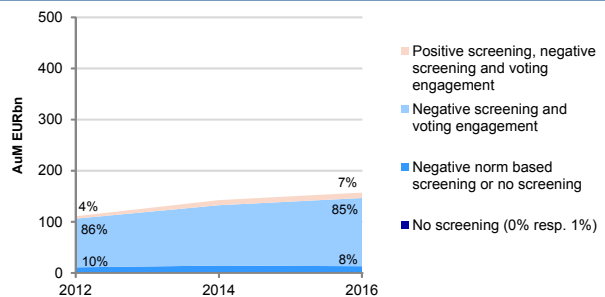
There are national differences in the levels of sophistication for ESG policies too. In every country, almost all AuM are covered by an ESG policy, but Sweden and Norway stand out in having 60% or more of total AuM run under the most ambitious positive screening policy type. Denmark is lagging in using less mechanical policy types, with only 9% of AuM in the same category, and 11% of AuM under the simplest – negative screening – policy type. The latter compares with 2% in Sweden and 0% in Norway and Finland.

Equity AuM by ESG policy in Sweden for 2012-16



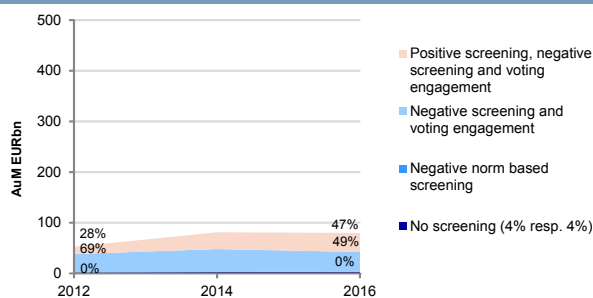
Source: Company data and Nordea Markets

Equity AuM by ESG policy in Denmark for 2012-16



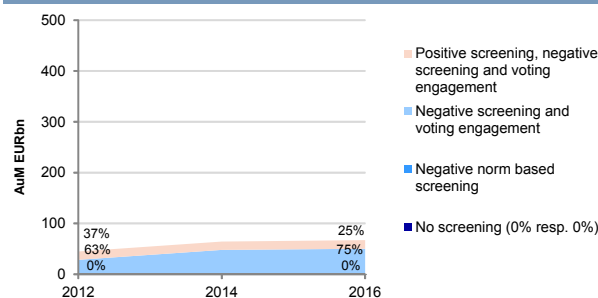
Source: Company data and Nordea Markets

Equity AuM by ESG policy in Norway (excl oil fund) for 2012-16



Source: Company data and Nordea Markets

Equity AuM by ESG policy in Finland for 2012-16



Source: Company data and Nordea Markets

Looking instead at the breakdown of ESG policy type by sophistication level for equity AuM in the Nordics, we see a similar pattern as for total assets, including for the size of each country market. But there are a couple of notable differences for equities:

*For equity AuM, Sweden has highest most ambitious ESG policy share, and Norway (excluding the oil fund) the lowest*

1. Sweden's share of the most ambitious, positive screening, category started lower than for total assets (58% versus 60%) in 2012, and has grown more strongly to reach close to the level for total assets (63% versus 64%) in 2016.
2. In Norway, the share of equity assets under the most ambitious ESG policy is much lower (47% versus 60%) than for total AuM. This excludes the oil fund.

To conclude: 99% of Nordic institutional AuM already fall under some form of ESG policy, and the level of ambition and sophistication of ESG policies is increasing. For any large corporate issues of bond or equity capital, it is clearly worth considering how the company is scoring on ESG criteria today, and how it can be ensured that ESG performance improves or stays high in the coming years. It is debatable the extent to which issuers scoring poorly for ESG will even have access to bond or equity markets in the long term.

