

# The STARS equity funds:

## At the forefront of responsible investment

### Highlights

1. **The STARS funds are at the forefront of Responsible Investment (RI) at Nordea Asset Management (NAM)<sup>1</sup>**
2. **They aim to:**
  - Invest in companies living up to Nordea's ESG standards
  - Beat their benchmark<sup>2</sup>
  - Create lasting impact



### Responsible Investment at Nordea: it's in our Nordic DNA

Nordea Asset Management's (NAM) commitment to be a responsible asset manager is not new: it is deeply rooted in our Nordic DNA. It's anchored in our corporate culture, philosophy and business model. Environmental, Social and Governance (ESG) issues are gaining widespread recognition and there is mounting evidence that ESG factors can be material to long-term investment returns. We have been focusing on such issues for decades.

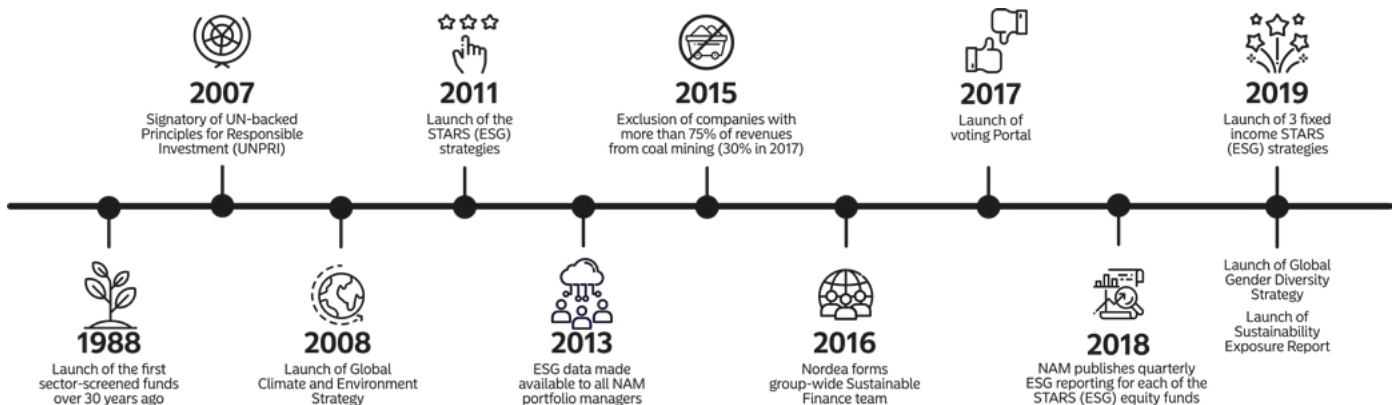
### Our Journey

We consider it our fiduciary duty to care about all factors that are material to our clients' investments, whether financial or non-financial: responsible investing is part of this. At the Nordea corporate level, we have defined sustainability-related eligibility criteria that apply to all our active funds. We do not, for instance,

invest in companies involved in the production of illegal or nuclear weapons or that make more than 10% of their revenues from oil sand. We also exclude 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). However, beyond these corporate exclusions, we have developed a specific range of cutting edge products that takes Responsible Investment (RI) to the next level. We call these the STARS funds: our STARS equity funds are managed by the Fundamental Equities Team.

Our STARS strategies seek to find **tomorrow's sustainable corporate leaders** with 3 key objectives:

1. **Invest in companies living up to Nordea's ESG standards**
2. **Beat the benchmark<sup>2</sup>**
3. **Create lasting impact**



1) Nordea Asset Management is the functional name of the asset management business conducted by the legal entities Nordea Investment Funds S.A. and Nordea Investment Management AB ("the Legal Entities") and their branches, subsidiaries and representative offices. 2) There can be no warranty that an investment objective, targeted returns and results of an investment structure is achieved. The value of your investment can go up and down, and you could lose some or all of your invested money. Please note that not all STARS Funds have a benchmark.

