Nordea Asset Management

Nordea 1 Emerging Stars Equity Fund – ESG Integration in Emerging Markets

Executive Summary

The global momentum for responsible investment continues as corporates navigate the challenges and opportunities brought by the rapidly-transforming landscape of environmental, social and governance (ESG) issues. Investors increasingly recognize that company performance on ESG factors can result in material impacts on the risk and return profiles of their investments; now, more than ever, sustainable (and unsustainable) business practices can significantly affect financial returns and the health of financial markets. The following case outlines Nordea Asset Management's (NAM) investment philosophy and approach in creating the *Nordea 1 Emerging Stars Equity Fund* and specifically, how SASB Standards were used to augment our framework for assessing a Chilean copper mining company[1] as an attractive and responsible investment for inclusion in the fund.

Nordea Asset Management and ESG Integration

Responsible investment has long been an integral part of our DNA as a Nordic asset manager. NAM signed the UN-backed Principles for Responsible Investment (PRI) in November 2007. As one of the first asset managers in the Nordic market to sign the PRI, we have long been committed to incorporating ESG issues into our investment decisions and have a longer track record than many global asset managers in developing a cohesive approach to such integration.

Nordea Asset Management (NAM, 219bn EUR in assets under management) has a global business model, and manages asset classes across the full investment spectrum, including equity, fixed income, and multi asset solutions. NAM is a leading investment manager in the Nordic region, and also serves a large and growing body of clients in Europe, the Americas and Asia. NAM's mission to deliver returns with responsibility is based on active management and thorough risk management. We strive to optimize risk-adjusted returns for our customers vs. a benchmark or on an absolute level. Our client base is equally split between our captive distribution channel and external clients.

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We include ESG considerations in our investment analyses, decision-making processes, and ownership policies and practices. We believe that incorporating ESG factors in our investment activities can safeguard shareholder value and enhance long-term returns. This is supported by growing bodies of industry and academic research[2] correlating ESG performance to corporate financial performance and improved shareholder returns. Considering material ESG issues in our investment decisions is a part of our fiduciary duty to our clients; being ESG proactive is reflected in our mission statement.

Nordea 1 Emerging Stars Equity Fund

Nordea Asset Management launched the *Nordea 1 Emerging Stars Equity Fund* in April 2011, with the aim of creating a unique emerging market equity fund in which fundamental strategy and valuation analysis in portfolio stock selection fully integrates ESG factors. Rather than utilising a "first-generation" approach to ESG considerations, i.e., utilising a "negative screen" to avoid certain companies and sectors, we wanted to take a positive, "second-generation" approach, in which ESG analysis could add value to the investment case. The vision was to create a high alpha performing fund in which ESG considerations act not only as risk mitigants in securities analysis and portfolio construction, but also improve understanding of *a company's value drivers more holistically.* As first-movers in creating a "second-generation" approach to integrating ESG in investments, and with one of the longest track records, we recognised a number of key factors as we developed this portfolio:

1. Important information which could have a material impact on companies in emerging markets was not discernible via the traditional data sets used in conventional investment analysis.
2. While emerging markets are typically considered to carry higher risk, favourable structural growth dynamics in certain markets have the potential to interact strongly with company-level ESG factors and thus, present significant return opportunities in these markets. ESG analysis would, therefore, provide us with a better "distribution curve" of future performance and potential value creation.
3. Engaging with companies to improve management of material ESG issues could be an additional lever to unlock value if a company's cash flow was being overly discounted due to either poor reporting or poor management of ESG factors.

We were one of the first-movers in creating a "second-generation" approach to integrating ESG in investments, and have one of the longest track records on this approach from a performance perspective.

