ESG Report

Nordea 1 – Emerging Stars Equity Fund

Third quarter 2021

Nordea
ASSET MANAGEMENT

Overview

Sustainability footprint

The sustainability footprint of EUR 100,000 invested in

Nordea 1 – Emerging Stars Equity Fund

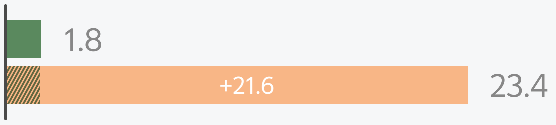
LU0602539602 (BP-USD) / LU0602539354 (BI-USD)

For illustrative purposes only

Nordea 1 – Emerging Stars Equity Fund | Illustrative Benchmark: NASDAQ Emerging Large Mid Cap Index

CO_2 emissions[1] **1.8 t**

Most of your savings are invested in companies that on average emit less CO_2 compared to their peers.



21.6 tonnes less than illustrative benchmark

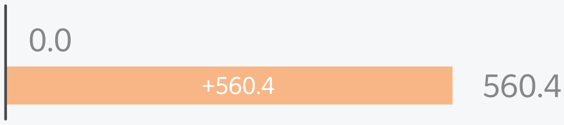
1) Measured as CO_2-equivalent greenhouse gas emissions

14.4

The equivalent of annual CO_2 emission from 14.4 cars

Underground oil, gas and coal reserves **0.0 t**

None of the companies in your portfolio own fossil fuel reserves, neither oil, coal nor gas.



560.4 tonnes less than illustrative benchmark

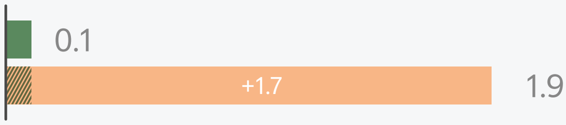
801x

CPH / BKK

Equal to 801 Copenhagen-Bangkok flights

Waste generation **0.1 t**

Most of your savings are invested in companies that on average produce less waste than their peers.



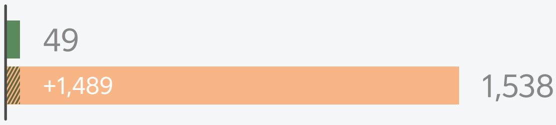
1.7 tonnes less than illustrative benchmark

249

Equal to approx. 249 waste bags avoided

Water usage **49 m^3**

Most of your savings are invested in companies that on average consume less water than their peers.



1,489 m^3 less than illustrative benchmark

10.3

The equivalent of the water used by 10.3 households

This sustainability footprint overview is prepared by NASDAQ based on analysis of **Nordea 1 – Emerging Stars Equity Fund's holdings as of 30.09.2021**. The analysis is based the equity investments in the fund and the holdings are compared to the **NASDAQ Emerging Large Mid Cap Index**, a broad market index **used as benchmark for illustrative purposes only and which does not correspond to the official benchmark of the fund**. The calculations are based on an example investment of 100,000 EUR, of which ca. 98% is invested in equities. For illustration purposes only. This overview does not constitute investment advice. Please note that the value of investments can go up as well as down and you might not get back the amount originally invested. Data & metrics are powered by Matter.

Overview of ESG characteristics

Corporate level ESG overlays of Nordea Asset Management

NAM's Responsible Investment Framework comprises a wide range of RI approaches. Some are decided and deployed at the corporate level – "overlays" – while others are product-specific and apply to solutions with a stronger ESG focus. The corporate "overlays" apply to all funds managed by NAM.

- Active ownership
- Corporate-level exclusion list
- Norms-based screening
- ESG integration
- Corporate level PAI

All of our funds are subject to minimum sustainability-related eligibility criteria. For example, we do not invest in companies involved in the production of controversial, illegal or nuclear weapons. Nor do we invest in companies with large and sustained exposure to coal mining, with a 10% revenue threshold on thermal coal, and a 30% revenue threshold on total coal (including metallurgical coal). Similarly, we exclude companies with large and sustained exposure to oil and gas extraction through oil sand with 10%, and arctic drilling with 5% revenue threshold.

Fund specific ESG characteristics

Industry exclusions

While engagement is always NAM's preferred approach, we have made a decision to exclude certain industries from our ESG enhanced STARS range

- Coal[2]*
- Nuclear weapons[6]
- Conventional[3] oil & gas / unconventional[4] oil & gas
- Conventional weapons**
- Controversial weapons[5]
- Tobacco*

* 5% revenue threshold on production ** 10% revenue threshold on production.

ESG labels[7]

ESG

LUXFLAG Label

SFDR classification: Article 8

The fund is categorised as an Article 8 product based on Sustainable Finance Disclosure Regulation (SFDR) and adheres to the below characteristics:

- Active Ownership and Engagement
- Enhanced exclusion filters and other limits
- ESG STARS strategy
- Exclusion list
- Norms-based Screening
- Paris Aligned Fossil Fuel Policy (PAFF)
- Principal Adverse Impact (PAI) integration

Find out more about RI at Nordea Asset Management:

» RI Policy

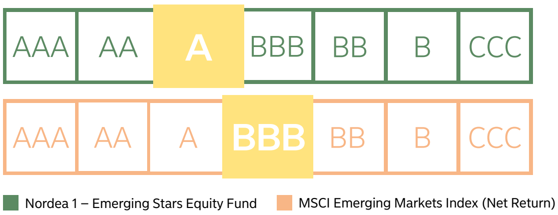
» Paris Aligned Fossil Fuel Policy (PAFF)

» Nordea's Exclusion list

2) By coal is meant the extraction of both metallurgical and thermal coal. 3) 0% revenue threshold. Refers to oil & gas exploration and production companies, as well as integrated oil & gas companies (BICS classification 135 and 136). 4) 0% revenue threshold on oil sands, shale oil/gas, hydraulic fracturing, and Arctic drilling. 5) 0% revenue threshold. Controversial weapons include anti-personnel mines, cluster munitions, depleted uranium, biological/chemical weapons, incendiary devices. 6) 0% revenue threshold. Production and development of nuclear weapons. 7) Forum Nachhaltige Geldanlagen (FNG-Siegel) recognises the Nordea 1 – Emerging Stars Equity Fund (3 stars), validity during 2021; Towards Sustainability recognises the Nordea 1 – Emerging Stars Equity Fund, validity 11.2020 – 11.2021; LuxFLAG ESG Label recognises the Nordea 1 – Emerging Stars Equity Fund, validity 01.10.2020 – 30.09.2021; Label ISR recognises the Nordea 1 – Emerging Stars Equity Fund, validity 22.11.2019 – 21.11.2022.

