

Sustainability & Engagement Report

Nordea 1 – European High Yield Stars Bond Fund

Fourth quarter 2020



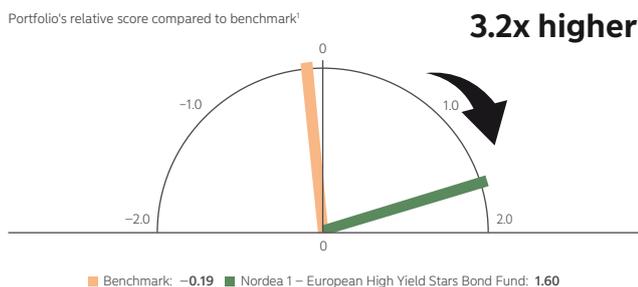
Nordea 1 – European High Yield Stars Bond Fund

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

Total sustainability score (vs benchmark)

The chart below shows the contribution of the portfolio holdings products and services to both environment and social considerations compared to companies held in the benchmark.

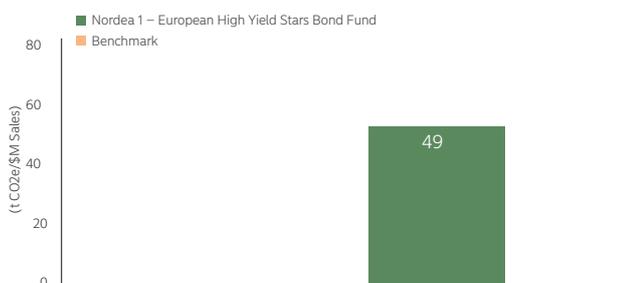
The contribution of the portfolio to the 15 objectives (social and environmental) is 3.2x higher than the benchmark.



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

Carbon intensity

Please note that the carbon intensity is not calculated for the benchmark as the coverage is deemed low (below 75%)



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

Note: Scope 1 & 2. Preliminary data as at 31.12.2020. The carbon footprint 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: https://www.nordea.lu/documents/responsible-investments---carbon-footprint-disclosure/RI-CFD_eng_INT.pdf. Source: Nordea Investment Funds S.A., MSCI Inc.

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Top contributors

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

2. Progroup AG (DE, Paper & Forest Products). The company mainly contributes to the environmental objective 'Optimising Material Use' as it produces and supplies corrugated sheet boards and recycled containerboards primarily for family-owned box manufacturing customers.

3. Levi Strauss & Co. (US, Textiles & Apparel). The company mainly adds to the environmental objective 'Achieving Sust. Agriculture and Forestry' as it has implemented a good strategy to increase the use of more environmentally preferable materials in its cotton based products.

Notes

Benchmark ICE BofA European Currency High Yield Constrained Index - Total Return 100% Hedged to EUR

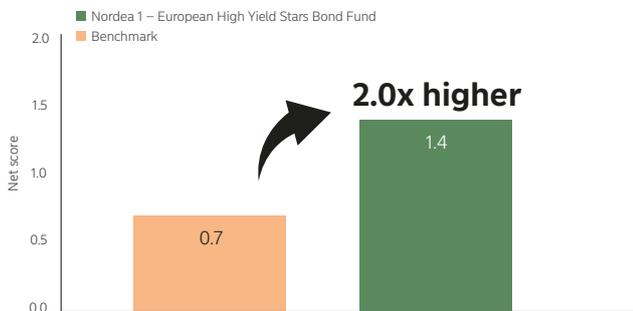
Portfolio coverage 60%

Benchmark coverage 76%

Portfolio holdings 113

Exposure to the 7 social objectives²

The contribution of the portfolio to the 7 social objectives is 2.0x higher than the benchmark.



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

Top 3 social objectives

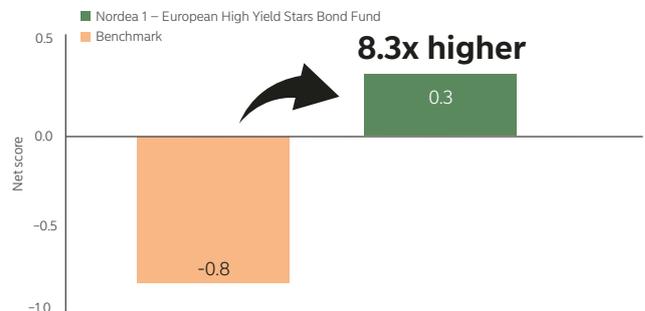
1. Providing basic services
2. Ensuring health
3. Safeguarding peace

Main SDGs exposure



Exposure to the 8 environmental objectives²

The contribution of the portfolio to the 8 environmental objectives is 8.3x higher than the benchmark.



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

Top 3 environmental objectives

1. Optimising material use
2. Achieving sustainable agriculture and forestry
3. Mitigating climate change

Main SDGs exposure



Portfolio Company highlight: Smurfit Kappa Group Plc

As a paper packaging company, Smurfit Kappa uses more than 75% recycled fibers (in 2019) and it is estimated that a quarter of its product portfolio contributes to the global sustainability challenge of resource scarcity, e.g., reusable packaging and packaging based almost purely on recycled fibers. Besides, the company sells around 15% of FSC or PEFC-certified products, which contributes to some extent to the global sustainability challenge of deforestation.