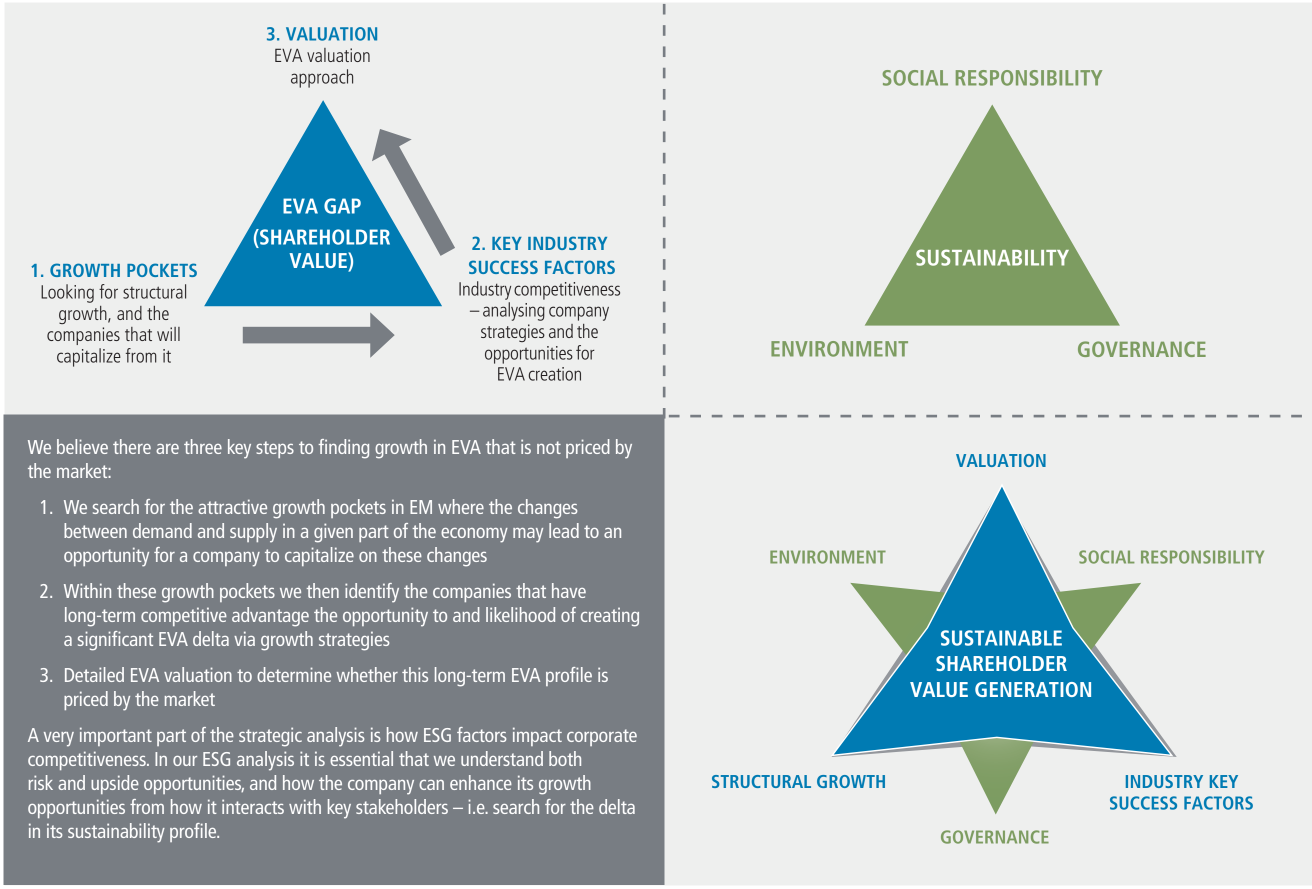
The Emerging Stars Investment Philosophy: "Returns with Responsibility" in Emerging Markets

We believe that, when Economic Value Added (EVA)—the incremental difference in the rate of return over a company's cost of capital—is not properly priced by the market, excess shareholder value can be generated. Companies now operate against a backdrop of mounting operational complexity, characterized by unprecedented wealth transfers, shifting demographic and political landscapes, rising emerging-market competitiveness, and disruptive technologies, among other things. Thus, we believe that an approach to securities selection focused solely on long-term EVA is no longer adequate to generating alpha for our clients. Complementing traditional investment analysis with ESG enquiry is necessary to understand how these issues—which tend to be excluded from conventional investor-focused communication—affect the ability of companies to grow and create shareholder value. Furthermore, we believe that on-the-ground company interaction is necessary to get a full picture of how companies are managing these complex issues.

With this in mind, we identify the companies that can create a significant relative change in their EVA generation in a sustainable way, i.e., have a "delta" in EVA profiles as well as a "delta" in Sustainability profiles (see Figure 1). We believe this process identifies the future "star" companies in emerging markets, i.e., the companies that will generate sustainable shareholder value and outperform.

