> Nordea Asset Management: Pinch, Push, and Shift…

While financial markets globally have undergone substantial stress and change, an increasing number of mainstream investors see ESG (Environmental, Social, and Governance) integration as a way to improve their long-term financial performance and to respond to the increasing client demand for sustainable investments.

This trend offers companies opportunities to attract long-term investors while, at the same time, reduce shareholder turnover by aligning their investment strategy with the real needs of their business and laying down the foundation for a sustainable future. Asset owners see ESG integration as an opportunity to generate long-term performance while fulfilling their fiduciary obligations, while investment managers see it as a way to improve risk management in the financial performance of their investment portfolio.

For listed companies, long-term investors constitute a more attractive investor base. First, compared to short-term investors, they generally invest over a period of time that is better aligned with companies' business cycles and long-term sustainability strategy. Second, by holding shares over a greater period of time, long-term investors reduce share turnover, which is costly for companies. While short-term investors have exacerbated what Dominic Barton at McKinsey calls "quarterly capitalism," long-term investors allow companies to reconnect investment strategies with the real needs of their business.

Nordea Asset Management believes that aligning ESG issues with core business agendas can help companies create shareholder value in three measurable ways.

PINCH

Downside risks should be reduced or "pinched," especially in a global marketplace that is increasingly volatile, resource-constrained, and socially engaged. One way to do this is by integrating ESG and financial reporting, which can increase transparency, improve understanding of ESG risks, and help drive targeted mitigation strategies.

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Improved transparency can also help build trust with customers, investors, and employees, creating a halo effect that makes it easier for a company to earn forgiveness when things go wrong, while getting more credit for the things it is doing right.

PUSH

Companies can also leverage social and environmental issues to create new product and service innovations that drive revenue and reduce operating costs. Deloitte's research on innovation shows that leaders on ESG issues are over 400% more likely to be considered innovation leaders.

SHIFT

Weaving ESG factors into the fabric of a company can improve shareholder value over time by permanently shifting the expected share price to a higher level, creating a valuation premium. Part of this shift comes from pinch and push, which strengthen a company's brand, reduce risk, and fuel innovation. Another part comes from improved operating efficiency and reduced waste, which can significantly reduce costs and increase profitability.

In addition, a strategic approach to ESG issues can boost a company's value by helping to attract financial and human capital. Responsible enterprises attract more funding and enjoy a lower cost of equity capital than their less responsible counterparts. They also have an easier time attracting talent – especially younger workers, who tend to be particularly conscious of social and environmental issues. These effects can help create a lasting competitive advantage.

Growing consensus indicates that ESG analysis adds value to investments. For asset owners, ESG integration may soon reach a tipping point: There is good reason to think that ESG considerations will become a regular component of investment decision-making in the future.

The process developed at Nordea Asset Management is now gradually being implemented. It offers an approach that is considered particularly promising, although it will take time to obtain the full results and conclusions of the ESG integration effort.

Nevertheless, it is the stated ambition of Nordea Asset Management to leverage ESG analysis and engagement solutions in order to embed ESG across all investments processes. The company is committed to assisting clients with the adoption of responsible investment strategies that enhance long-term investment performance.

Today, Nordea Asset Management offers an opportunity to steer investments towards the

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FACT BOX

Nordea Asset Management takes returns with responsibility to a new level to ensure competitive, consistent, and responsible returns on all funds

All Nordea Asset Management's products now include environmental, social, and governance (ESG) data as one of the factors used in assessing investments. The aim is to ensure better and more consistent returns on customers' investments.

Environmental, social, and governance issues are increasingly a source of both risk and opportunity. Therefore, we seek to integrate ESG issues into our investment analysis methodology. Potentially, this is a source of better performance and, at the very least, it is a way of controlling risk in an investment portfolio. Good returns for our customers are the focus of Nordea Asset Management which necessitates taking ESG issues into account in all the company's investment products.

This has the added advantage of increasing transparency. Nordea Asset Management customers will know at all times how ESG issues are handled. This information can in turn be passed on to the customers' stakeholders as part of their communication on how money is being invested. "Money that has been earned in a responsible way should also be invested in a responsible way," says Allan Polack, CEO of Nordea Asset Management.

future and once again rebuild portfolios for the long term. Responsible investments will create opportunities and rewards, but this will also mean challenging the pernicious orthodoxy of short-termism. As an inflection point in the global economy and the global environment is reached, the imperative for change has never been greater. ❇