ESG overview

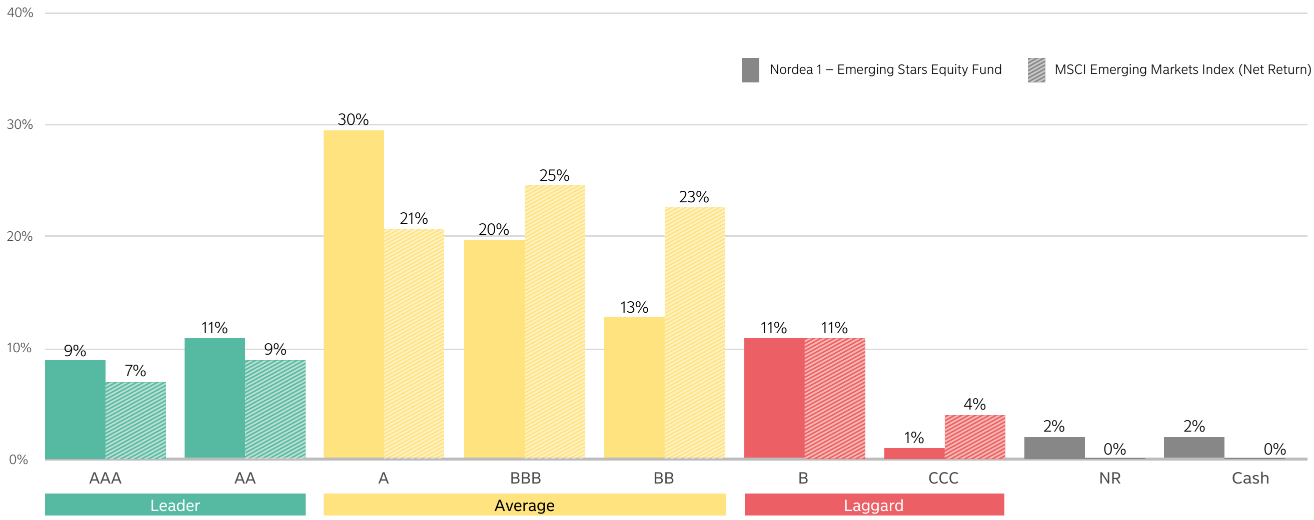
ESG rating[8]



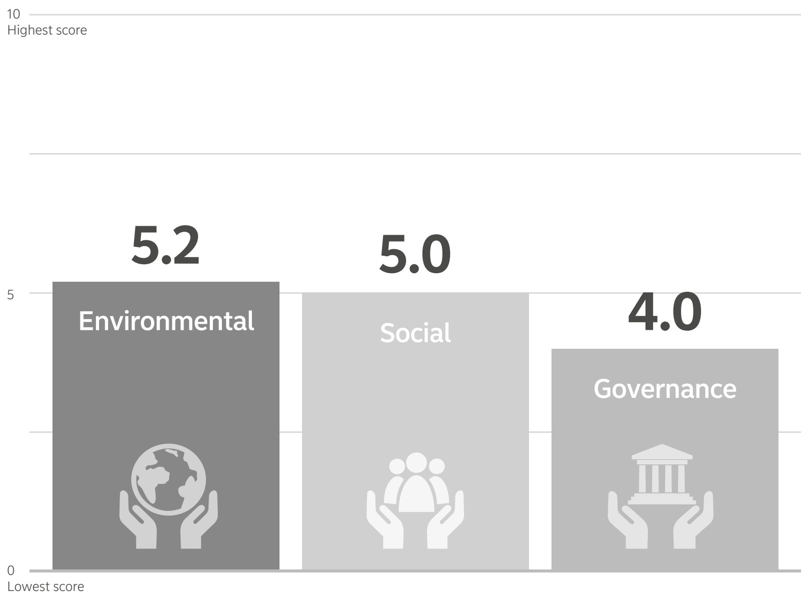
The ESG Rating assesses the resilience of a fund's aggregate holdings to long-term ESG risks. Highly rated funds consist of issuers with leading or improving management of key ESG risks.

Please note that the MSCI ESG rating is mainly backward looking, relying mainly on publicly available information and can differ from Nordea's internal ESG scoring which is based on a forward-looking approach.

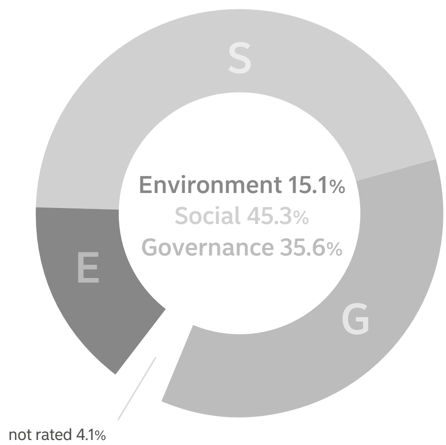
ESG Rating breakdown[8]



ESG scores by pillar[8]



ESG risk exposure[8]



8) ©2021 MSCI ESG Research LLC. Reproduced by permission.

ESG indicators

Environmental indicators

Nordea 1 – Emerging Stars Equity Fund   Benchmark[9]

Nordea 1 – Emerging Stars Equity Fund	Benchmark	Indicator
55 t	321 t	**Weighted Average Carbon Intensity (tCO_2e/USD million)** The WACI measures a portfolio's exposure to carbon intensive companies.
0.0%	6.1%	**Exposure to high impact fossil fuel reserves** The percentage of portfolio's market value exposed to companies that own high impact fossil fuel reserves.
0.0%	2.1%	**Exposure to environmental controversies** The percentage of portfolio's market value exposed to companies facing one or more very severe environmental controversies.

Social indicators

Nordea 1 – Emerging Stars Equity Fund	Benchmark	Indicator
0.0%	1.5%	**Exposure to human rights norms violation** The percentage of portfolio's market value exposed to companies in violation of international norms around human rights.
5.9%	8.0%	**Exposure to human rights controversies** The percentage of portfolio's market value exposed to companies facing one or more very severe human rights and community controversies.
0.0%	4.1%	**Exposure to labour controversies** The percentage of portfolio's market value exposed to companies facing one or more very severe labour controversies.

