Sensitive Industries Guidelines

Nordea ASSET MANAGEMENT

25.10.2019

The STARS concept

- The STARS concept was developed as an approach to integrate traditional financial analysis with ESG/Sustainability analysis including engagement and shareholder action.
- In addition to Nordea Asset Management's (NAM) aim and ambition to deliver Returns with Responsibility, the ESG analysis becomes value-adding to the overall investment analysis as an extra layer of information that improves our knowledge at the company level. It also aims to enhance our risk-adjusted returns and management of reputational risks.
- STARS strategies are about positive selection based on our proprietary ESG rating threshold and it is not about negative screening. We select quality companies with well managed ESG profiles that generate long term economic value and strive to further enhance these ESG profiles through our engagement activities.
- Norm-based screening, including norms such as for example UN Global Compact, is also a feature in the strategies.

Guidelines for STARS equity strategies – sensitive industries

Weapons

NAM does not invest in companies, which are involved in production or development of:

- Cluster munitions
- Anti-personnel mines
- Biological weapons
- Chemical weapons
- Non-detectable fragments, incendiary and blinding weapons
- Depleted uranium munitions

Nordea does not invest in companies that are verified to be involved in the production, development or maintenance of nuclear weapons. Nordea may, however, invest in companies involved in the maintenance of nuclear weapons provided that the total military revenue of the company does not exceed 5%.

STARS strategies adhere to restrictions on exposure to weapons and tailor-made components. (Currently 5% of revenue from weapons or tailor-made components)

*investing for their own account – according to MiFID definition

Tobacco

Tobacco use is one of the main risk factors for a number of chronic diseases, including cancer, lung diseases, and cardiovascular diseases. We take the view that tobacco is fundamentally in conflict with the concept of sustainable development because of the health impacts of smoking, the cost of treating individuals, and the effects of passive smoking.

The tobacco industry is also facing high risks in the supply since sourcing is often from high risk countries with risk of child labour and poor working conditions. There are environmental risks in the supply chain such as water stress and use of pesticides.

STARS strategies adhere to restrictions in exposure to tobacco. (currently 5% of revenue)

Thermal and metallurgical coal extraction

Nordea AM excludes 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).

STARS strategies adhere to restrictions in exposure to coal mining. (currently 5% of revenue) Stars strategies do not invest in companies with expansion plans for coal extraction since it is not considered as a sustainable business model.

Oil sand

Nordea AM excludes companies with large and sustained exposure to oil sand with a 10% revenue threshold. The extraction of oil from oil sand is highest cost and most carbon intense hydrocarbon. We believe that with current methods and technology, there is no company that can extract oil from oil sand in a way that is consistent with a sustainable development. STARS strategies adhere to restrictions on exposure to oil sand.

Climate change

Climate change is one of the single largest threat to our economy and Nordea AM is working on an ongoing basis to assess climate change risk and the impact of the low-carbon transition on sectors and companies. We support the TCFD (Taskforce for climate-related financial disclosure) recommendations and we want to continue to promote increased transparency, development of tools and methods to manage climate-related risks and opportunities and contribute to best practice in the industry.

Conventional Oil and Gas exploration and production

Conventional oil and gas – STARS strategies do not currently invest in conventional oil & gas producing companies due to the high ESG risks and their limited achievements in contributing to a low carbon transition.

Nordea AM is part of IIGCC (Institutional Investor Group on Climate Change) Climate Action 100 engagement which is a 5 years engagement with focus on governance and disclosure of climate risk and capital expenditure at risk.

Below are some of the issues that are analysed in the ESG analysis for conventional oil and gas:

- **Fossil fuel asset mix:** A fossil fuel asset mix (current production and reserves) indicating future alignment with a low-carbon transition. E.g. a company with a portfolio biased towards gas may benefit from its role as a less carbon intensive bridging fuel in the future (If not offset by methane emissions leaks).
- **Governance of Climate Change risk:** Board oversight of climate risks; Climate expertise on the Board; Executive remuneration includes climate related KPIs; Public support of climate policy and regulation;
- **Strategy / Risk Management:** Climate-related targets (e.g. alternative energy; flaring; GHG emissions; energy efficiency), Low-carbon and alternative energy spend (e.g. acquisitions of low carbon assets,

investments in alternative energy supply and R&D spend on low carbon technologies such as CCS); Use of internal carbon prices and 2-degree scenario analysis in capital investment decision making

- **Capital discipline:** Flexibility to manage their investment decisions to meet future climate regulation. Oil company spending to expand reserves, particularly in higher break-even-cost projects, may be a waste of capital if Paris Agreement efforts are successful. Capital discipline evaluated on reserve life development, production costs and capex intensity, finding and development costs and financial gearing.
- **Performance:** Downward trend on upstream emissions intensity; Downward trend on methane emissions intensity; Downward trend on flaring intensity; downward trend on lost gas production. Below industry average on all performance metrics. CDP performance

Utilities companies

Thermal coal miners and coal-focused power companies are bearing the brunt of the shift away from carbon so far. A raft of regulations already exists but heightened ambition will tighten policy for the utilities sector. These regulations include specific carbon reduction targets, incentives to increase renewable energy generation, demand side energy savings and carbon pricing, alongside more indirect requirements for disclosure and water management.

