

# ESG Report

**Nordea 1 – European Stars Equity Fund**

Second quarter 2021



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# Sustainability footprint

The sustainability footprint of EUR 100,000 invested in

## Nordea 1 – European Stars Equity Fund

LU1706106447 (BP-EUR) / LU1706108732 (BI-EUR)

For illustrative purposes only

■ Nordea 1 – European Stars Equity Fund ■ Illustrative Benchmark: NASDAQ European Large Cap Index

### CO<sub>2</sub> emissions<sup>1</sup> **8.2 t**

Most of your savings are invested in companies that on average emit less CO<sub>2</sub> compared to their peers.



2.2 tonnes less than illustrative benchmark

1) Measured as CO<sub>2</sub>-equivalent greenhouse gas emissions

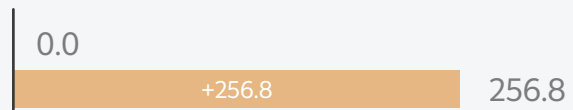
**1.4**



The equivalent of annual CO<sub>2</sub> emission from 1.4 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.



256.8 tonnes less than illustrative benchmark

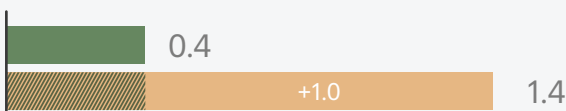


**359x**  
CPH / BKK

Equal to 359 Copenhagen-Bangkok flights

### Waste generation **0.4 t**

Most of your savings are invested in companies that on average produce less waste than their peers.



1.0 tonnes less than illustrative benchmark

**148**



Equal to approx. 148 waste bags avoided

### Water usage **1,384 m<sup>3</sup>**

Most of your savings are invested in companies that on average consume less water than their peers.



28 m<sup>3</sup> less than illustrative benchmark



**0.2**

The equivalent of the water used by 0.2 households

This sustainability footprint overview is prepared by NASDAQ based on analysis of Nordea 1 – European Stars Equity Fund's holdings as of 30.06.2021. The analysis is based on the equity investments in the fund and the holdings are compared to the NASDAQ European Large 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<sup>2\*</sup>



Nuclear weapons<sup>6</sup>



Conventional<sup>3</sup> oil & gas / unconventional<sup>4</sup> oil & gas



Conventional weapons\*\*



Controversial weapons<sup>5</sup>



Tobacco\*

\* 5% revenue threshold on production \*\* 10% revenue threshold on production.

### 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

### ESG labels<sup>7</sup>



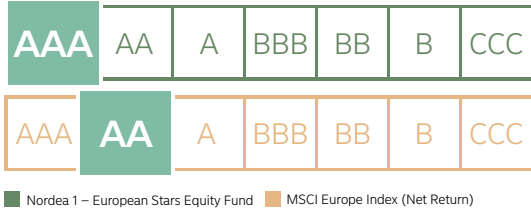
## Find out more about RI at Nordea Asset Management:

- » [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 – European Stars Equity Fund (3 stars), validity during 2021; Towards Sustainability recognises the Nordea 1 – European Stars Equity Fund, validity 11.2020 – 11.2021; LuxFLAG ESG Label recognises the Nordea 1 – European Stars Equity Fund, validity 01.07.2020 – 30.06.2021.