[2] Khan, Mozaffar and Serafeim, George and Yoon, Aaron S., Corporate Sustainability: First Evidence on Materiality (November 9, 2016). The Accounting Review, Vol. 91, No. 6, pp. 1697-1724

Figure 1: "Returns with Responsibility" in Emerging Markets



Integration of ESG information in competitive advantage analysis (e.g., impact to cost structure, risk factors, etc.) and into the valuation for our explicit forecast period differentiates our process from that of others. Investment time horizon and longer-term forecasting capabilities are important components of this process; ESG data holds information critical to understanding how companies are positioned to manage longer-term risks. This is explicitly incorporated in our valuation framework through the setting of our "fade rate" for the company. The fade rate describes the share of the excess return the company generates, which we view as sustainable in the longer-term. In general we view companies' competitive advantages as eroding over time, resulting in declining excess returns. However, with the integration of the ESG aspect, we allow companies with positive scores and thus stronger competitive advantages to maintain a higher ROIC premium in the longer term.

We believe true integration of financial and ESG factors requires in-depth analysis and that our methodology for identifying emerging market "star" companies generates sustainable shareholder value. The *Emerging Stars Equity Fund* has shown significant outperformance[3] both compared to MSCI Global Emerging Markets and Peers, where it is ranked in first quartile on all relevant horizons. The key performance driver has been stock selection, in particular, exposure to the "New Economy" driven by consumers in emerging markets and insights into companies' growth opportunities and value creation through company stakeholder analysis.

[3] Past performance is not a reliable indicator of future results.

Proprietary ESG Analysis and Integration of SASB Standards

Our proprietary ESG research approach attempts to identify stakeholder risks at the company level and is conducted from two perspectives. First, we assess alignment (or misalignment) of business models in relation to global sustainability goals such as climate stability, resource scarcity, healthy ecosystems, basic needs, wellbeing or decent work.[4] Second, we evaluate a company's ability to manage material ESG issues in relation to stakeholders, such as employees, suppliers, customers, communities, regulators, or the environment. This involves assessing a company's strategy and performance to address exposure to material ESG issues that could impact its risk/reward profile or growth opportunities.

Incorporating SASB Standards in our ESG analysis has enabled us not only to better assess and identify the **financial materiality** of ESG issues, but also to identify the relevant indicators or data points that could reflect a company's positioning on those issues. Utilizing SASB industry standards along with country ESG risk indicators provides us with further granularity on materiality.

Our proprietary ESG analysis is summarised in a company scorecard comprising of five pillars, as displayed in Figure 2. The business model and corporate governance pillars receive a fixed weight, whereas the three remaining pillars – business ethics, environmental considerations and social issues – are variably weighted depending on the company risk exposure, financial impact, and reputational risk. This results in a final rating ranging from A to C, and positive or negative momentum indicators, as displayed in Figure 3. Our research approach also allows us to identify areas of underperformance and then engage with companies in hopes of influencing them to address challenges and move in the right direction.

Figure 2 – ESG Scorecard

ESG Scorecard: Company PLC — Rating: A-C / + - 2017-06-12

	BUSINESS MODEL	CORPORATE GOVERNANCE	BUSINESS ETHICS	ENVIRONMENT	SOCIAL
	Development Contribution	Board structure and independence	Key Issue	Key Issue	Key Issue
	Country/Sector Risk	Board compensation practices	Key Issue	Key Issue	Key Issue
		Minority shareholder influence	Key Issue	Key Issue	Key Issue
		Diversity of Board & Executive management			
		Audit & Accounting practices			
		Sustainability governance			
RATING	**A-C**	**A-C**	**A-C**	**A-C**	**A-C**
Risk exposure			1-3	1-3	1-3
Financial impact			1-3	1-3	1-3
Reputational impact			1-3	1-3	1-3
WEIGHT	**30%**	**10%**	**Variable%**	**Variable%**	**Variable%**

RATING

- Key sector issues are identified
- These are complemented with country and company specific issues
- Policy, strategy, performance are KPIs evaluated
- Voting and engagement conducted with companies to improve rating

WEIGHT

- Business model 30%
- Governance Quality 10% (implicitly assessed in the remaining 3 pillars)
- Business ethics, Environment and Social have variable weights based on
  - Risk exposure
  - Financial impact
  - Reputational impact

