

Sensitive Industries Guidelines

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Social Empowerment

- The Global Social Empowerment Strategy focuses on companies that can offer solutions to the growing social challenges related to vital needs, inclusion and empowerment. In actively managing the fund's portfolio, the management team focuses on companies that are making a positive social impact through their products or services, and that appear to offer superior growth prospects and investment characteristics.
- The fund aims to create positive impact through investing in companies that make a specific contribution to the social Sustainable Development Goals ("SDGs"). It follows a fundamental approach and a built-in ESG analysis validating the social SDG contribution with targets and impact metrics, and Do Not Significantly Harm and Minimum Social Safeguards analysis, including norm-based screening.

Guidelines for the Nordea 1 – Global Social Empowerment Fund ("the fund") – sensitive industries

Weapons

Nordea Asset Management (hereafter referred to as "NAM" or "We") does not invest in companies, which are involved in production or development of:

- Cluster munitions
- Anti-personnel mines
- Biological weapons
- Chemical weapons
- Non-detectable fragments, incendiary and blinding weapons
- Depleted uranium munitions

Nordea does not invest in companies that are verified to be involved in the production, development or maintenance of nuclear weapons. Nordea may, however, invest in companies involved in the maintenance of nuclear weapons provided that the total military revenue of the company does not exceed 5%.

The fund adheres to restrictions on exposure to weapons and tailor-made components (currently 5% of revenue from weapons or tailor-made components).

Tobacco

Tobacco use is one of the main risk factors for a number of chronic diseases, including cancer, lung diseases, and cardiovascular diseases. We take the view that tobacco is fundamentally in conflict with the concept of sustainable development because of the health impacts of smoking, the cost of treating individuals, and the effects of passive smoking.

The tobacco industry is also facing high risks in the supply since sourcing is often from high risk countries with risk of child labour and poor working conditions. There are environmental risks in the supply chain such as water stress and use of pesticides.

The fund adheres to restrictions in exposure to tobacco (currently 5% of revenue for distribution, production and services).

Climate change

Climate change is one of the single largest threat to our economy and NAM is working on an ongoing basis to assess climate change risk and the impact of the low-carbon transition on sectors and companies. We support the TCFD (Taskforce for climate-related financial disclosure) recommendations and we want to continue to promote increased transparency, development of tools and methods to manage climate-related risks and opportunities and contribute to best practice in the industry.

The fund is subject to the NAM's Paris-Aligned Fossil Fuel List, the whitelist companies contributing and enabling for bringing down fossil fuel carbon emissions by having a clear strategy on investing and growing revenues from non-fossil fuel activities and setting targets aligned with the Paris Agreement (2°C target).

Thermal and metallurgical coal extraction

NAM excludes 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).

The fund adheres to restrictions in exposure to coal mining (currently 5% of revenue). The fund does not invest in companies with expansion plans for coal extraction since it is not considered as a sustainable business model.

Unconventional oil & gas

The fund does not consider companies with large and sustained exposure to the extraction of oil sand and shale oil/gas with a 5% revenue threshold on each. We believe that with current methods and technology, extensive use of these extraction methods are not consistent with a sustainable development.

The fund also excludes companies with involvement in in Arctic drilling, with a 0% revenue threshold.

Conventional Oil and Gas exploration and production

The fund does not currently invest in conventional oil & gas producing companies due to the high ESG risks and their limited contribution to a low carbon transition. The fund is subject to the NAM's Paris-Aligned Fossil Fuel List.

NAM is part of IIGCC (Institutional Investor Group on Climate Change) Climate Action 100 engagement which is a 5 years engagement with focus on governance and disclosure of climate risk and capital expenditure at risk.

