30.04.2024

UK Stewardship Code

The UK's Financial Reporting Council (FRC) is the body that establishes the UK Corporate Governance and Stewardship Codes. Its mission is to promote transparency and integrity in business. The UK Stewardship Code sets high stewardship standards for asset owners and asset managers and is encapsulated in 12 key principles.

At Nordea, we strive to meet the highest of expectations in our Responsible Investment, Corporate Governance and Stewardship practices. In this document, we report our activities against the Principles of the UK Stewardship Code and demonstrate how we live up to the FRC's standards.

About Nordea

We are a universal bank with a 200-year history of supporting and growing the Nordic economies – enabling dreams and aspirations for a greater good. Nordea is the largest financial services group in the Nordic region with a market capitalisation of EUR 39bn, total assets of EUR 584.7bn and EUR 378.5bn in assets under management[1]. With approximately 9.5 million customers, Nordea has a market position of number one or two in most Nordic markets. Its shares are listed in Stockholm, Helsinki, and Copenhagen. As a testimony to its successful strategy, Nordea now ranks within the top European financial institutions in terms of market capitalisation.

About Nordea Asset Management[2]

Nordea Asset Management ('NAM', AuM 251bn EUR[3]), is part of the Nordea Group, the largest financial services group in the Nordic region. NAM offers European and global investors exposure to a broad set of investment strategies. We serve a wide range of clients and distributors, which include banks, asset managers, independent financial advisors, and insurance companies.

Nordea Asset Management has a presence in Bonn, Brussels, Copenhagen, Frankfurt, Helsinki, Lisbon, London, Luxembourg, Madrid, Milan, New York, Oslo, Paris, Santiago de Chile, Singapore, Stockholm, Vienna, and Zurich. Nordea's local presence goes hand in hand with the objective of being accessible, possessing local knowledge, and offering the best service to clients.

Nordea's success is based on its focus on sustainability and a unique multi-boutique approach that combines the expertise of specialised internal boutiques with exclusive external competences, allowing us to deliver alpha in a stable way for the benefit of our clients in every market condition. NAM solutions cover all asset classes, from fixed income and equity to multi asset strategies, and manage Nordic, European, US, global and emerging market products.

[1] Source: Nordea Bank Abp. As of date: 31.12.2023

[2] Nordea Asset Management is the functional name of the asset management business conducted by the legal entities Nordea Investment Funds S.A., Nordea Funds Ltd and Nordea Investment Management AB ("the Legal Entities") and their branches and subsidiaries.

[3] Source: Nordea Asset Management, 31.12.2023

CEO Foreword

Facing forward

2023 was a complicated year for asset managers. Global markets were subjected to persistent inflation, political turmoil, and the effects of climate change. Many investors retreated into defensive positions and cash alternatives. However, as we begin a new year, I am encouraged by what I see.

The integration of ESG/sustainability into investment decisions is gaining momentum, driven both by regulatory activity and real-world concerns. Morningstar's annual Voice of the Asset Owner Survey 2023 reported that "more than two thirds of asset owners (67%) believe ESG has become more material to investment policy in the past five years, with environmental factors driving materiality.[1]"

Responsible Investment is a long game. With issues such as climate, biodiversity, and human rights at the top of the agenda for authorities and conscientious investors, companies unable to live up to the rising level of due diligence required will be increasingly locked out of the world's largest markets. While 2023 saw a handful of investors backtracking on their climate commitments, these were overwhelmingly dwarfed by the number of entities seeking to strengthen sustainability pledges.[2] That is why in 2023 we remained focused on decarbonisation, ramped up our engagement activities, expanded our diversity horizons and gained critical recognition for fighting the good fight.

We put decarbonisation into practice

In keeping with our commitment to RI and investors' preferences, we have continued our efforts to help clients decarbonise their portfolios. To achieve real-world change, our Global Climate Engagement Strategy is taking a unique contrarian approach by engaging with companies often excluded by ESG enthusiasts. Many currently high emitting sectors will remain central to the world economy after the energy transition is completed. We therefore strive to push them towards green transition through firm and consistent engagement already now.

Many investors are looking for broader-based portfolios that could help them achieve their decarbonisation goals. To meet this need, we have worked side-by-side with clients to innovate bespoke beta plus, credit and fundamental equity solutions that fulfil their carbon commitments. Decarbonising portfolios are high priority for many clients as they will need to make good on emissions reduction pledges—hence, we will continue this type of collaboration over the coming years.

[1] Nearly 70% of Asset owners say ESG has grown more relevant to Investment process, Morningstar.com, 4 Oct 2023
[2] ESG trends in 2023, PwC.com.au

Our engagement efforts paid off

Active ownership continues to be a strong focal point for us and last year, we saw the fruit of one particularly important engagement. During 2023, nine of the companies in the methane engagement group joined the Oil and Gas Methane Partnership (OGMP) 2.0 — OGMP 2.0 is the gold standard in methane measurement, reporting and target setting.

Our collaborative engagement focused on encouraging 63 oil and gas, midstream and utilities companies to join OGMP 2.0, identify actions being taken to reduce methane emissions and to share the cost/benefit analysis of those actions. Many of the companies are now taking action to reduce methane emissions and are in dialogue with the OGMP 2.0 about membership. Our engagement was noticed by the industry and Environmental Finance Awards recognized us with the "*Global pollution reduction initiative of the year.*"

We were recognised by our industry

Our commitment to ESG and the UN Sustainable Development Goals has brought recognition from across our industry. Funds Europe gave us the esteemed *European ESG Manager of the Year* award, Pensions Age recognised us as *Active Manager of the Year*, and ESG Investment Leader Awards gave us *ESG Fund Manager of the Year*, to name just a few.