RISK MIGITATION AND VALUE CREATION

[4] Investment Leaders Group, Cambridge Institute for Sustainability Leadership

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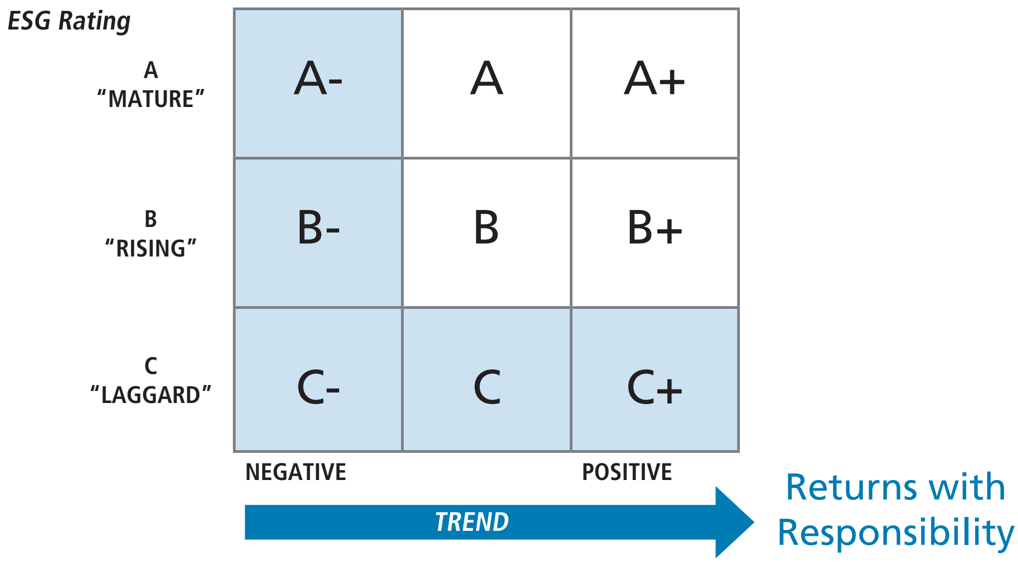
Our active ownership and engagement activities not only enhance corporate transparency, but have also benefited from access to SASB Standards as engagement tools for industries globally. We believe regulators and exchanges in emerging markets (e.g., China, India, South Africa, Malaysia, Thailand, etc.) would do well to look to SASB Standards as they pursue encouraging recent initiatives to establish ESG reporting requirements for listed companies in these markets.

Figure 3 – ESG Rating Matrix



SASB Standards and Disclosure in Emerging Markets

Although companies have improved their ESG disclosure in recent years, the state of disclosure on relevant and quantifiable data points remains relatively low. This has been true especially in emerging markets. Thus, when NAM launched the *Emerging Stars Equity Fund* in 2011, we found ourselves to be pioneers in emerging markets ESG investing, and found it difficult to find good information on how companies were managing material ESG issues in these markets. We also discovered a "disclosure bias" in which emerging market companies suffered from poor—in some cases, artificially low—ESG ratings compared to their developed market peers via third-party rating agencies. To augment third-party ratings viewpoints, we implemented on-site visits as part of our ESG research process through which our in-house analysts regularly meet with management.[5] Thus, we have developed assessments of ESG performance for emerging markets issuers over time that differ from those of third-party ESG ratings agencies. Our active ownership and engagement activities not only enhance corporate transparency, but have also benefited from access to SASB Standards as engagement tools for industries globally. We believe regulators and exchanges in emerging markets (e.g., China, India, South Africa, Malaysia, Thailand, etc.) would do well to look to SASB Standards as they pursue encouraging recent initiatives to establish ESG reporting requirements for listed companies in these markets.

[5] Click on the following link to view a summary of our on the ground engagement with Antofagasta, a Chilean-based mining company https://www.youtube.com/watch?v=dlyrs3LujYA&t=2s.

Can a "Responsible Investor" Invest in a Mining Company?

Can a "responsible investor" invest in a mining company? Our answer is "yes". We believe Antofagasta, a company in the mining (copper) industry, can deliver a risk-adjusted return in a sustainable way.

The following example demonstrates how we have integrated SASB Standards into our company analysis for Antofagasta[6], a Chilean-based copper mining company in the *Nordea 1 Emerging Stars Equity Fund*. Antofagasta plc is a leading mining group and one of the ten largest copper producers in the world. It owns interests in and operates four open-pit copper mines in Chile (Los Pelambres [60%-owned]; Centinela [70%-owned]; Antucoya [70%-owned]; and; Zaldivar [50%-owned]).

