

Nordea
ASSET MANAGEMENT

Less than 250 days to go

Are advisors ready for the
MiFID and ESG challenge?

2021 ESG Survey

Nordea Asset Management

Nordea Asset Management (NAM) is part of the Nordea Group. We are an active asset manager with a global business model, offering services to clients in Europe, the Americas and Asia. Our clients include a range of wholesale and retail fund distributors, as well as a wide diversity of institutional clients. We distribute our funds through banks, asset managers, independent financial advisors, insurance companies and family offices and work with many of the leading global wealth managers. We manage investments across the full spectrum of asset classes. Sustainability is deeply rooted in our Nordic corporate culture, business model and philosophy: **returns and responsibility**

We launched our first ESG sector-screened funds in 1988, before the idea of “ESG” was on most investors’ radar, and we were an early signatory to the UN Principles for Responsible Investment (PRI) back in 2007. Over past 30 years, we’ve worked diligently to enhance our ESG offering, which now includes both equity and fixed income solutions that aim to have a positive impact while delivering attractive returns. To stay at the forefront of ESG investment, we have built an award-winning Responsible Investment team, one of the largest in Europe in terms of pure ESG analysts. The team’s efforts, including engagements, field trips and ongoing dialogues, were recently recognized at Sustainable Investment Awards 2020 where we won ‘ESG engagement initiative of the year’ for our long-term engagement with the pharmaceutical industry in India. We take sustainability matters seriously not only because we believe it is our duty to do so, but also because we are convinced this is good for the investments we manage on behalf of our clients.

*Nordea Asset Management it is the functional name of the asset management business conducted by the legal entities Nordea Investment Funds S.A. and Nordea Investment Management AB and their branches, subsidiaries and representative offices. Nordea Investment Funds S.A. is the management company and Nordea Investment Management AB is the investment manager of all funds belonging to NAM.

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Are advisors ready for the
MiFID and ESG challenge?



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Introduction

Last year was 'the year of ESG' according to The Financial Times, with assets in the 'environmental, social and governance' (ESG) space reaching a record high of USD 960bn by the end of the year. This explosive growth is an ongoing process that steadily brings new challenges and opportunities.

ESG investors have been focusing heavily on the environment ("E" issues), but Covid-19 is changing that. The pandemic is exposing social ("S") issues like inequalities in healthcare, access to medicine and education, treatment of workers and other social problems that urgently need to be addressed. The recent social inequality demonstrations – which have primarily been driven by younger generations – have magnified awareness around this theme. Now is the time to act. There is a real desire among investors to put capital to work in this space.

At the same time as consumer focus on sustainability is rising, the asset management industry is being driven to change by the EU's roll-out of new financial regulations around ESG. As of the 2nd of August 2022, financial advisors will have to be able to offer MiFID-eligible ESG portfolios to clients with sustainability preferences. That means now more than ever financial advisors need the proper ESG knowledge and tools to meet client expectations.

The crucial questions now are: Are advisors ready to comply with new MiFID regulation, do they understand the needs of a new generation of clients, and can they offer relevant quality advice?

In order to answer these questions, we carried out an ESG Survey to understand the sustainability-related goals, and the expectations of financial advisors' clients across 5 European markets: Germany, Spain, Italy, France and Switzerland*. In this 2021 edition we have aimed to grasp clients' attitude towards ESG investing in several strategic domains: sustainability, knowledge and approach to ESG investing, ESG drivers, allocation trends and barriers; role of advice and how to increase ESG uptake.

The Nordea ESG Survey 2021 gathered the views of 1,200 European individual investors on ESG and sustainable investing via an online survey conducted by CoreData Research between July and August 2021. Participants are classified into 4 different generations: Gen Z (age: 18-24), Millennials (25-40), Gen X (41-56), and Baby Boomers (57-75). They are also split into ESG users (currently investing in ESG, 43%) and ESG non-users (currently not investing in ESG, 57%).

All individual investors interviewed currently use a financial adviser.

*Please note Switzerland's advisors are not subjected to MiFID II regulation.

Executive Summary

Clients now recognize sustainability as a financial risk

89% consider sustainability a challenging issue for society

77% believe their investment decision could make a difference in creating a more sustainable society

69% are aware that challenges around sustainability can impact their investments

ESG clients are hungry for more

76% have increased their ESG investment in the past 12 months

72% are satisfied with the performance of their ESG investment

71% plan to increase their ESG allocation over the next 12 months

Climate change is still in focus but social challenges are the next trend

63% consider global warming to be their primary concern

55% believe climate change will be the most investable megatrend over the next 5 years

45% of Gen Zs selected human rights as the most investable megatrend over the next 5 years
(only 34% chose climate change)

Advisors play a crucial role, but they haven't kept the ESG – MiFID pace

73% identified their advisor as their main source of ESG information

96% of investors trust that advisors know about ESG

62% has never received an ESG proposal from their advisor. With new changes to MiFID II coming into force next year, this is a huge opportunity

Advisors should up their game to be ready for the new MiFID and ESG challenges

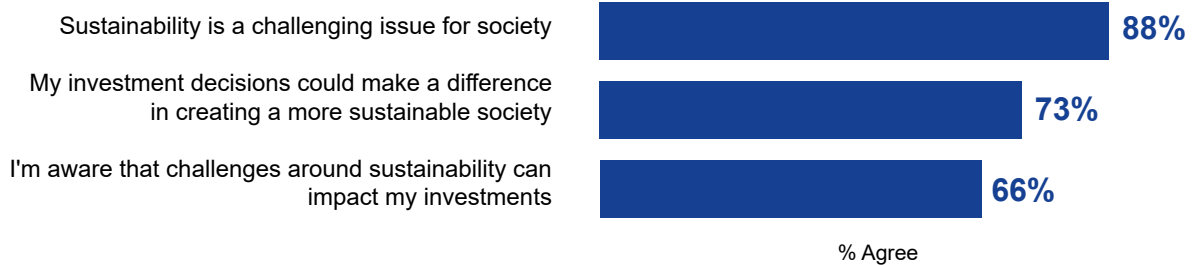
39% of clients surveyed identified a lack of knowledge and expertise as the greatest hurdle to ESG investing

81% say they need clearer and simpler explanation of ESG products

73% want new ESG products which, according to the new regulations, must be MiFID-eligible

Highlights: Germany

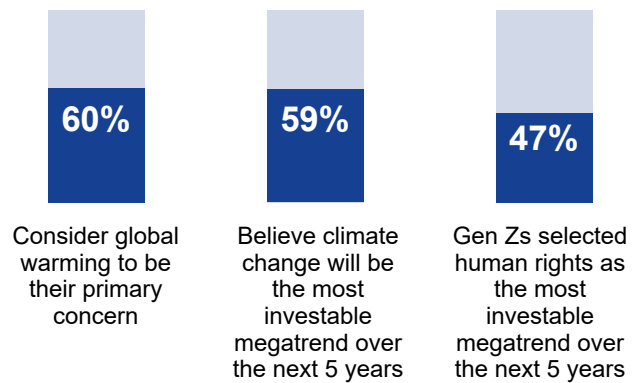
Clients now recognize sustainability as a financial risk