We expanded our diversity parameters

In 2023, we decided to expand the scope of our Global Diversity Engagement Strategy to reflect evolving changes in Diversity and Inclusion (D&I) that go beyond gender representation. Enhancing the investment focus translates into broader impact and allows us to place stronger emphasis on engagement with the aim of driving both alpha and social change.

Last year, NAM also committed to a new chapter of Diversity Project Europe (DPE), covering a larger geographical scope which will enable cross-border collaboration to help promote a diverse and inclusive European asset management industry. Kasper Elmgreen, CIO of Fixed Income & Equities, has taken a seat in the advisory council, a group responsible for defining the DPE's strategy.

We are moving forward

As the climate crisis continues, investors are hearing more buzzwords like climate metrics, temperature footprints, adaptation, Paris-alignment, etc. But it comes down to one thing: reducing emissions, governments, the private sector, and us as investors must reduce emissions. As an active manager, we set serious net zero targets to do that. We are committed to investing in companies with similar net zero targets and strive to provide solutions that investors are looking for.

Nils Bolmstrand

Nils Bolmstrand, Chair of the Responsible Investments Committee and Head of Nordea Asset Management

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Principle 1: Purpose, strategy, and culture

Nordea Asset Management ('NAM') provides asset management products to Nordea bank's sales networks (Personal Banking, Private Banking, Business Banking and Life & Pension) and to about 800 external Nordic and international institutional clients and global third-party fund distributors.

NAM is the largest asset manager in the Nordics, with a well-established European presence and business. It is the largest Nordic retail fund provider, with a 16% market share and more than 1.4-million-unit holders. NAM services ~500 Nordic and international institutional clients, with a growing third-party fund distribution franchise servicing ~300 international fund distributors.

NAM's organisational structure:

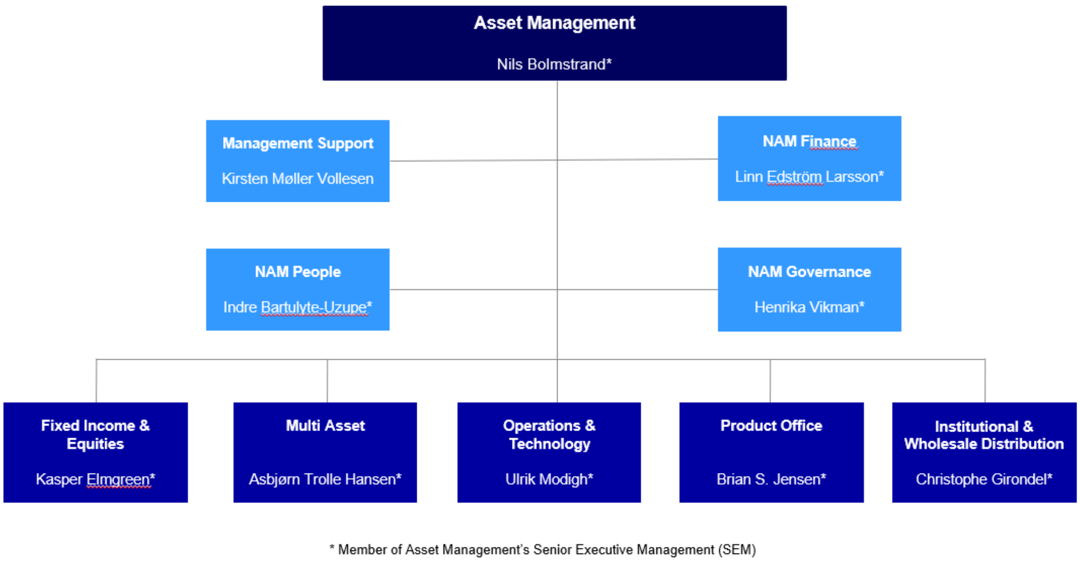


Figure 1: NAM organisation structure. Data as of 31.12.2023.

NAM's Purpose, culture, and mission

Purpose

NAM is an active manager with a **purpose** of delivering the best possible annualised return for a given level of risk, considering our overarching sustainability beliefs. Our strategic priorities are to continue growth through selective initiatives, to maintain investment quality and to protect our client base. Our investment strategy aims to enable our purpose and service the needs of our client base by delivering long-term stable returns for each target risk level.

Culture

We have a strong corporate **culture,** which aims to develop highly motivated, engaged and committed employees with a keen sense of belonging to NAM. We achieve this by setting the tone from the top whilst empowering everyone to contribute to the organisation. We strive to build on NAM's strong multi-cultural foundation and seize every opportunity to transition to a fully inclusive organisation characterised by equal access to opportunity and transparent communication. Our values are based on our shared vision to make NAM an organisation where every existing and aspiring employee feels welcomed and has access to career development opportunities, regardless of any social or personal characteristics.

Mission

Our **mission** is to accelerate progress towards a *diverse, inclusive, and equitable culture* within NAM and Nordea at large. In keeping with NAM's commitment to ESG, Senior Executive Management has agreed upon a strategic focus on ESG topics, including Diversity and Inclusion. We are committed to a strategic approach that includes concrete actions that can be seen at all levels, comprising top-down, bottom-up and middle management engagement, with the purpose of anchoring Diversity and Inclusion in the NAM culture. NAM has a solid foundation of Nordic values upon which to build, and we make the most of every opportunity to strengthen those values.