Governance indicators

Nordea 1 – Emerging Stars Equity Fund	Benchmark	Indicator
16.7%	19.3%	**Exposure to companies with no female directors** The percentage of portfolio's market value exposed to companies with no female directors.
65.9%	62.3%	**Exposure to companies with a majority of independent board members** The percentage of portfolio's market value exposed to companies with board independence above 50%.
9.9%	8.1%	**Exposure to governance controversies** The percentage of portfolio's market value exposed to companies facing one or more severe or very severe governance controversies.

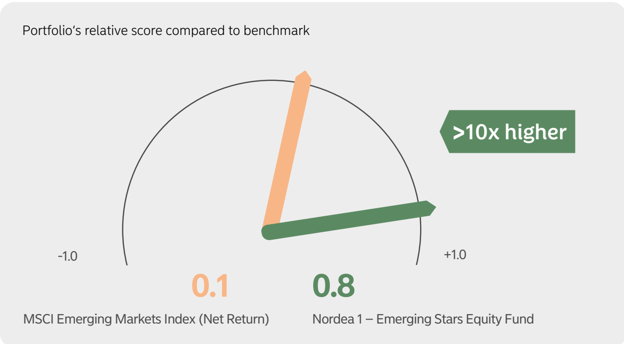
9) As measured by the iShares MSCI Emerging Markets ETF. Source: MSCI ESG Research LLC. as of 31.07.2021. ©2021 MSCI ESG Research LLC. Reproduced by permission. Portfolio coverage 99.57%.

Weighted Average Carbon Intensity based on MSCI Emerging Markets Net Return Index as of 30.09.2021. Scope 1&2. For further information on scope 1&2 please refer to the "Methodology – Sustainability footprint" section in the appendices of this report. This metric relies on carbon data gathered by Nordea Investment Funds S.A., MSCI Inc. and is based on the Swedish Fund Association's recommendation. Further information on the calculation approach is available at: nordea.lu/documents/esg---carbon-footprint-disclosure/ESG-CFD_eng_INT.pdf/. Source: Nordea Investment Funds S.A., MSCI Inc.

Contribution to SDGs

Total sustainability score (vs benchmark)

The chart below shows the contribution of the portfolio holdings products and services to both environment and social considerations compared to companies held in the benchmark. The contribution of the portfolio to the 15 objectives (social and environmental) is more than 10x higher than the benchmark.



The relative score is calculated as follow: (Portfolio net score) / (Benchmark net score). Should the score of the benchmark be close to zero the relative score multiple might be distorted. **Comparison with other financial products or benchmarks is only meant for indicative purposes.**

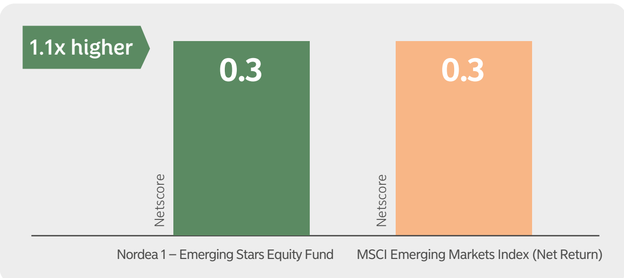
Top contributors

1. **Taiwan Semiconductor Manufacturing** (TW, Information Technology)
2. **AIA Group** (HK, Financials)
3. **Ping An Healthcare and Technology** (CN, Health Care)

Notes	
Benchmark	MSCI Emerging Markets Index (Net Return)
Portfolio coverage	86 %
Benchmark coverage	94 %
Portfolio holdings	44

Exposure to the 7 social objectives[10]

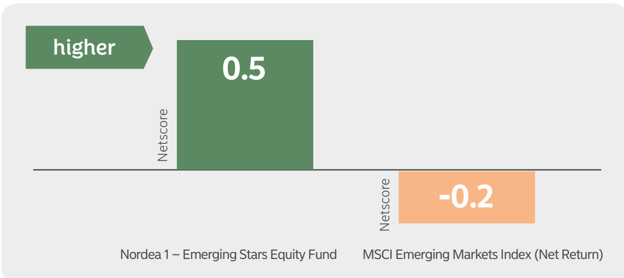
The contribution of the portfolio to the 7 social objectives is 1.1x higher than the benchmark.



Comparison with other financial products or benchmarks is only meant for indicative purposes.

Exposure to the 8 environmental objectives[10]

The contribution of the portfolio to the 8 environmental objectives is higher than the benchmark.



Comparison with other financial products or benchmarks is only meant for indicative purposes.