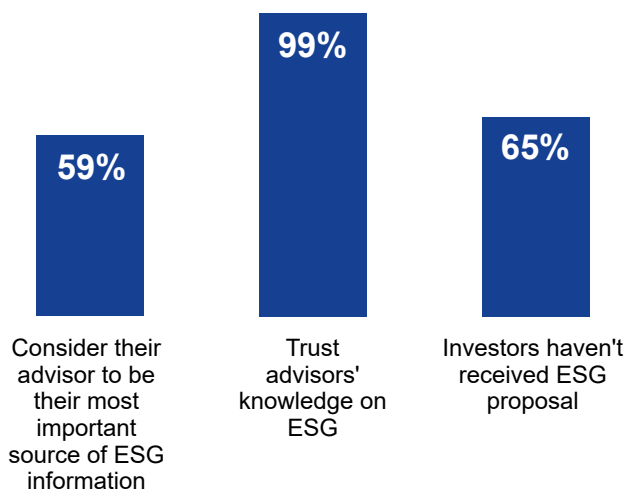
ESG clients are hungry for more



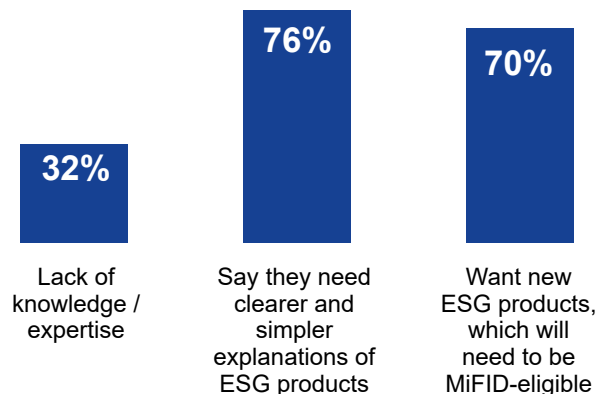
Climate change is still the focus right now, but social challenges are the next trend



Advisors play a crucial role, but they haven't kept the ESG - MiFID pace

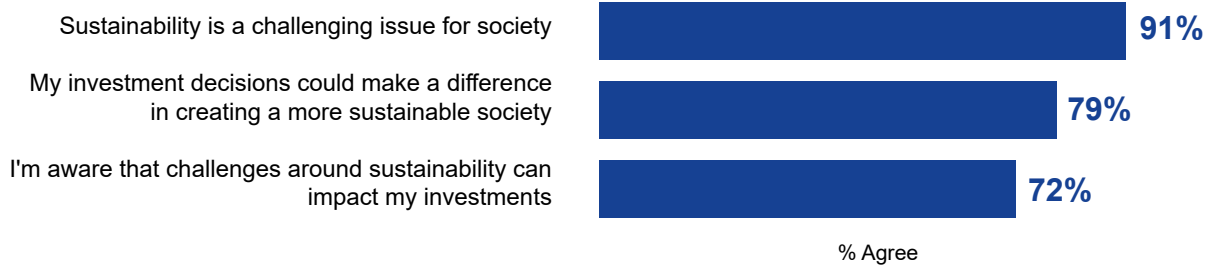


Advisors should up their game to be ready for the new MiFID and ESG challenges



Highlights: Italy

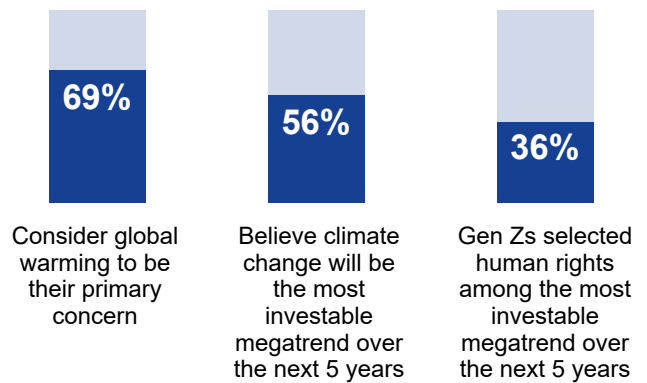
Clients now recognize sustainability as a financial risk



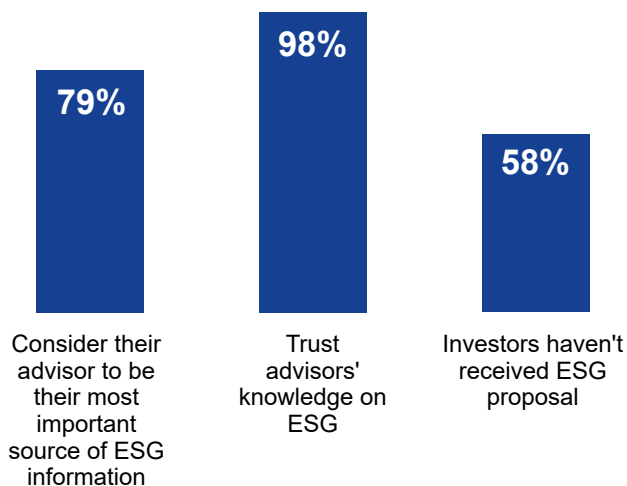
ESG clients are hungry for more



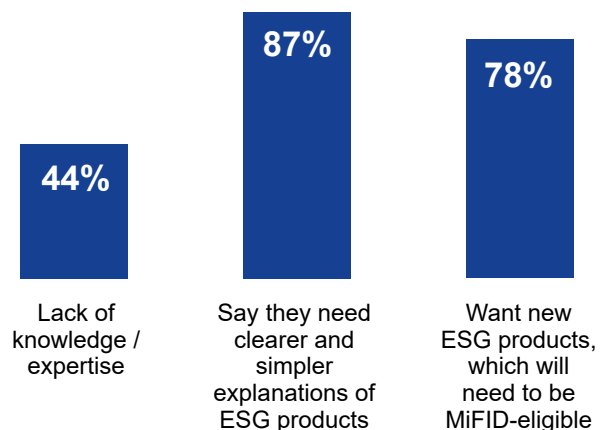
Climate change is still the focus right now, but social challenges are the next trend