# ESG overview

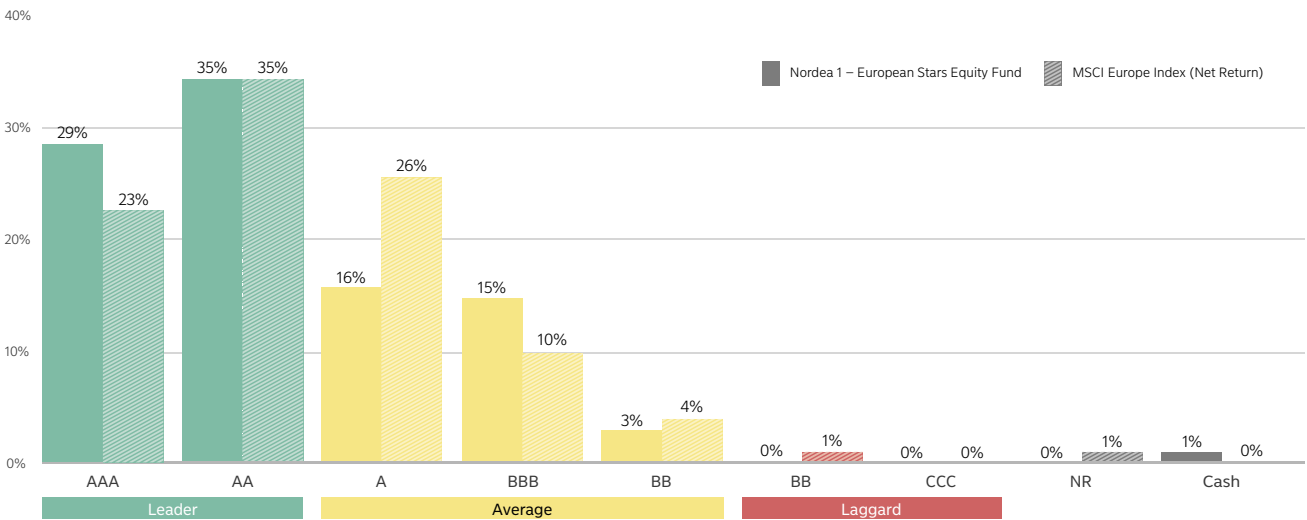
## ESG rating<sup>8</sup>



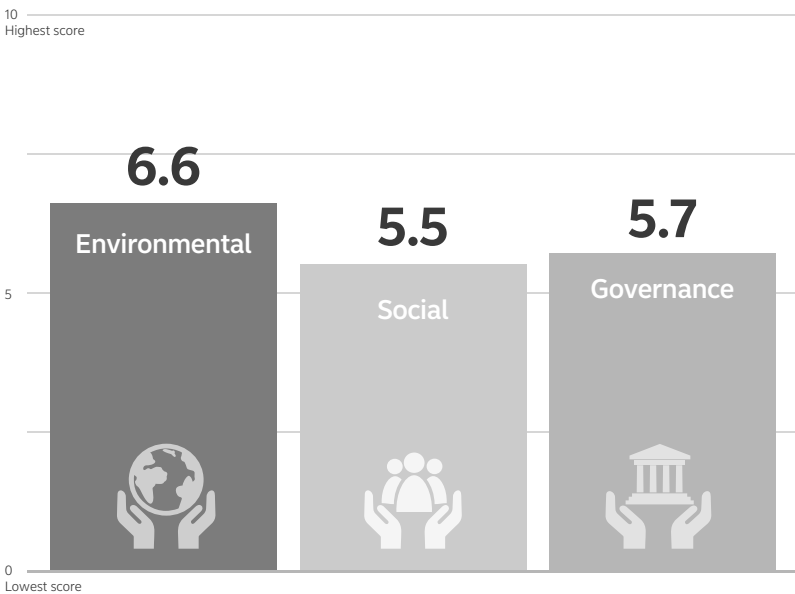
**Please note** that the MSCI ESG rating is mainly backward looking, relying mainly on publicly available information and can differ from Nordea’s internal ESG scoring which is based on a forward-looking approach.

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.

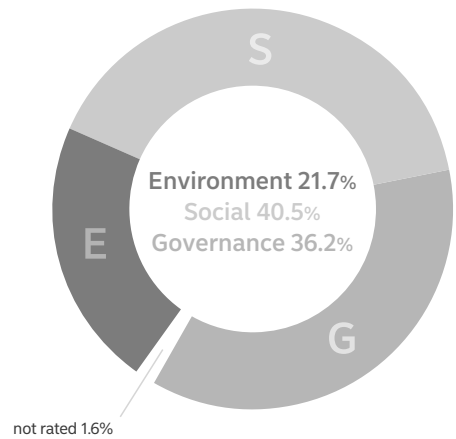
## ESG Rating breakdown<sup>8</sup>



## ESG scores by pillar<sup>8</sup>



## ESG risk exposure<sup>8</sup>



8) ©2021 MSCI ESG Research LLC. Reproduced by permission.