\*investing for their own account – according to MiFID definition

## 1. How the STARS equity funds invest in companies that live up to Nordea's ESG Standards

- Our award winning Responsible Investment Team conducts in-depth analysis to understand where companies stand regarding ESG factors
- Meeting companies is an important part of our research process
- We ensure the funds invest only in companies able to meet our ESG standards

During the idea generation process our Investment team uses the Expectations Gap, which looks at the difference between our internal view of a company's ability to generate future cash flows and the market's view. From there the team presents an investment candidate, i.e. a company that they've identified with attractive fundamentals. This step is directly followed by a detailed ESG assessment performed by our Responsible Investment (RI) Team.

4. These steps result in an internally-evaluated ESG score (A/B/C). This score is absolute in nature and a company is not rated relative to peers. It is an aggregated metric that represents NAM's view on how well a company is positioned regarding ESG risks and opportunities.

**Notably, our proprietary ESG rating model includes a business model dimension in addition to other aspects such as environmental or social ones. We assess how sustainability trends can positively or negatively impact the company's business model, its value chain, products and services. We also seek to understand the company's contribution to these themes. This gives our ratings a more forward-looking angle.**

Finally, although important, buying external ESG data is only a small part of the ESG assessment.

### Meeting our ESG standards

The ESG score represents the minimum expectations we have for the companies included in the STARS funds. Portfolio managers of the STARS funds are able to select only companies with a minimum score of B and are not able to invest in lower rated companies. We apply certain ESG standards to all our actively-managed funds at Nordea: the rating approach used by the STARS funds significantly raises the bar for a company to become eligible for investment.



### In-depth ESG analysis: Our 4 step company rating process

1. For each sector our Nordea RI Team identifies the critical ESG issues to include in their evaluation. The materiality of ESG issues varies sector by sector and this first step is crucial. For example, water pollution and labour rights may be key issues for a manufacturer while the leading issue for a software provider might be data protection.
2. Next, the RI Team identifies ESG risks as well as opportunities at the company-specific level.
3. Then an in-depth analysis is carried out using data from multiple sources (such as data published by the company, specialised ESG data-providers, international organisations and non-governmental organisations). This supports the RI Team by preparing them for meetings with company management and field trips.

## 2. How the STARS equity funds aim to beat their benchmark<sup>3</sup>: true ESG integration

- Alpha generation remains a core part of the STARS' value proposition, as with any actively managed fund
- By truly integrating ESG analysis with bottom-up fundamental research, we aim to select tomorrow's winners

The RI Team carries out the ESG rating process described on the previous page. Once a company is rated and eligible for investment, the Fundamental Equities Team will perform further evaluation of the stock. The objective is to identify companies able to deliver sustainable long-term shareholder value.

Each STARS fund has a dedicated ESG analyst participating in team meetings with portfolio managers and provides input at all stages of the investment process.

To identify tomorrow's winners, we incorporate the findings of the ESG analysis throughout the investment process, from idea generation and valuation to portfolio construction and risk management.

### ESG analysis integrated into the stock selection:

#### Step 1: Incorporating ESG factors in Strategic Assessment

Once an idea is validated a strategic assessment is performed. It considers multiple factors in order to rate the strength of a company's sustainable competitive advantage. In their assessment the portfolio managers fully incorporate the findings of the ESG analysis, including both sector level and company-specific ESG results. This allows a 360° understanding of the company and its ability to maintain its competitive advantages.

#### Step 2: Quantifying ESG impact on valuation

The Strategic Assessment forms the basis for growth and profitability projections and is therefore an integral part of the valuation of the company.

When valuing a company, the managers look at a company's projected growth rate and ability to generate excess return on its invested capital. Companies with strong ESG profiles that are able to conduct their business responsibly in relation to their stakeholders (employees, suppliers, customers, investors and society at large) are likely to have more sustainable business models. Thus the teams build into their models greater sustainability of excess returns for companies with a higher ESG rating.

Fundamental research and ESG analysis are thereby intertwined and enable us to identify companies matching the 6 STARS dimensions. These are the companies that we believe can be the winners of tomorrow.



<sup>3</sup>) There can be no warranty that an investment objective, targeted returns and results of an investment structure is achieved. The value of your investment can go up and down, and you could lose some or all of your invested money. Please note that not all STARS funds have a benchmark.