Advisors play a crucial role, but they haven't kept the ESG - MiFID pace

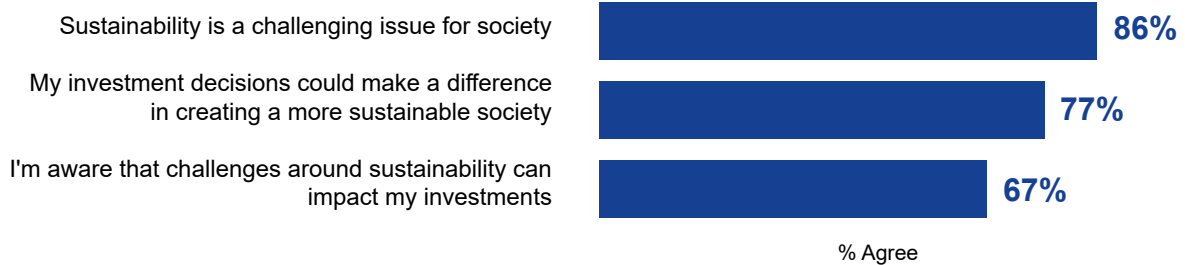


Advisors should up their game to be ready for the new MiFID and ESG challenges



Highlights: Spain

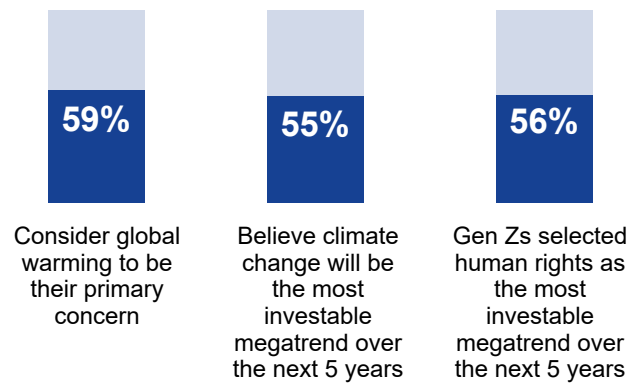
Clients now recognize sustainability as a financial risk



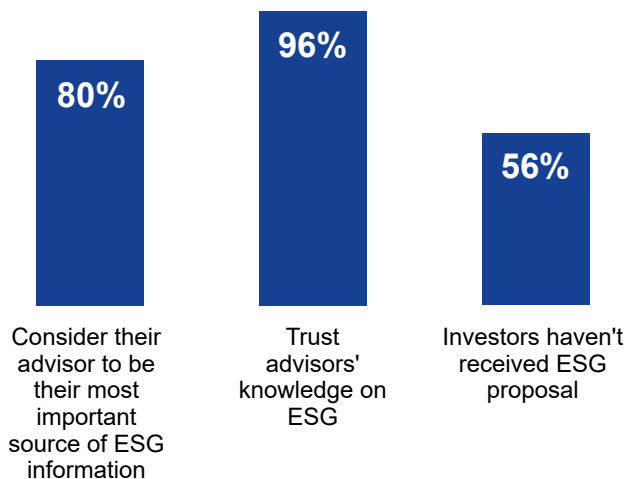
ESG clients are hungry for more



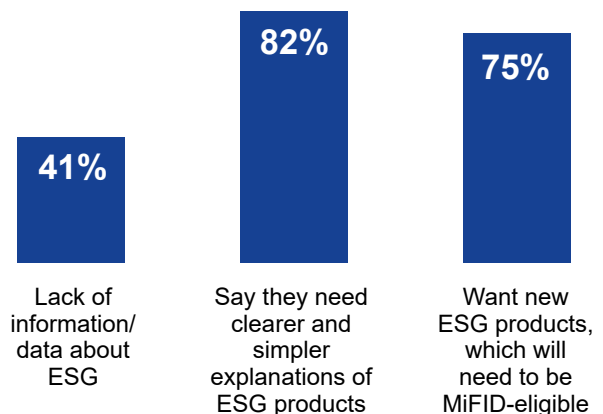
Climate change is still the focus right now, but social challenges are the next trend



Advisors play a crucial role, but they haven't kept the ESG - MiFID pace



Advisors should up their game to be ready for the new MiFID and ESG challenges



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1

**Clients are moving
from talk to actions**

Sustainability tops clients' agendas

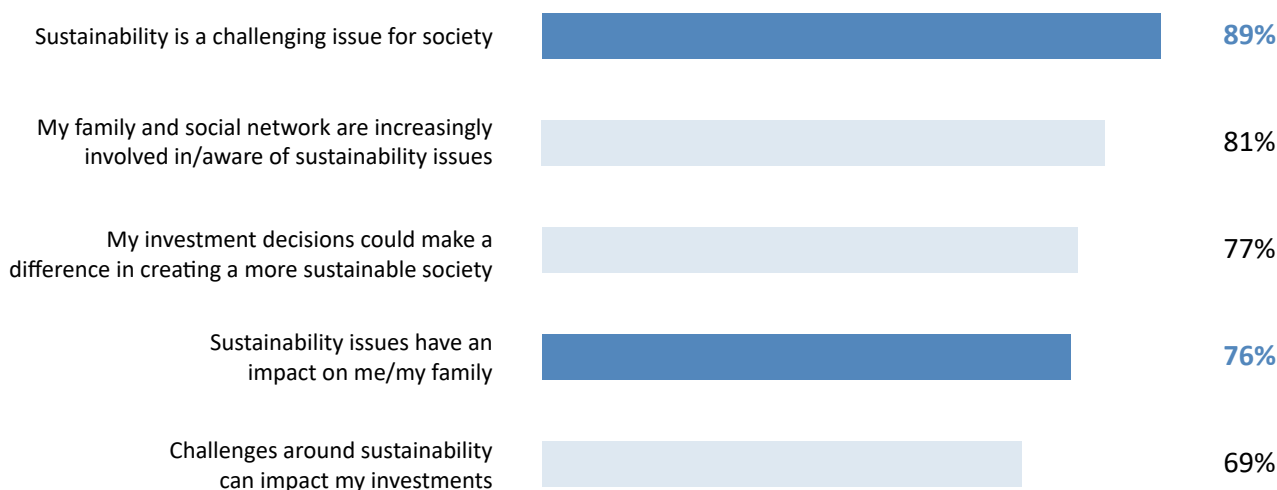
Almost all European investors (89%) acknowledge sustainability is a challenging issue for society. This sentiment is elevated among all age groups but is more pronounced among older generations. These investors appreciate the critical role climate change, social issues and sustainability play in our world today. This understanding extends beyond the individual persons as more than eight in ten (81%) say their family and social network are increasingly involved in, and aware of, sustainability issues. More Millennials and Generation X investors agree with this, reflecting the notion that they may currently be more closely linked to their families and social networks.

Further, over three-quarters (76%) say sustainability issues have an impact on them/their family life. A lower percentage of Generation Z investors agree with this.