Business model

NAM has a **global business model** based on managing assets across the full investment strategy and risk profile spectrum, delivered to clients via strong regional offices offering customised client service. We deliver this through our unique multi-boutique approach that combines the expertise of specialised internal and external boutiques with centralised support functions including Responsible Investments.

Our client base is equally split between Nordea (group-related) and external clients. Some 930 employees from more than 30 different nationalities are employed in asset management, of which 1/3 are dedicated investment specialists within four investment centres in Bergen, Copenhagen, Helsinki, and Stockholm. NAM is the leading investment manager in the Nordic Region and has also developed a large global business servicing clients across Europe, the Americas and Asia. With EUR 251bn[4] in assets under management, we have experienced robust growth over the past decade.

NAM Value Chain

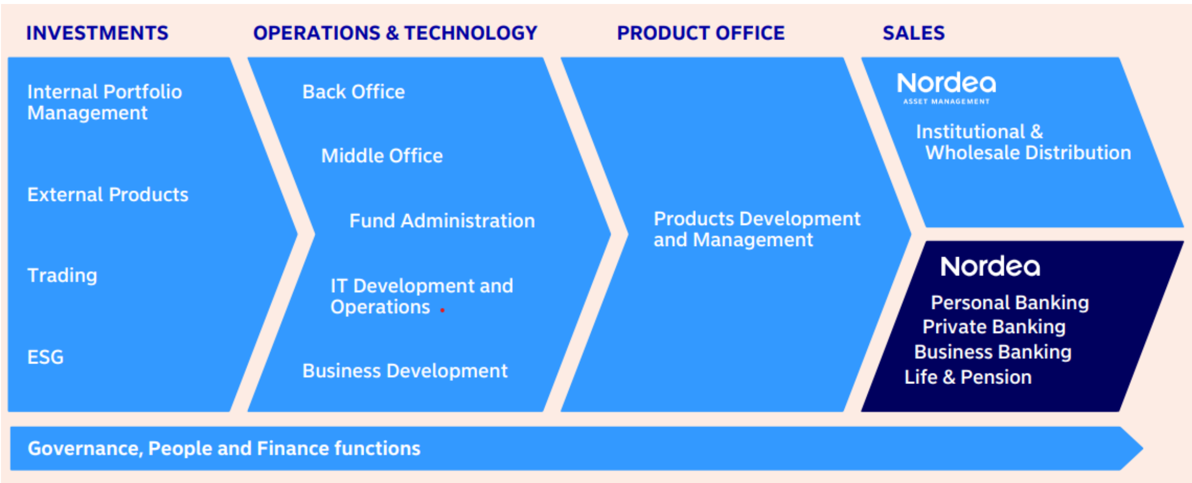


Figure 2: NAM value chain. Data as of 31.12.2023

[4] Data as of 31.12.2022

Investment Strategy

Our **investment strategy** is designed to enable the achievement of our mission and puts the needs of our client base at the core. We recognise that our client base has a variety of investment needs, and to cater to this we have designed two families of funds: Alpha and Outcome.

Alpha strategies are the cornerstone of our multi-boutique approach, which combines the expertise of specialised internal boutiques with exclusive external competences. These funds aim to maximise investor returns for a given level of risk within a certain asset class and/or geography. We believe that to achieve this, our fund managers need to retain the freedom to express their convictions if they stay within pre-set parameters. Providing alpha consistently is rare. While any financial firm can perform low tracking error (beta) investment management, providing alpha requires higher conviction and a stronger focus on money management. As it is almost impossible for an asset manager to create alpha in all asset classes and all regions, specialisation is necessary. To satisfy the demand for alpha strategies, NAM has established a multi-boutique approach that combines internal and external capabilities, where expertise in a particular area can add a competitive advantage and generate higher returns than the peer group.

***Outcome products*,** as opposed to benchmark-oriented solutions, are built on our “stable investment philosophy” and are designed for clients seeking an all-in investment solution. Our Outcome products aim to deliver stability to clients who desire a sustainable and long-term business partner providing investment solutions. We achieve this stable alpha generation objective through combining the individual alphas produced by each of our boutiques. Over the past years, our product range has matured and become more diverse, thus covering a broader range of client needs. We now offer a range of liquid alternatives and low duration solutions, as well as a more extensive suite of ESG-oriented products. Our Nordea 1 SICAV encompasses all our strategies, aims to provide both alpha and outcome solutions, and to serve clients in various market conditions through a single platform. We are one platform with many specialists.[3]

Our Responsible Investments and Corporate Governance teams operate in a centralised fashion and ensure that all our assets are covered by meticulous, sound, and rigorous stewardship practices (more details in following sections). It is by centralising this function that we ensure effective stewardship across all our assets, in conformity with our ESG framework.

This is how we ensure that our investment beliefs and business strategy enable effective stewardship; as we understand that some of our investment boutiques i.e. portfolio managers and investment teams, are specialists in non-ESG strategies, but ESG and RI are part of our culture, we have decided to centralise the function and apply across all our assets. This means that when we engage with companies on ESG matters we do it for the entire firm-wide position, regardless of which underlying funds and mandates hold them.

Structure and organisation of our investment units

We believe that the success of our multi-boutique model lies in building on the strengths of boutique investment approaches and combining them with the scale and stability of a larger company. Our concept is based on a remarkably simple principle: we believe investment managers perform better and are more effective stewards of our clients’ capital if they are autonomous and independent when it comes to their investment process, by also ensuring they can access all financial and non-financial information developed by our data and responsible investment analysts.