### 3. How the STARS equity funds create impact

- We foster change with our companies by engaging with them around specific ESG topics
- Our teams build structured engagement roadmaps and regularly assess the impact of its engagement activities

Engagement is a key part of the STARS concept. Engagement means having a constructive dialogue with the companies we invest in or are considering for investment. Such dialogue enables us to understand how a company is thinking about and addressing ESG risks or opportunities that are relevant for its business.

For the STARS products, the portfolio managers and our RI Team together build an engagement roadmap, identifying the most relevant and material ESG topics for each company. Engagement can take various forms, from conference calls to face-to-face meetings and field visits. While the RI Team typically takes the lead in engagement activities, our portfolio managers often participate. We hold upwards of 150 meetings a year. We see engagement as a way to preserve and enhance long-term shareholder value, as well as create a positive impact for the broader society.

#### ESG-driven

Norm-based engagement (incident-driven)	Engagement around material ESG risks
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We break down our ESG engagement into two categories: Risk-related and Thematic.

#### ESG thematic

SDG-related engagement
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Risk engagement can include both reactive incident-driven ESG engagement (if a company breaches international norms) and proactive ESG-driven engagement around material ESG risks.

Thematic engagement focuses on companies' exposure to certain themes which might represent a significant material risk for the company. In particular the team looks at issues related to the UN Sustainable Development Goals (SDGs). We believe that companies aligning their business models and practices with the SDGs will be successful in the long-term, because they are adjusting to global society's future needs. For example, since 2015 we have engaged with 25 pharmaceutical companies in India to discuss waste water management (their own and their suppliers'), because pharmaceutical water pollution is a significant issue in India.

#### Award Winning team

Formed in 2009, Nordea's RI Team is one of the largest and most experienced teams in Europe. Over the years, the team has received awards from several external entities such as Extel and the European magazine Capital Finance International (CFI)<sup>4</sup>. CFI awarded Nordea Asset Management "Best ESG Investment Process in Europe" for six consecutive years (2014 – 2019).



The RI analysts, who sit close to their respective portfolio management teams in Stockholm and Copenhagen, have both a broad coverage and a particular focus on STARS fund holdings.

<sup>4</sup> Source: cfi.co is a London-based magazine whose annual awards focus on best practise.

#### Field visits



Nordea's Felix Nilsson, Olena Velychko and Anders Langworth in Indonesia to investigate the palm oil industry.

#### A successful example of engagement

Over the years, we have actively and successfully engaged with companies all over the world to ensure they meet our ESG criteria. One such company is Swedish fashion retailer H&M (Hennes & Mauritz AB). H&M works with many of its suppliers in emerging markets to improve labour conditions. Nevertheless, some of the challenges facing these suppliers have caught our team's attention. On a site visit to Cambodia, Nordea inspected a supplier's factory that had been flagged after an incident where workers fainted due to extreme heat in the building. Our team spotted several issues such as poor ventilation and lack of access to drinking water. As a result of the visit, a number of immediate action points were made to improve the working conditions. These included better air condition and more drinking stations. However, the engagement work does not stop there. Follow-up meetings are scheduled on an ongoing basis with H&M to ensure that they maintain their focus on improving working conditions in their supply chain.

## Why invest in the STARS?

The STARS funds target outperformance while standing at the forefront of Nordea Asset Management's ESG offering.<sup>5</sup> They represent a unique concept and approach, where the STARS investment teams fully integrate ESG factors into the investment process and use dialogue and engagement to make a real impact. By doing so, the STARS funds not only aim to deliver alpha but allow investors to shape tomorrow's world.