Top 3 social objectives

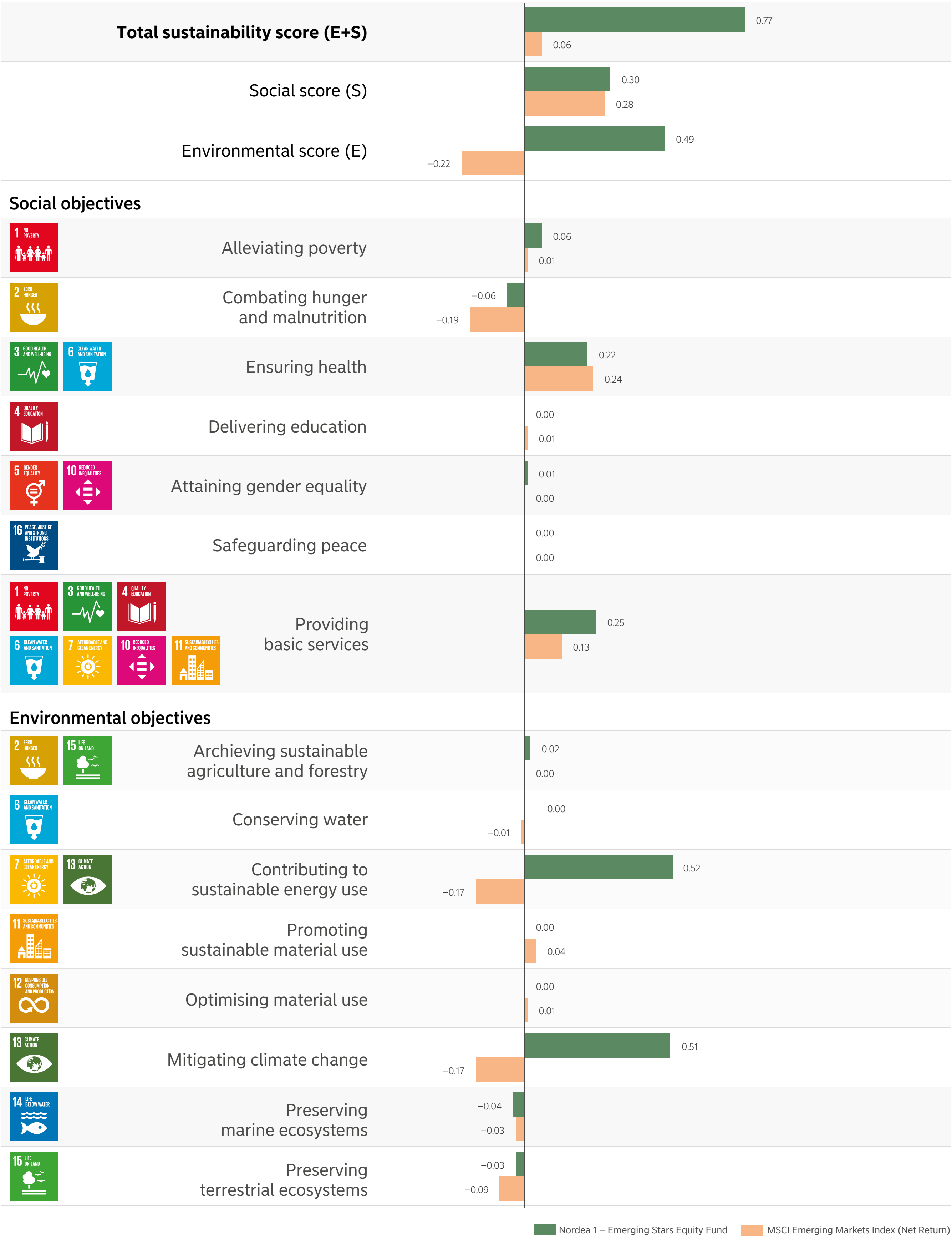
1. Providing basic services
2. Ensuring health
3. Alleviating poverty

Top 3 environmental objectives

1. Contributing to sustainable energy use
2. Mitigating climate change
3. Achieving sustainable agriculture and forestry

10) Please note that the total sustainability score is the sum of the social and environmental scores and may slightly differ due to rounding differences. Further information on SDGs is available at www.un.org/development/desa/en/news/sustainable/sustainable-development-goals.html. Sources: Nordea Investment Funds S.A., ISS-ESG, United Nations Sustainable Development Goals.

Sustainability score details



Comparison with other financial products or benchmarks is only meant for indicative purposes. The total sustainability score (E+S) represents the Overall SDG Solutions Score as defined by ISS-ESG. This score is based on the Social SDG Solutions Score (S) and the Environmental SDG Solutions Score (E). Please note that the Overall SDG Solutions score may slightly differ from the aggregated figures of the social and environmental scores due to rounding differences. Further information on SDGs is available at www.un.org/development/desa/en/news/sustainable/sustainable-development-goals.html. Sources: Nordea Investment Funds S.A., ISS-ESG, United Nations Sustainable Development Goals.

Active ownership

The aim of this section is to describe some of the voting and engagement activities over the last quarter for this specific fund. This tool, therefore, is not meant to be fully comprehensive, but to allow investors to follow-up on the fund's relevant active ownership activities.

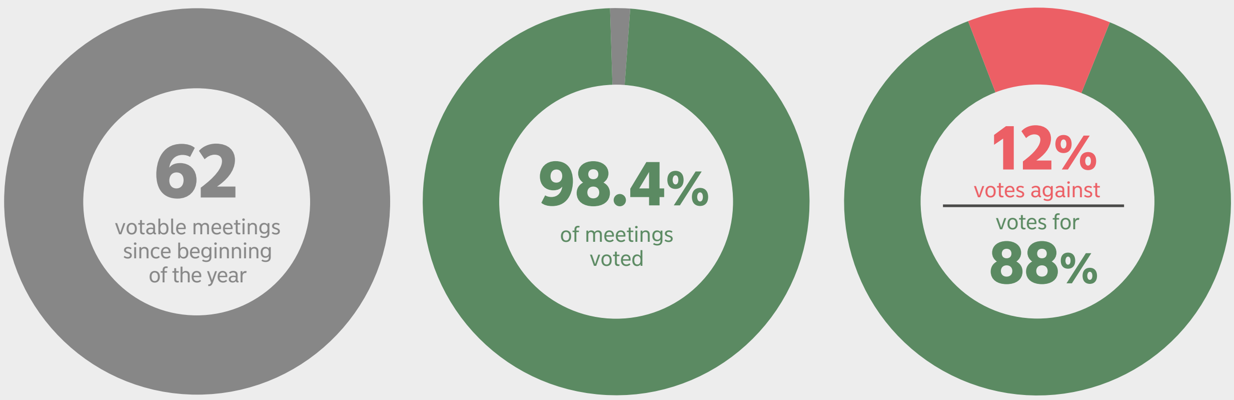
By adhering to Nordea's responsible investment policy, the fund excludes companies breaching international norms or involved in sectors we do not consider acceptable. However, excluding a company from our portfolios is always a last resort. Engagement is always our preferred approach and of paramount importance to NAM. We believe that active ownership is a powerful way to protect shareholder value, enhance long-term returns and foster positive change. Our active ownership efforts begin with voting on our holdings, attending Annual General Meetings (AGMs) and representation on nomination committees. Our publicly available Voting Portal shows how we have voted in AGMs for stocks held across our funds. Access to the Voting Portal as well as our Corporate Governance Principles can be found here.

Engagement is the next step of being an active owner and is a crucial component of our RI philosophy and framework. Our engagement activities fall into one or more of three different categories. The first type addresses companies that are in breach of international norms or conventions or those involved in ESG-related incidents. The second type relates to ESG-related risks or opportunities identified by portfolio managers and financial analysts via our company assessments. The third and final stream concerns our thematic engagements.

Engagement categories:

- **Norms- and incident-based engagement:** engaging with companies breaching the international norms or conventions or companies having ESG related incidents
- **Investment-led engagement:** engaging with companies on their material ESG risks
- **Thematic engagement:** engaging on specific sustainability themes in focus

Voting



Engagement cases

Havells India Ltd

Nordea ESG scoring[11]	Proxy Voting[12]	SDG Engagement	Engagement topic
B+	✓	13 Climate action	Environment – Climate

Overview

Havells India Ltd engages in the development and manufacturing of electrical and power distribution equipment. Their product range primarily includes switchgears, cables, lighting and other electrical consumer durable goods, such as fans, water heaters and other domestic appliances.