1. Sustainability of the Business Model: alignment of copper with broader sustainability trends...

Copper plays an increasingly important role in the transition to a low carbon economy because of its wide use in rapidly growing market segments, including the electric vehicles (EVs), renewable energy infrastructure, and buildings constructed to meet LEED (Leadership in Energy and Environmental Design) designation. According to some estimates, EVs contain about three times more copper than vehicles powered solely by internal combustion engines, and even more copper is required for EV charging stations. Copper also plays a role in the transmission and wiring of renewable energy infrastructure, such as solar and wind power generation and distribution. Lastly, copper is widely used in green building construction due to its corrosion-and oxidation-resistance, its thermal and electrical conductivity, and recycled content. It is thus widely used in buildings that aim for a LEED certification. We therefore see interesting growth opportunities in copper.

ESG risk is inherently high in this industry, as indicated by provisional SASB disclosure topics for Metals and Mining (see Figure 4). NAM considers all disclosure topics in provisional SASB Standards for this industry relevant.

… but with high inherent operational risks

The question is then, should one invest in just any copper company? Our answer is an emphatic "no"! ESG risk is inherently high in this industry, as indicated by provisional SASB disclosure topics for Metals and Mining (see Figure 4). NAM considers all disclosure topics in provisional SASB Standards for this industry relevant. When we layer our sector framework and country ESG risk indices (see Figure 5) over our company-specific analysis, water management, energy management, employee health and safety and community relations emerge as risks of primary importance for Antofagasta. Chile is a stable, transparent and well-regulated country from a country-risk perspective. However, copper mines in Chile are situated in water-challenged regions. Declining ore grades in recent years have led to higher stripping ratios to simply maintain production, meaning that more water is required to produce each tonne of copper. On the community relations dimension, numerous large-scale Chilean mining projects have been delayed or cancelled by local communities due to real or perceived threats to traditional land uses, biodiversity or natural resource quality; permitting of expansion projects has also grown increasingly stringent with associated delays. Ultimately, growing scrutiny of these environmental and social factors in Chile has either directly resulted in delays meeting production targets or risked doing so, resulting in increased operating costs and capital expenditure for mining companies there.

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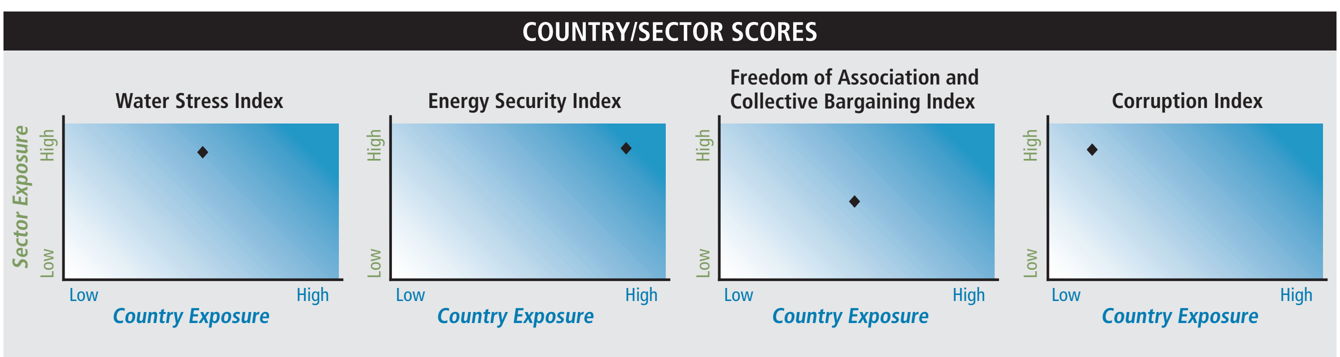
Figure 4: Disclosure Topics and Metrics: SASB Metals and Mining Industry Standards