² Please note that the total sustainability score is the sum of the social and environmental scores and may slightly differ due to rounding differences. Should the benchmark score be negative the multiplier is calculated as follow: $(\text{Portfolio score} + 1) / (\text{Benchmark score} + 1)$. Further information on SDGs is available at <https://www.un.org/development/desa/en/news/sustainable/sustainable-development-goals.html>. Sources: Nordea Investment Funds S.A., ISS-ESG, United Nations Sustainable Development Goals.

Engagement is key for active ownership

The aim of this section is to describe some of the activities that the Responsible Investment (RI) team has done over the last quarter for this specific fund. This tool, therefore, is not meant to be fully comprehensive, but to allow investors to follow-up on the fund's relevant ESG-related issues (Environmental, Social and Governance) and the main activities that the RI team has been involved in.

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

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

Top ESG activities over the quarter

Holding	Nordea ESG scoring ³	Proxy Voting ⁴	SDG Engagement	Risk Engagement	Activity
Lloyds Banking Group	B+	✓	<ul style="list-style-type: none"> 7 Affordable and clean energy 8 Decent work and economic growth 10 Reduced inequalities 13 Climate action 	Fossil fuel policy, AML	Virtual Meeting

3) Current scoring, based on Nordea proprietary ESG model. 4) Proxy voting refers to the last 12 month-period. Generally, we vote in annual reports and most of the Annual General Meetings (AGM) which occurs once a year. If there is no vote, it is generally because the fund was not invested at the time when the AGM happened. **Please find out more on [nordea.com/sustainability](https://www.nordea.com/sustainability) or access directly the [voting portal](#).**

ESG scoring distribution (from best to worst) applicable to this fund:



Sustainable Development Goals (SDG) related to the main ESG activities over the quarter:



ENGAGEMENT CASES

Lloyds Banking Group

OVERVIEW

Lloyds Group is one of the largest financial services organisations in the UK, with a wide portfolio of businesses serving both retail customers and businesses. Its business model is highly exposed to the UK economy with relatively low proportion of international business.

CHALLENGE

Environment – Fossil fuel policy adoption; Governance – Anti-money laundering

PROCESS

Lloyds has been lagging its peers regarding environmental policies, in particular the adoption of a fossil fuel policy that can be regarded as sector-leading. We wanted to hear specifically about their latest efforts to address this, and we appreciated the opportunity to raise many questions to the recently appointed Head of Environmental Sustainability. We also had a separate conversation to talk about Anti-Money Laundering governance.

We met with the senior management in charge of Environmental Sustainability and Investor Relations. We were satisfied to see the company focus on addressing its carbon policy weaknesses following an impact analysis of its portfolios. This resulted in an updated fossil fuel policy close to final stage. However the quality of answers we received on AML questions was less convincing. The company used boilerplate language and its Head of Investor Relations was clearly not used to dealing with the topic in a substantive way. She was also not certain how much she is allowed to tell us. We agreed to schedule a more in depth conversation at a later stage.

OUTCOME

The progress on the environmental side would have been a catalyst for a score upgrade but the lack of clarity on AML topics was a drawback. We will monitor closely the company and its progress on these two specific points.

Description of ISS-ESG methodology

This report highlights how portfolio companies - through their products and services - have positive and negative impact on a total of 15 sustainability objectives covering both Social and Environmental aspects. These objectives have been developed by ISS-ESG and closely aligned with the United Nation Sustainable Development Goals. The objectives include 7 Social and 8 Environmental objectives with scores ranging from -10 to +10. The results are then compared with the benchmark.

Please note that this report does not comment on the Governance aspect as we already report on such considerations in separate reports.

As the UN SDGs primarily target states and the public sector, not all of the goals are relevant for companies. For this reason, ISS-ESG defined a total of 15 sustainability objectives which are closely aligned with the SDGs. They are used to assess companies' product portfolios in terms of their contribution towards sustainable development based on their revenue weight. For each individual objective, a qualitative analysis is conducted to determine whether a product or service category contributes to or refrain from attaining the objective. As a result, the positive and negative effects of different product groups may partly cancel each other out within a given objective.

Further information on the company and the methodology is available at: <https://www.issgovernance.com/esg/impact-un-sdg/>

List of the 15 overarching sustainable objectives

7 social objectives

- Alleviating poverty
- Combating hunger and malnutrition
- Ensuring health
- Delivering education
- Attaining gender equality
- Providing basic services
- Safeguarding peace

8 environmental objectives

- Achieving sustainable agriculture & forestry
- Conserving water
- Contributing to sustainable energy use
- Promoting sustainable buildings
- Optimising material use
- Mitigating climate change
- Preserving marine ecosystems
- Preserving terrestrial ecosystems

Please note that each portfolio and benchmark are assigned a score ranging from -10 to +10 based on the above 15 sustainable objectives. For the approach to be meaningful and sound we have assumed that the minimum coverage at the fund level should at least be 60%. This means that for a fund score to be meaningful at least 60% of its holdings need to have a score.

Complete list of SDGs:



Source: un.org/development/desa/en/news/sustainable/sustainable-development-goals.html

UN Sustainable Development Goals

Corresponding ISS-ESG Sustainability Objectives

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

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