# ESG Report

## Nordea 1 – Emerging Stars Bond Fund

Third quarter 2021

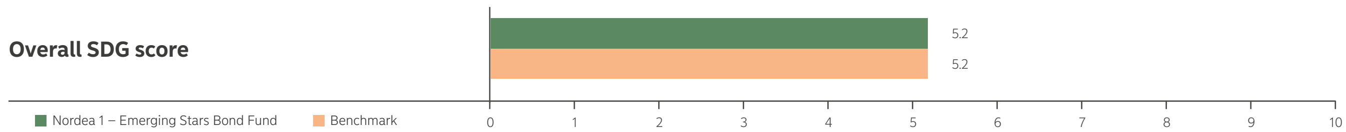
Nordea
ASSET MANAGEMENT

# Nordea 1 – Emerging Stars Bond Fund

This report highlights the alignment of issuers in the fund and the benchmark with the 17 United Nations Sustainable Development Goals (UN SDGs), based on each issuer's country of risk. The majority of the fund's investment universe comprises emerging markets sovereign debt, and does not include countries with structurally deficient and non-improving ESG profiles. While engagement is always a preferred approach, we have made a corporate-level decision to exclude certain countries, bonds, stocks, sectors, and practices across our entire active funds range. In addition to the core country exclusion mentioned above, 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)

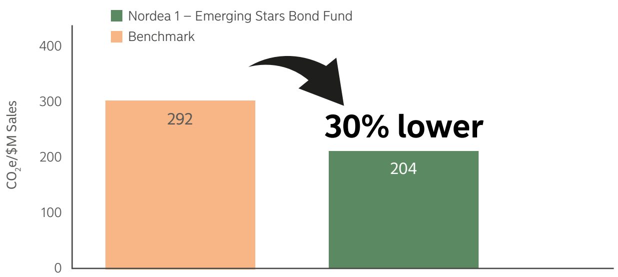
The overall contribution of the fund towards the 17 UN SDGs was in line with the benchmark, with an overall SDG score of 5.5 for the fund and the benchmark, respectively, as illustrated in the chart below:




Data are sourced from Maplecroft.Net Limited ("Verisk Maplecroft") and follow an approach based on country-specific risk factors which are mapped by Maplecroft to the 17 SDGs. The result is a 0-10 score for each of the 17 SDGs for each country, as well as an aggregate SDG score. We have calculated the weighted average sustainability score for each SDG based on the fund and benchmark issuers' country of risk. Both sovereign bonds and corporate bonds are captured in the overall country exposure. Please note that the corporate bonds are not considered by issuer specific score, but rather from the country of risk perspective. Please see the section below "Methodology" for further details. **Comparison with other financial products or benchmarks is only meant for indicative purposes.** The total sustainability score represents the Overall SDG Score based on the individual country index score as defined by Maplecroft. Net Limited ("Verisk Maplecroft"). Copyright © 2021, Maplecroft.Net Limited. All rights reserved. Verisk Maplecroft is a Verisk Analytics business. Please note that the Overall SDG score may slightly differ from the aggregated figures due to rounding differences. Further information on SDGs is available at www.un.org/development/desa/en/news/ sustainable/sustainable-development-goals.htm. Sources: Nordea Investment Funds S.A., Verisk Maplecroft, United Nations Sustainable Development Goals.

## Carbon intensity

The fund has a carbon footprint 30% lower than the benchmark.




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

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.

## Portfolio coverage for the SDG score

| | |
|---|---|
| Benchmark | JP Morgan Emerging Markets Bond Index – Global Diversified |
| Portfolio coverage | 96 % |
| Benchmark coverage | 100 % |
| Portfolio holdings | 389 |

## 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 countries with a structural and non-improving ESG profile and 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 country or a company from our portfolios is always a last resort: the **STARS concept aims for positive selection** with the objective to influence countries and 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 the improvement of their public governance and management systems, their ESG performance or their reporting. When assessing a country or 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 country and/or a company are not managing their material ESG risks well, the RI team engages with the public authorities and companies' management 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 countries or companies' exposure to certain themes, which might represent a significant material risk. Nordea believes that countries and 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

### Antofagasta

| Nordea ESG scoring[3] | Proxy Voting[4] | SDG Engagement | | Engagement topic |
|---|---|---|---|---|
| A | ✓ | 13 | Climate action | Environment – Climate |

#### Overview

Antofagasta is one of the largest copper producers in the world, and the largest private mining group in Chile. The company operates four large copper mines in the northern and central parts of the country, two of which also produce other metals as by-products. Antofagasta also operates a transport division, which provides rail and road cargo services.

