

Nordea Investment Funds S.A.

SRD II disclosure report

(covering the 2022 year)

1. General

Nordea Investment Funds S.A. (“NIFSA”) is a Luxembourg asset manager and wholly owned subsidiary of Nordea Asset Management.

As part of NIFSA’s regulatory obligations and its efforts to ensure effective and sustainable shareholder engagement, NIFSA has adopted an engagement policy (the “Policy”). The Policy provides the funds’ stakeholders with an overview of how NIFSA intends to ensure compliance with Article 3g of the Shareholder Rights Directive II (“SRD II”) and adherence to Article 1 sexies of the Grand Ducal Law of 1 August 2019 amending the Luxembourg law of 24 May 2011 on the exercise of certain rights of shareholders in listed companies. The Policy is at all times available on Nordea’s website.

This SRD II disclosure report has been executed as part of NIFSA’s regulatory obligation with the intention to publicly disclose information about the implementation of the Policy, including:

- A general description of voting behaviour.
- An explanation of the most significant votes.
- The use of the services of proxy advisors.
- How votes have been cast in the general meetings of companies in which shares are held.

Active corporate governance is a central aspect of NIFSA’s duty on behalf of shareholders and must always be conducted in their interests. Our guidelines relating to these issues are brought together in the document corporate governance principles (the “Corporate Governance Principles”). These principles shall be seen as overall guidelines for corporate governance to be applied to all investment funds for which NIFSA is the appointed management company (the “Funds”). The Corporate Governance Principles are available to read on Nordea’s website and summarise our view on a range of governance issues such as board appointments, compensation issues and sustainability.

Corporate governance work is conducted actively in all Nordic countries and internationally. In 2022, NIFSA voted at the general meetings of companies based in over 60 countries, with a predominance of Nordics, the US, the UK and China, and an increasing percentage in emerging economies.

The voting portal (the “Voting Portal”) provides detailed information about how the Corporate Governance Principles have been implemented through votes during the year. The votes are logged within 24 hours, and the information is so detailed that it is possible to see each individual vote. The Voting Portal can be found here: <https://vds.issgovernance.com/vds/#/NzI0Nw==/>

Any reference to “We” throughout this document shall be construed as a reference to NIFSA and the Funds jointly.

2. A general description of voting behaviour and 2022 voting season overview

We believe that active ownership is a powerful way to protect shareholder value, enhance long-term returns and foster positive change. We are convinced that ensuring good ESG practices in our Funds’ holdings is an important part of safeguarding the long-term interests of shareholders and society. When we want to improve a company’s management of its ESG risks, we exercise our ownership right to support and influence the company.

Sound corporate governance contributes to shareholder value and adds value to equity investments. Our corporate governance team (the “Corporate Governance Team”) is responsible for defining and executing our Corporate Governance Principles. Our Corporate Governance Principles guide the way we vote and in which issues we decide to engage with companies.

Every year, we vote and engage on a myriad of issues and on some we have a focused stance. For instance; we strongly believe that the Chief Executive should not be the same person as the Chairman of the board. One of the most important tasks of a company’s board of directors is to oversee and evaluate top management, and in our view this aspect potentially becomes compromised if there is a CEO/Chairman of the board combination. Over the last couple of years, we have supported many proposals to split the roles, including in companies like Cisco, Meta and Amazon.

We regularly engage with companies to explain our voting rationale, and we try to be as proactive as possible to get companies, if possible, to alter proposals in line with our principles. Furthermore, we are strict when it comes to remuneration proposals containing time based awards. Just showing up for work should not be the foundation for a long term incentive program, and accordingly we disapprove of any pay package containing a large part of time based compensation.

We see an increasing number of non-financial KPIs being introduced into compensation programs, which we expect to see more of in the future. Our view is that it enables the company to tie part of the compensation to, for instance, ESG-related criteria – but it is important that the criteria’s proposed are relevant, transparent and the goals challenging.

We also generally vote against any proposal to limit minority rights, such as higher threshold to call extraordinary general meetings, or limiting the ability for shareholders to vote or express their views. We are happy to see an increasing number of shareholder proposals regarding lowering such thresholds, and we generally support such initiatives.

Generally we focus on companies in which we can have a significant impact, such as firms in which we have a substantial ownership share or if we have a large aggregated position. ESG issues are also high on our agenda, and we strive to put extra emphasis on companies which we own in our sustainability tilted products. It is interesting and encouraging to see the number of shareholder proposals on climate and social issues continue to increase over time. The Corporate Governance Team works very closely with the responsible investment team and the portfolio managers to align the stewardship work on these and all other issues.