Investors' concern around sustainability is leading to almost three-quarters (74%) taking small actions in their daily routines to make a difference. Such activities could include saving water while brushing their teeth and waste separation. A higher proportion of the older generations do this (84% Baby Boomers; 74% Generation X).

72% are adapting their consumption behaviour by eating locally, recycling and buying fewer clothes etc. This is also more prevalent among the older cohorts under review. Further, more than half (53%) are adapting the way they travel by switching to electric vehicles, taking public transport and cycling to work etc. Here, Generation X leads (58%).

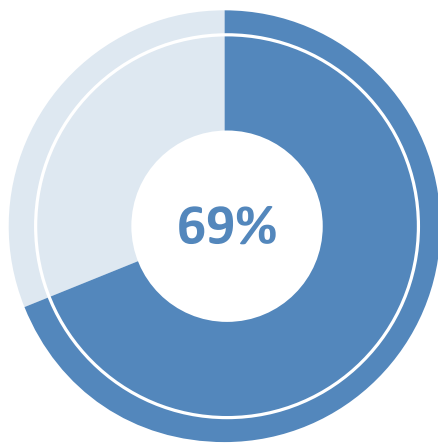
Clients' perception of sustainability



Q1. Please state whether you agree or disagree with the following statements about sustainability.

The new financial connection

Clients who agree that challenges around sustainability can impact their investments.



Sustainability issues are seen as a risk by clients as more than two-thirds (69%) see that challenges around sustainability can impact their investments.

However, fewer than half of the sample population (46%) expresses the motivation to invest in financial products which take sustainability into consideration. Nevertheless, even though this is slightly lower than the other actions under review, the result still represents significant drive to invest in such strategies. More Millennials show this willingness (49%), while this is lowest among Generation Z (38%).

Q1. Please state whether you agree or disagree with the following statements about sustainability.

Crucially, investors say they understand the positive impact their investments can have: **More than three-quarters (77%) believe their investment decisions could make a difference in creating a more sustainable society.**

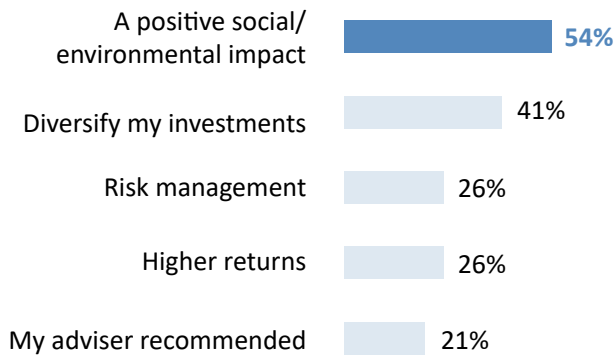
Clients who believe their investment decisions could make a difference in creating a more sustainable society.



Q1. Please state whether you agree or disagree with the following statements about sustainability.

Millennials (80%) and Generation X (77%) are the two groups most likely to believe this. Investors in these cohorts are likely to be in the accumulation part of their wealth journey and therefore believe their investment has the potential to be more tangible.

Clients who agree that challenges around sustainability can impact their investments.



Q11. What do you consider as the top 3 drivers for investing in ESG? Select up to 3 answers.

Investors highlight the desire to create a positive social and environmental impact as the main driver for investing in ESG (54%).

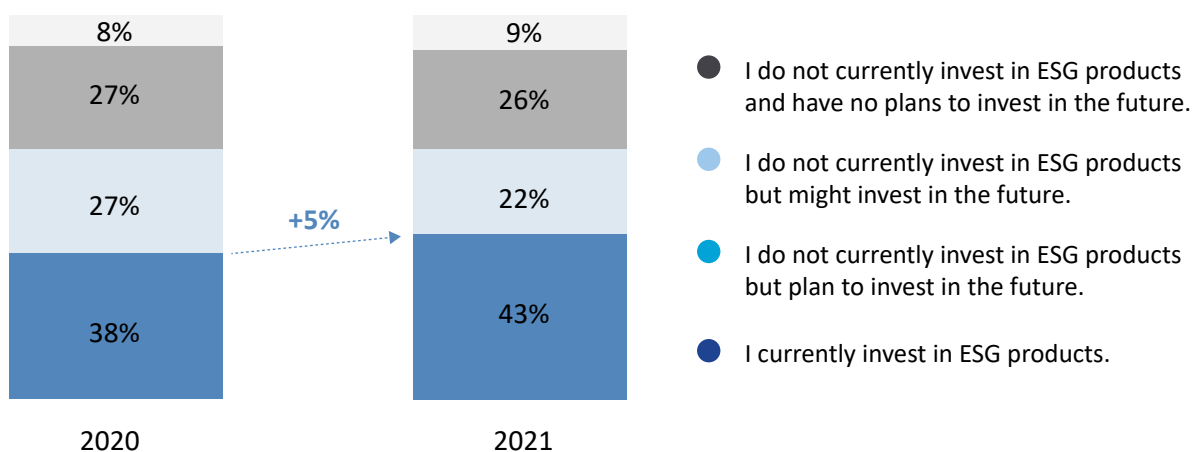
The diversification offered by such investments comes in second (41%). The results show the drive to achieve higher return is given less prevalence as it ranks third, along with risk management (both 26%). The need for enhanced returns is more pronounced among the middle two age groups – Millennials (30%) and Generation X (30%). Once again, this most likely reflects the accumulation phase of their investment lifecycle they currently find themselves in.

Intentions are being translated into investments as the proportion of European respondents investing in ESG products increased from 38% in 2020 to 43% in 2021.

ESG investment has increased most markedly among wealthier asset owners as more of those with €500k-€1m register a rise in ESG holdings (62% in 2021 vs. 51% in 2020).

The need for investor guidance and training in the realm of sustainability is clear.

Number of ESG investors increased by 5% in the last 12 months



Q8. Have you, or would you, invest in ESG products? Select one answer only. Italy was not included last year.