TOPIC	ACCOUNTING METRICS	UNIT OF MEASURE	CODE
Greenhouse Gas Emissions	Gross global Scope 1 emissions, percentage covered under a regulatory program	Metric tons CO2-e, Percentage (%)	EM0302-01
	Description of long-term and short-term strategy or plan to manage Scope 1 emissions, emissions reduction targets, and an analysis of performance against those targets	n/a	EM0302-02
Air Quality	Air emissions for the following pollutants: CO, NOx (excluding N2O), SOx, particulate matter (PM), mercury (Hg), lead (Pb), and volatile organic compounds (VOCs)	Metric tons (t)	EM0302-03
Energy Management	Total energy consumed, percentage grid electricity, percentage renewable	Gigajoules (GJ), Percentage (%)	EM0302-04
Water Management	Total fresh water withdrawn, percentage recycled, percentage in regions with High or Extremely High Baseline Water Stress	Cubic meters (m3), Percentage (%)	TA04-28-01
	Number of incidents of non-compliance with water-quality permits, standards, and regulations	Number	TA04-29-01
Waste & Hazardous Materials Management	Total weight of tailings waste, percentage recycled	Metric tons (t), Percentage (%)	EM0302-07
	Total weight of mineral processing waste, percentage recycled	Metric tons (t), Percentage (%)	EM0302-08
	Number of tailings impoundments, broken down by MSHA hazard potential	Number	EM0302-09
Biodiversity Impacts	Description of environmental management policies and practices for active sites	n/a	EM0302-10
	Percentage of mine sites where acid rock drainage is: (1) predicted to occur, (2) actively mitigated, and (3) under treatment or remediation	Percentage (%)	EM0302-11
	(1) Proven and (2) probable reserves in or near sites with protected conservation status or endangered species habitat	Metric tons (t), Grade (%)	EM0302-12
Community Relations	Discussion of process to manage risks and opportunities associated with community rights and interests	n/a	EM0302-13
	Number and duration of non-technical delays	Number, Days	EM0302-14
Security, Human Rights, and Rights of Indigenous Peoples	(1) Proven and (2) probable reserves in or near areas of conflict	Metric tons (t), Grade (%)	EM0302-15
	(1) Proven and (2) probable reserves in or near indigenous land	Metric tons (t), Grade (%)	TA04-30-01
	Discussion of engagement processes and due diligence practices with respect to human rights, indigenous rights, and operation in areas of conflict	n/a	EM0302-17
Employee Health and Safety	(1) MSHA All-Incidence Rate, (2) Fatality Rate, (3) Near Miss Frequency Rate and (4) Average hours of Health, Safety, and Emergency Response Training for (a) full- time employees and (b) contract employees	Rate	TA04-31-01
Labor Relations	Percentage of active workforce covered under collective-bargaining agreements, broken down by U.S. and foreign employees	Percentage (%)	EM0302-19
	Number and duration of strikes and lockouts*	Number, Days	EM0302-20
Business Ethics & Payments Transparency	Description of the management system for prevention of corruption and bribery throughout the value chain	n/a	EM0302-21
	Production in countries that have the 20 lowest rankings in Transparency International's Corruption Perception Index	Metric tons saleable (t)	EM0302-22

*Note to EM0302-20 – Disclosure shall include a description of the root cause for each work stoppage.

Figure 5: Mining Sector Materiality in the Context of Geographic Exposure



Source adapted by: Verisk Maplecroft and SASB.

2. Stakeholder Analysis in the Context of SASB Disclosure Topics and Metrics

See Figure 6 for an overview of our analysis of Antofagasta[7] on select disclosure topics, with particular focus on how the company performs on financially-material ESG issues based on SASB-based disclosure.

Figure 6 – Antofagasta Disclosure (Actual vs. Proxy) on Select Disclosure Topics in Provisional SASB Metals & Mining Industry Standards

