ESG Report

Nordea 1 – Emerging Stars Equity Fund

First quarter 2021

Nordea
ASSET MANAGEMENT

Overview

Sustainability footprint

The sustainability footprint of EUR 100,000 invested in

Nordea 1 – Emerging Stars Equity Fund

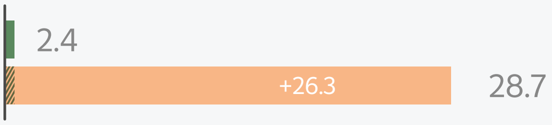
LU0602539602 (BP-USD) / LU0602539354 (BI-USD)

For illustrative purposes only

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

CO_2 emissions[1] **2.4 t**

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



26.3 tonnes less than illustrative benchmark

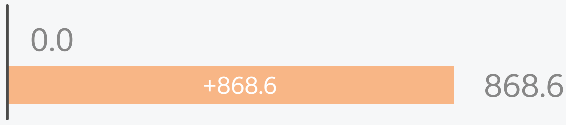
1) Measured as CO_2-equivalent greenhouse gas emissions

17.2

The equivalent of annual CO_2 emission from 17.2 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.



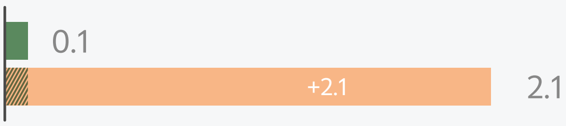
868.6 tonnes less than illustrative benchmark

1,213x
CPH / BKK

Equal to 1,213 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.



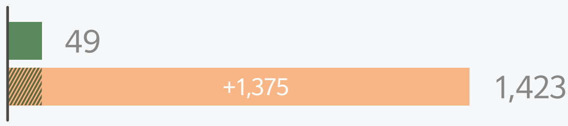
2.1 tonnes less than illustrative benchmark

293

Equal to approx. 293 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.



1,375 m^3 less than illustrative benchmark

9.5

The equivalent of the water used by 9.5 households

This sustainability footprint overview is prepared by NASDAQ based on analysis of **Nordea 1 – Emerging Stars Equity Fund's holdings as of 31.03.2021**. 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]

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

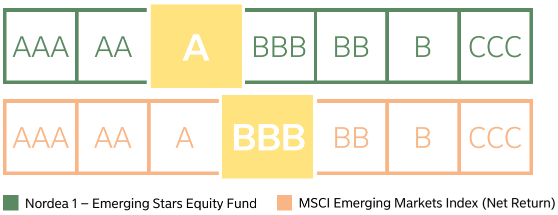
» Paris Aligned Fossil Fuel Policy (PAFF)

» 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

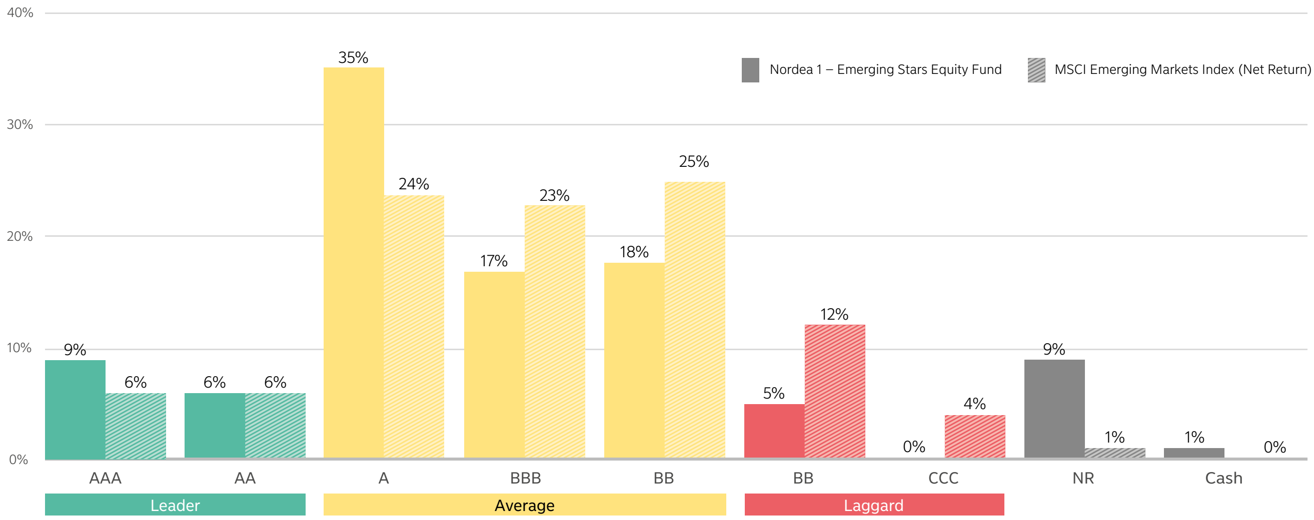
ESG rating[8]