# ESG indicators

## Environmental indicators

■ Nordea 1 – European Stars Equity Fund ■ Benchmark<sup>9)</sup>

111 t



0.0%



1.5%



133 t



4.8%



5.9%



### Weighted Average Carbon Intensity (tCO<sub>2</sub>e/USD million)

The WACI measures a portfolio's exposure to carbon intensive companies.

### Exposure to high impact fossil fuel reserves

The percentage of portfolio's market value exposed to companies that own high impact fossil fuel reserves.

### Exposure to environmental controversies

The percentage of portfolio's market value exposed to companies facing one or more very severe environmental controversies.

## Social indicators

0.0%



4.2%



4.7%



0.5%



7.1%



7.4%



### Exposure to human rights norms violation

The percentage of portfolio's market value exposed to companies in violation of international norms around human rights.

### 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.

### Exposure to labour controversies

The percentage of portfolio's market value exposed to companies facing one or more very severe labour controversies.

## Governance indicators

0.0%



97.1%



10.6%



0.7%



91.2%



12.8%



### Exposure to companies with no female directors

The percentage of portfolio's market value exposed to companies with no female directors.

### 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%.

### Exposure to governance controversies

The percentage of portfolio's market value exposed to companies facing one or more severe or very severe governance controversies.

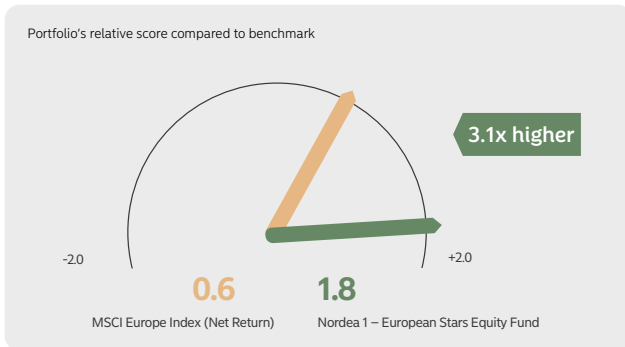
9) As measured by the iShares Core MSCI Europe ETF. Source: MSCI ESG Research LLC. as of 31.05.2021. ©2021 MSCI ESG Research LLC. Reproduced by permission. Portfolio coverage 99.47%.

Weighted Average Carbon Intensity based on MSCI Europe – Net Return Index as of 30.06.2021. 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](https://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)

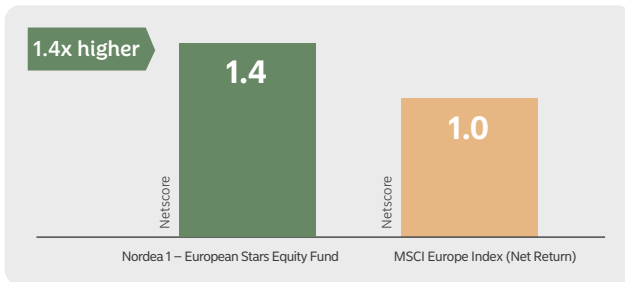
The chart below shows the contribution of the portfolio holdings products and services to both environment and social considerations compared to companies held in the benchmark. The contribution of the portfolio to the 15 objectives (social and environmental) is 3.1x higher than the benchmark.