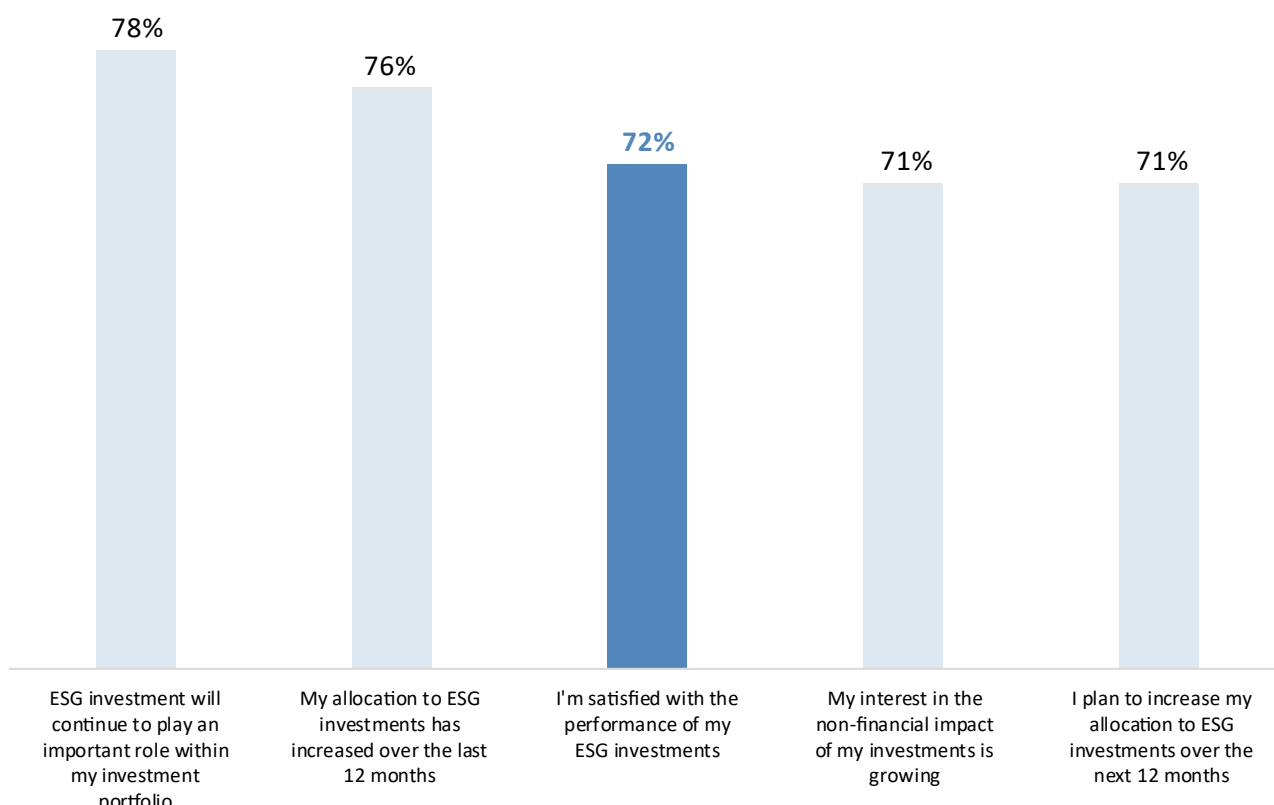
ESG investors are hungry for more. An opportunity to seize.

The majority of European investors currently invested in ESG (72%) are satisfied with the performance of their ESG investments. This high level of satisfaction is further supported by the three-quarters (76%) who have increased allocations to ESG over the last 12 months and the **71% who plan to do so within the coming 12 months.**

In line with these findings, 78% say ESG will continue to play an important role in portfolios in addition to rising interest in the non-financial impact of their investments (71%).

Millennial investors report higher performance satisfaction and are the most likely to have increased their allocations in the past 12 months (80%). Generation X are those who most intend to raise their allocations in the coming year (75%), followed closely by Millennials (74%). This data reinforces the narrative which reveals stronger ESG investment sensibilities within these groups.

Client feedback on ESG investing

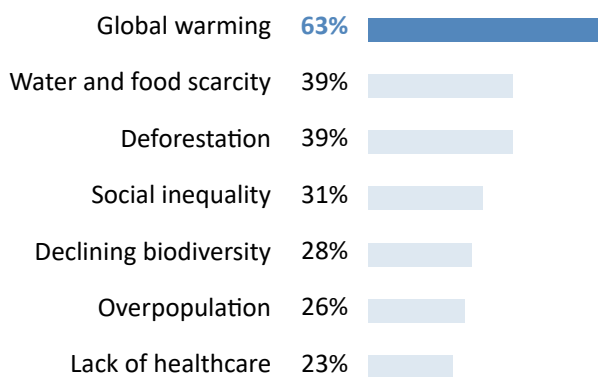


Q12. To what extent do you agree or disagree with the following statements?

Breaking down the sustainability megatrend

Over the last decade environmental issues have steadily impacted society and businesses attesting to the reality of a connection between these issues and portfolio performance. Increasingly globalized workforces and supply chains are putting enormous pressure on businesses at the local level, and the rise of new world powers is intensifying the competition for natural resources. These factors are magnified by rising public and governmental concern about climate change, pollution, equality and social justice, biodiversity and healthcare. Consumers across markets are seeking out sustainable products and services and are showing support for companies that are improving ESG performances. These forces can be interpreted both as risks or opportunities.

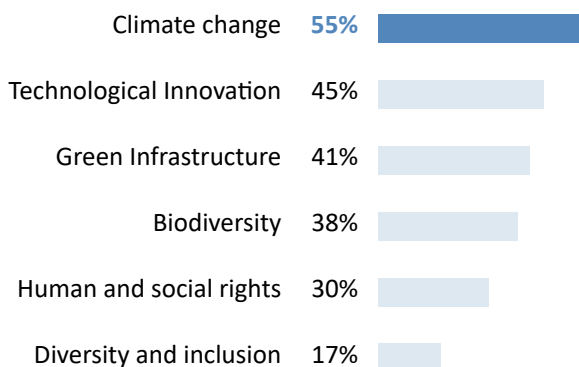
Sustainability concerns



To the question “what are the 3 top sustainability-related risks that concern you the most” **more than six in 10 European investors (63%) point to global warming as the most concerning sustainability-related risk.** They also raise concern regarding water and food scarcity (39%) and deforestation (39%). Millennials and Generation X investors exhibit the highest levels of anxiety related to global warming as more in both groups say this is a concern. Arguably, this may be because climate awareness began rising when members of Generation X were young and Millennials were, in turn, raised in an environment of heightened recognition of this issue.

Q2. What are the top 3 sustainability-related risks that concern you most? Select up to 3 answers.

The central role of climate change megatrend



This focus on climate change also leads to opportunity. **In fact, investors say climate change represents the most attractive investment opportunity in the next five years. The areas pegged for investment are climate change (55%), technological innovation (45%) and green infrastructure (41%).** These megatrends offer the most attractive investment opportunities, according to investors.

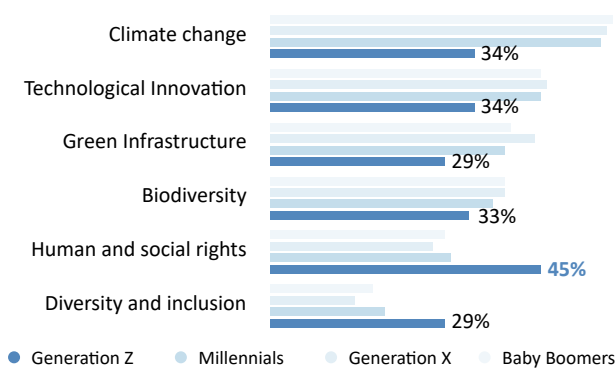
Q18. In which megatrend would you consider investing (more) in the next 5 years? Select up to 3 answers.