It is often important to discuss issues on which NIFSA’s views differ from the board’s proposals before the general meeting to give the company the opportunity to change the proposal. Some companies asked additional questions about the application of voting instructions to clarify our view. A number of companies also explained their general meeting proposals in accordance with Nordea’s voting instructions more actively than before, while other companies chose to change their proposals. Together with other institutional investors we have also convinced companies to withdraw proposals that were impossible for us to support and instead put forward revised proposals. NIFSA takes a positive view of close contacts between companies and large owners regarding proposals at general meetings.

▪ **Environmental issues**

This season we saw a high number of both climate related resolutions as well as management-sponsored votes. Nordea Asset Management, is a co-signatory to IIGCC’s Investor Position Statement calling on companies to disclose a net zero transition plan and provide a routine vote on the implementation of the plan in the form of a ‘say on climate’. This season we supported several resolutions calling for such annual advisory votes.

Say on Climate votes represent an opportunity for us to signal our approval or voice concerns over a company' climate action plan. For example, we decided to vote against Equinor's Transition plan, on the grounds that it does not include a clear phase out of oil exploration activity and in line with our view that Equinor's capital expenditure needs to shift more quickly into clean solutions, and also more quickly away from carbon-intensive infrastructure if it is to transition at a scale and pace in line with societal ambitions of limiting global warming to 1.5 degrees.

This season also saw many resolutions requesting banks to phase out investments in new fossil fuel supply. We recognize the need to restrict the financing of new fossil fuel supply and generally supported resolutions that enact this unless proposals as stated were considered too prescriptive in its wording and impractical to implement timewise.

- **Social proposals**

Especially in American companies we see a steady increase in shareholder proposals on social issues, often related to diversity and human rights. This year we supported proposals in the social category in, among others, Meta, Alphabet and Twitter.

The proposals focused on a requirement to find independent director nominees with human- and/ or civil rights experience. These companies have faced multiple issues in the human rights area, including the handling of hate speech and possible detrimental effects on civil rights stemming from the companies' technology, which pose a risk to shareholders.

Nordea has met with Amazon on several occasions to discuss their human rights approach, responsible tax and how we vote at their annual general meeting ("AGM"). In January 2022 we co-signed an investor letter addressed to the Chair of Amazon's Nominating and Corporate Governance Committee on worker representation and freedom of association, internationally recognized human rights. On 24 May 2022 we had a pre-AGM meeting to discuss among other things the shareholder proposals asking for a Report on Protecting the Rights of Freedom of Association and Collective Bargaining. At the AGM in May 2022, we voted in favor of the shareholder proposal and also against Chair Jeff Bezos for poor board oversight of ESG risk exposures at the firm. The proposal received strong support and was supported by 39% of the overall vote cast and 47% of independent shareholders.

3. An explanation of the most significant votes and how votes have been cast in the general meetings of companies in which shares are held

During 2022 we voted at over 3900 general meetings/extraordinary general meetings on thousands of proposals, including ESG issues such as climate, data privacy, diversity, as well as remuneration programmes and capital structure. This is a small decline compared to last year, mainly due to the high number of extra general meetings in 2021 due to the pandemic.

Increasingly we are being invited by companies in the Nordics to join their nomination committees. Membership of nomination committees is a very efficient way to engage with the companies we have large holdings in, and it enables us to drive real change – for instance on the board gender ratio. During 2022 we were represented in 40 nomination committees in four countries, in line with previous years. We also strive to introduce ownership-led Nomination Committees in other countries, and we have been successful several times in doing so.

For information about significant votes during the year 2022, please click here : <https://vds.issgovernance.com/vds/#/NzI0Nw==/>

The criteria defined by NIFSA for a vote to be considered "significant" is based on:

- The company shall be held in actively managed funds.
- The proposal should have a material impact – either on the structure or the strategy of the company.
- The proposal shall be identified as either a principle, as defined in our Corporate Governance Principles, or as a Responsible Investment objective.
- The proposal might have far-reaching prejudicial impact in our voting and/or engagements,
- The outcome for the company might have far reaching media- and/or industry implications.
- Shareholder proposals are in many instances more significant for the company than proposals by management.
- Large percentage of ownership held by us of course makes a vote more significant – and so does joint shareholder initiatives.
- We have received questions from clients and beneficiaries on a proposal of importance to them.

Not all criteria are always fulfilled when deciding upon what is a significant vote, and there is a subjective factor. However, we believe this is good as it enables us to showcase a wide variety of different proposals.

4. The use of the services of proxy advisors

Institutional Shareholder Services (“ISS”) provides the Corporate Governance team with proxy voting support services and voting recommendations based on our Corporate Governance Principles. We perform regular due diligence to ensure operational integrity, quality of research and implementation of the Nordea custom voting policy. Our overall goal is to either proxy vote, attend, or vote by other means at a majority of all possible general meetings. Our goal is above 90% and for 2022 season we fulfilled this with a large margin. Failure to fulfill votes is mostly due to either technical difficulties, local practices, share blocking and other operational limitations on a local level.