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# ESG Report

**Nordea 1 – European Corporate Stars Bond Fund**  
Third quarter 2022



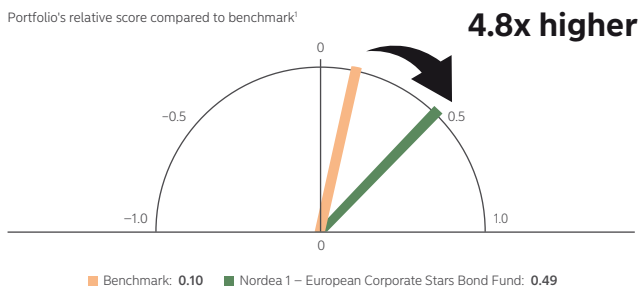
# Nordea 1 – European Corporate Stars Bond Fund

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 5% from thermal coal, or more than 5% 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.

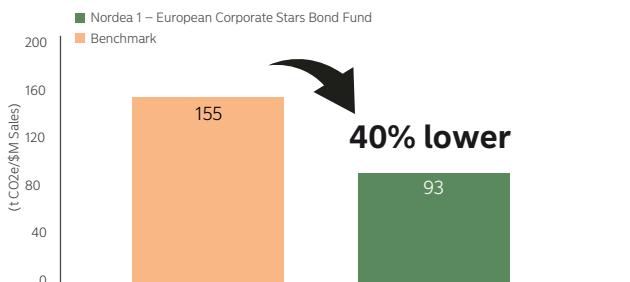
The contribution of the portfolio to the 15 objectives (social and environmental) is 4.8x higher than the benchmark.



<sup>1</sup> The relative score is calculated as follows:  $(1 + \text{Portfolio net score}) / (1 + \text{Benchmark net score})$  as the benchmark score is close to nil. Comparison with other financial products or benchmarks is only meant for indicative purposes.

## Carbon intensity

The fund has a carbon footprint 40% lower than the benchmark.



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

## Top contributors

**1. Takeda Pharmaceutical Co. Ltd.** (JP, Pharmaceuticals & Biotech). The company mainly contributes to the social objective 'Ensuring Health' as its products address some of the most important global health challenges. Moreover, the company is in the process of expanding its access to medicine strategy for underserved regions.

**2. Medical Properties Trust Inc.** (US, Real Estate). The company mainly contributes to the social objective 'Ensuring Health' as it contributes to the provision of necessary health infrastructure.

**3. Molnlycke Holding AB** (SE, Health Care Equipment & Supplies). The company mainly contributes to the social objective 'Ensuring Health' with a broad product range of health solutions.

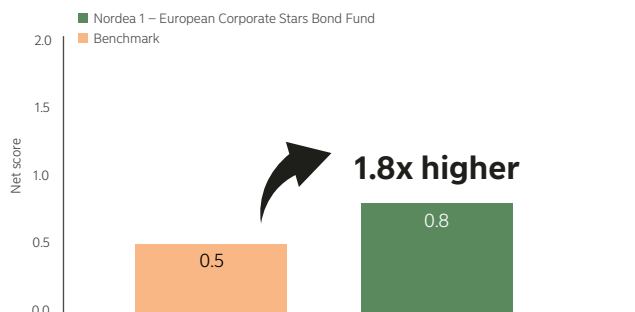
### Notes

Benchmark (for illustrative purposes only)	ICE BofAML Euro Corporate Index
Portfolio coverage	80%
Benchmark coverage	93%
Portfolio holdings	205

Source: Data sourced from ISS Ethix. For sovereigns (countries) turnovers is replaced by GDP. Please note that only scope 1&2 are taken into consideration, excluding scope 3. The carbon intensity of our fund might therefore appear higher than the benchmark. Scope 1 refers to direct GHG emissions and Scope 2 refers to indirect GHG emissions from the consumption of purchased electricity and Scope 3 refers to other indirect emissions that occur from sources not owned or controlled by the company.

## Exposure to the 7 social objectives<sup>2</sup>

The contribution of the portfolio to the 7 social objectives is 1.8x higher than the benchmark.