Background

Havells' manufacturing sites generally have certified environmental and energy management systems, which helps them mitigate the environmental impact of their operations and comply with relevant regulations. However, as a manufacturer of electrical equipment, Havells is also exposed to longer-term risks associated with waste management and greenhouse gas emissions, and their management of those risks is still under development. In November 2018, Havells announced a commitment to the Science-Based Targets Initiative (SBTi), to set an ambitious target for the reduction of greenhouse gas emissions. Ordinarily, companies that have made this commitment have 24 months to have their targets approved and published by the SBTi. Havells have not yet had any targets approved by SBTi, despite having passed the 24-month mark.

The Engagement

We met with the company to discuss their progress towards setting science-based greenhouse gas emissions targets, and sought to clarify why they had not yet communicated any target or reason for delay in setting one. We also discussed Havells' progress in addressing risks related to material sustainability and recycling, as well as resourcing in the company's ESG department as a potentially limiting factor in achieving the sustainability milestones that we would like to see.

Outcome

During our conversation about science-based targets, the company clarified that they have so far been unable to follow through on their commitment to set a verified target. They report that they have managed to reduce their emissions intensity by 47% since 2015, and have also recently implemented several concrete initiatives to continue reducing their greenhouse gas emissions. However, they are currently unable to quantify the size of emissions reductions that will result from this, and have therefore been unable to commit to a target. The primary reason for this limitation is that the company needs to further develop and strengthen their ESG department, to ensure that this is adequately staffed with professionals who are experienced in greenhouse gas accounting and other ESG topics. The company is currently in the process of onboarding new colleagues to this department, and will make greenhouse gas reporting a priority area, alongside an increased focus on circular economy and product recycling. We welcomed this focus, and advised that the company should also include further KPIs for the energy performance of sold products in their decarbonization strategy.

Meituan

Nordea ESG scoring[11]	Proxy Voting[12]	SDG Engagement	Engagement topic
B	✓	8 Decent work and economic growth	Social – Labour rights

Overview

Meituan is a Chinese e-commerce platform that connects consumers and merchants. The company owns an instant food ordering and delivery brand, and provides related services through its mobile application. The company's offering also includes other services for merchants, such as payment services, resource planning systems, supply chain solutions, reservations and tickers, and other products and services. Additionally, Meituan is engaged in the operation of a bike-sharing brand.

Background

For any company operating a food delivery service, one of the main ESG

11) Current scoring, based on Nordea proprietary ESG model. 12) Proxy voting refers to the last 12 month-period. Generally, we vote in annual reports and most of the Annual General Meetings (AGM) which occurs once a year. If there is no vote, it is generally because the fund was not invested at the time when the AGM took place.
Please find out more on nordea.com/sustainability or access directly the voting portal.

risks relates to the labour conditions for drivers and other delivery workers. Issues that are known to occur in this industry include low wages, undercalculated delivery hours, lack of insurance and other employment benefits, and high accident rates. Since 2018, Meituan has faced increasing scrutiny from regulators, media and investors over allegations of questionable labour standards. According to some reports, Meituan's delivery workers sometimes take several orders at once in order to compensate for low pay, resulting in rushed deliveries that lead to an increased number of traffic accidents. In the past year, Meituan, along with their online platform peers and labour service partners, have been cautioned by Chinese regulators over traffic safety concerns and the protection of labour rights for delivery workers who are not directly employed by Meituan.

The Engagement

We sent a letter to the company, requesting that they review and improve the working conditions for delivery workers. Amongst other things, we stated that this should include a review of the rider reward model, security improvements, heightened transparency around the delivery time algorithms, and the introduction of more flexible delivery times. The company had issued a statement saying it would modify its policies and algorithms that apply for delivery drivers. The proposed changes included a delivery time extension of 8 minutes, as well as a shift from order-based compensation to rewards that comprehensively consider reasonable order ranges and safety indicators. However, Meituan provided limited details around how they were planning to execute on these changes. Since this statement was released, the company has again been cautioned by regulators over the stringent time limits that are sometimes still imposed on delivery workers, and instructed by several Chinese ministries to ensure that labour rights are duly protected by setting up proper employment contracts with their delivery partners.

Outcome

During the quarter, Meituan made a significant stride towards addressing our concerns. They published the rules showing how their algorithms estimate the time allocated to completing a delivery, and announced that they would be adjusting them. This move towards greater transparency is yet to be replicated by many of Meituan's global peers in the food delivery industry, and the announcement was a significant move towards addressing outstanding deficiencies in labour conditions. Meituan also invited both delivery workers and outside experts to give feedback on how the algorithm could be improved, and we will continue to closely monitor this process. The company has already communicated that the changes will include greater flexibility for estimated delivery time windows as well as allowances for delivery workers to take account of delays caused by food vendors, and other factors that are outside their control. Additionally, Meituan has entered into a collaboration with the government to provide riders with employment injury insurance and will introduce compulsory breaks. We will continue advocating for improvements in these areas, and urge the company to also more actively address the working culture for office employees. Long office hours and limited work-life balance at Chinese technology companies can be a significant source of human capital risk, and one that we expect to see increased attention on from Chinese regulators.

Antofagasta

Nordea ESG scoring[11]	Proxy Voting[12]	SDG Engagement	Engagement topic
A	✓	13 Climate action	Environment – Climate

Overview

Antofagasta is one of the largest copper producers in the world, and the largest private mining group in Chile. The company operates four large copper mines in the northern and central parts of the country, two of which also produce other metals as by-products. Antofagasta also operates a transport division, which provides rail and road cargo services.

Background

The mining industry is exposed to significant sustainability risks, including risks related to worker safety, biodiversity protection, protection of human rights and livelihoods, and the energy and carbon intensity of production processes. At the same time, copper has become an essential metal for the clean energy transition due to its multiple properties, such as thermal and electrical conductivity and corrosion resistance. Copper is critical for solar panels, wind turbines, electric vehicles and battery storage, and is widely employed in the manufacture of electric cables and wires, plumbing, electronic equipment, and in the transport sector. Copper intensity in low-carbon technologies is much higher than in more traditional technologies, and record quantities of copper will be required to enable large-scale decarbonization of the global energy system. It is therefore key for us to see

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that Antofagasta is able to ensure that future copper production can be done in a way that curtails greenhouse gas emissions and other impacts to local people and environments.