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

## Exposure to the 7 social objectives<sup>10</sup>

The contribution of the portfolio to the 7 social objectives is 1.4x 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. Safeguarding peace

## Top contributors

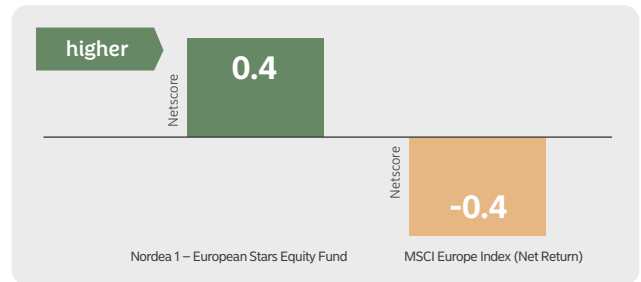
1. **AstraZeneca** (GB, Health Care)
2. **Sanofi** (FR, Health Care)
3. **Novo Nordisk B** (DK, Health Care)

### Notes

Benchmark	MSCI Europe Index (Net Return)
Portfolio coverage	99%
Benchmark coverage	100%
Portfolio holdings	41

## Exposure to the 8 environmental objectives<sup>10</sup>

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



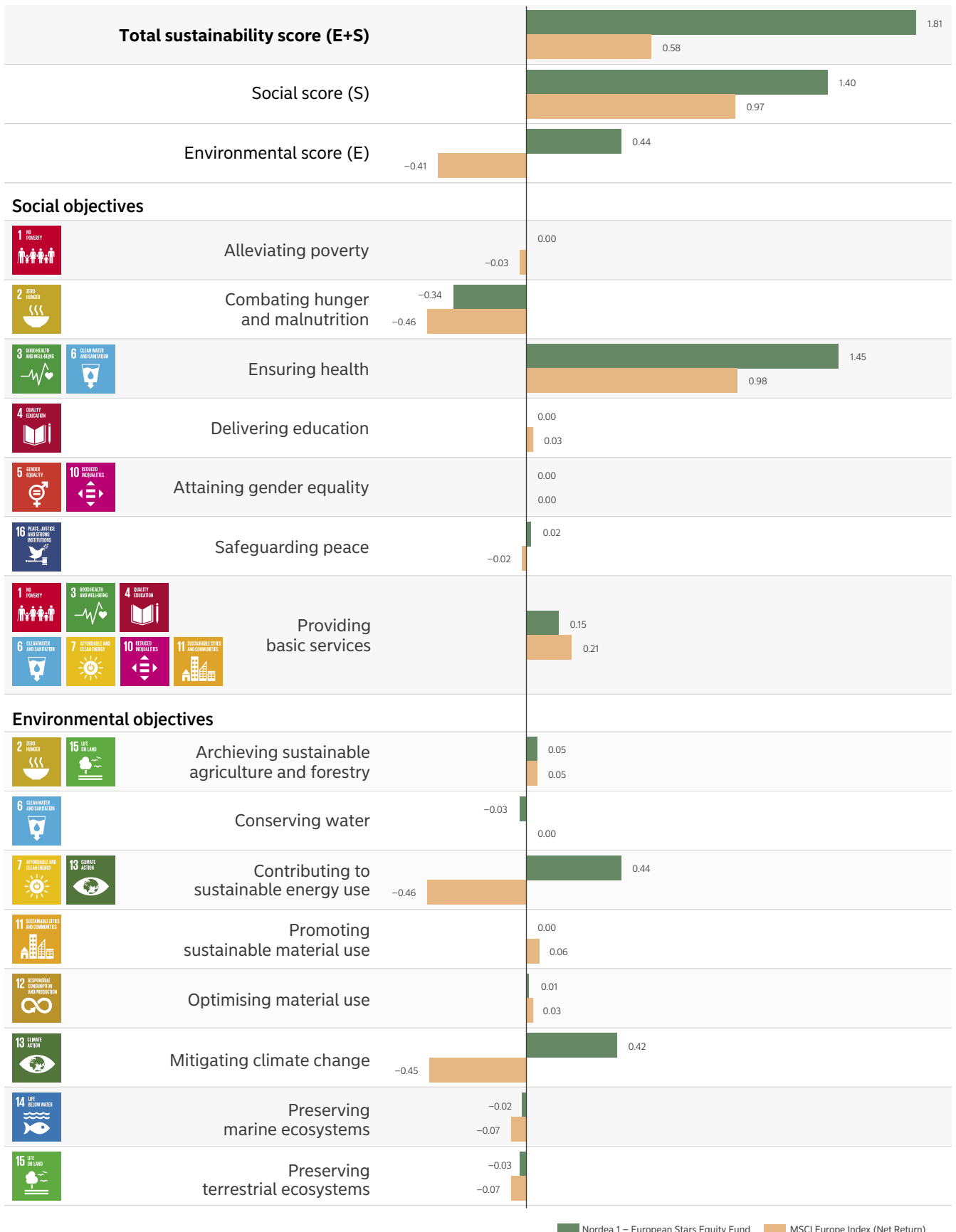
Comparison with other financial products or benchmarks is only meant for indicative purposes.