The long-term aim is to only invest in utilities with less than 10% of the power production coming from coal, and/or less than 30% of the power production coming from oil & gas or nuclear sources.

For electric utilities the ESG analysis include the below:

- **Governance of Climate Change risk:** Board oversight of climate risks; Climate expertise on the Board; Executive remuneration includes climate related KPIs; Public support of climate policy and regulation;
- **Decarbonisation strategy / Risk Management:** Climate-related targets (e.g. carbon intensity per fuel type; thermal generation efficiency targets); Upgrading coal-fired power plants to higher thermal efficiency plants and sourcing coal responsibly; water management plans; use of internal carbon pricing and 2-degree scenario stress testing; management of legacy assets (e.g. phase-out coal-fired power plants; revaluing assets; provisioning of site remediation);
- **Consumer facing strategy:** Consideration of how strategy can diversity revenue streams (e.g. energy services), monetise retail customer base, capitalise on digitalisation (e.g. Smart Home) and/or invest in grid efficiency and flexibility. E.g. Investment in smart grid and energy storage solutions
- **Performance:** Thermal efficiency rates, energy generation mix, water efficiency rates, carbon intensity, CDP performance band. The aim is that the carbon intensity should be below a defined threshold. STAR strategies do not invest in electricity utilities construction additional coal and nuclear-based power production installations.

Nordea Asset management is part of IIGCC Climate Action 100 engagement which is a 5 years engagement with focus on governance and disclosure of climate risk and capital expenditure at risk.

Nuclear energy

Nuclear energy production has several challenges including waste management, health & safety risks and impact from potential accidents. We aim to limit the exposure to utilities companies with the majority of energy production from nuclear due to the high ESG risks.

Biodiversity

We do not invest into forestry or farmland directly, but we invest in companies that could have a material impact on biodiversity depending on which sector they are operating in. We believe that biodiversity is a fundamental component of long-term business sustainability since businesses rely on natural resources as inputs and depend on healthy ecosystems. We integrate biodiversity in our company ESG analysis and consider whether biodiversity is a material issue that needs to be addressed either in their operations, including the supply chain or via their products. For example, in consumer staples sector we consider risks related to palm oil production and we have a separate position on palm oil sourcing.

We are concerned that the environmental and social issues associated with unsustainable palm oil production could have a material impact on companies across the palm oil value chain.

Unsustainable palm oil production is associated with deforestation and land and labour rights issues, which we believe represent significant risks to our investee companies. Companies may be exposed to climate-related risks due to the association between unsustainable palm oil production and deforestation, a significant contributor to greenhouse gas emissions. Deforestation, as well as land and labour rights, can present significant reputational risks to investee companies, which can lead to a loss of their license to operate if not managed properly.

We support the Roundtable on Sustainable Palm Oil's (RSPO) role in promoting a more sustainable palm oil industry, and we encourage investee companies with material exposure to the industry to become members of the RSPO and apply the RSPO's Principles and Criteria. However, as a minimum first step, we expect companies across the palm oil value chain, including producers, refiners, traders, consumer goods manufacturers, retailers and banks, to adopt and implement a publicly available No Deforestation, No Peat and No Exploitation (NDPE) policy.

Taxation

We expect and encourage companies we invest in to

- Publish a tax policy and the composition of the effective tax rate
- Be transparent about their governance and risk management of tax-related risks
- Report data that substantiate companies' commitments to avoid aggressive tax planning

Alcohol

The harmful use of alcohol is a public health problem. We also see growing regulatory initiatives globally aimed at reducing the harmful use of alcohol. Public concern about alcoholic beverages and any resulting restrictions (e.g. excise tax) as well as shifts towards healthier beverages may cause social acceptability and consumption to decline.

Stars strategies only invest in alcohol companies that have policies and practices to address responsible marketing, consumption and sale of their products. This can include membership in and compliance with the Beer, Wine and Spirits Producers' Commitments to Reduce Harmful Drinking.

Gambling

There are concerns regarding the negative social impact of gambling addiction, especially on vulnerable groups such as children.

We only invest in:

- Companies involved in the gambling industry that are aware of the potential negative effects of gambling on individuals and communities and recognise their responsibilities in this regard. This may include employee training, monitoring of that they comply with standards for responsible gambling, member of responsible gambling initiative, functions to help control excessive gambling and process to handle request from people who wants to be blocked from gambling.
- Companies in the gambling industry that are mainly in regulated markets or transferring business to regulated markets

Forward contracts on agricultural commodities (according to RI Policy)

In 2012 Nordea decided that it will no longer offer nor recommend wrapped investment products to household customers where basic food commodities, such as wheat, coffee, or sugar are included in underlying assets as international studies indicate that excessive financial speculation contributes to increasing volatility and record food prices.