Governments, businesses and investors recognise the relevance of environmental issues and this is being reflected in policy and practice. The “S” (social element of ESG), however, has been somewhat overlooked, with the majority of inflows aligned with the United Nations’ Sustainable Development Goals (SDGs) finding their way to environmentally focused funds.

Covid-19 magnified awareness surrounding the ‘S’ in ESG, exacerbating many existing societal issues in areas such as healthcare, education and employee working conditions. Recent social justice demonstrations – primarily driven by the younger generations – have also shone a spotlight on the importance of the “S”.

But this is changing, particularly in light of the Covid-19 pandemic.

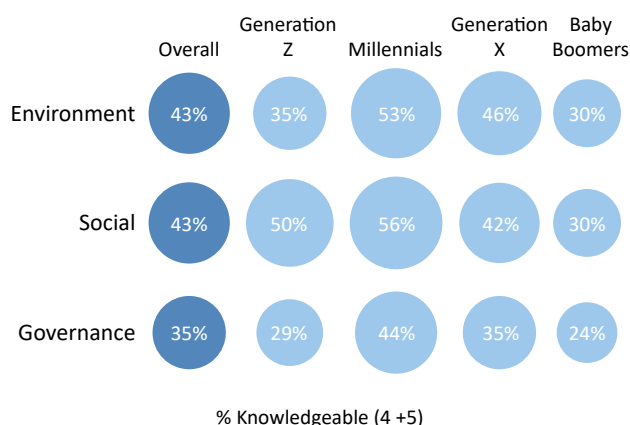
The investable megatrend over the next 5 years for Gen Zs.



This social dimension is clearly a priority for younger investors; Generation Z respondents view “S” investing as the next megatrend. More investors in this group consider human rights to be the most significant investment opportunity (45%). They also show a stronger interest in diversity and inclusion (29%).

Q18. In which megatrend would you consider investing (more) in the next 5 years? Select up to 3 answers.

Knowledge level on the ESG three components



We have observed that investors who have tended to focus on the ‘E’ aspect of responsible investment are now shifting their attention to the ‘S’. This observation is supported by the finding that investors feel they understand these two issues more than they comprehend the ‘G’ factor.

43% rate themselves as knowledgeable when it comes to the environmental and social dimensions of investing. This compares to 35% who feel the same way about governance concerns.

Q5. Please rate your knowledge of the three ESG components in terms of how they relate to investing. Rate on a scale of 1-5 where 1 = No knowledge at all and 5 = Expert knowledge

2

ESG talks with clients: From nice to have to must have



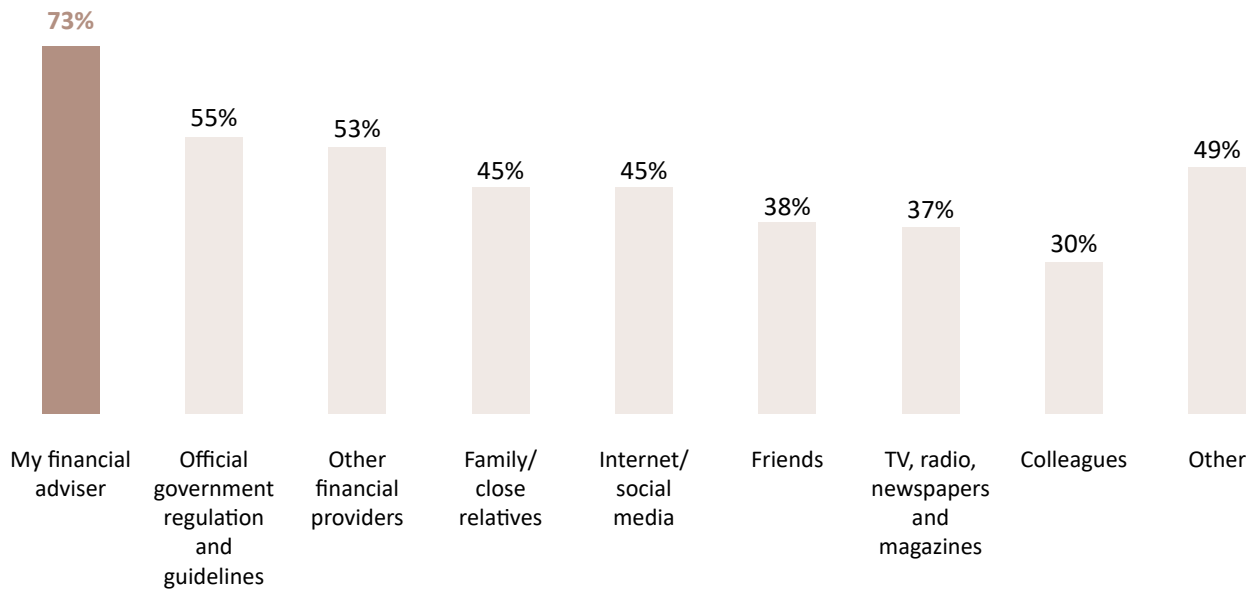
The key role of financial advisors

Financial advisors will continue to play a crucial role in the European fund distribution landscape. With advisors seen as the primary source of financial knowledge, they need to feel comfortable talking about ESG with their clients.

Investors consider their financial advisers to be their most important source of ESG information. **Almost three-quarters of investors (73%)** rank their financial adviser as important – ahead of all other options considered. This preference is high across all age groups, peaking among Generation X (75%).

In August 2022, financial advisors will be required ask their clients what their sustainability preferences are. With investors keen on investing more in ESG solutions, the role of financial advisors in providing clients with MiFID-eligible ESG solutions will become even more crucial.