We have established segregated teams for key asset classes, allowing each to focus on their primary activity: managing money for our clients. As such, we retain competence centres in which investment managers enjoy the freedom to pursue their ideas and strategies. Our internal boutiques employ around 230 investment professionals located in our four investment centres: Bergen, Copenhagen, Helsinki and Stockholm. Naturally, we possess in-depth investment expertise in managing Nordic equities and credit solutions, but our strengths also lie in various asset classes outside the Nordic area. Over the years, we have built well-established track records in both equity and fixed income strategies, ranging from credit and covered bonds to global, European and emerging markets.[5]

In summary, given the size of our organisation, these are the factors which we believe enable us to achieve our mission and make our investment strategy and business model successful:

1. Strong culture driven from the top, with inclusivity, diversity, sustainability, and client servicing at its core.
2. Multi-boutique model with clear segregation of competences and duties.
3. Extensive product offering covering a spectrum of strategies, asset classes and risk appetites.
4. Portfolio managers focused exclusively on portfolio management.
5. Strong centralised functions for everything else to ensure efficiency and control.
6. Strong centralised Responsible Investment and stewardship practices applied across all our assets.
7. Wide network of regional offices to provide tailor-made client service.

[5] **The performance represented is historical; past performance is not a reliable indicator of future results and investors may not recover the full amount invested. The value of shares can greatly fluctuate as a result of the sub-fund's investment policy and cannot be ensured, you could lose some or all of your invested money.**

Servicing our clients' best interests

At Nordea Group level, the satisfaction of our customers is a key strategic priority and essential to achieve our financial and non-financial goals. We continuously engage with our customers to gain insights into their expectations, satisfaction, and their perception of Nordea. Our cornerstone activity to assess how effective we are in servicing our clients' needs is our **Quarterly Customer Experience Survey ("CES")**: this captures the overall development in customer satisfaction and perception on key parameters. The purpose is to take learnings on country, region and branch level and decide on actions that can further improve customer satisfaction. In 2023 the positive customer satisfaction trend achieved 75.7% at a Group level in Q4. We continue to work to improve this metric, refining our customer service and reporting processes, with the aim to beat our target.

At NAM level, we aim for long-term client relationships, and our sales and distribution teams work closely with clients to ensure they have an ongoing dialogue and understand their needs. They are tasked with collecting their assigned clients' feedback. Part of our business strategy is to be a stable and accessible partner. Our local offices around Europe and the world (Asia, Latin America, and U.S.) remain focused on relationship management in proximity with our clients. They are supported by our European service hubs – multilingual specialist functions in Luxembourg, Portugal, and Denmark. We constantly strive to make it easy for our clients to do business with us. We believe that this model is an optimum combination of stability and scale (hub) that provides proximity and agility (bespoke), which allow us to better serve our clients. We continuously review and invest in this model, particularly in our ability to deliver strong product support, operational excellence and reporting suited to the needs and preferences of our diverse client base. Geographically, this means that we remain focused on servicing our key historical markets in Europe, as well as selected overseas markets.

Analysis of both internal and independent client feedback is compiled and reviewed at least quarterly, and summary and recommendation on any actions required presented to the relevant department and implemented into the client engagement process.

Client engagement and service is structured as follows:

1. Quarterly review and update meetings with our clients, one of these with the portfolio manager, on both the investment and stewardship side to understand the client's needs and level of satisfaction towards the product we offer, the service we deliver and to gather valuable feedback. Such feedback and any requests are fed back into our client relations process and service and then used when developing our product offering and ESG processes.
2. Annual client surveys: by being proactive collecting feedback and opinions, our aim is to increase the transparency and proactively answer client questions before they are raised.
3. Client conferences: during the last few years, the focus has been to meet the clients in new platforms and forums. Since the pandemic we have changed our way of working and servicing our clients and it has become increasingly important to have flexible communication channels that reach clients in their preferred platform.
4. Video creations made available on our website: the video content varies from detailed product information and training videos where specialist explain specific topics within the ESG area and how we are working with them.
5. Customer friendly ESG reports for our key ESG products to show the investments impact on non-financial factors. After each publication we have noticed an increased number of questions raised by clients and we see this as a positive indication of clients becoming more engaged in how their finances are managed.

6. Internal training for all staff and specialists who are fully dedicated to clients.
7. In addition to the client engagement and service, to measure and assess how effective we are in servicing clients' needs, we use external independent surveys. In Broadridge's independent annual survey, which interviews fund selectors, NAM was once again ranked 2nd in Social Responsibility & Sustainability, and 9th of Top 50 European Brands (up one place from 2022). 2023 also saw a revision of the PRI annual assessment and we are proud to report that our Investment & Stewardship policy received a rating of 5-stars. In addition, our Responsible Investment Team and ESG products also received numerous awards, further highlighting our dedication to sustainability in our solutions

In summary, we assess how effective we are at servicing our clients by conducting these three processes:

1. Quarterly Customer Experience Survey (CES) to all Nordea clients at a Group level.
2. Client engagement and service conducted by our local offices, consolidation of data and review against previous year's level and multi-year trend.
3. External independent surveys conducted by Broadridge and other providers at a NAM level.

All these three processes once again showed good sustained absolute levels and positive recognition.

Principle 2: Governance, resources, and incentives

Governance structure and processes

Nordea Asset Management Holding AB ('NAM') is an international group with entities across the world and a strong owner, Nordea Bank Abp. Figure 3 shows the Group's legal structure.