## Top 3 environmental objectives

1. Contributing to sustainable energy use
2. Mitigating climate change
3. Achieving sustainable agriculture and forestry

<sup>10</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. 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.

# Sustainability score details



■ Nordea 1 – European Stars Equity Fund ■ MSCI Europe Index (Net Return)

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](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.



# 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.

By 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](#).

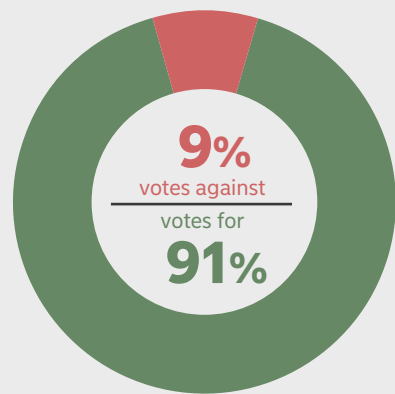
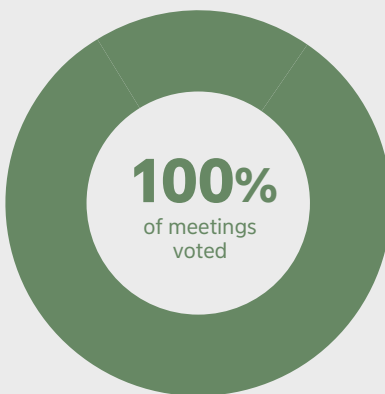
Engagement is the next step of being an active owner and is a crucial component of our RI philosophy and framework. Our engagement activities fall into one

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

## Alstom SA

Nordea ESG scoring <sup>11</sup>	Proxy Voting <sup>12</sup>	SDG Engagement	Engagement topic
B+	✓	<div style="display: flex; flex-direction: column; gap: 5px;"> <div style="background-color: #800000; color: white; padding: 2px 5px; display: inline-block;">8</div> Decent work and economic growth                     </div> <div style="display: flex; flex-direction: column; gap: 5px;"> <div style="background-color: #000080; color: white; padding: 2px 5px; display: inline-block;">16</div> Peace, justice and strong institutions                     </div>	Social – Human Rights, Labor Rights and Supply Chain Management

### Overview

Alstom is a France-based manufacturer of infrastructure and rail stock for the rail transport sector. The company’s offer includes a range of solutions including rolling stock, systems as well as services.

### Background

Alstom operates globally and contributes positively to the decarbonization of public transport with its electrified rolling stock infrastructure and services. The company faces ESG risks in terms of its supply chain, specifically with regards to labor management. Alstom sources its materials from a large set of suppliers, and has longstanding partnerships with some. However, a report from the Australian Strategic Policy Institute raised allegations against one of the company’s suppliers of using forced labor in production sites in the region of Xinjiang, China. The report was followed and strengthened by trade restrictions imposed by the US on the supplier.

### The Engagement

In the beginning of the quarter, we initiated the engagement with the company in order to conduct our due diligence on Alstom’s supply chain management, risk assessment processes and audit practices. We also asked the company to provide details about its due diligence on the above mentioned supplier specifically.

### Outcome

First, the company provided us with details on their new risk assessment framework which has been developed in line with recent regulatory changes in France. It became apparent that Alstom applies its risk assessment framework currently only to new projects. We subsequently encouraged Alstom to apply its new risk assessment framework to already existing projects, in order to mitigate and be able to act on associated risks.