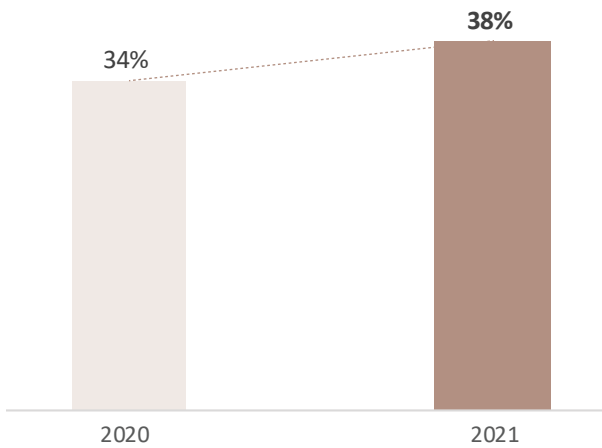
Clients' main sources of ESG information



Q13. What do you consider the most important source of information with regards to ESG investing?
Rate on a scale of 1-5 where 1 = Least important and 5 = Most important

The MiFID ESG challenge

Clients who received an ESG proposal in the last 12 months

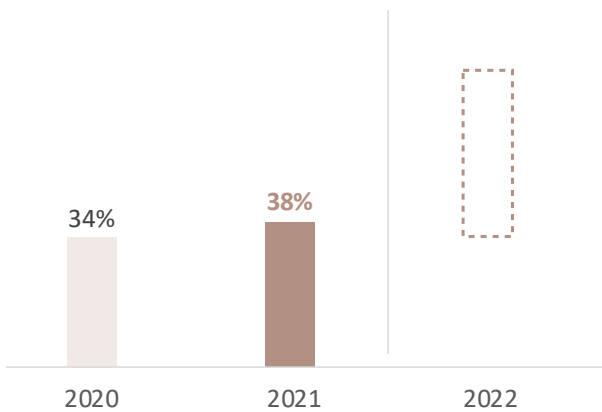


Q14. In the last 12 months, has your financial adviser recommended any ESG products?

It's worth noting that advisers have proactively discussed ESG with their clients, particularly in context of changes to MiFID II regulations which will come into force in 2022. In fact, compared to last year, a slightly higher proportion of European investors say their adviser recommended ESG products (38% vs. 34% in 2020).

Younger generations of investors are more likely to report their adviser reaching out to them with ESG product recommendations (55% for Generation Z and 53% for Millennials). **This indicates advisers may have been focusing their ESG outreach efforts on younger investors.**

Changes to MiFID II 2nd of August 2022

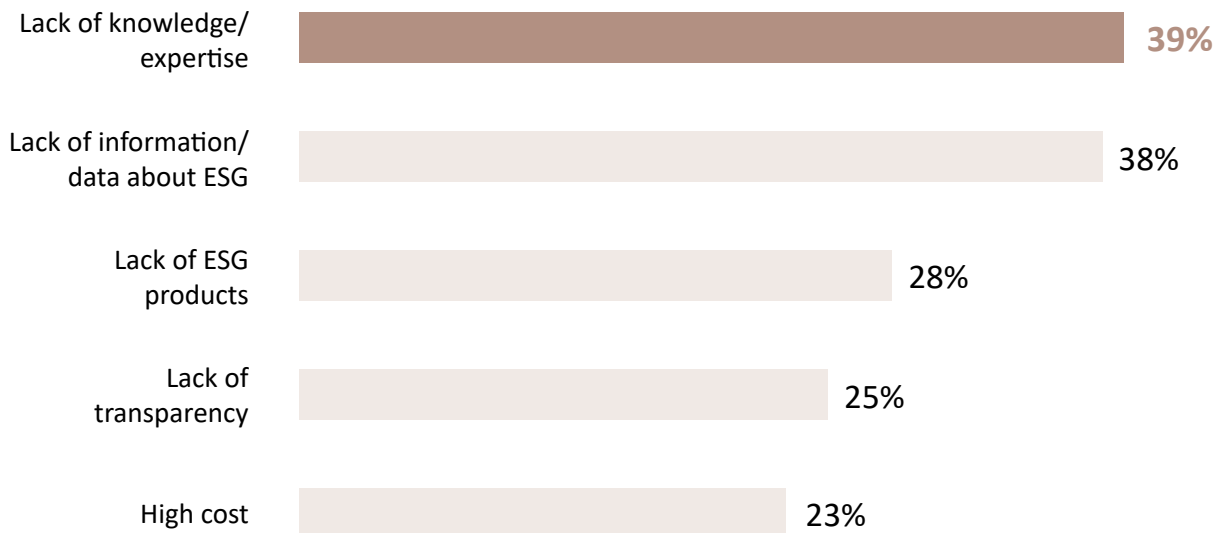


Despite the increase there is still room for significant improvement. 62% of clients have never received an ESG proposal. As mentioned before, on August 2022 the new MiFID II regulation will require financial advisors to assess the sustainability preferences of their clients and provide them with MiFID-eligible solutions.

Considering the key role advisers play, it's important for them to proactively prepare for this next ESG challenge.

In addition to the trust clients place in their advisers when it comes to ESG investing, nearly one-third (31%) of those who received product recommendations perceive their adviser’s knowledge and expertise on the matter to be very good. **Nearly two-thirds (65%) rate their adviser knowledge as being good.** Generation Z investors are more likely to believe their advisers have deep expertise in the ESG arena – 47% perceive their advisers’ knowledge to be very good. These are also the least experienced investors, so they may be more likely to take their advisers’ word at face value.

Main barriers to clients’ ESG investing



Q10. What do you consider as the top 3 barriers when investing in ESG? Select up to 3 answers. Only top 5 answers displayed. Italy was not included last year.

Despite active ESG engagement and investment in these products, lack of knowledge and expertise (39%) as well as lack information and data about ESG (38%) remain the top barriers to further investment in this area. A greater proportion of older investors cite these issues as being a challenge (Lack of knowledge/expertise: Baby boomers – 46%; Generation X - 37%. Lack of information/data about ESG: Baby boomers – 44%; Generation X - 39%).

Cost has become less of a concern this year, dropping to 23% from 34% in 2020. This could indicate that investors have become more willing to pay for quality products.

One could question why this expertise and knowledge gap persists, when the majority of clients perceives their adviser’s knowledge on ESG to be at least good. The answer to this lies in understanding the efficacy of advice and how this can be further enhanced.