NAM is part of Nordea Group's Asset & Wealth Management division. It is a holding company with subsidiaries including Nordea Investment Management AB ("NIM"), and Nordea Investment Funds S.A. ("NIFSA"). NIM is a Swedish investment firm authorised to, inter alia, provide discretionary portfolio management services, and NIFSA is a Luxembourg fund management company authorised to manage UCITS and alternative investment funds. Its legal structure is shown in Figure 4.

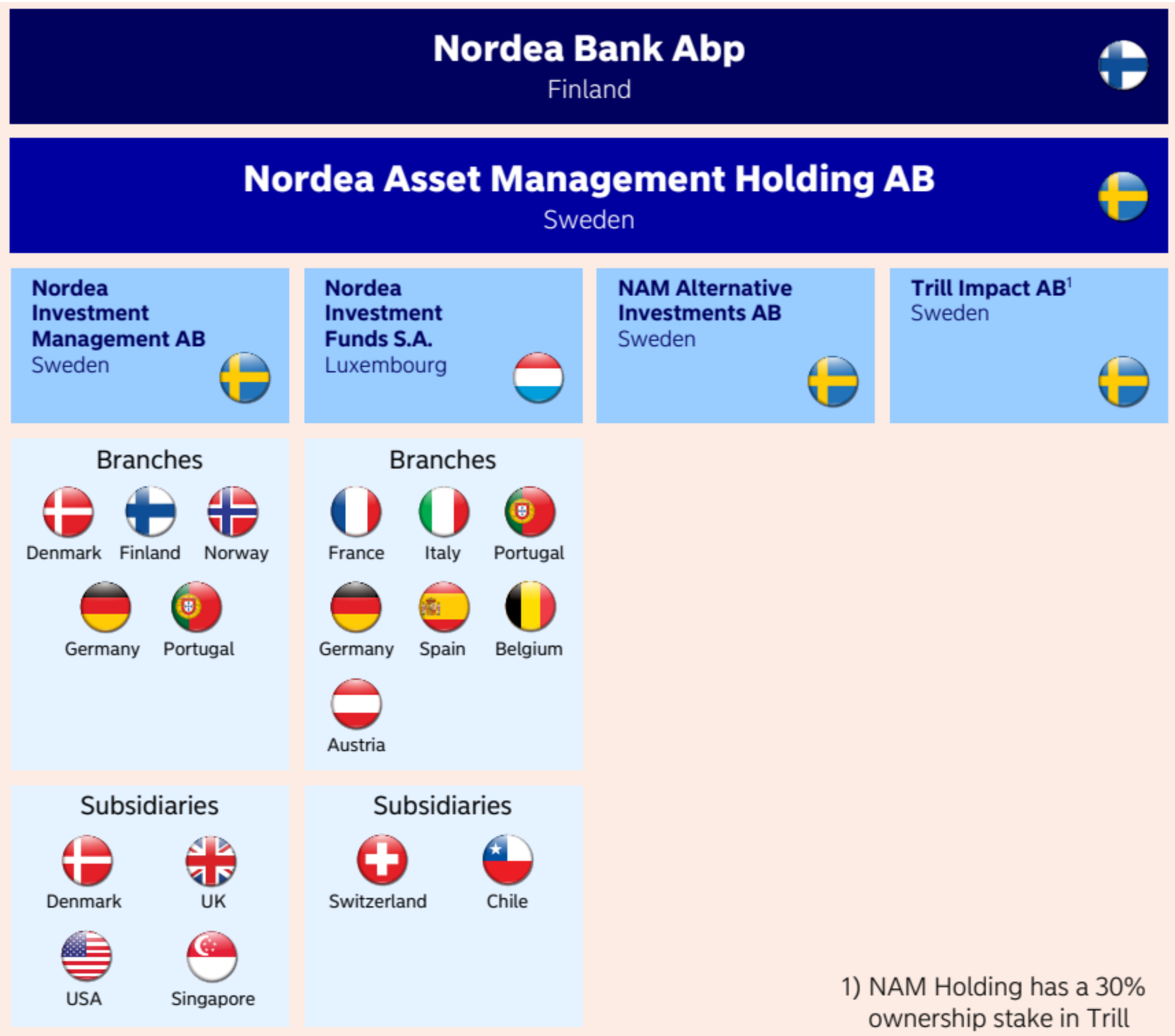


Figure 3: Nordea Asset Management Holding AB Structure

Legal Structure

Nordea Asset Management Holding AB ("NAM Holding") Swedish
Holding Company fully owned by Nordea Bank Abp

Nordea Investment Management AB ("NIM AB")
Swedish investment firm with branches in Finland, Denmark, Norway, Germany and Portugal. NIM AB is authorised by the Swedish FSA to conduct investment services and investment activities

Nordea Investment Funds S.A. ("NIFSA")
Management Company authorised by CSSF (Luxembourg FSA) to manage UCITS and Alternative Investment Funds. Its main objective is management, administration and marketing of the Funds

NAM Alternative Investments AB
NAM Alternative Investments AB is a non-licensed company established with the purpose of providing services within the illiquid investment sphere as well as owning legal entities acting as general partners of private equity-funds or other illiquid assets

Trill Impact AB ("Trill")
Trill is a limited liability company incorporated in Sweden and the holding company of the structure of a private equity mid-market buy impact fund. NAM Holding has a 30% ownership stake in Trill

Figure 4: Nordea Asset Management Holding AB Legal Structure

NAM Governance Framework

Given its size and complexity, NAM is structured as a functional organisation, as described in Figure 5. Governance is secured by each unit having clear roles and responsibilities set out and approved in accordance with the NAM Governance Framework, described in Figure 6.