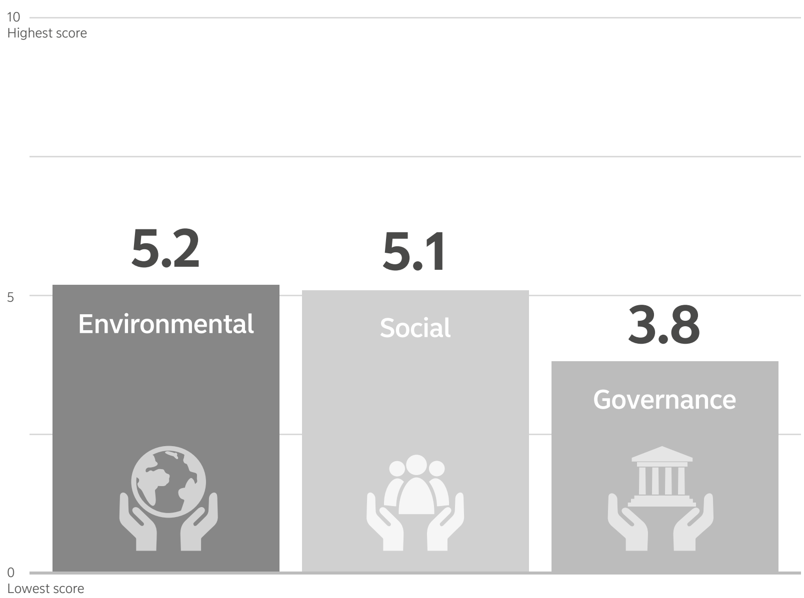
The ESG Rating assesses the resilience of a fund's aggregate holdings to long-term ESG risks. Highly rated funds consist of issuers with leading or improving management of key ESG risks.

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.

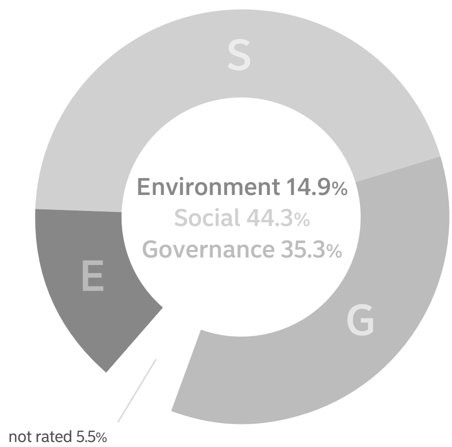
ESG Rating breakdown[8]



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[9]	Indicator
73 t	265 t	**Weighted Average Carbon Intensity (tCO_2e/USD million)** The WACI measures a portfolio's exposure to carbon intensive companies.
0.0%	5.6%	**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%	1.6%	**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[9]	Indicator
0.0%	1.2%	**Exposure to human rights norms violation** The percentage of portfolio's market value exposed to companies in violation of international norms around human rights.
7.8%	9.1%	**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.
1.2%	3.0%	**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[9]	Indicator
14.7%	25.6%	**Exposure to companies with no female directors** The percentage of portfolio's market value exposed to companies with no female directors.
72.4%	67.7%	**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%.
7.8%	8.2%	**Exposure to governance controversies** The percentage of portfolio's market value exposed to companies facing one or more severe or very severe governance controversies.

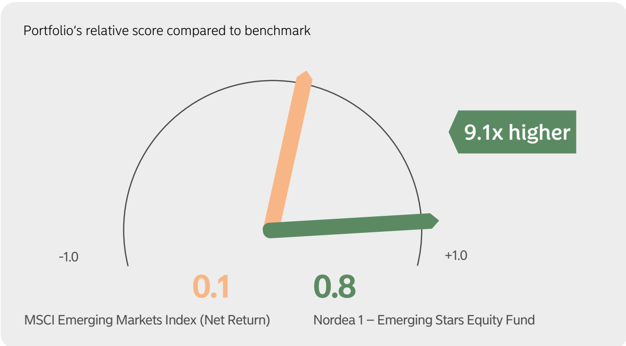
9) As measured by the iShares MSCI Emerging Markets ETF. Source: MSCI ESG Research LLC. as of 28.02.2021. ©2021 MSCI ESG Research LLC. Reproduced by permission. Portfolio coverage 95,75%.