3

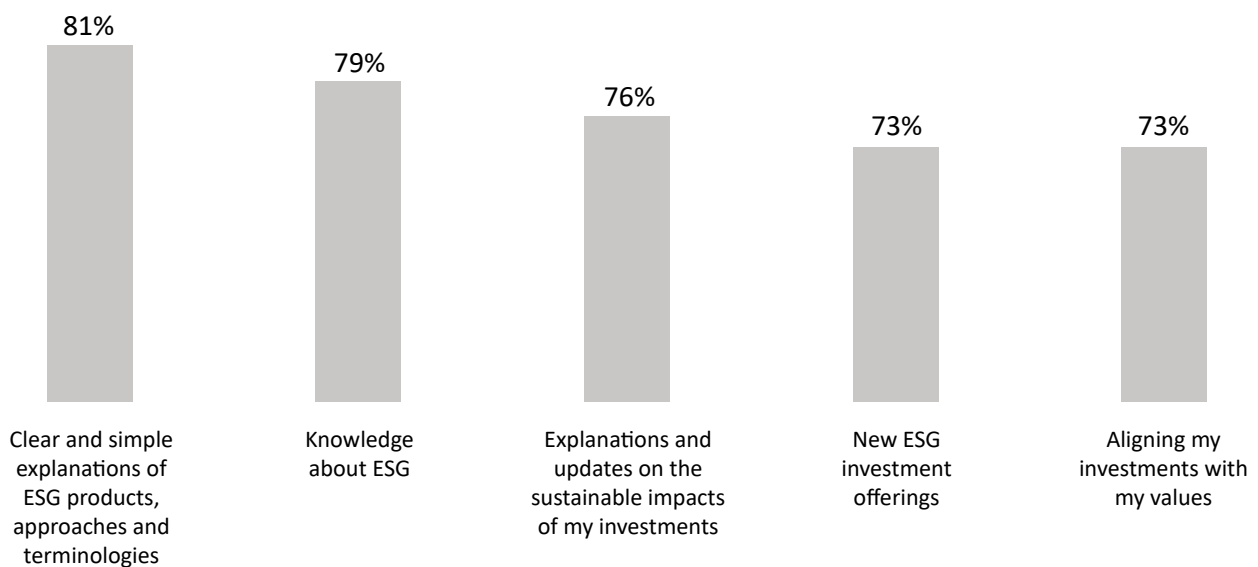
Seizing the ESG opportunity



What clients want

Clients have defined expectations of the type of ESG support they would like to receive. These are focused on five main topics:

What clients expect from their advisors



**Q16. What support would you expect from your adviser when it comes to ESG investing?
Rate on a scale of 1-5 where 1 = Least important and 5 = Most important**

More than eight in ten (81%) investors point to the need for clear and simple explanations of ESG products, approaches and terminologies.

Older generations deem this level of support to be particularly valuable.

A similar proportion (79%) **expect specific ESG know-how** from their advisor emphasizing the crucial role of ESG knowledge.

76% want regular and tangible updates on the sustainable impact of their investments.

73% want to have new ESG investment offerings. The products classification introduced by SFDR could bring more clarity on what an ESG product is, expanding the options both for advisors and clients. These solutions must be MiFID-eligible in order to enable advisors to build ESG portfolios for their clients.

Lastly, 73% of investors want to align their investment with their values.

Five possible steps to improvement

Back to the initial question: **are advisors ready to address new set of client needs and meet them with relevant advice?** The short answer is yes. Yet the survey shows, with consistency across markets, that there is still room for improvement.

Below are the five steps advisers should take in order to strengthen their relationship with clients by giving them what they want:

1

Keep it simple: for advisors this is not only a matter of knowing the ESG topics, but also communicating them effectively. Simplicity is the key. Engagement stories and company case studies often provide simple illustrations of key concepts and allow the advisor to convey ESG knowledge in a way that is easy to understand.

Visit our [ESG Insight](#) section to learn more about engagement cases.

2

Improve your ESG know-how: in order to keep it simple, you must know it by heart. A sound ESG knowledge is the foundation for offering high quality advice. ESG training and e-learning platforms can help you to create a solid base and build up your knowledge.

Visit our dedicated [ESG learning center](#) to get trained today:

3

Be tangible: ESG investors are mainly driven by the desire to generate a positive environmental/social impact. Alongside financial performance, they need specific comparable and standardized metrics about their investment impacts. ESG reports and impact reports play a crucial role here.

Click [here](#) to check our reports.

4

Offer a broad range of ESG options: the growing concern for social issues goes hand-in-hand with an increase in investment solutions dedicated to the 'S' in ESG. Advisors should be on top of this new trend, ready to offer products that address social challenges like gender diversity, social empowerment and an inclusive green economy. Moreover, in order to step up the challenge advisors need MiFID-eligible ESG solutions to match clients' needs (i.e. building blocks).

Click [here](#) to check our ESG MiFID – eligible building blocks.

5

Value alignment: ethical and sustainable values lie at the heart of ESG solutions. These investments often exclude certain sectors or companies (e.g. related to coal or controversial weapons) while advocating environmental protection, human rights, inclusion and biodiversity, to name a few. Working with a partner with deep ESG capabilities is the key to meeting these needs.

Click here to check our [RI approaches](#).

A landscape photograph of a valley with snow-capped mountains and a river. Three people are standing in the foreground looking out over the valley.

4

**Together along
the ESG path**

What's next?

The coming years will bring increased demands for ESG investing, new MiFID and sustainability regulations will kick in and investors will need more information and guidance in their choices. In addition, players who have overlooked the 'S' element of ESG in favor of the 'E' are beginning to shift their attention towards 'S' (social) issues. Amid this transition, **financial advisors need to step up their game in order to transform challenges into business opportunities.**

When the new changes to MiFID II come into force in August 2022, having a clear understanding of ESG facets will no longer be optional. Meeting regulatory mandates will require a robust knowledge of regulations and ESG, as well as a broad range of available MiFID-eligible products.

In addition, advisors will need to communicate effectively. To impart the "ESG story" to their clients in plain, tangible and authentic ways they must thoroughly comprehend the issues from multiple vantage points.

It is important for advisers to start thinking about how they will address the challenges looming on the horizon, specifically through their product offering and internal processes. The investor shift towards sustainable solutions represents a massive opportunity for advisors who are early in recalibrating their business models to meet regulatory requirements and investor preferences.

At Nordea Asset Management, we are committed to making this transition easier for distributors.

In our efforts to share our knowledge and become advisors' partner of choice, we are developing new version of our ESG e-learning, which is already available to our clients in eight languages. In addition, we have launched a dedicated learning platform on our website to support advisors in constantly improving their ESG knowledge. And we are already supporting advisors with a wide range of MiFID-eligible ESG solutions.

We can provide advisors with the know-how and right tools to turn the next challenge into an opportunity.

Nordea Asset Management: your ESG partner of choice.

Key takeaways

1

ESG investors are hungry for more

- Sustainability's impact has been perceived by clients as a threat not only for environment and society, but also for their portfolio, especially among Millennials.
- Non ESG-investors start shifting towards ESG investing. In general, the number of ESG investors has increased by +5% between 2020 and 2021.
- There is room for more as 71% of surveyed clients plan to increase their ESG exposure in the next 12 months. This represents an attractive opportunity for advisors.

2

The "S" is becoming the new "E"

- Climate change represents the primary concern as well as the most investable megatrend now.
- Yet younger generations show more knowledge and interest on the "S" of ESG.
- The social dimension represents the next megatrend supported by younger generations.

3

Upping your ESG game

- The majority of clients trust their advisors and believe they know something about ESG.
- However, the clients still see great room for improvement and consider this to be the main barrier to investing more into ESG solutions.
- Advisors need to step up their game not only by improving their ESG know-how, but providing clients with simple messages and MIFID-eligible ESG solutions.

For more information



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