Secondly, Alstom confirmed the business relationship to the scrutinized supplier and reported that the supplier’s

production site in Xinjiang is frequently audited by a third party. Based on the auditors interviews and on-the-ground research, Alstom concluded that the production site is not making use of forced labor. We have requested Alstom to share the third party report with us and provide further relevant information. We have also encouraged Alstom to evaluate the possibility of changing the supplier.

However, Alstom has not yet complied with our request to share the third party audit report of the scrutinized supplier. We will continue engaging with Alstom on the topic and potentially re-evaluate our internal score and investment decision.

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 took place. Please find out more on [nordea.com/sustainability](https://nordea.com/sustainability) or access directly the [voting portal](#).

## Just Eat Takeaway.com N.V.

Nordea ESG scoring <sup>11</sup>	Proxy Voting <sup>12</sup>	SDG Engagement	Engagement topic
B+	✓	<div style="display: flex; flex-direction: column; gap: 5px;"> <div style="display: flex; align-items: center;"> <div style="background-color: #800000; color: white; padding: 2px 5px; font-weight: bold; margin-right: 5px;">8</div> <div>Decent work and economic growth</div> </div> <div style="display: flex; align-items: center;"> <div style="background-color: #006400; color: white; padding: 2px 5px; font-weight: bold; margin-right: 5px;">13</div> <div>Climate action</div> </div> <div style="display: flex; align-items: center;"> <div style="background-color: #000080; color: white; padding: 2px 5px; font-weight: bold; margin-right: 5px;">16</div> <div>Peace, justice and strong institutions</div> </div> </div>	Social – Labor Management Environment – Responsible Production and Consumption

### Overview

Just Eat Takeaway.com NV, formerly Takeaway.com, is a company based in the Netherlands that operates an online food delivery marketplace. The company currently focuses on connecting consumers and restaurants, and allows users to order food from nearby restaurants and have the food delivered to their homes.

### Background

The company finds itself in a competitive environment with increased regulatory scrutiny and elevated media attention on the industry’s employee and labour rights. While Just Eat Takaway.com NV operates an employment model for its employees in most of the company’s markets, many of its competitors in Europe and North-America exercise a freelancing model – the ‘gig economy’.

### The Engagement

The main objective of this engagement was to conduct due diligence on the company’s views and plans with regards to its employment model and environmental sustainability strategy. The company’s employment model could potentially provide a blue print for the sector.

### Outcome

During the interactions with the company, Just Eat Takeaway.com acknowledged the increased media attention and shareholder scrutiny on the industry’s labour rights. The company has strategically positioned itself as a frontrunner on employee rights by operating an employment model instead of a freelance model and advocates for a firmed up regulation in the market which would potentially force its competitors to follow suit and

significantly change their operations. We consider the company well-positioned on this crucial ESG topic and have therefore encouraged it in its employment strategy.

With regards to the company’s environmental impact, we are interested in the role Just Eat Takaway.com’s marketplace platform could play in pushing its partners (restaurants) and customers to produce and consume increasingly sustainable. The company’s sustainability team updated us on their increased efforts on sustainability related topics and revealed several relevant projects. The company acknowledged that it is in early stages with regards to these projects. Just Eat Takeaway.com will continue to be an engagement priority in 2021 specifically on environmental sustainability topics and the potential positive impact the company can have.

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 took place. Please find out more on [nordea.com/sustainability](https://nordea.com/sustainability) or access directly the [voting portal](#).