The Engagement

We engaged with Antofagasta during to quarter to follow up on a longstanding dialogue on the company's efforts to reduce greenhouse gas emissions in their operations. Over the past few years, we have engaged with Antofagasta repeatedly on topics related primarily to water management, labour rights and worker safety, and climate risk. Over the course of these engagements, we have seen Antofagasta implement improvements and robust strategies across topics such as water management, mining safety, anti-corruption and labour relations, positioning the company as a clear ESG leader in several areas. As a result of our dialogues, Antofagasta have, amongst other things, committed to developing climate risk reporting in line with the recommendations from the Task Force for Climate-related Financial Disclosures (TCFD), and cited our feedback as one of the driving factors in this decision. They have also set and exceeded short-term targets related to greenhouse gas emissions and renewable energy deployment. As part of the plan to deliver on their climate commitments, the company's Board of Directors also added climate risk to their list of prioritised risk areas for the first time, and the Sustainability and Stakeholder Management Committee has drawn up its inaugural Climate Change Strategy, in recognition of the specific impact that climate change it can have on their operations and business sustainability. This time, our dialogue focused on the company's recent announcement that they are adopting new, longer-term carbon reduction targets and strategies. We also discussed the prospect for Antofagasta to adopt a framework for sustainable finance. The company has recently entered the bond market, and we had an exploratory dialogue around the relevance of green or sustainability-linked bond structures for future issuances.

Outcome

Antofagasta recently announced an ambition to further reduce their greenhouse gas emissions by setting a long-term target of being carbon-neutral by 2050, as well as reducing its total emissions by 30% by 2025. We sought to clarify both how they will concretely be able to deliver on those ambitions, as well as to discuss how we can ascertain the compatibility of these decarbonization ambitions with what science tells us is necessary to limit global warming to well below 2 degrees. The company informed us that the possibility of verifying these targets as science-based and aligned with national and international goals, is currently being analysed. Currently, the greatest challenge in this context is the company's ability to report on their indirect ("Scope 3") value chain emissions. The company is actively working on building their capabilities to report indirect emissions, which relies on close partnerships with both shipping companies and smelters. The first step in these partnerships is to ensure that the data is properly collected and reported throughout the value chain, and once that is in place, the subsequent step is to deploy a strategy for managing the decarbonization agenda across the value chain. In response to our earlier requests, the company will also soon be fully reporting in line with the TCFD recommendations, which include considerations for how the company's operations is aligned with various climate scenarios, including a well-below-2-degree scenario. We will remain in dialogue with Antofagasta about their climate strategy and progress on decarbonization. The advancements they have made across climate and other ESG topics led us to upgrade their ESG scoring from B+ to A during the quarter.

Appendix

Methodology – Sustainability footprint

CO_2e emissions

Shows annual greenhouse gas emissions produced directly by the companies in the underlying funds and from their consumption of energy (Scope 1+2).

This metric is calculated by relating the annual greenhouse gas emissions (in tonnes, translated into CO_2 equivalents) of the underlying companies to the weight of those companies (equity exposure) in the fund/portfolio and to the size of the invested amount. The comparison with the car emissions is based on data from EEA/ICCT on average emissions for new cars sold in EU in 2016.

Why do we measure the CO_2e emissions footprint:
While it is good to turn lights off to save energy, 20 companies have alone contributed to 35% of all energy-related carbon dioxide and methane worldwide, totalling 480bn tonnes of carbon dioxide equivalents ($GtCO_2$e) since 1965. (Source: The Guardian)

Fossil reserves

Shows the future potential CO_2e emissions if oil, gas and coal reserves owned by the companies in the underlying funds are extracted from the ground and burned.

This metric is calculated by relating the proven and probable resources of oil, gas and coal that the underlying companies have disclosed, to the weight of those companies (equity exposure) in the fund/portfolio and to the size of the invested amount. Please note that the calculation considers the lifetime CO_2e emissions (in tonnes) associated with these reserves. The comparison with number of flights is based on calculations from ICAO.

Why do we measure the fossil reserves footprint:
While the business of extracting oil, gas and coal from the ground emits large amounts of CO_2, an even larger amount is emitted when the resources are used as fuel. Extraction companies can therefore potentially cause future emissions by extracting reserves.

What are CO_2 equivalents:

Different greenhouse gasses that contribute differently to global warming. According to the GHG Protocol, they are all converted into one measure, CO_2 equivalents:

Greenhouse gas	CO_2 equivalent
Carbon Dioxide	1
Sulphur Hexaflouride	22.8
Methane	25
Nitrus Oxide	298
Hydro Flouro Carbons	2.400
Per Fluoro Carbons	7.850

What are Scope 1, 2 and 3 CO_2 emissions:

- Scope 1 are direct emissions from owned or controlled sources
- Scope 2 are indirect emissions from the generation of purchased energy
- Scope 3 are all indirect emissions that occur in the value chain of the reporting company, upstream and downstream

For instance, a car manufacturer: The car manufacturer emits CO_2e when assembling cars (Scope 1). The manufacturer's suppliers emits CO_2e to generate electricity for the manufacturer production of electricity (Scope 2). A rental car provider operates the cars and emits CO_2e over the product's lifetime (Scope 3).

Waste generation

Shows how much waste the companies in the underlying funds produce annually, that is either incinerated or disposed to landfill.
This metric is calculated by relating the annual waste generation (in tonnes) of the underlying companies to the weight of those companies (equity exposure) in the fund/ portfolio as well as the size of the invested amount. The comparison with number of waste bags considers that an average waste bag has 7kg and is based on data sourced from EU and Plast.dk.

Why do we measure the waste generation footprint:
With the current pace of plastic waste ending up in the oceans (equal to one garbage truck dumped in the oceans every minute), it is projected that by 2050, the total amount of plastic waste in the oceans will weigh more than all fish, and 99% of seabirds will have ingested plastics. Hence there is an urgent need to limit the waste. (Source: WWF)

Water usage

Shows how much water the companies in the underlying funds directly use or purchase annually.
This metric is calculated by relating the annual water use (in cubic meters) of the underlying companies to the weight of those companies (equity exposure) in the fund/ portfolio and to the size of the invested amount. The comparison with household usage is based on average European household water consumption data from Eurostat.

