

Sustainability-related disclosures

Nordea 1 - Nordic Stars Equity Fund

Nordea
ASSET MANAGEMENT

31 December 2022

Transparency of the promotion of environmental or social characteristics and of sustainable investments

This document includes information relating to environmental and social characteristics of financial products and information relating to sustainable investments, in accordance with article 10 of the Sustainable Finance Disclosure Regulation (SFDR)¹.

Product name: Nordea 1 - Nordic Stars Equity Fund

Legal entity identifier: 549300CJ9OIR50OH4506

Summary

This fund promotes certain environmental and/or social characteristics. It does not have as its objective sustainable investment but commits to a minimum proportion of such investments.

Specific sustainability indicators will be used to measure the attainment of the environmental and/or social characteristics of the fund in accordance with the methodologies described below. The asset allocation of the fund is presented in the form of a chart that holds a specification of the percentage of investments expected to be aligned with the environmental and/or social characteristics of the fund and the commitment to sustainable investments. Internal limit monitoring systems run pre- and post-trade screenings for the holdings of the fund. Pre-trade limits block the unfit investment opportunities from our portfolio management tool, and post-trade limits flag any exposure or activity that is not aligned with our investment guidelines.

Internal and external data sources and data providers are used to ensure that the fund is invested in accordance with the environmental and/or social characteristics promoted. Data received from external providers may be complemented by internal research and analysis. We aim to mitigate limitations to data sources by applying solid due diligence measures in relation to external data providers, and manual verification processes.

¹Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector

Does this financial product have a sustainable investment objective?

Yes

- It will make a minimum of **sustainable investments with an environmental objective**: ___%
 - in economic activities that qualify as environmentally sustainable under the EU Taxonomy
 - in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy
- It will make a minimum of **sustainable investments with a social objective**: ___%

No

- It **promotes Environmental/Social (E/S) characteristics** and while it does not have as its objective a sustainable investment, it will have a minimum proportion of 50% of sustainable investments
 - with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy
 - with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy
 - with a social objective
- It promotes E/S characteristics, but **will not make any sustainable investments**

This fund promotes environmental or social (“E/S”) characteristics, but does not have as its objective sustainable investment. The fund will have a minimum proportion of sustainable investments, as illustrated above.

How do the sustainable investments that the financial product partially intends to make, not cause significant harm to any environmental or social sustainable investment objective?

The sustainable investments are screened to ensure that they do not significantly harm any other social or environmental objectives (DNSH test) as defined by the EU Taxonomy or any SDGs as adopted by the UN.

How have the indicators for adverse impacts on sustainability factors been taken into account?

NAM has developed a proprietary quantitative methodology that assesses the environmental and social impact of NAM’s investment universe (direct investments mainly) using multiple principal adverse impact (“PAI”) indicators from Table 1 and/or Table 2 and/or Table 3 of Annex 1 of the SFDR RTS (the “PAI tool”). The methodology utilises a diverse range of data sources in order to ensure that investee companies’ performance is appropriately analysed. PAI indicators are assessed in NAM’s PAI tool and the results are a material part of the DNSH test.

How are the sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights?

Alignment of the Sustainable Investments with the OECD guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, is confirmed as part of the process to identify sustainable investments using NAM’s PAI tool.

Environmental or social characteristics of the financial product

The E/S characteristics include:

Minimum proportion of sustainable investments The fund partly invests in sustainable investments, which means companies and issuers involved in activities that contribute to an environmental or social objective as outlined in UN SDGs and/or the EU Taxonomy, while not significantly harming any other environmental or social objectives.

ESG scoring The fund invests in companies that have been analysed and scored in NAM's proprietary ESG platform to ensure that only securities issued by companies that meet the minimum required ESG score are eligible for inclusion.

Sector- and value-based exclusions Exclusion filters are applied to the portfolio construction process to restrict investments in companies and issuers with material exposure to certain activities deemed to be detrimental to the environment or the society at large, including tobacco companies and fossil fuel companies.

NAM's Paris-Aligned Fossil Fuel policy whereby the fund will not invest in companies that have significant exposure to fossil fuels unless they have a credible transition strategy.

The fund uses a benchmark that is not aligned with the fund's E/S characteristics.

More information can be found below in the Methodologies section.

Investment strategy

Description of the investment strategy used to meet the environmental or social characteristics of the financial product

The fund is managed according to the Stars investment strategy which includes a commitment to apply the NAM proprietary ESG framework to analyse and select investments that epitomize the ESG characteristics of the fund.