The key governance principle for management of risks is the Three Lines of Defence ("3LoD") Model:

- 1st LoD: Business and support functions
- 2nd LoD: Compliance and risk functions
- 3rd LoD: Internal audit

The NAM Governance unit secures a high standard of internal control and guards its internal framework. The NAM internal governance framework is articulated in principles and instructions from the Board of Directors and the CEO, including detailed routine descriptions of relevant processes, and description of risks and controls.

The governance models are reviewed based on risk-based approach by the 2nd and 3rd LoD functions. To ensure our governance structure continues to be appropriate and effective we have established a process by which it is reviewed by each relevant business area and 2nd LoD [Compliance and Risk Functions] every year. In addition, 3rd LoD [Internal audit] reviews the governance structures using a risk-based approach. Any identified improvements and changes are implemented as needed. In the last yearly review, we established that our internal governance structure and practices were appropriate to deliver on our mission and business strategy.

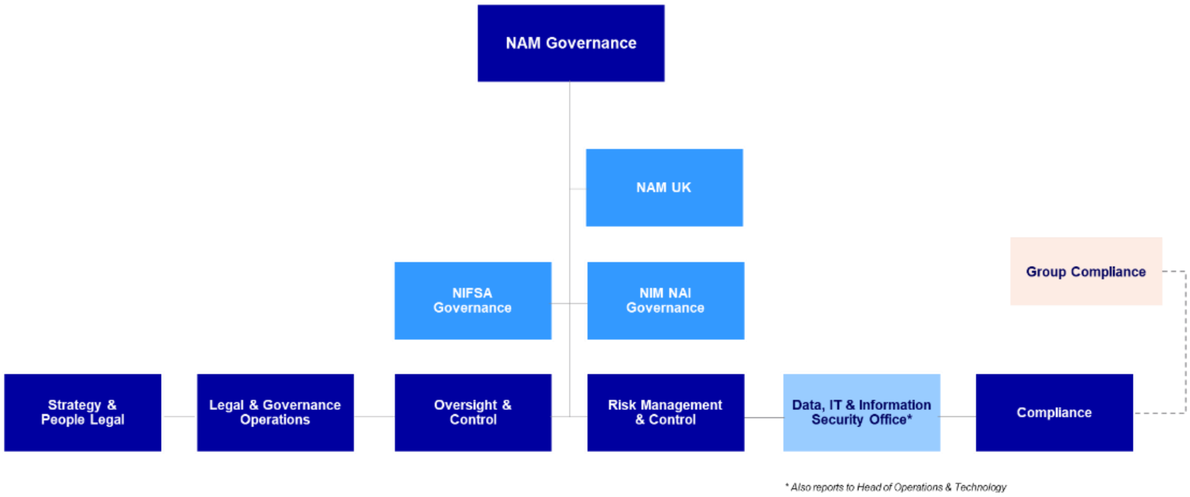


Figure 5: NAM Governance Structure. Data as of 31.12.2023

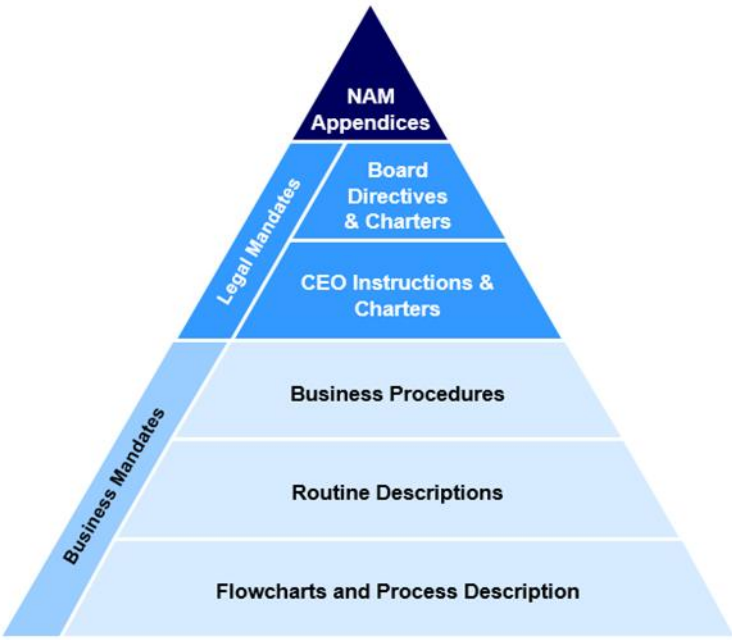


Figure 6: NAM Governance Framework. Data as of 31.12.2023

Internal Committees

Internal Committees (Fig. 7) have been established to ensure a solid bridge between the legal and functional levels. The committees have decision-making rights within specific and designated areas of responsibility within their functions, enabling them to make the necessary prioritisations and decisions. Committees cover matters such as pricing, risk, products, remuneration, diversity, compliance, and responsible investments. The Committees sit at the same hierarchical level, as they are all vital to our mission-driven business management, including our ESG Committee and our Responsible Investment Committee.

Each committee may escalate issues to the Senior Executive Management (SEM), where the CEO is a member. Where the decision needs to be taken by another entity rather than NAM, there will be a recommendation from the committee to the respective legal entity.