Weighted Average Carbon Intensity based on MSCI Emerging Markets Net Return Index as of 31.03.2021. 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 9.1x 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 nil the relative score multiple might be distorted. **Comparison with other financial products or benchmarks is only meant for indicative purposes.**

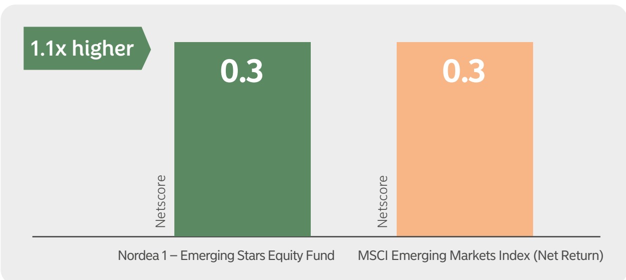
Top contributors

1. **Taiwan Semiconductor Manufacturing** (TW, Information Technology)
2. **AIA Group** (HK, Financials)
3. **Bank Rakyat Indonesia Persero** (ID, Financials)

Notes	
Benchmark	MSCI Emerging Markets Index (Net Return)
Portfolio coverage	78 %
Benchmark coverage	89 %
Portfolio holdings	45

Exposure to the 7 social objectives[10]

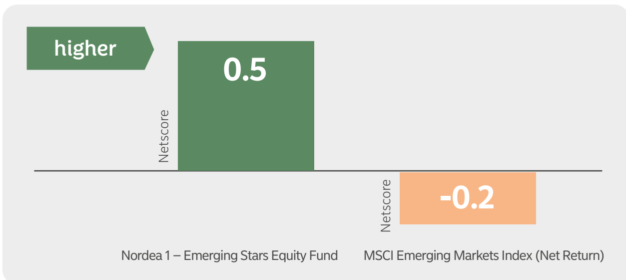
The contribution of the portfolio to the 7 social objectives is 1.1x higher than the benchmark.



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

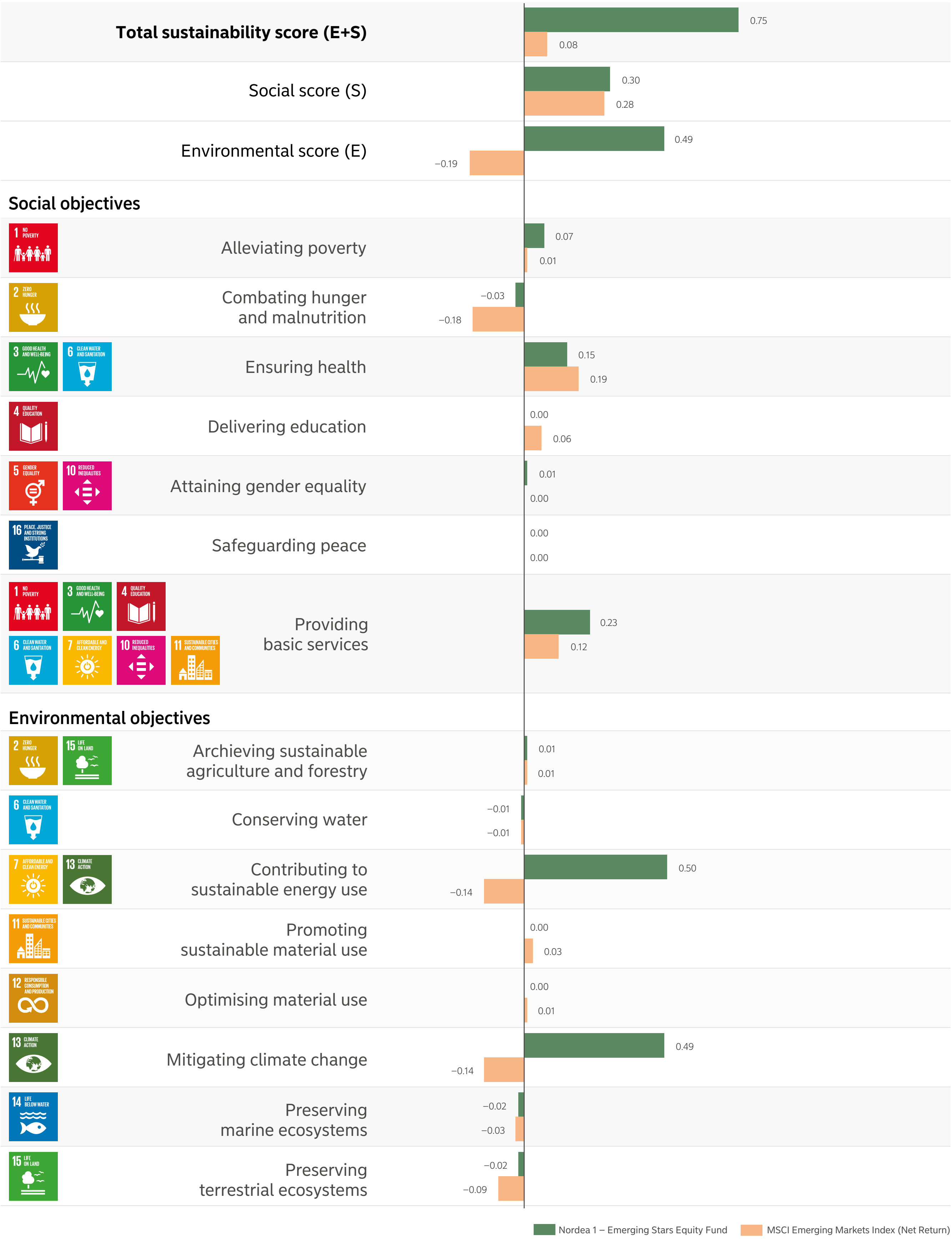
1. Providing basic services
2. Ensuring health
3. Alleviating poverty