#### Background

The mining industry is exposed to significant sustainability risks, including risks related to worker safety, biodiversity protection, protection of human rights and livelihoods, and the energy and carbon intensity of production processes. At the same time, copper has become an essential metal for the clean energy transition due to its multiple properties, such as thermal and electrical conductivity and corrosion resistance. Copper is critical for solar panels, wind turbines, electric vehicles and battery storage, and is widely employed in the manufacture of electric cables and wires, plumbing, electronic equipment, and in the transport sector. Copper intensity in low-carbon technologies is much higher than in more traditional technologies, and record quantities of copper will be required to enable large-scale decarbonization of the global energy system. It is therefore key for us to see that Antofagasta is able to ensure that future copper production can be done in a way that curtails greenhouse gas emissions and other impacts to local people and environments.

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 or access directly the voting portal.

## The Engagement

We engaged with Antofagasta during to quarter to follow up on a longstanding dialogue on the company's efforts to reduce greenhouse gas emissions in their operations. Over the past few years, we have engaged with Antofagasta repeatedly on topics related primarily to water management, labour rights and worker safety, and climate risk. Over the course of these engagements, we have seen Antofagasta implement improvements and robust strategies across topics such as water management, mining safety, anti-corruption and labour relations, positioning the company as a clear ESG leader in several areas. As a result of our dialogues, Antofagasta have, amongst other things, committed to developing climate risk reporting in line with the recommendations from the Task Force for Climate-related Financial Disclosures (TCFD), and cited our feedback as one of the driving factors in this decision. They have also set and exceeded short-term targets related to greenhouse gas emissions and renewable energy deployment. As part of the plan to deliver on their climate commitments, the company's Board of Directors also added climate risk to their list of prioritised risk areas for the first time, and the Sustainability and Stakeholder Management Committee has drawn up its inaugural Climate Change Strategy, in recognition of the specific impact that climate change it can have on their operations and business sustainability. This time, our dialogue focused on the company's recent announcement that they are adopting new, longer-term carbon reduction targets and strategies. We also discussed the prospect for Antofagasta to adopt a framework for sustainable finance. The company has recently entered the bond market, and we had an exploratory dialogue around the relevance of green or sustainability-linked bond structures for future issuances.

## Outcome

Antofagasta recently announced an ambition to further reduce their greenhouse gas emissions by setting a long-term target of being carbon-neutral by 2050, as well as reducing its total emissions by 30% by 2025. We sought to clarify both how they will concretely be able to deliver on those ambitions, as well as to discuss how we can ascertain the compatibility of these decarbonization ambitions with what science tells us is necessary to limit global warming to well below 2 degrees. The company informed us that the possibility of verifying these targets as science-based and aligned with national and international goals, is currently being analysed. Currently, the greatest challenge in this context is the company's ability to report on their indirect ("Scope 3") value chain emissions. The company is actively working on building their capabilities to report indirect emissions, which relies on close partnerships with both shipping companies and smelters. The first step in these partnerships is to ensure that the data is properly collected and reported throughout the value chain, and once that is in place, the subsequent step is to deploy a strategy for managing the decarbonization agenda across the value chain. In response to our earlier requests, the company will also soon be fully reporting in line with the TCFD recommendations, which include considerations for how the company's operations is aligned with various climate scenarios, including a well-below-2-degree scenario. We will remain in dialogue with Antofagasta about their climate strategy and progress on decarbonization. The advancements they have made across climate and other ESG topics led us to upgrade their ESG scoring from B+ to A during the quarter.

## Description of Verisk Maplecroft methodology

This report includes index scores developed to highlight the alignment of issuers in the fund and the benchmark with the 17 United Nations Sustainable Development Goals (UN SDGs), based on each issuer's country of risk. These index scores have been developed by Verisk Maplecroft and are presented on a scale of 0.00-10.00, where 0.00 represents the highest risk and 10.00 represents lowest risk, with the following breakdowns: 0.00-2.50 represents Extreme risks, 2.50-5.00 represents High risks, 5.00-7.50 represents Medium risks and 7.50-100 represents Low risks. We have then calculated the weighted average sustainability scores by SDG based on the fund and benchmark issuers' country of risk. Both sovereign bonds and corporate bonds are captured in the overall country exposure. Please note that the corporate bonds are not considered by issuer specific score, but rather from the country of risk perspective. Further information on the company and the methodology is available at: https://www.maplecroft.com/risk-indices/

Complete list of SDGs:


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

Please note that each fund and benchmark are assigned a score ranging from 0.00-10.00 based on the above 17 UN SDGs. 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 from a country perspective.

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