

# ESG Report

**Nordea 1 – European Corporate Stars Bond Fund**  
Second quarter 2021



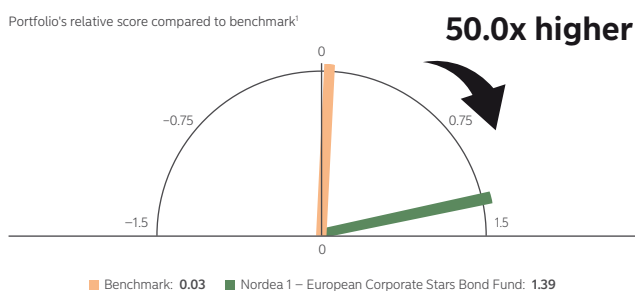
# Nordea 1 – European Corporate Stars Bond Fund

This report highlights how portfolio companies - through their products and services - have positive and negative impact on 15 objectives closely aligned with the UN Sustainable Development Goals. While engagement is always a preferred approach, we have made a corporate-level decision to exclude certain stocks, sectors, and practices across our entire active funds range. We don't invest in companies involved in production of illegal or nuclear weapons, cluster munitions, anti-personnel mines, nor maintenance of nuclear weapons. We also exclude companies deriving more than 30% of their revenues from coal (incl. metallurgical coal), more than 10% from thermal coal, or more than 10% from oil sand. Our detailed [RI policy](#) and our [corporate exclusion list](#) are publicly available at [nordea.com](http://nordea.com). Furthermore, companies deriving more than 5% of their revenues from fossil fuels must demonstrate a transition strategy aligned with a 2°C target to be part of our Paris-Aligned Fossil Fuel List or will be excluded. Further information on our fossil fuel policy is available [here](#).

## 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.

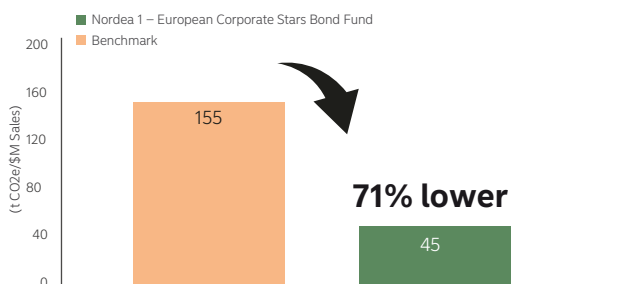
The contribution of the portfolio to the 15 objectives (social and environmental) is 50.0x higher than the benchmark.



1) The relative score is calculated as follows:  $(1 + \text{Portfolio net score}) / (1 + \text{Benchmark net score})$  as the benchmark score is close to nil. Comparison with other financial products or benchmarks is only meant for indicative purposes.

## Carbon intensity

The fund has a carbon footprint 71% lower than the benchmark.



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

## Top contributors

**1. Takeda Pharmaceutical Co. Ltd** (JP, Pharmaceuticals & Biotech). The company mainly contributes to the social objective 'Ensuring Health' as its products address some of the most important global health challenges. Moreover, the company is in the process of expanding its access to medicine strategy for underserved regions.

**2. Fresenius SE** (DE, Healthcare). The company mainly contributes towards the social objective "Ensuring Health" as the company provides products and services for dialysis, hospitals, and outpatient medical care in Germany and internationally.

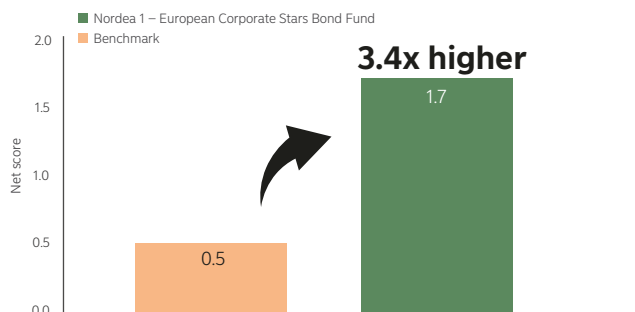
**3. Abbvie** (US, Pharmaceuticals & Biotech). The company mainly contributes to the social objective "Ensuring Health" as it provides over-the-counter pharmaceuticals and prescription pharmaceuticals.

### Notes

Benchmark (for illustrative purposes only)	ICE BofA Euro Corporate Bonds Index
Portfolio coverage	85%
Benchmark coverage	93%
Portfolio holdings	206

## Exposure to the 7 social objectives<sup>2</sup>

The contribution of the portfolio to the 7 social objectives is 3.4x higher than the benchmark.



