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# ESG Report

**Nordea 1 – European High Yield Stars Bond Fund**  
Second quarter 2022



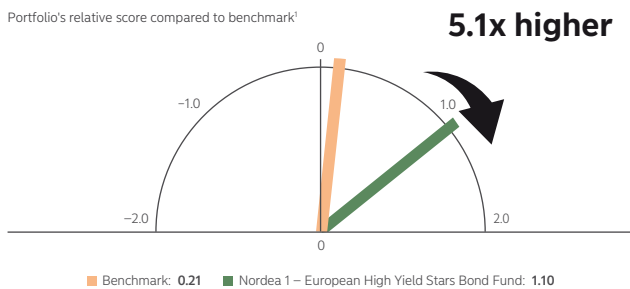
# Nordea 1 – European High Yield Stars Bond Fund

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](#). 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 5.1x higher than the benchmark.



<sup>1</sup> The relative score is calculated as follows: (Portfolio net score) / (Benchmark net score). Should the score of the benchmark be close to nil the relative score multiple might be distorted. **Comparison with other financial products or benchmarks is only meant for indicative purposes.**

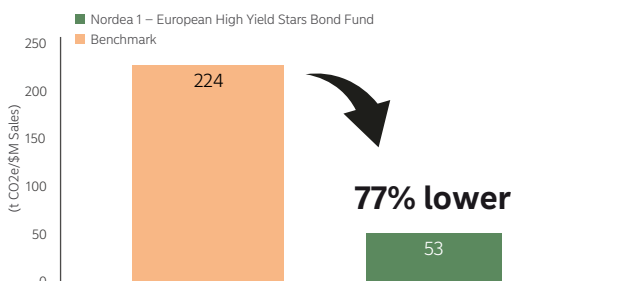
## Top contributors

**1. Grifols S.A** (SP, Pharmaceuticals & Biotech). The company mainly contributes to the social objective 'Ensuring Health' as it develops, manufactures, and distributes a range of biological medicines on plasma derived proteins worldwide.

**2. Verisure Midholding AB** (SE, Electronic Devices & Appliances). The company mainly adds to the environmental objective 'Safeguarding Peace' as it produces and sells products that help to prevent crime and personal as well as material damage.

**3. Liberty Global PLC** (GB, Telecommunications). The company mainly contributes to the social objective 'Providing Basic Services' as it provides broadband internet, video, fixed-line telephony, and mobile communications services to residential and business customers.

## Carbon intensity



**Comparison with other financial products or benchmarks is only meant for indicative purposes.** The Carbon intensity coverage for the fund and for the benchmark is respectively 65.7% and 77.2%.

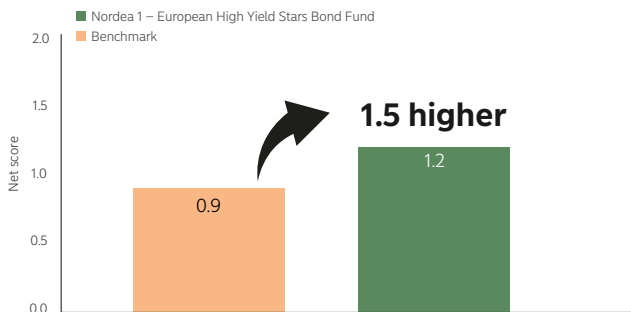
### Notes

Benchmark	ICE BofA European Currency High Yield Constrained Index - Total Return 100% Hedged to EUR
Portfolio coverage	51%
Benchmark coverage	69%
Portfolio holdings	129

Source: Data sourced from ISS Ethix. For sovereigns (countries) turnovers is replaced by GDP. Please note that only scope 1&2 are taken into consideration, excluding scope 3. The carbon intensity of our fund might therefore appear higher than the benchmark. Scope 1 refers to direct GHG emissions and Scope 2 refers to indirect GHG emissions from the consumption of purchased electricity and Scope 3 refers to other indirect emissions that occur from sources not owned or controlled by the company.

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

The contribution of the portfolio to the 7 social objectives is 1.5x higher than the benchmark.



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

### Top 3 social objectives

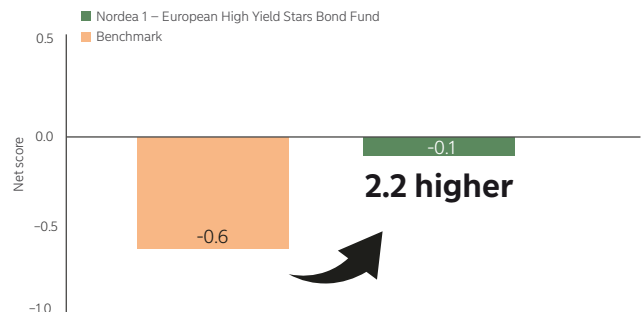
1. Providing basic services
2. Ensuring health
3. Safeguarding peace

### Main SDGs exposure



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

The contribution of the portfolio to the 8 environmental objectives is 2.2x 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. Achieving sustainable agriculture and forestry
3. Optimising material use

### Main SDGs exposure



## Portfolio Company highlight: Liberty Global PLC

Liberty Global has a number of policies for relevant social and environmental aspects in place. This includes responsible marketing practices as well as some aspects of data protection, covered by the company's code of conduct. The company also provides various training and technical solutions to ensure the protection of minors and ensures the accessibility of its products. With respect to sustainability in the supply chain, which is particularly important for companies without own production, Liberty Global has binding supplier standards covering labor rights, working conditions and environmental management and on top, compliance is monitored and supported through risk assessments and corrective action plans.

<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

### ADLER Group SA

Nordea ESG scoring <sup>3</sup>	Proxy Voting <sup>4</sup>	SDG Engagement	Engagement topic
C+	—	16 Peace, justice and strong institutions	Governance KPMG Forensic report on the company

#### Overview

Adler Group SA, formerly known as ADO Properties, is a Luxembourg-based real estate company. The Company operates in Germany, in the residential real estate field with approximately 70,000 residential units, and a development pipeline of approximately 10,000 new flats in Germany. The Company focuses on asset and portfolio management, property and facility management and developing residential properties throughout Germany. The Company operates through two business segments: Residential property management and development. Residential property management offers renting and managing residential properties, the management of tenancy agreements and marketing of residential units with the focus on optimization of rental income. The development side of the business splits into build-to-sell projects and build-to-hold projects.

#### Background

In the autumn 2021 allegations were made by short-seller fund Viceroy, that a group of shareholders and (indirectly) related parties of Adler Group had looted the company by asserting influence over transactions in the past. The group immediately initiated KPMG Forensic to do a special investigation into the accusations made with the aim to refute such claims. The Forensic report were released on 21 April and the company claimed the report refuted allegations made to a vast extend. The market did not have the same view, and on 30 April, Adler Group's auditor KPMG Luxembourg issued a disclaimer of opinion for the 2021 accounts. Since, KPMG have also withdrawn from conducting the audit for 2022 accounts.

#### The Engagement

We have engaged with the company regularly to understand their view on and the approach to handle and refute these allegations made by Viceroy. We considered the initiation of KPMG Forensic review as a satisfactory approach at the time. Since, we found that the new chairman appointed in February 2022 took decisive steps in the right direction. But with the auditors issuing a disclaimer of opinion it appears auditors haven't been satisfied on their requirements still and thus we do not see that the governance of the company is in line with expectations for Stars funds.

#### Outcome

For the STARS funds we have high expectations to governance processes. With the current status in the company we do not see that the company live up to the required standards and we have sold off the holdings in the company.

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](#).

## 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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