Why do we measure the water usage footprint:
The fashion industry is the third largest annual user of water globally after oil and paper, responsible for more than 10% of the water used by all types of industry. Depending on materials and production processes, fashion companies can reduce their water footprint. (Source: Common Objective/WWF)

Methodology – ESG overview

ESG rating

The ESG rating assesses the resilience of a fund's aggregate holdings to long-term ESG risks. Highly rated funds consist of issuers with leading or improving management of key ESG risks. Data provided by MSCI ESG Research LLC.

ESG rating breakdown

The percentage of portfolio's market value exposed to ESG leaders (best in class companies, rated AAA or AA), average ESG performers (rated A to BB), and ESG laggards (worst in class companies, rated B or CCC) relative to the fund's benchmark. Data provided by MSCI ESG Research LLC.

Portfolio ESG scores per pillar

The environment score represents the weighted average of all Key Issues that fall under the Environment pillar. The social score represents the weighted average of all Key Issues that fall under the social pillar. Starting with a "10", the governance score is based on the sum of deductions derived from key metrics included in the corporate governance (including ownership & control, board, pay and accounting) and corporate behavior (including business ethics and tax transparency) themes. Data provided by MSCI ESG Research LLC.

ESG risk exposure

The percentage of portfolio's market value exposed to environmental, social and governance key issues. Data provided by MSCI ESG Research LLC.

Environmental characteristics

Weighted average carbon intensity (WACI):
The WACI measures a portfolio's exposure to carbon intensive companies. Since companies with higher carbon intensity are likely to face more exposure to carbon related market and regulatory risks, this metric can serve as a proxy for a portfolio's exposure to potential climate change-related risks relative to other portfolios or relative to a benchmark.

Calculating a portfolio's WACI is achieved by calculating the carbon intensity (Scope 1 + 2 Emissions / $M Sales) for each portfolio company and calculating the weighted average by portfolio weight. Unlike the portfolio carbon intensity, carbon emissions are apportioned based on portfolio weights / exposure, rather than the investor's ownership share of emissions or sales. This measure is in line with the EU's non-financial reporting directive and TCFD (Task force for climate-related financial disclosure) recommendations. Emissions and sales values for equities is sourced from MSCI, and for bonds from ISS-ESG.

Exposure to high impact fossil fuel reserves (%):
The percentage of portfolio's market value exposed to companies that own high impact fossil fuel reserves. High impact fossil fuel reserves include thermal coal, oil sands, and shale oil and shale gas. Data provided by MSCI ESG Research LLC.

Exposure to environmental controversies (%):
The percentage of portfolio's market value exposed to companies facing one or more very severe environmental controversies related to energy & climate change, land use & biodiversity, toxic spills & releases, water stress, or operational waste. Data provided by MSCI ESG Research LLC.

Social characteristics

Exposure to human rights norms violation (%):
The percentage of portfolio's market value exposed to companies in violation of international norms around human rights. Data provided by MSCI ESG Research LLC.

Exposure to human rights controversies (%):
The percentage of portfolio's market value exposed to companies facing one or more very severe human rights and community controversies related to Impact on local communities, civil liberties, or human tights. Data provided by MSCI ESG Research LLC.

Exposure to labour controversies (%):
The percentage of portfolio's market value exposed to companies facing one or more very severe labour controversies related to child labour, collective bargaining, discrimination, health & safety, labour management, or supply chain labour standards. Data provided by MSCI ESG Research LLC.

Governance characteristics

Exposure to companies with no female directors (%):
The percentage of portfolio's market value exposed to companies with no female directors. Data provided by MSCI ESG Research LLC.

Exposure to companies with a majority of independent board members (%):
The percentage of portfolio's market value exposed to companies with board independence between 50%-100%. Data provided by MSCI ESG Research LLC.

Exposure to governance controversies (%):
The percentage of portfolio's market value exposed to companies facing one or more severe or very severe governance controversies related bribery, fraud, controversial investments, and governance structure. Data provided by MSCI ESG Research LLC.

Methodology – Contribution to SDGs

Description

This report highlights how portfolio companies - through their products and services - have positive and negative impact on a total of 15 sustainability objectives covering both Social and Environmental aspects. These objectives have been developed by ISS-ESG and closely aligned with the United Nations Sustainable Development Goals. The objectives include 7 Social and 8 Environmental objectives with scores ranging from -10 to +10. The results are then compared with the benchmark.

Please note that this report does not comment on the Governance aspect as we already report on such considerations in separate reports.

As the UN SDGs primarily target states and the public sector, not all goals are relevant for companies. For this reason, ISS-ESG defined a total of 15 sustainability objectives which are closely aligned with the SDGs. They are used to assess companies' product portfolios in terms of their contribution towards sustainable development based on their revenue weight. For each individual objective, a qualitative analysis is conducted to determine whether a product or service category contributes to or refrain from attaining the objective. As a result, the positive and negative effects of different product groups may partly cancel each other out within a given objective.

Further information on ISS-ESG and the methodology is available here.

List of the 15 overarching sustainable objectives

7 Social objectives

- Alleviating poverty
- Combating hunger and malnutrition
- Ensuring health
- Delivering education
- Attaining gender equality
- Providing basic services
- Safeguarding peace

8 Environmental objectives

- Achieving sustainable agriculture & forestry
- Conserving water
- Contributing to sustainable energy use
- Promoting sustainable buildings
- Optimising material use
- Mitigating climate change
- Preserving marine ecosystems
- Preserving terrestrial ecosystems

Please note that each portfolio and benchmark are assigned a score ranging from –10 to +10 based on the above 15 sustainable objectives. For the approach to be meaningful and sound we have assumed that the minimum coverage at the fund level should at least be 60%. This means that for a fund score to be meaningful at least 60% of its holdings need to have a score.