	2013	2014	2015	2016
Activity metrics				
Copper Production (t)	721,200	704,800	630,300	709,400
Direct employees	6098	6609	5950	5427
Contract workers	15,347	19,542	14,892	13,100
Social metrics				
Employee Health and Safety				
Health and Safety Policy	Y	Y	Y	Y
Health & Safety Training	Y	Y	Y	Y
Percentage of certified management systems				66.60
Lost Time Injury Frequency Rate	1.90	1.70	2.00	1.50
Near Miss Frequency Rate	N/A	7.80	13.50	50.20
Fatalities	2.00	5.00	1.00	2.00
Labour Relations				
Major Layoffs				No
Fair Remuneration Policy	N	N	N	N
Trade Union Representation (%)	62.00	55.00	59.00	68.00
Employee Turnover (%)	N/A	N/A	N/A	N/A
Employee Satisfaction (%)	81.00	82.00	N/A	N/A
Community Relations and Human Rights				
Human Rights Policy	Y	Y	Y	Y
Policy Community Involvement	Y	Y	Y	Y
Community spending (mUSD)	26.60	31.10	21.90	24.3
Environmental metrics				
Environmental Expenditures (USD)	5,500,000	6,200,000	30,100,000	3,700,000
Environmental Provisions (USD)	494,300,000	434,300,000	394,000,000	392,100,000
Energy management				
Energy Efficiency Policy	Y	Y	Y	Y
Targets Energy Efficiency	N/A	N/A	Y	Y
Total Energy Consumption (MWh)	4,665	4,812	4,954	5,842
Renewable Energy Use (%)	N/A	N/A	N/A	17.00
GHG Emissions				
CDP Regulatory Risk exposure	Y	Y	Y	Y
CDP Physical Risk Exposure	Y	Y	Y	Y
Climate Change Policy	Y	Y	Y	Y
CO2 Equivalents Emission (Scope 1) (mt)	706,463	693,179	654,146	795,994
CO2 Equivalents Emission Total (Scope 1&2) (mt)	1,620,700	1,506,000	1,412,760	2,000,010
CO2 Emissions Intensity Per Tonne (mining)	3.09	2.98	3.24	3.67
CDP Performance	C	D	D	B
Water management				
Policy Water Efficiency	Y	Y	Y	Y
Total Water Consumption (Th cubic meters)	44,666	47,444	45,247	55,261
Salt Water Withdrawals (Th cubic meters)	20,217	20,682	20,573	26,554
Water recycling rate (%)	#N/A N/A	N/A	80.00	86.00
"Water Consumption per tonne (LpS/kt)	3.56	3.84	4.10	4.59

Company performance disclosed via SASB metrics   Proxy used for company performance on SASB metrics

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SASB Disclosure Topic: Employee Health and Safety

Safety is still a challenge for the company, but remains a top priority for management.

- **Risk exposure:** Poor safety records or serious accidents could have a long-term impact on Antofagasta's reputation, employee morale, and production. All operations are exposed to safety risks due to the nature of mining activities. Further exacerbating this risk is the fact that 72% of the total workforce is made up of contractors vs. 28% direct employees, and 60% of the total workforce lives in nearby regions.
- **Risk management:** Antofagasta's safety practices are in line with the industry's. Safety performance is reviewed by the Board and is linked with executive remuneration. The company's executive team is also required to regularly visit the mining operations as part of their safety leadership programme. The majority of Antofagasta's operations are also certified to the Occupational Health and Safety Standards (OHSAS). Regular training is provided on the OHSAS 18001 standard, an internationally applied British Standard for occupational health and safety management systems. Nevertheless, Antofagasta[8] has experienced health and safety challenges, particularly with respect to contractors. We are encouraged by improvements demonstrated in these areas, such as their Critical Safety Controls verification and "near-miss" incident reporting.
- **Performance trend:** Unfortunately, two fatalities were recorded in 2016. The company is, however, performing better than peers on additional safety KPIs and is showing signs of improvement.

SASB Disclosure Topic: Water Management

Antofagasta is implementing pioneering technologies to ensure reductions in water use and increases in water recycling for future operations.

- **Risk exposure:** Availability of key strategic resources such as water could impact Antofagasta's growth opportunities. The Group operates in challenging environments, including the Atacama Desert, where water scarcity is a key issue. In addition, water demand in the Chilean mining industry is expected to increase by 66% between 2014-2025. Regulatory requirements to mitigate mining-related stress on the fresh water supply, such as a mandate to use seawater for mining activities, are anticipated.
- **Strategy and implementation:** Antofagasta has demonstrated best practice in terms of deploying water-saving technologies. Antofagasta was the first mining company to use thickened tailings technology (increasing water recovery) on a large scale. This practice has also improved the structural safety of tailings (reduced likelihood of spills vs. traditional tailings). Antofagasta is also a pioneer in the use of untreated sea water in its mining operations, with a scope for wider adoption (currently used at Antucoya and Centinela).
- **Performance trend:** Antofagasta has secured water rights to meet current production levels and has water recycling and water-use intensity rates that are better than industry averages. The company already meets and exceeds expected regulatory mandates on the use of seawater in mining operations. Seawater accounts for nearly 50% of the company's current total water use; anticipated regulations requiring the use of 38% seawater for Chilean mining operations will become effective in 2020. However, Antofagasta's total water consumption rose in 2016 due to the integration of new operations into the company's operational mix.