The analysis is performed via an enhanced due diligence on material ESG issues that are relevant to the investee company. Furthermore, each company's business model alignment with relevant UN SDGs is taken into consideration as well as the company's approach to managing ESG risks. Depending on the outcome of the analysis, the company will be assigned an ESG score from C to A. Stars eligible investments must have an ESG score in the B or A range.

Companies and issuers are analysed and screened using NAM's proprietary methodology to identify and select sustainable investments that will contribute to the proportion of such investments.

Exclusions

Companies that are materially involved in the below activities are excluded from the investment universe of the fund. Companies' involvement is measured as the proportion of revenues deriving from the excluded activities. Different thresholds apply for determining the level of involvement that will result in an exclusion of a company from the investment universe. The list shows an aggregation of exclusions that result from NAM's general RI Policy and the additional exclusions that are added to the specific investment strategy.

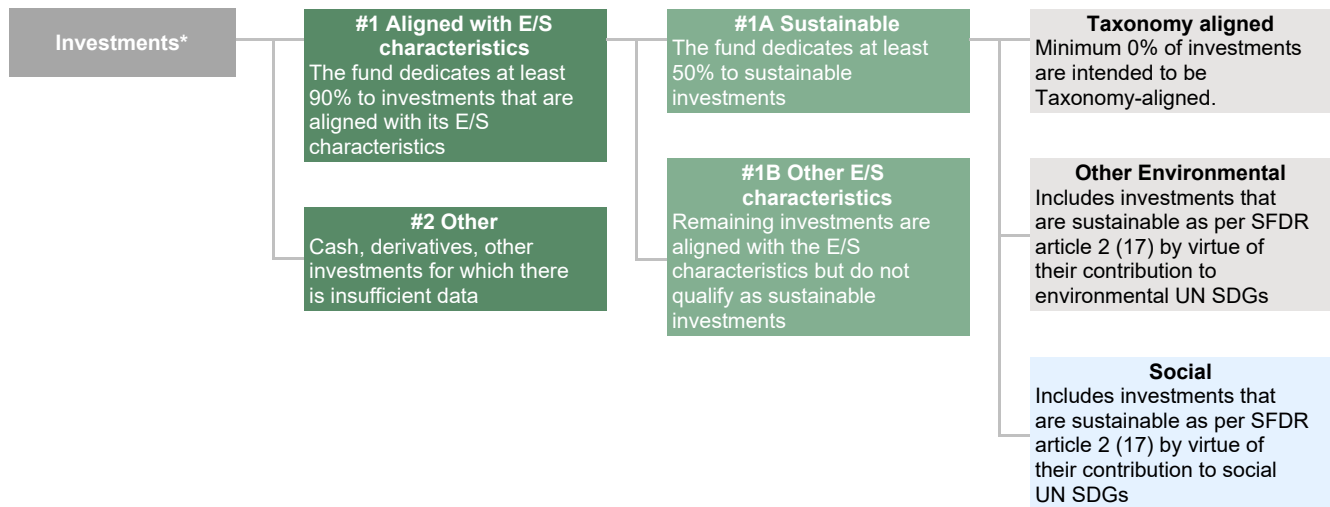
- Adult entertainment
- Alcohol
- Weapons conventional
- Coal
- Gambling
- Gas
- Nuclear weapons
- Oil
- Arctic drilling and oil sand
- Tobacco
- Unconventional weapons

Description of the policy to assess good governance practices of the investee companies

Good governance practices of investee companies are addressed in various layers of the security selection process of direct investments. Companies are screened for good governance by assessing, among other elements, their employee relations, pay practices, management structures and tax compliance. In respect of sovereign issuers, the assessment of good governance practices is based on three pillars; 1) The principles of governance (democratic governance), 2) Execution of governance and 3) Efficiency of governance.

Proportion of investments

Illustrated below is the planned asset allocation for the investments of the financial product:



#1 Aligned with E/S characteristics includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.

#2 Other includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristics, nor are qualified as sustainable investments.

The category **#1 Aligned with E/S characteristics** covers:

- The sub-category **#1A Sustainable** covers sustainable investments with environmental or social objectives.
- The sub-category **#1B Other E/S characteristics** covers investments aligned with the environmental or social characteristics that do not qualify as sustainable investments.

*Investments refer to the fund's NAV which is the total market value of the fund.