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

### Top 3 social objectives

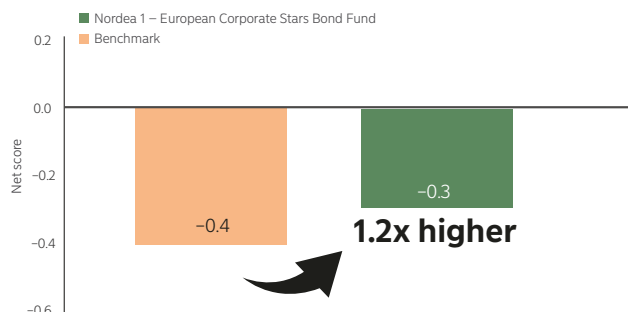
1. Ensuring health
2. Providing basic services
3. Delivering education

### Main SDGs exposure



## Exposure to the 8 environmental objectives<sup>2</sup>

The contribution of the portfolio to the 8 environmental objectives is 1.2x higher than the benchmark.



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

### Top 3 environmental objectives

1. Promoting sustainable buildings
2. Conserving water
3. Optimising material use

### Main SDGs exposure



### Portfolio Company highlight: Novo Nordisk

Novo Nordisk generates 85% (2020) of its sales with treatments for diabetes, a chronic disease which leads to serious damage to the heart, blood vessels, eyes, kidneys, and nerves if untreated. According to the WHO, 425 million people are affected globally which makes diabetes treatments vital to attain sustainable development goals. With a global market share of 29.3% (2020), Novo Nordisk is a major player in the diabetes care market.

The remainder of the company's product portfolio focuses on haemophilia, growth disorders, obesity, and menopausal symptoms.

Novo Nordisk has a comparatively clear strategy to enhance access to diabetes treatments in low and middle-income countries which includes addressing distribution challenges, tiered pricing models and capacity building.

<sup>2</sup> Please note that the total sustainability score is the sum of the social and environmental scores and may slightly differ due to rounding differences. Should the benchmark score be negative the multiplier is calculated as follow: (Portfolio score + 1)/(Benchmark score + 1). Further information on SDGs is available at [www.un.org/development/desa/en/news/sustainable/sustainable-development-goals.html](http://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.

## Engagement is key for active ownership

The aim of this section is to describe some of the activities that the Responsible Investment (RI) team has done 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 ESG-related issues (Environmental, Social and Governance) and the main activities that the RI team has been involved in.

Being part of Nordea's responsible investment policy, the fund excludes companies involved in the production of nuclear weapons and cluster munitions as well as companies with large exposure to coal mining (>30% revenues). However, excluding a company from our portfolios is always a last resort: the **STARS concept aims for positive selection** with the objective to influence companies to improve their ESG profiles. **Engagement therefore takes a new dimension with the STARS.** It does not only consist of the traditional forms of engagement, like the exercise of voting rights or entering into a dialogue to encourage companies to improve their management systems, their ESG performance or their reporting. When assessing a company's ESG risk profile we also focus on specific themes utilising UN Sustainable Development Goals. Thus, we distinguish two types of engagement:

- **Risk Engagement:** if a company is not managing its material ESG risks well, the RI team engages with the company on the issue. The ESG risks can be company specific or stem from the country in which the company operates or its industry. Violations of international norms and conventions are also addressed under Risk Engagement.
- **SDG Engagement:** conducted with a specific focus on companies' exposure to certain themes, which might represent a significant material risk for the company. **Nordea believes that companies that align their strategies with the UN Sustainable Development Goals (SDGs) will be successful** in the long-term, because they are adjusting to global society's future needs.

## Engagement cases

### Banca Monte dei Paschi di Siena

Nordea ESG scoring <sup>3</sup>	Proxy Voting <sup>4</sup>	SDG Engagement	Engagement topic
B-	✓	<b>16</b> Peace, justice and strong institutions	Corporate Governance – Anti-Money Laundering

#### Overview

Banca Monte dei Paschi di Siena SpA is an Italy-based company engaged in the banking sector. It provides banking services, asset management and private banking, including life insurance, pension funds and investment trusts.

#### Background

Following the financial crisis, Banca Monte Dei Paschi Di Siena has suffered financially and reputationally. Additionally, the bank's compliance and Anti-Money Laundering function has come under increased scrutiny. Our research indicates that the bank trails its peers on several material ESG issues. Particularly on the topic of AML risk, the company exhibits a combination of characteristics that could limit its oversight and control. The

objective of the initial engagement meeting was therefore to scrutinize its AML function and associated key challenges.