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SASB Disclosure Topic: Energy Management & GHG Emissions

The company benefits from energy efficiency initiatives and is increasing the share of renewables in its energy portfolio to address rising energy costs and reduce carbon emissions intensity.

- **Risk exposure:** Power costs are 15% of Antofagasta's total operating costs. Energy efficiency measures have the potential to achieve the company's strategic goal of controlling costs and increasing cost competitiveness. The use of seawater and energy-intensity of desalination however, naturally result in increased energy use. In addition, a carbon tax was implemented by the Chilean government in January 2017.
- **Strategy and implementation:** We welcome the approval of Antofagasta's Climate Change Standard in 2016, aimed at mitigating climate change vulnerabilities such as higher temperatures and decreased precipitation in northern Chile, where Antofagasta[9] operations are situated. Antofagasta's strategy to limit GHG emissions is through improved energy efficiency and renewable energy sourcing. Energy efficiency initiatives are in place at all sites. Los Pelambres has secured renewable energy from conveyor belt self-generation as well as several wind and solar sources. The company aims to source 80% of its energy through renewables by 2019. That said, as production grows, GHG emissions will rise in the short term. The Group seeks to de-couple GHG emissions from production growth.
- **Performance:** 46% of energy use at the Los Pelambres mine, Antofagasta's flagship mine, is renewable. Renewable energy currently accounts for 17% of the company's total energy consumed. However, energy intensity and CO2 intensities are increasing due to the increasing use of seawater in mining operations. These intensities are, however, still lower than industry averages. CDP has upgraded their third-party assessment of Antofagasta's performance on climate change up to a B rating.

SASB Disclosure Topic: Community Engagement

A new community engagement model is poised to effectively manage community relations going forward.

- **Risk exposure:** Failure to effectively manage community relations could result in delays and cost overruns for the Group's development projects and impact the Group's social license to operate. The Los Pelambres mine has been the source of local community opposition resulting in production losses in 2015. The expansion of Los Pelambres has already been delayed by three years due to environmental permitting issues.
- **Strategy and implementation:** Antofagasta is securing its licence to operate and reducing project delays with a new participatory approach to community engagement. This approach has allowed them to resolve community disputes at Los Pelambres and is now being replicated across the region. Antofagasta's new community engagement model systematically identifies community controversies, challenges, and opportunities together with community stakeholders, building a shared vision of sustainable local development.
- **Performance:** Community engagement is still an area where we struggle to find meaningful metrics. Here, a more qualitative assessment of controversies and the degree to which the company engages with its stakeholders is necessary. The company has resolved disputes and secured agreements with the local communities, albeit with some minor opposition.

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A “Star” Company in Emerging Markets

We find Antofagasta’ risk/reward profile attractive given the supply and demand outlook for the copper mining industry. Antofagasta has good options for growth in copper output, and has limited downside risks due to a healthy balance sheet, a stable operating environment, and a strong focus on mitigating ESG risks. From an investor’s perspective, we are convinced that proactive management of ESG risks is necessary for long-term success in any business, and particularly in a high-risk business such as mining. The degree to which a company manages these risks is critical to the level of confidence we assign to the probability of returns further in the future. Management’s focus on reducing water consumption and improving water recycling rates gives us a higher degree of confidence in the company’s ability to guarantee future operations. Likewise, initiatives regarding energy efficiency and renewable energy production will generate operational cost savings that make Antofagasta[10] a more competitive copper producer. Finally, securing a social licence to operate further reduces potential downside risks related to project cancellation or delays we have seen with numerous mining companies in the region and globally. The SASB Standards have allowed us to evaluate our investment more thoroughly and conclude that Antofagasta understands and manages its material stakeholder risks. The company is well-positioned to take advantage of long-term, attractive demand we see in the copper market, driven in part by our transition to a “clean & green” world.

Click on the following link to view a summary of our on-the-ground engagement with Antofagasta in Chile: https://www.youtube.com/watch?v=dlyrs3LujYA&t=2s.

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