We have chosen this approach because an organisation of Nordea's complexity needs a clear framework with top-down direction and oversight, complemented by bottom-up function-based units with responsibility for their area of competence. Our approach has been fine-tuned over many years and we have assessed that it efficiently delivers on our business model and strategy, whilst preserving our culture and values, where our employees feel valued and empowered and our mission is delivered for our clients.

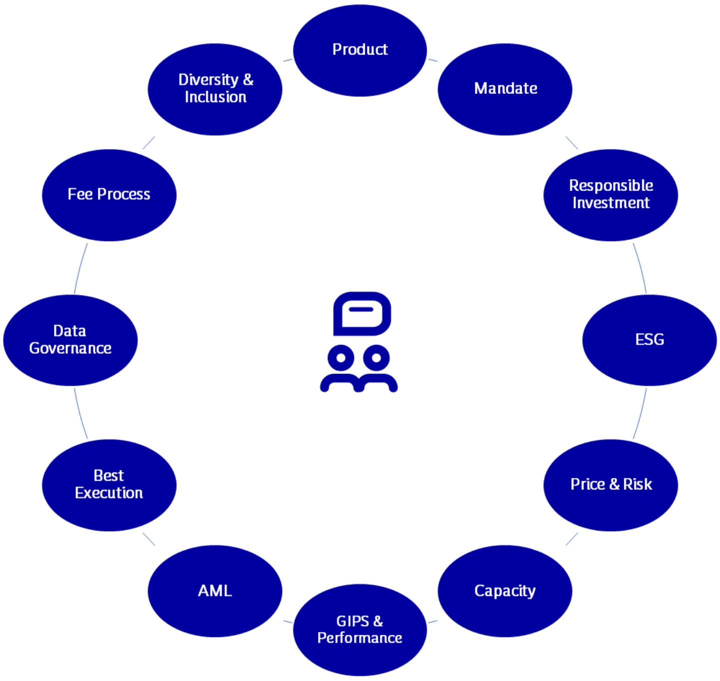


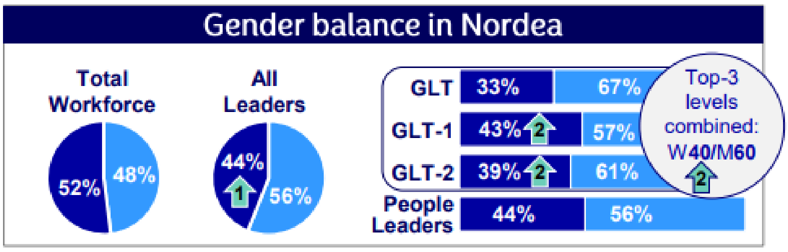
Figure 7: NAM Internal Committees. Data as of 31.12.2023

Diversity and Inclusion

In NAM we have a strong focus on diversity and inclusion because we genuinely believe it makes NAM a better workplace. Diversity & Inclusion not only lays the foundation for us to feel that we belong but also that we can be our full selves at work, contribute with our different perspectives, be innovative and inspire each other. These are all benefits that make us better at serving our clients.

In 2021 we built the foundation to shape NAM culture to create a more diverse and inclusive workplace. We took a stance and showed our commitment to the agenda by establishing a strong D&I governance framework with D&I Committee, D&I Forum, and D&I Ambassadors. Furthermore, we established a NAM D&I Policy and a Recruitment Policy with important D&I steps to remove bias in the recruitment process and ensure equal opportunity for diverse talent. A diverse workforce is one of our forces, but it also requires attention and awareness. Therefore, we continuously focus on diversity, equity, and inclusion. We educate our people about terms like unconscious biases, privileges, and coverings because we know the lack of awareness can create unintentional discrimination and contribute to inferior performance. We believe that all employees have a responsibility to contribute to an inclusive workplace.

NAM's ambition on diversity and inclusion is for a gender split of maximum 60% of any gender representation at the top three leadership levels combined by the end of 2025. Gender here refers to biological or legal sex. To be compliant with regulatory restrictions on sensitive data, we do not register gender identity. We however welcome and enable self-identification of gender identity and focus on the area under the LGBTQ+ umbrella. In October 2023, the target was reached for the first time.



Sources: D&I dashboard, Talent Management, Analytics & Reporting, SHE Index as per 31.12.2023

We acknowledge there is yet more progress to be made in the asset management industry. NAM is a member of Diversity Project alongside peer asset managers in the UK, together working towards a diverse, equitable and inclusive UK investment and savings industry.

Our diversity efforts are not limited to our internal efforts. During 2023, we formalised a new fund family: the Engagement strategies. This new angle to our RI activities is the product of a deep reflection on how to maximise real world impact. We genuinely believe that engagement can support companies transitioning to more sustainable business models. Currently, our Engagement Family comprises two funds: the Nordea 1 – Global Climate Engagement Fund, which supports higher-emitting companies in crucial industries on their sustainable transition, and the Nordea 1 – Global Diversity Engagement Fund[1], which is designed to engage with diversity laggards to help them become tomorrow's diversity leaders. The business case that illustrates positive correlation between companies with strong D&I practices and financial performance remains strong.

D&I is correlated with business performance

- +36% likelihood of greater EBIT margin for top quartile companies in terms of executive team diversity[3]
- +38% share of revenue from innovative products and services[4]

In addition, the companies with better D&I practice have access to a wider talent pool and tend to make effective use of it by increasing talent retention and lowering collective employee turnover. Subsequently, they are also able to enhance customer understanding which drives innovation throughout its business cycle.