## Infineon Technologies AG

Nordea ESG scoring <sup>11</sup>	Proxy Voting <sup>12</sup>	SDG Engagement	Engagement topic
A	✓	<div style="display: flex; flex-direction: column; gap: 5px;"> <div style="display: flex; align-items: center;"> <div style="background-color: #0070C0; color: white; padding: 2px 5px; border-radius: 3px;">6</div> <span>Clean water and sanitation</span> </div> <div style="display: flex; align-items: center;"> <div style="background-color: #C85130; color: white; padding: 2px 5px; border-radius: 3px;">9</div> <span>Industry, innovation and infrastructure</span> </div> <div style="display: flex; align-items: center;"> <div style="background-color: #4F7942; color: white; padding: 2px 5px; border-radius: 3px;">13</div> <span>Climate action</span> </div> </div>	Environment – Climate, Reporting and Target setting, TCFD

### Overview

Infineon is a Germany-based designer, developer and manufacturer of semiconductors and related system solutions. The company operates in a large field of segments with many possible applications of its products. The company is benefitting from many semiconductor applications that enable energy efficiency gains in certain end markets e.g. renewable energy production or electromobility.

### Background

From an environmental point of view, Infineon’s business is attractive because its products are used in end markets that contribute to solutions for sustainability challenges. However, given the company does not report to the TCFD, a full assessment remains to be difficult.

### The Engagement

We had a virtual meeting with the company’s IR team and the head of ESG for a granular view of Infineon’s current and future plans with regards to reporting (TCFD, CDP), target setting and sustainability priorities.

We discussed - in detail - the company’s CDP score (B) and the possibility of submitting a science based target for GHG reductions. Infineon acknowledged that the CDP score is not satisfying and is currently looking at possible improvements on both its climate and water disclosure with CDP. We pointed out that we would additionally like to see the company improve its disclosure and set ambitious targets which would fit to the company’s promise of being a climate beneficiary. Infineon confirmed it is having internal discussions about the

submission of GHG reduction targets to the SBTi (Science Based Targets Initiative).

### Outcome

Infineon has many strong points but seems reluctant to ramp up its reporting and target setting which could, in our view, unlock significant additional value. We will continue to monitor the company’s efforts and will reiterate our requirements and recommendations in a follow-up. Further, we might need to assess changes to our internal ESG rating in case of dissatisfaction with the company’s willingness to raise its reporting ambition and to establish initiatives to achieve the above mentioned improvements.

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 took place. Please find out more on [nordea.com/sustainability](https://nordea.com/sustainability) or access directly the [voting portal](#).

# Appendix

# Methodology – Sustainability footprint

## CO<sub>2</sub>e 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<sub>2</sub> 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<sub>2</sub>e 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<sub>2</sub>e) since 1965. (Source: The Guardian)

## Fossil reserves

**Shows the future potential CO<sub>2</sub>e emissions if oil, gas and 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<sub>2</sub>e 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<sub>2</sub>, 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<sub>2</sub> equivalents:**

Different greenhouse gasses that contribute differently to global warming. According to the GHG Protocol, they are all converted into one measure, CO<sub>2</sub> equivalents:

Greenhouse gas	CO <sub>2</sub> equivalent
Carbon Dioxide	1
Sulphur Hexafluoride	22.8
Methane	25
Nitrus Oxide	298
Hydro Fluoro Carbons	2.400
Per Fluoro Carbons	7.850

### **What are Scope 1, 2 and 3 CO<sub>2</sub> 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<sub>2</sub>e when assembling cars (Scope 1). The manufacturer's suppliers emits CO<sub>2</sub>e to generate electricity for the manufacturer production of electricity (Scope 2). A rental car provider operates the cars and emits CO<sub>2</sub>e 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 is 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 usage 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)

## Disclaimer

### Sustainability information

The information Nordea Investment Funds S.A. is providing to you as part of their services on specific legal entities' sustainability (the "Sustainability footprint") is based on third party information provided to or obtained by Matter from either publicly available sources on sovereign topics, third-party analysis or as third-party evaluation on corporate topics.

### Nature of the Sustainability footprint

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# 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 rights. 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 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 ISS-ESG 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:



# UN Sustainability Development Goals

## UN Sustainability 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	—

# 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, filing 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 identified 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 laws 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. Funds for which the PAFF is not implemented as a hard exclusion criterion, the PAFF acts as guidance for engagement. 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 emerging – 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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