Below are some of the issues that are analysed in the ESG analysis for conventional oil and gas:

- **Fossil fuel asset mix:** A fossil fuel asset mix (current production and reserves) indicating future alignment with a low-carbon transition. E.g. a company with a portfolio biased towards gas may benefit from its role as a less carbon intensive bridging fuel in the future (If not offset by methane emissions leaks).
- **Governance of Climate Change risk:** Board oversight of climate risks; Climate expertise on the Board; Executive remuneration includes climate related KPIs; Public support of climate policy and regulation;

- **Strategy / Risk Management:** Climate-related targets (e.g. alternative energy; flaring; GHG emissions; energy efficiency), Low-carbon and alternative energy spend (e.g. acquisitions of low carbon assets, investments in alternative energy supply and R&D spend on low carbon technologies such as CCS); Use of internal carbon prices and 2-degree scenario analysis in capital investment decision making
- **Capital discipline:** Flexibility to manage their investment decisions to meet future climate regulation. Oil company spending to expand reserves, particularly in higher break-even-cost projects, may be a waste of capital if Paris Agreement efforts are successful. Capital discipline evaluated on reserve life development, production costs and capex intensity, finding and development costs and financial gearing.
- **Performance:** Downward trend on upstream emissions intensity; Downward trend on methane emissions intensity; Downward trend on flaring intensity; downward trend on lost gas production. Below industry average on all performance metrics. CDP performance

Utilities companies

Thermal coal miners and coal-focused power companies are bearing the brunt of the shift away from carbon so far. A raft of regulations already exists but heightened ambition will tighten policy for the utilities sector. These regulations include specific carbon reduction targets, incentives to increase renewable energy generation, demand side energy savings and carbon pricing, alongside more indirect requirements for disclosure and water management.

The long-term aim is to only invest in utilities with less than 10% of the power production coming from coal, and/or less than 30% of the power production coming from oil & gas or nuclear sources.

For electric utilities the ESG analysis include the below:

- **Governance of Climate Change risk:** Board oversight of climate risks; Climate expertise on the Board; Executive remuneration includes climate related KPIs; Public support of climate policy and regulation;
- **Decarbonisation strategy / Risk Management:** Climate-related targets (e.g. carbon intensity per fuel type; thermal generation efficiency targets); Upgrading coal-fired power plants to higher thermal efficiency plants and sourcing coal responsibly; water management plans; use of internal carbon pricing and 2-degree scenario stress testing; management of legacy assets (e.g. phase-out coal-fired power plants; revaluing assets; provisioning of site remediation);
- **Consumer facing strategy:** Consideration of how strategy can diversity revenue streams (e.g. energy services), monetise retail customer base, capitalise on digitalisation (e.g. Smart Home) and/or invest in grid efficiency and flexibility. E.g. Investment in smart grid and energy storage solutions
- **Performance:** Thermal efficiency rates, energy generation mix, water efficiency rates, carbon intensity, CDP performance band. The aim is that the carbon intensity should be below a defined threshold. STAR strategies do not invest in electricity utilities construction additional coal and nuclear-based power production installations.

NAM is part of IIGCC Climate Action 100 engagement which is a 5 years engagement with focus on governance and disclosure of climate risk and capital expenditure at risk.

Nuclear energy

Nuclear energy production has several challenges including waste management, health & safety risks and impact from potential accidents. We limit exposure to nuclear energy in utilities companies to no more than 30% of production/revenue.

Biodiversity

We do not invest into forestry or farmland directly, but we invest in companies that could have a material impact on biodiversity depending on which sector they are operating in. We believe that biodiversity is a fundamental component of long-term business sustainability since businesses rely on natural resources as inputs and depend on healthy ecosystems. We integrate biodiversity in our company ESG analysis and consider whether biodiversity is a material issue that needs to be addressed either in their operations, including the supply chain or via their products. For example, in consumer staples sector we consider risks related to palm oil production and we have a separate position on palm oil sourcing.

We are concerned that the environmental and social issues associated with unsustainable palm oil production could have a material impact on companies across the palm oil value chain.

Unsustainable palm oil production is associated with deforestation and land and labour rights issues, which we believe represent significant risks to our investee companies. Companies may be exposed to climate-related risks due to the association between unsustainable palm oil production and deforestation, a significant contributor to greenhouse gas emissions. Deforestation, as well as land and labour rights, can present significant reputational risks to investee companies, which can lead to a loss of their license to operate if not managed properly.