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.

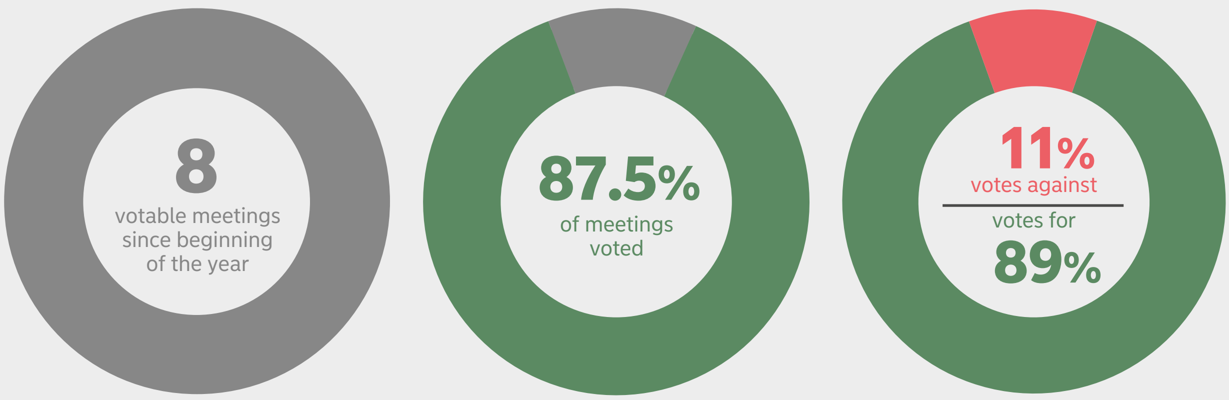
Adhering to Nordea's responsible investment policy, the fund excludes companies breaching international norms or involved in sectors we do not consider acceptable. However, excluding a company from our portfolios is always a last resort. Engagement is always our preferred approach and of paramount importance 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

Infraestructura Energética Nova (IEnova)

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

Overview

IEnova develops, builds and operates energy infrastructure in Mexico, and is one of the largest private energy companies and producers of renewable energy in the country. The company generates power from solar, wind and natural gas in their electricity segment, and also offers transportation, storage and distribution services in the natural gas segment.