Monitoring of environmental or social characteristics

Description of how the environmental or social characteristics promoted by the financial product and the sustainability indicators used to measure the attainment of each of those environmental or social characteristics promoted by the financial product are monitored throughout the lifecycle of the financial product and the related internal or external control mechanisms.

The following sustainability indicators are used to measure the attainment of the E/S characteristics of the fund:

- **Carbon Footprint:** Defined as the total carbon emissions (scope 1 and 2) for a portfolio, normalised by the market value of the portfolio, expressed in tons CO₂e / M€ invested. The Carbon Footprint expresses the share of companies' and issuers' greenhouse gas emissions that is owned or funded by the company's investments. Carbon emission will be measured by the carbon footprint for investments made in corporate issuers.
- **Violations of United Nations Global Compact:** Used to measure the share of investments in companies or issuers that have been involved in violations of the UN Global Compact (UNGC) principles or OECD Guidelines for Multinational Enterprises. The ten UNGC principles are related to Human Rights, Labour, Environment and Anti-Corruption issues.

Sector- and value-based exclusions and other binding restrictions are monitored in the limit system which is run internally by the Risk Management Limit Team (the "Limit Team"). When we decide to limit exposure to certain sectors or activities, we build those into our internal limit monitoring system that runs both pre- and daily post-trade screenings for our holdings. Pre-trade limits block the unfit investment opportunities from our portfolio management tool, and post-trade limits flag any exposure or activity that is not aligned with our investment guidelines. Depending on the E/S characteristic that the incident concerns, and depending on the type of exposure, certain specific action, such as divesting, may be taken.

Methodologies

Description of the methodologies used to measure how the social or environmental characteristics promoted by the financial product are met.

The methodologies that apply to measure how environmental and social characteristics promoted by the fund are met, are set out here below.

Minimum proportion of sustainable investments

Sustainable investment is defined under the SFDR as an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

We take into consideration the regulatory framework for sustainable finance, as well as proprietary investment methodologies, to ensure that sustainable investments can be identified, invested in and measured.

In order to select sustainable investments, we apply three tests. The investment should pass all three tests to qualify as a sustainable investment.

- **Step 1:** Good governance test – a company needs to have sufficient processes in place related to the four good governance topics specified by the SFDR: sound management structures, employee relations, remuneration of staff and tax compliance, and must not be subject to significant controversies related to any of these topics
- **Step 2:** Do no significant harm test – a company cannot perform negatively on selected principal adverse impact (" **PAI**") indicators. Principal adverse impacts are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anticorruption and antibribery matters. The thresholds defining negative outliers and poor performance vary for each PAI indicator
- **Step 3:** Environmental or Social Contribution – A minimum proportion of 20 per cent of the turnover of the company should come from economic activities that actively contribute to a sustainable objective. The sustainable objective can be an environmentally-sustainable objective defined in the EU Taxonomy Regulation (" **EU Taxonomy**"), or an environmental or social objective belonging to the list of United Nations Sustainable Development Goals (set out in the appendix below for illustration).

ESG scoring

A numerical ESG risk score model built upon different quantitative ESG risk metrics is used to set an ESG score of potential investee companies. In addition to third party data, a manual qualitative analysis may supplement the determination of the ESG score. The scoring scale consists of A, B and C, accompanied by a trend indicator, and with A being the highest ESG score. Numerical risk scores may be provided by external data vendors or they may be the result of our internal proprietary analysis.

Sector- and value-based exclusions

Exclusions aim at limiting the investment exposure to certain sectors or activities that may be considered to be damaging for the environment and/or the society at large. Sector screenings assess a company's involvement in a specific activity measured by the revenue derived from this activity. Sector exclusions are the result of screenings based on the data and methodology of our selected data vendors.

NAM Paris Aligned Fossil Fuel Policy

NAM's Paris-Aligned Fossil Fuel Policy (" **PAFF**"), has been developed with the Paris agreement in mind. The Paris agreement is a legally binding international treaty on climate change. Its goal is to limit global warming, preferably to 1.5 degrees Celsius, compared to pre-industrial levels. The NAM PAFF Policy sets thresholds for companies' exposure to fossil fuel production, distribution and services, which are implemented and monitored as specific exclusions in our limit system. However, investments may be allowed in companies that help accelerate the transition to clean energy and phase out of fossil fuel. The NAM PAFF policy can be found [here](#).

Data sources and processing

a) What are the data sources used to attain each of the environmental or social characteristics promoted by the financial product?