Our sample of 63 Nordic institutions ranked by 2016 AuM							
#	Institution	Total	Assets under management, EURbn, 2016				Share of total
			Bonds	Equities	Real Estate	Other	
1	Statens pensjonsfond Utlandet	812.5	280.1	510.0	22.4		28.6%
2	Nordea AM + Life & Pension	322.7	187.2	129.1		6.5	11.4%
3	Swedbank Robur	124.3	39.8	73.3		11.2	4.4%
4	Danske Capital	114.0	67.3	41.0		5.7	4.0%
5	ATP	102.1	33.7	50.0		18.4	3.6%
6	Alecta	82.2	41.1	35.4		5.8	2.9%
7	Storebrand	62.7	32.4	17.1	2.5	10.7	2.2%
8	AMF	59.8	21.5	26.9	12.0		2.1%
9	PFA	58.4	41.4	12.4	4.6		2.1%
10	DNB Asset Management	57.7	34.6	17.3	0.0	5.8	2.0%
11	Skandia	53.1	22.5	13.0	5.8	11.9	1.9%
12	SEB Investment Management	51.6	24.7	28.9	0.1	2.1	1.8%
13	KEVA	48.6	22.1	17.4	3.0	6.1	1.7%
14	KLP Kapitalforvaltning	48.0	22.6	9.6	6.2	10.1	1.7%
15	SHB Fonder	45.2	14.9	28.9	0.0	1.4	1.6%
16	Varma	42.9	18.0	18.4	3.9	2.6	1.5%
17	Folksam	42.5	24.7	14.0	3.0	1.3	1.5%
18	SamPension	38.8	19.7	9.7	3.3	6.1	1.4%
19	Ilmarinen	37.2	12.2	15.0	4.0	6.0	1.3%
20	AP7	36.4	3.0	32.4		1.0	1.3%
21	AP4	35.5	11.4	20.6	2.5	0.7	1.2%
22	AP2	34.5	11.7	14.8	4.5	3.4	1.2%
23	AP3	34.5	12.8	14.7	5.5	1.4	1.2%
24	PKA	33.6	12.8	9.7		11.1	1.2%
25	AP1	33.0	9.9	11.9		11.2	1.2%
26	DNB Livsforsikring	32.5	21.7	1.9	1.7	7.1	1.1%
27	Danica (managed by Danske)	28.9	18.8	0.6	3.0	6.5	1.0%
28	Folketrygdfondet	24.9	9.7	15.2			0.9%
29	Elo	21.5	7.9	5.8	2.9	3.7	0.8%
30	Industriens Pension (IP)	21.2	8.3	5.9	1.1	5.2	0.7%
31	AFA	20.9	9.4	6.5	3.3	1.8	0.7%
32	Kammarkollegiet (discretionary)	19.1	19.1				0.7%
33	VER	18.8	8.6	8.5	0.5	1.1	0.7%
34	Bankinvest	18.3					0.6%
35	AP Pension	18.0	9.5	2.7		5.8	0.6%
36	Pensam	17.5	9.1	4.6	1.4	2.5	0.6%
37	Lægernes pension	15.7	7.1	7.9		0.7	0.6%
38	DIP/JØP, Pplus	14.8	6.2	6.4		2.2	0.5%
39	Länsförsäkringar Fonder	14.7	1.6	5.2	0.0	7.9	0.5%
40	SEB Pension	12.8	5.1	0.9	0.6	6.2	0.5%
41	Länsförsäkringar Fonder Liv	12.3	8.6	3.7			0.4%
42	SparInvest	10.4	5.6	3.3	1.3	0.2	0.4%
43	Oslo Pensjonsforsikring	9.1	3.8	1.6	1.7	2.1	0.3%
44	MajInvest	8.8	2.8	1.0		4.9	0.3%
45	Skagen	8.5	0.7	7.8			0.3%
46	Kåpan	8.4	4.0	3.3	1.2		0.3%
47	IF Skadeförsäkring	8.2	6.9	1.3			0.3%
48	Lannebo Fonder	7.4	0.9	3.7	0.0	2.9	0.3%
49	Ohman Fonder	6.8	2.2	4.6			0.2%
50	Carnegie Fonder	6.7	2.3	4.4			0.2%
51	Etera	6.1	2.7	1.7	1.1	0.5	0.2%
52	Gjensidige Forsikring	5.9	3.8	0.3	0.3	1.5	0.2%
53	Alfred Berg Kapitalforvaltning	5.8	3.4	1.5		0.8	0.2%
54	Odin Forvaltning	4.8	0.5	4.3			0.2%
55	OP Wealth management	3.9	3.0	0.4	0.4	0.1	0.1%
56	AP6	3.0	1.0	1.7	0.2	0.1	0.1%
57	Brummer & Partners - Nektar	2.9	2.0			0.9	0.1%
58	Catella	2.9	1.0	1.3	0.0	0.6	0.1%
59	OP Non-Life Insurance	1.4	1.2	0.1	0.1	0.1	0.1%
60	Formuepleje	1.1	0.2	0.8	0.0	0.0	0.0%
61	Midgard (managed by PFA)	1.1					0.0%
62	Protector Forsikring	0.9	0.6	0.2		0.2	0.0%
63	Brummer & Partners - Lynx	0.5	0.1	0.1		0.2	0.0%
	<b>Total</b>	<b>2,838</b>	<b>1,221</b>	<b>1,291</b>	<b>104</b>	<b>206</b>	<b>100%</b>

Source: Company data and Nordea Markets