We support the Roundtable on Sustainable Palm Oil's (RSPO) role in promoting a more sustainable palm oil industry, and we encourage investee companies with material exposure to the industry to become members of the RSPO and apply the RSPO's Principles and Criteria. However, as a minimum first step, we expect companies across the palm oil value chain, including producers, refiners, traders, consumer goods manufacturers, retailers and banks, to adopt and implement a publicly available No Deforestation, No Peat and No Exploitation (NDPE) policy.

Expanded the RI policy to cover both production, trade, use or financing of forest-risk commodities, particularly the main risk commodities, i.e, palm oil, soya, timber and cattle products, to commit to eliminating deforestation and the loss of other valuable ecosystems from their operations and supply chains. Sufficient measures include, but should not be limited to, implementing a strong governance framework which clearly articulates the board's accountability for and oversight of deforestation risks and ensures traceability of forest-risk commodities.

Water use

Water crises have been identified as the global risk that can be the most impactful in the next 10 years. By 2025 two thirds of the world's population will be subject to water stress. Economic growth and climate change are putting extreme pressure on groundwater and renewable surface water resources. Water scarcity is an issue for a number of companies that we are invested in. Certain industry sectors have in some geographical areas of operations a particularly high exposure to water risk. We expect companies in the high-risk sectors to ensure that they address and manage their water risk adequately.

The fund only invests in companies which pass Do No Significant harm on water use (not a water consumption or pollution outlier) and also companies offering solutions to water management, water stress and access to water.

Taxation

We expect our portfolio companies to have a tax policy that outlines the company's approach to taxation and how it aligns with the overall business strategy. We also expect companies to have a robust tax governance and management framework in place, to pay taxes where economic value is created and to provide country-by-country reporting.

We expect and encourage companies we invest in to:

- Publish a tax policy and the composition of the effective tax rate
- Be transparent about their governance and risk management of tax-related risks
- Report data that substantiate companies' commitments to avoid aggressive tax planning

Alcohol

The harmful use of alcohol is a public health problem. We also see growing regulatory initiatives globally aimed at reducing the harmful use of alcohol. Public concern about alcoholic beverages and any resulting restrictions (e.g. excise tax) as well as shifts towards healthier beverages may cause social acceptability and consumption to decline.

The fund limits exposure to alcohol to 5% of revenue as this does not fit the positive social impact the fund is aiming at.

Gambling

There are concerns regarding the negative social impact of gambling addiction, especially on vulnerable groups such as children. We exclude companies involved in the gambling production, distribution and services (5% revenue threshold).

Oppressive regimes

Nordea AM does not invest in sovereign bonds issued by governments which are subject to broad sanctions and fail to respect human rights. We expect governments to obey international humanitarian law and follow internationally recognized human rights principles. Below are some of the issues that are analysed in the ESG assessment of sovereigns:

- **Democratic governance:** The protection of systems of government that embody legitimate democratic institutions, transparency in political decision-making, and the representation of all citizens.
- **Human rights abuses:** Involvements in breaches of international law or human rights norms, and progress towards human rights protection as embodied in the Universal Declaration of Human Rights.
- **Corruption:** The prevalence of corruption issues, the strength and development of anticorruption legislation, and the efficacy and independence of anti-corruption institutions.

Governments allowing the death penalty

Nordea AM does not invest in sovereign bonds issued by governments which are subject to broad sanctions and fail to respect human rights. The quality, independence and effectiveness of the judicial system, including the approach to and implementation of the death penalty, forms part of the ESG risk assessment of sovereigns.

Forward contracts on agricultural commodities (according to RI Policy)

In 2012 Nordea decided that it will no longer offer nor recommend wrapped investment products to household customers where basic food commodities, such as wheat, coffee, or sugar are included in underlying assets as international studies indicate that excessive financial speculation contributes to increasing volatility and record food prices.

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