We use a range of different internal and external data sources and data providers to ensure that the fund is invested in accordance with the environmental and/or social characteristics promoted. Data received from external providers may be complemented by internal research and analysis provided by our Investment Teams and the Responsible Investment Team.

More information about the external data sources used by NAM is available upon request.

b) What are the measures taken to ensure data quality?

We apply various measures to control the quality of the external and internal data sets used. This may include internal control measures commonly used in computer programming such as:

- Quality assurance test whereby controls are made to check that the external data values are in the expected range and behave as intended
- Unit testing whereby individual data and functions created to generate insights or transform said data are tested to determine if they are fit for use and produce the expected output
- Four-eyes review of any code changes by our specialists
- Segregation of duties whereby there is a separation of responsibilities of key processes between more than one person, based on their area of expertise
- Segregation of IT environments that protects the integrity and availability of the environment producing the data and allows for testing of new data in terms of quality and robustness before it is used in a production environment
- Sanity test whereby the functionality and output of the system is tested to ensure that it works as expected
- Review of the data and insights generated by said data by our analysts/specialists

Furthermore, to the extent possible, data reported by companies, regulatory authorities and/or non-governmental organisations are prioritised over data from data providers' estimation models. This is done in order to minimize the reliance on third party estimation efforts which in turns improves the overall quality of the data we use as input in our investment processes.

The external data providers and other data sources are assessed on an ongoing basis for data quality, coverage and other attributes.

c) How is data processed?

As described above, the data used partly derives from external data providers that provide raw data on issuer level. We seek to obtain as much and the most granular company data possible.

The external data received is enriched with additional external data sets, it may be complemented by in-house ESG analysis of the data, and company identifiers (ISIN) are matched with the incoming raw data to companies that we can potentially invest into as well as current investee companies.

d) What proportion of data is estimated?

Although we prioritise reported data over estimated data, we do rely to some extent on estimations and on estimated data provided by our external data providers where reported data is not available or of adequate quality.

Limitations to methodologies and data

a) Are there any limitations to the methodologies and data sources used?

The fact that some proportion of the data received from external data providers may be estimated data, may be seen as a limitation to the methodologies and data sources.

Information is mainly based on historical data and may not reflect the future ESG performance or risks of the investments.

b) How do those limitations not affect how the environmental or social characteristics promoted by the financial product are met?

To mitigate the limitations to data sources, we have ensured to have solid due diligence measures in place in relation to external data providers. Manual verification processes is another mitigating factor.

We evaluate the quality of internal and external data on an ongoing basis, and continuously assess if new data providers can improve the analysis and models. We have also implemented a Supplier Code of Conduct for data providers to follow. Prior to a data provider being chosen as a supplier, extensive market research is conducted, and the potential data providers are assessed on issues such as: data quality, coverage, security, methodology, price, reliability and conflict of interest.

Due diligence

Description of the due diligence carried out on the underlying assets of the fund, including the internal and external controls on that due diligence.

NAM conducts due diligence reviews of all internal and external data on an ongoing basis, and continuously assesses if new data providers can improve the analysis and models. As set out above, we have also implemented a Supplier Code of Conduct for data providers to follow. Prior to a data provider being chosen as a supplier, extensive market research is conducted, and the potential data providers are assessed on issues such as data quality, coverage, security, methodology, price, reliability and conflict of interest.

When it comes to calculation of any potential alignment with the EU Taxonomy, we strive to source data directly from companies, but as self-reported data remains scarce, this may be supplemented with data sourced from third party providers. ESG data in general is continually maturing and the data coverage is improving. NAM is constantly searching the market for the data which adheres to EU regulation requirements and can be used to provide our clients with necessary reports on the products' ESG profiles.

Engagement policies

Description of the engagement policies implemented where engagement is part of the environmental or social investment strategy, including any management procedures applicable to sustainability-related controversies in investee companies.

On behalf of our clients, we undertakes a range of engagement activities with investee companies and corporate- and sovereign issuers in order to encourage them to improve their ESG practices, and promote a long-term approach to decision-making.

Please refer to our Engagement Policy for additional detail. Engagement Policy for NIFSA can be found [here](#) and Engagement Policy for NIM can be found [here](#).

Designated reference benchmark

Description of whether an index has been designated as a reference benchmark to meet the environmental or social characteristics of the financial product and how such index would be aligned with the environmental or social characteristics of the financial product.

The fund uses a benchmark that is not aligned with the fund's E/S characteristics.

Appendix

UN sustainability Goals

