

Fund Portrait

Nordea 1 – European High Yield Stars Bond Fund

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

Highlights

- A credit portfolio that aims for responsible performance in the European high yield market
- Bottom-up credit selection to seek relative value across the full risk spectrum with no top-down bets
- Robust integration of ESG analysis in the investment process aimed at selecting the right companies, both from a return and a sustainability perspective



Asset Management at Nordea

As an active investment manager, Nordea Asset Management manages asset classes across the full investment spectrum and aims to serve its clients in every market condition. Nordea's success is based on a sustainable and unique multi-boutique approach which combines the expertise of specialized internal resources with exclusive external competences with the aim to deliver alpha over time for the benefit of our clients.

Investment Management Team

Since inception in January 2019, the Nordea 1 – European High Yield Stars Bond Fund (EHYSBF) has been internally managed by the co-PM team composed of Fredrik Strand and Kristian Hagelin, both part of Nordea European Credit Team. The same investment team successfully manages European sub investment grade strategies since 2014 with a strong track record built via a pure bottom-up approach focused on credit selection to generate alpha.¹

The investment team cooperates with Nordea's Responsible Investment (RI) team which provides company specific and general research regarding Environmental, Social and Governance risks and opportunities. Formed in 2009, the RI Team is one of the largest and most experienced teams in Europe. It encompasses 20 analysts working hand in hand with the portfolio managers. This creates synergies by actively integrating ESG research throughout every step of the investment process, from the idea generation stage to the engagement with companies.

We believe that combining a full ESG integration with fundamental bottom-up analysis is the key to deliver responsible returns, also in fixed income.



We aim for responsible performance by focusing on company specific research and ESG factors



Fredrik Strand and Kristian Hagelin, co-portfolio managers

Introduction to the ESG STARS concept

Nordea's ESG STARS funds proactively select high-quality companies with the objective to identify tomorrow's winners, which, we believe, have sustainable business models and conduct their businesses responsibly in relation to their stakeholders – employees, suppliers, customers, investors and society at large. The Credit Team works closely with the RI team in order to deliver a solution able to:

- **Outperform the benchmark:** actively managing a diversified portfolio
- **Meet Nordea's ESG standards:** systematically analysing issuers to ensure the fund invests in businesses which meet our ESG standards. We invest in companies that are either

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. ¹ The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested. The value of shares can greatly fluctuate as a result of the sub-fund's investment policy and cannot be ensured, you could lose some or all of your invested money.

leaders in terms of their ESG profile or alternatively in those with a rising ESG potential, thus avoiding the laggards

- **Active ownership:** proactively engaging with companies and encouraging them to improve on material ESG issues

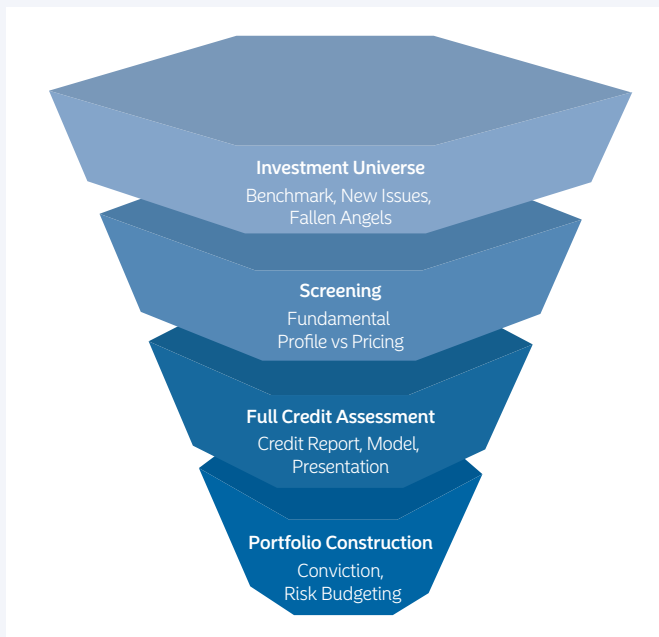
Investment strategy & process

We aim to provide clients with a clean credit product with true ESG integration, which is offering an actively managed exposure to the European high yield market with no top-down calls and a focus on delivering returns and responsibility.

We believe we can outperform the market in the long term by focusing on company specific research, including ESG analysis, and a fundamental approach.

We invest across the full high yield risk spectrum, acknowledging that defaults are part of the High Yield asset class and we cannot allow ourselves to fear any investments opportunity a priori. We strive to price risk correctly and size portfolio positions accordingly.

Our investment process is articulated into well defined and repeatable steps which take us all the way from the investment universe to the construction of a well diversified portfolio reflecting our convictions.