Background

IEnova is a key provider of renewable energy and natural gas infrastructure in Mexico, and operates an electricity generation fleet with a comparatively low carbon emissions intensity, made possible by extensive investments in solar and wind energy. The emissions intensity of their electricity generation is currently 0.25tCO_2e/MWh, which is comparable to many of the renewable energy leaders in Europe and other developed markets. Yet, as for most other energy companies, IEnova's operations will need to continue transforming towards even lower carbon in order to remain aligned with the climate objectives of the Paris Agreement, which in practice entails continued investments in renewable energy, efforts to address the greenhouse gas emissions associated with the company's gas segment, and a continued improvement of the company's climate-related reporting and governance. Efforts in these areas will help protect the company against long-term financial risks associated with the clean energy transition. The risk of drastically stricter environmental regulations in Mexico are limited under current President Obrador's administration, but the carbon footprint of Mexico's energy consumption will need to shrink significantly over the coming decades.

The Engagement

In 2019, we initiated a dialogue with the company to share our expectations that they start introducing more forward-looking targets and strategies for their greenhouse gas emissions, as well as aligning with the recommendations from the Task Force on Climate-related Financial Disclosure ("TCFD"), which is a market-driven initiative for enhanced disclosure and management of climate risk.

Since then, the company has started reporting climate-related information to the Carbon Disclosure Project, which is a significant step towards aligning with the TCFD recommendations. The company has also introduced their first quantitative emissions reduction targets, and put considerable effort into strengthening their climate change strategy. The further development of their climate reporting, targets and strategy was the key focus for our dialogue with the company during this quarter.

Outcome

The company was able to share the progress they have made in relation to their climate strategy since our last interaction with them. Most notably, they have established clearer board-level responsibilities for the low carbon transition and climate change management, initiated scenario-based climate-related risk analysis in line with the TCFD recommendations, and further strengthened their greenhouse gas emissions targets. They are also preparing to structure their next sustainability report based on the TCFD recommendations, which will further enhance the transparency around their exposure to climate-related risks.

We discussed the ambition level of their greenhouse gas emissions targets in detail, and offered suggestions for further improvements. The company currently has three main types of targets, which respectively relate to fugitive emissions in the gas segment, emissions related to the transportation of gas, and emissions associated with electricity generation. We consider the targets for the gas segment to demonstrate an appropriate ambition level at this time, but see an opportunity to do more in the electricity segment. The company has committed to not increase the emissions intensity of this segment above 0.35tCO_2e/MWh, but given that their intensity is already significantly below this and they are not planning to add any generation capacity that is not renewable, we recommended a revision to this target. The company agreed that a revision would be appropriate, and we expect to see an update in the coming year. We also discussed the potential for setting a target on the renewable energy capacity, seeing how they company has made significant investments in renewable energy assets in recent years, but do not express a clear target to increase the renewable share in total electricity generation. The company relayed that the current political environment in Mexico, which has

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 happened.
Please find out more on nordea.com/sustainability or access directly the voting portal.

curbed the build-out of renewables, prevents them from articulating this type of target, but they continuously evaluate the potential for adding more renewable capacity. We also discussed the interconnection with the climate strategy of IEnova's parent company Sempra Energy, and the company informed us that there will soon be announcements in relation to their collective climate ambitions.

Finally, we asked the company to describe their use of climate-related scenario analysis, and the company relayed that they consider a range of possible global warming outcomes in this analysis and expect to publish the results of these in 2021–2022. We recommended that they should include a more detailed analysis of the implications for the company in a scenario representing a global warming 2°C scenario or less. We will continue engaging with the company and expect their next sustainability report to demonstrate significant progress.

Koh Young Technology

Nordea ESG scoring[11]	Proxy Voting[12]	SDG Engagement	Engagement topic
B+	✓	5 Gender equality	Social – Diversity

Overview

Koh Young is a South Korean manufacturer and developer of 3D measurement and inspection automation equipment used for testing accuracy and reliability in various machineries. Its products include 3D SPI systems, bump inspection systems for printed circuit board wrapping, and semiconductor substrate bump.

Background

Koh Young is a relatively small company with fewer than 1,000 employees, and are highly reliant on their ability to attract, retain and develop a highly skilled workforce. In 2020, the company formulated their first-ever ESG strategy and published their inaugural ESG report, which demonstrated a very high level of transparency and ESG maturity relative to the company's home market. The strategy included nine key priority areas, one of which was the strengthening of the company's talent management system and increasing the rate of employee satisfaction. However, the company has yet to establish their baseline for employee satisfaction and hence cannot currently articulate a quantitative ambition for the satisfaction rate that they aim for. They also have a predominantly male workforce and a disproportionately high rate of female employees choosing to leave the company.