#### The Engagement

We have initiated the engagement with Banca Monte Dei Paschi as our initial ESG analysis has revealed that the company's Anti-Money Laundering processes and risk assessments might be a topic of concern and required increased due diligence from our side. We spoke to the bank's Head of Sustainability, several employees from the Investor Relations function as well as an employee from the Anti-Money Laundering function.

During our virtual meeting with them, it has become apparent, that Banca Monte Dei Paschi has standard AML procedures in place, monitoring the transactions of both private and

3) Current scoring, based on Nordea proprietary ESG model. 4) 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 happened. Please find out more on [nordea.com/sustainability](https://nordea.com/sustainability) or access directly the [voting portal](#).

corporate customers with local and global reach. The bank operates a team in its middle office, handling international transactions and verifying with relevant sanctions lists. On the technical side, we have been reassured that the bank uses state of the art transaction screening software which is used by most of its competitors. However, based on our discussion, we see potential for improvement in the bank's ability to act on and escalate suspicious transactions to the Bank of Italy. Banca Monte Dei Paschi's average time for a red-flagged transaction to be sent to the Bank of Italy is 30 days which is less timely than average according to the Bank of Italy itself.

Further, the company is working on a scoring system to better evaluate and find high risk clients and is currently considering expanding its AML section in the company's sustainability report.

## Outcome

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With the responsibility for several subsidiaries converging into Banca Monte Dei Paschi, the bank needs to systematically improve its Anti-Money Laundering function in order to identify relevant cases in a timely manner. We have encouraged the company to further improve its technical setup for its Anti-Money Laundering function. This includes investing in technology to screen transactions more efficiently with potential application of artificial intelligence and machine learning, as it is best practice among European banks. We have also supported the company's plans to expand on its AML section in its sustainability report, as it would add value for shareholders.

## Description of ISS-ESG methodology

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 of the 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 the company and the methodology is available at: [www.issgovernance.com/esg/impact-un-sdg/](http://www.issgovernance.com/esg/impact-un-sdg/)

## 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: [www.un.org/development/desa/en/news/sustainable/sustainable-development-goals.html](http://www.un.org/development/desa/en/news/sustainable/sustainable-development-goals.html)

## UN Sustainable Development Goals

## Corresponding ISS-ESG Sustainability Objectives

	No poverty	<ul style="list-style-type: none"> <li>- Alleviating poverty</li> <li>- Providing basic services (access aspect)</li> </ul>
	Zero hunger	<ul style="list-style-type: none"> <li>- Combating hunger and malnutrition</li> <li>- Achieving sustainable agriculture and forestry</li> </ul>
	Good health and well-being	<ul style="list-style-type: none"> <li>- Ensuring health</li> <li>- Providing basic services (access aspect)</li> </ul>
	Quality education	<ul style="list-style-type: none"> <li>- Delivering education</li> <li>- Providing basic services (access aspect)</li> </ul>
	Gender equality	<ul style="list-style-type: none"> <li>- Attaining gender equality</li> </ul>
	Clean water and sanitation	<ul style="list-style-type: none"> <li>- Conserving water (quality and quantity aspect)</li> <li>- Ensuring health (sanitary aspect)</li> <li>- Providing basic services (access aspect)</li> </ul>
	Affordable and clean energy	<ul style="list-style-type: none"> <li>- Contributing to sustainable energy use (clean aspect)</li> <li>- Providing basic services (access aspect)</li> </ul>
	Decent work and economic growth	—
	Industry, innovation and infrastructure	—
	Reduced inequalities	<ul style="list-style-type: none"> <li>- Attaining gender equality</li> <li>- Providing basic services</li> </ul>
	Sustainable cities and communities	<ul style="list-style-type: none"> <li>- Promoting sustainable buildings</li> <li>- Providing basic services (access aspect regarding housing, transportation)</li> </ul>
	Responsible consumption and production	<ul style="list-style-type: none"> <li>- Optimising material use</li> </ul>
	Climate action	<ul style="list-style-type: none"> <li>- Mitigating climate change</li> <li>- Contributing to sustainable energy use</li> </ul>
	Life below water	<ul style="list-style-type: none"> <li>- Preserving marine ecosystems</li> </ul>
	Life on land	<ul style="list-style-type: none"> <li>- Preserving terrestrial ecosystems</li> <li>- Achieving sustainable agriculture and forestry</li> </ul>
	Peace, justice and strong institutions	<ul style="list-style-type: none"> <li>- Safeguarding peace</li> </ul>
	Partnerships for the goals	—

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