### Shaping tomorrow's world. Invest in the STARS.

#### STARS equity funds

##### Nordea 1 – Asian Stars Equity Fund

ISIN: LU2152927971 (BP-USD) / LU2152928607 (BI-USD)

##### Nordea 1 – Emerging Stars Equity Fund

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

##### Nordea 1 – European Stars Equity Fund

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

##### Nordea 1 – Global Stars Equity Fund

ISIN: LU0985320562 (BP-USD) / LU0985319804 (BI-USD)

##### Nordea 1 – Nordic Stars Equity Fund

ISIN: LU1079987720 (BP-EUR) / LU1079987134 (BI-EUR)

##### Nordea 1 – North American Stars Equity Fund

ISIN: LU0772958525 (BP-USD) / LU0772957808 (BI-USD)

#### STARS fixed income funds\*

##### Nordea 1 – European Corporate Stars Bond Fund

ISIN: LU1927797156 (BP-EUR) / LU1927797586 (BI-EUR)

##### Nordea 1 – European High Yield Stars Bond Fund

ISIN: LU1927798717 (BP-EUR) / LU1927799012 (BI-EUR)

##### Nordea 1 – Emerging Stars Bond Fund

ISIN: LU1915689316 (BP-USD) / LU1915689829 (BI-USD)

##### Nordea 1 – Emerging Stars Local Bond Fund

ISIN: LU1160612526 (BP-USD) / LU1160610405 (BI-USD)

\* While sharing the main STARS concept characteristics, the fixed income funds follow a different ESG integration process than the equity funds.

## RI products: international ESG-labels



Nordea 1 Funds	European SRI Transparency Code <sup>6</sup>	LuxFlag ESG Label <sup>7</sup>	FNG-Siegel 2020 <sup>8</sup>	Towards Sustainability Label <sup>9</sup>	Label ISR <sup>10</sup>
Emerging Stars Equity	✓	✓	★ ★	✓	✓
Global Stars Equity	✓	✓	★ ★	✓	✓
European Stars Equity	✓	✓	★ ★ ★	✓	
Nordic Stars Equity	✓	✓			
North American Stars Equity	✓	✓	★ ★	✓	✓

<sup>5</sup> There can be no warranty that an investment objective, targeted returns and results of an investment structure is achieved. The value of your investment can go up and down, and you could lose some or all of your invested money. <sup>6</sup> The European SRI Transparency logo signifies that Nordea Investment Funds S.A. commits to provide accurate, adequate and timely information to enable stakeholders, in particular consumers, to understand the Socially Responsible Investment (SRI) policies and practices relating to the fund. Detailed information about the European SRI Transparency Guidelines can be found on [www.eurosisf.org](http://www.eurosisf.org). The Transparency Guidelines are managed by Eurosisf, an independent organisation. The European SRI Transparency Logo reflects the fund manager's commitment as detailed above and should not be taken as an endorsement of any particular company, organisation or individual. <sup>7</sup> LuxFlag is an international and independent non-profit association and labelling agency. To promote sustainable investing in the financial industry, LuxFLAG awards an independent and transparent label to eligible investment vehicles in Micro-finance, Environment, ESG (Environment, Social, Governance), Climate Finance and Green Bonds. The objective is to reassure investors that the labelled investment vehicle invests in a responsible manner. The LuxFLAG ESG Label is valid for one year. Investors must not rely on LuxFLAG or the LuxFLAG Label with regard to investor protection issues and LuxFLAG cannot incur any liability related to financial performance or default. <sup>8</sup> Forum Nachhaltige Geldanlagen (FNG), founded in 2001, is the industry association promoting sustainable investment in Germany, Austria and Switzerland. FNG's goal is to improve quality standards for sustainable investment products, to secure the adherence to internationally recognized minimum norms. The FNG ESG label (1 to 3 stars) is awarded on an annual basis. <sup>9</sup> Towards Sustainability was launched by the Belgian Central Labeling Agency in 2019. It aims to reassure potential investors that the financial product is managed with sustainability in mind and is not exposed to very unsustainable practices. For more information on the "Towards Sustainability" label, visit [www.towardsustainability.be](http://www.towardsustainability.be). The label is valid for one year. <sup>10</sup> Label ISR is created and supported by the French Finance Ministry. The label's goal is to increase the visibility of SRI products among savers in France and Europe. For more information on the Label ISR, visit <https://www.laetabelis.fr/en/what-sri-label/>. The ISR Label is valid for three years.



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