Integrating ESG research in fixed income markets

As an integrated component to the investment process of all our ESG STARS products, a thorough in-house ESG analysis is performed by our independent and seasoned RI team. The team uses multiple sources of information in their proprietary

analysis (the most important being the companies themselves) where we aim that each ESG-analysis is achieved through a face-to-face conference with the relevant representatives.

All companies considered for investment are analysed by our RI team. The analysis is performed “bottom-up” and focuses on how the company operates with stakeholders, particularly on potential conflict areas. For each sector we have identified their material ESG issues, which are included in our evaluation. These inputs are used to form our own company view, meaning that we are not bound by any external ESG assessments. Moreover, when assessing a company’s ESG risk profile we also focus on specific themes utilising the UN Sustainable Development Goals (SDG).

Integrating ESG in credit markets specifically is not straightforward for a number of reasons, especially in the sub investment grade credit universe. Companies in this space are often non-listed and availability of information cannot be given for granted. This is where in-house ESG research proves invaluable and allows to keep the investment universe as broad as possible while at the same time aiming for robust ESG standards.

By integrating an internal sustainability assessment of issuers in our investment process we can put a number on the ESG dimension, and aim for a 360 degrees understanding of ESG risks underlying a given credit. We do so by means of an internal ESG scoring that ranges from A (the highest), reflecting high ESG quality, to C (the lowest), resulting in non-investability for the portfolio. Our internal scoring process is the backbone of our STARS approach and is particularly important not only because it sets our standards, implicitly defining our investment universe, but also because it allows us to look for investment opportunities in high yield companies which do not have any third party ESG ratings, provided of course they meet our criteria.

The final result is a well diversified portfolio which considers and integrates ESG risks along with any other fundamental metric defining the issuers, be it leverage or interest rate coverage. We strive to be invested in the right companies, both from a return and a sustainability perspective and we believe the two can go hand in hand. As a clear signal of our conviction in this sense, the fund is benchmarked against the broader European high yield market, with no specific ESG tilt as far as the reference index is concerned.



Only companies living up to our ESG standards are investable



Michaela Zhirova,
Head of ESG products & research

Engagement & Impact Management

Being a key part of the investment process, Engagement means having a constructive dialogue with the companies we invest in or that we 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. The portfolio managers and RI Team together build an engagement roadmap, where they identify the most relevant and material ESG topics for each company. Engagement can take various forms, from conference calls to face-to-face meetings or field visits, it's not an activity ringenced by voting rights and we do carry on structural engagements also in the fixed income universe. While the RI Team typically takes the lead in engagement activities, our portfolio managers often participate as well. 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 a great opportunity to create a positive impact for the broader society.

Adhering to Nordea's Responsible Investment policy, we do not invest in companies involved in the production of illegal or nuclear weapons, including cluster munitions and anti-personnel mines. Moreover, we exclude some companies with exposure to coal mining, oil sands, oil and gas extraction through arctic drilling and Tobacco. The ESG STARS strategies are also subject to a number of formal exclusion criteria and adhere to our PAFF (Paris-Aligned Fossil Fuel Policy). Exclusions will, however, rarely be triggered as companies subject to exclusion would typically not be selected as investible in the first place. However, it is worth noting that the ESG STARS concept aims for positive selection with the objective to influence companies to improve their ESG profiles, that's why excluding a company from our portfolios is always the last resort for us.

Engagement takes a new dimension with our ESG STARS products. 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, the RI team pays attention to specific themes utilising the UN Sustainable Development Goals.

We distinguish between 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
- **SDGs Engagement:** We believe the UN Sustainable Development Goals (SDGs) form a useful framework, which helps us to understand company strategy in the context of global ESG themes. While companies' exposure to SDGs varies greatly, these exposures can be both a source of opportunity and risk, and hence a valuable area for engagement



Investment Style

Fundamental bottom-up approach with ESG integration



Responsibility

Robust ESG integration and engagement



Decision Process

Team based approach



Risk

Managed for the full credit cycle and across the full risk spectrum

Nordea 1 – European High Yield Stars Bond Fund	
Fund manager	Nordea European Credit Team
Fund domicile	Luxembourg
ISIN codes*	LU1927798717 (BP-EUR) LU1927799012 (BI-EUR)
Annual management fees	1.00% (BP-EUR) 0.50% (BI-EUR)
Base currency	EUR
Reference index	ICE BofA European Ccy High Yield Constrained Index - TR 100% Hdg EUR
Launch date	15.01.2019

Risks

Please be aware that there are risks associated with investing in this sub-fund, amongst others in: **ABS/MBS, Convertible securities, Credit, Derivatives, Hedging, Prepayment and extension.** For further details, please refer to the Key Investor Information Document, which is available as described in the disclaimer at the end of this document.

To find out more, visit our local microsite:

nordea.lu/STARS

nordea.ch/STARS

nordea.co.uk/STARS



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