Complete list of SDGs:

Source: un.org/development/desa/en/news/sustainable/sustainable-development-goals.html

UN Sustainability Development Goals

UN Sustainability Development Goals	Corresponding ISS-ESG Sustainability Objectives
No poverty	– Alleviating poverty – Providing basic services (access aspect)
Zero hunger	– Combating hunger and malnutrition – Achieving sustainable agriculture and forestry
Good health and well-being	– Ensuring health – Providing basic services (access aspect)
Quality education	– Delivering education – Providing basic services (access aspect)
Gender equality	– Attaining gender equality
Clean water and sanitation	– Conserving water (quality and quantity aspect) – Ensuring health (sanitary aspect) – Providing basic services (access aspect)
Affordable and clean energy	– Contributing to sustainable energy use (clean aspect) – Providing basic services (access aspect)
Decent work and economic growth	–
Industry, innovation and infrastructure	–
Reduced inequalities	– Attaining gender equality – Providing basic services
Sustainable cities and communities	– Promoting sustainable buildings – Providing basic services (access aspect regarding housing, transportation)
Responsible consumption and production	– Optimising material use
Climate action	– Mitigating climate change – Contributing to sustainable energy use
Life below water	– Preserving marine ecosystems
Life on land	– Preserving terrestrial ecosystems – Achieving sustainable agriculture and forestry
Peace, justice and strong institutions	– Safeguarding peace
Partnerships for the goals	–

Note: Further information on SDGs is available at: www.un.org/development/desa/en/news/sustainable/sustainable-development-goals.html.
Source: ISS-ESG, United Nations Sustainable Development Goals.

Glossary

Active ownership

On behalf of its clients, NAM undertakes a range of engagement activities with companies, in order to affect and influence these to improve their environmental, social and governance practices, including promoting a long-term approach to decision-making. Our active ownership tools include voting, attending AGMs, standard setting, engagement with companies, filling resolutions etc. A detailed description of NAM's engagement processes can be found in the NAM RI Policy.

Engagement

A form of active ownership. The practice of shareholders entering into a dialogue with the management of companies to change or influence the way in which the companies are run.

NAM's engagement activities can be divided into three different categories:

1. **Investment-led engagements**: Engagement on ESG-related risks or opportunities identified by portfolio managers and financial analysts via our company assessments.
2. **Norms- and incident-based engagement**: Engagement with companies breaching the international norms or conventions or companies having ESG related incidents.
3. **Thematic engagements**: Focuses on companies' exposure to specific sustainability themes in focus. We have identifies 5 focus themes: biodiversity, climate, human rights, good governance, and water. We engage with these companies both individually and through collaborative engagements.

Enhanced exclusion filters and limits

Exclusions aim at limiting the investment exposure to certain sectors or activities that may be considered to be damaging for the environment and/or the society at large. Sector screenings assess a company's involvement in a specific activity measured by the revenue derived from this activity. Sector exclusions are the result of screenings based on the data and methodology of NAM's selected data vendors. Strategies are available with different exclusion filters including ethical filters targeting tobacco, alcohol, gaming, pornography etc. In addition, some products also feature targets or limits on carbon footprint/intensity relative to benchmark, targeted minimum ESG score or other exclusion lists like the so-called "NBIM list" of the Norwegian Government Pension Fund Global or the Carbon Underground 200 list.

Environmental, Social and Governance (ESG)

Environmental (E), Social (S), and Governance (G) refer to the three main areas of analysis in modern responsible investment. ESG risks and opportunities are identified through careful analysis of a company´s operations. Environmental criteria look at how a company performs as a steward of the natural environment. Social criteria examine for instance how a company manages relationships with its employees, suppliers, customers and the communities where it operates. Governance deals with a company's leadership, executive pay, audits, internal controls and shareholder rights.

ESG integration

The explicit inclusion of ESG risks and opportunities into traditional financial analysis and investment decisions based on a systematic process and appropriate research sources. This considers ESG factors alongside financial factors in the mainstream analysis of investments. The integration process focuses on the potential impact of ESG issues on company financials (positive and negative), which in turn may affect the investment decision.

ESG STARS strategies

The ESG STARS product range uses NAM's proprietary ESG scoring system and bespoke analysis carried out by the Responsible Investment team and financial analysts.

The strategies focus on selecting companies, not only with sound fundamentals, but also with high ESG scores. Using the SASB materiality map, company analysis includes enhanced due diligence on environmental, social and governance risks material to the company, and considers how companies manage their identified ESG risks. Furthermore, each company's business model alignment with the SDGs is taken into consideration, as the strategies' exposure aims to skew towards companies whose activities are net supportive or neutral, rather than detracting towards the SDGs. ESG scores are recalibrated regularly and at least annually, or if triggered by relevant negative or positive events. The ESG model sources data from several external data providers as input for the ESG score.

Exclusion list

NAM excludes companies involved in serious breaches of international norms, where engagement is deemed not to be possible or effective. For example, we ban investment in companies active in the production of controversial weapons, including – but not limited to – cluster munitions and anti-personnel mines, as well as nuclear weapons. NAM also does not invest in companies deriving more than 10% of their revenues from thermal coal, and excludes companies involved in the production fossil fuels with thresholds for revenues coming from oil sands (10%) or arctic drilling (5%).The NAM level exclusion list can be found here.

Integration of Principal Adverse Impact (PAI)

The environmental and social impact of the activities of all NAM investee companies is assessed on an ongoing basis through our firm-level PAI integration. Companies identified as outliers on one or more PAI indicators, are analysed further which may result in a recommendation for action. NAM's disclosure statement on the integration of Principal Adverse Impact indicators can be found here.

Norms-based screening

NAM's investment products are subject to norms-based screening, which identifies companies that are allegedly involved in breaches of international laws and norms on environmental protection, human rights, labour standards and anti-corruption. If a company is identified in this screening process, an internal assessment of the company and the incident is initiated. Typical actions can consist of engagement, quarantine or exclusion. For more information please refer to the NAM RI Policy.

Paris Aligned Fossil Fuel Policy (PAFF)

In addition to the firm-wide exclusion list, a substantial and growing part of NAM's strategies is also subject to our Paris-Aligned Fossil Fuel Policy (PAFF), which sets thresholds for companies' exposure to fossil fuel production, distribution and services and excludes companies that are involved beyond these thresholds if they do not have a documented transition strategy that aligns with the Paris agreement. Funds for which the PAFF is not implemented as a hard exclusion criterion, the PAFF acts as guidance for engagement. PAFF criteria also inform the prioritisation of our top-down thematic engagements. The PAFF policy and list of Paris-aligned issuers can be found here.

Sustainable Development Goals (SDGs)

The Sustainable Development Goals (SDGs) are a collection of 17 global goals set by the United Nations General Assembly in 2015. The SDGs are part of Resolution 70/1 of the United Nations General "Transforming our World: the 2030 Agenda for Sustainable Development". The goals are an urgent call for action by all countries – developed and emerging – in a global partnership. They recognise that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all the while tackling climate change and working to preserve our oceans and forests.

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