The Engagement

We met with the company to discuss the implementation of their new ESG strategy, and any progress they have made against in their nine priority areas. We noted that over the past three years, the attrition rate for male employees has remained stable at around 10%, while that for female employees has increased from 10% to almost 30%. The core focus for our discussion with the company was what they see as the reasons for this, what they can do to reverse the trend, and how they work to promote inclusion and diversity in the workforce.

Outcome

The company explained that the implementation of their ESG strategy had been significantly slowed down because of the covid-19 pandemic, but that they are currently undertaking several projects across their nine priority areas during 2021, including some that are focused on employee satisfaction. They have postponed their inaugural employee satisfaction tracking survey, but are currently preparing that in collaboration with Deloitte. Against the background of the company's challenges in retaining female employees, we recommended that the survey should include targeted metrics to capture the working environment for women specifically. We discussed the challenges around workplace gender equality in South Korea in general, and noted that South Korea consistently performs in the bottom of OECD countries when it comes to the working environment for women. When asked about why the company's attrition rate for women has increased so drastically, the company said that they do expect the attrition rate for women to generally be higher than for men, since the culture around parental leave and child-rearing in South Korea still puts women at a significant disadvantage. The company has focused on attracting more female talent, and has been successful in significantly increasing the share of women that they hire for new positions. However, they could not explain why the rate of female employees choosing to leave the company had increased almost threefold in recent years, and said that they would investigate this as part of their employee satisfaction tracking. The company also relayed that they had not identified any instances of harassment against female employees, but also need to strengthen their capabilities to identify such instances if and when they do occur. They are now working on establishing clearer procedures and guidelines for employee grievances, that integrate guidelines on preventing workplace and sexual harassment. We will follow up with company to track the progress against these objectives.

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Kingsoft Cloud Holdings

Nordea ESG scoring[11]	Proxy Voting[12]	SDG Engagement	Engagement topic
B	–	10 Reduced inequalities	Governance – Business Ethics

Overview

Kingsoft Cloud is a Chinese provider of cloud storage and cloud computing solutions. They offer cloud infrastructure, cloud products and industry-specific solutions for public and private enterprises. Their solutions span areas such as education and training, medical and healthcare, supply chain finance, e-government, internet of vehicles, media and gaming.

Background

As a service to their clients and developers, Kingsoft Cloud regularly publishes information about their program APIs (Application Programming Interfaces) on their website to allow clients to stay informed of how they can make best use of the company's technology. In August 2020, Kingsoft Cloud had published information which indicated that the company's technology could use an image of a face to predict certain attributes of the person in the picture, including "race". Some of the language used in this description indicated that Kingsoft Cloud's software could specifically evaluate whether a person belongs to one of China's ethnic minorities, known as Uyghurs. This raised concerns that the company could be providing facial recognition services that can identify Uyghurs and hence potentially be used for minority oppression.

Kingsoft Cloud has since removed these descriptions from their website, and issued a written statement in December 2020, stating that their technology has never been able to distinguish Uyghur faces. They described that the API in question only served to help locate a face in a frame of pictures for other developers to use, was not image recognition software and was not able to distinguish or identify individuals of any ethnic background. They stated that this specific API had also never been sold to any customer. The company also publicly clarified that "labelling on the basis of any race is inappropriate and inconsistent with Kingsoft Cloud's policies and values", and communicated that they would review their internal ethics process and launch an investigation to prevent future phrasing in their code which could contradict these policies and values.

The Engagement

We met with Kingsoft Cloud's CFO during the quarter to follow up on the outcome of the ethics review and investigation, and to gain further assurance that the company is well equipped to ensure that all future program APIs is consistent with their policies and values.

Outcome

The CFO was able to share that the review of the ethics process had been concluded, under the monitoring and administration of a globally leading legal counsel. They also invited an independent third-party industry expert from the United States to provide oversight from a technological perspective. Based on this review, the company concluded that two employees who had been responsible for the code in question had neglected to follow internal ethics processes, and their internal performance ratings had been downgraded as a result. The company also concluded that their process to ensure guidelines are followed needed strengthening, since they previously only had one layer of review for junior programmers. They consequently decided to reorganize the teams that author and edit technology documents, and introduce a second layer of review to verify that all code is ethically compliant. We recommended that the company should regularly conduct external ethics audits of their processes going forward.

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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 & 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's 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 use 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 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 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 law 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. For funds where the PAFF is not implemented as a hard exclusion criterion, the PAFF acts as guidance for engagement. The 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 developing – 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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