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

### Top 3 social objectives

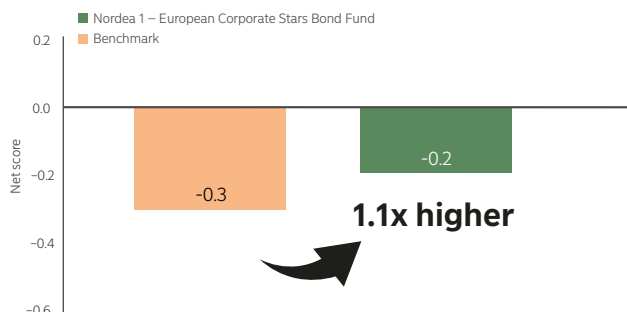
1. Ensuring health
2. Providing basic services
3. Delivering education

### Main SDGs exposure



## Exposure to the 8 environmental objectives<sup>2</sup>

The contribution of the portfolio to the 8 environmental objectives is 1.1x higher than the benchmark.



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

### Top 3 environmental objectives

1. Conserving water
2. Optimising material use
3. Promoting sustainable buildings

### Main SDGs exposure



## Portfolio Company highlight: Mölnlycke Holding AB

Mölnlycke Holding is addressing health issues with their product offering in wound management, preventing pressure ulcers and surgical solutions, including single-use surgical instruments, staff clothing, antiseptics and surgical gloves. The company donates products to an NGO in order to increase access to healthcare in underserved regions despite not seemingly having a comprehensive strategy with regard to access to healthcare.

<sup>2</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. Should the benchmark score be negative the multiplier is calculated as follow: (Portfolio score + 1)/(Benchmark score + 1). 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.

## 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.

## Engagement cases

### Allianz SE

Nordea ESG scoring <sup>3</sup>	Proxy Voting <sup>4</sup>	SDG Engagement	Engagement topic
A+	–	<b>16</b> Peace, justice and strong institutions	Governance – Risk management

#### Overview

Allianz SE is a German-based financial service company. The Company is the holding company of the Allianz Group (Allianz SE and its subsidiaries). The Company's segments include Property-Casualty, Life/Health, Asset Management, and Corporate and Other. The Company provides a range of reinsurance coverage, primarily to Allianz insurance entities, as well as to third-party customers. The Property-Casualty segment offers a range of products and services for both private and corporate clients. The Life/Health segment offers a range of life and health insurance products on both an individual and a group basis. The Asset Management segment provides institutional and retail asset management products and services to third-party investors and provides investment management services to the Allianz Group's insurance operations. The Corporate and Other segment includes Holding & Treasury, Banking and Alternative Investments.

#### Background

Allianz has agreed a USD 6bn settlement with US authorities under which its investment arm will plead guilty to securities fraud after a scandal at its funds business where portfolio managers falsified risk statements and ultimately had losses in the funds. Thus the investors was investing on a false basis.

Allianz was forced by the authorities to shut down their US advisory business and moved the portfolio to Voya where they got a 24% ownership stake.

#### The Engagement

The engagement had the purpose of understanding if the lacking controls that allowed the fraud to take place over years was systemic to Allianz or isolated to the US unit.

#### Outcome

Allianz sold to Voya which will look at processes and controls. Allianz owns 24% of Voya so the influence is limited, and Allianz will continue to distribute asset management products from Voya and Allianz will receive distribution income from Voya. There is close to no corporate governance influence on Voya at this point Allianz do not hold a board position in Voya.

The incident was detected by whistle-blower, it was not the DOJ that found it and was not found by internal audit as it was isolated - serious but sophisticated, executed by a small amount of people. BaFIN (German supervisory authority) have followed this closely and is challenging Allianz on the routine changes. NAM will continue to monitor the developments but for now our conclusion is that Allianz have acted prudent and efficient after the fraud was determined and that the compliance weaknesses are not systemic, so the incident do not change the overall NAM view of Allianz.

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://nordea.com/sustainability) or access directly the [voting portal](#).

## 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 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 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: [www.issgovernance.com/esg/impact-un-sdg/](http://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: [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)

## UN Sustainable 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	—

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