[1] With effect as of 31.08.2023 the sub-fund is renamed from Nordea 1 – Global Gender Diversity Fund to Nordea 1 – Global Diversity Engagement Fund.

[2] McKinsey Company, "Diversity Wins, How Inclusion Matters"

[3] McKinsey Company, "Diversity Wins, How Inclusion Matters"

[4] BCG "The Mix That Matters: Innovation Through Diversity"

Our engagements are based on clear objectives and implement different methodologies according to the upside potential, which helps us to guide and monitor better the progress made by the companies. By engaging to generate the best "real" outcomes, we aim to maximise the unlocked potential of these D&I Improvers.

Clear and differentiated themes to drive D&I improvements

- Data Disclosures: gender and minorities, and inclusion metrics
- Diversity in upper leadership: diversity in management, promotion, and career development
- Inclusion and gender pay gap: inclusive HR policies, elimination of pay gaps

Employee compensation and remuneration

NAM offers fair and competitive, but not market-leading, compensation packages. We have a total remuneration approach to compensation, which recognises the importance of well-balanced but varied remuneration structures based on business and local market needs. Our compensation aims to be consistent with and promote sound and effective risk management, not encouraging excessive risk-taking or endangering NAM's long-term interests.

The compensation structure of NAM, as set out in the NAM Board Directive on Remuneration, aims to provide a basis for aligned remuneration practices in NAM. The Remuneration Directive promotes sound and effective risk management and the interest of clients while ensuring that NAM can attract, develop, and retain competent staff by offering competitive remuneration.

The remuneration policies are directly governed and adopted by the boards of NAM, our investment company Nordea Investment Management AB and our fund company Nordea Investment Funds S.A. Before being adopted by the Boards, the remuneration policy is reviewed by subject matter owners, Compliance and Operational Risk and is recommended by our Remuneration Committee. We believe that this solid governance structure is an important piece in building and maintaining a sustainable remuneration policy.

NAM's remuneration structure comprises fixed and variable remuneration. The variable component ensures that our employees align with NAM's mission and long-term objectives. The fixed and variable components of total compensation are balanced and in accordance with applicable regulations. The ratio between fixed and variable remuneration varies for various categories of employees, and local market practices are taken into consideration. All variable remuneration schemes are limited to a one-year period and assessed at year end. For the variable remuneration for investment professionals, investment performance is based on a 3-year average assessed on a yearly basis.

Employees that are Identified Staff (i.e. professionals whose activities have a material impact on an institution's risk profile) are subject to deferral of their variable remuneration in accordance with the applicable regulations. Investment professionals identified as Identified Staff are subject to a deferral scheme. Variable remuneration for Identified Staff follows a deferral scheme where 60% of the bonus is deferred for 3-5 years.

If an employee is deemed to be in violation of any governance rules, internal or external rules, guidelines, or regulations the employee may have to forfeit the entitlement to variable pay.

Employee benefits are offered to employees based on local markets standards, function, and position:

> *Senior Management*
> Senior Management at NAM is compensated by a fixed base salary and a variable remuneration. The variable remuneration has a maximum bonus amount (cap) and is linked to the fulfilment of a set of specific targets. These targets include financial targets, performance related targets (including sustainability) and personal development targets.
>
> *Investment professionals*
> Investment professionals at NAM are compensated by a fixed base salary plus variable remuneration. Targets for variable remuneration typically depend on:
>
> - Portfolio Management investment performance based on a 3-year average (excess return to relevant benchmark) assessed on a yearly basis.
> - Individual assessment of risk and compliance, ESG, values, personal development, and leadership.
> - NAM/Group overall financial performance.

Selected key investment professionals may take part in a profit-sharing scheme that is linked to the performance of their product. Where the performance is on or below the related index, no bonus is generated. There are also additional targets based on other factors than investment performance, such as behavioural and risk and compliance factors.

By introducing sustainability and broad ESG targets in all our employees' variable remuneration, which is then deferred over three years, we ensure that stewardship and our ESG priorities sit at the core of all NAM's investment and non-investment practices, and that they align with our clients' interest.

Responsible Investment Team incentivisation
Sustainability risk is integrated in our remuneration polices on two levels:

- in the design and long-term component of the remuneration structure
- in relation to how we govern remuneration policies and internal decisions in a sustainable way.

Sustainability risk is considered when setting targets and evaluating performance in our variable remuneration pay schemes. All employees on variable pay scheme are measured against both qualitative as well as quantitative targets suitable for their position and tasks. All employees have performance goals linked to risk and compliance performance which require adherence to exacting standards to our internal policies.

ESG compensation does not apply to all investment professionals in the same way. For portfolio managers, given that ESG is integrated in the investment process, investment professionals managing dedicated ESG funds have targets linked to the performance of their investment strategies which are like non-ESG dedicated investment professionals. For investment professionals not managing funds, dedicated ESG targets are applied if they are working in ESG. This group of people includes both investment professionals and relevant senior management (ESG analysts, Portfolio managers and CIOs).

In summary, all ESG professionals, whether they manage capital or not, have ESG factors in their compensation structure. For portfolio managers, they all have an ESG component in their remuneration (with a slight variation in the proportion) to ensure that all portfolio managers across the firm to properly integrate ESG factors in their decision making, regardless of whether they manage ESG funds or not.

We have chosen this remuneration policy to ensure that ESG factors and stewardship are at the core of all our investment products.

Workforce training and development

"Licence to Work" is a group-wide risk and compliance training program, that has been designed to provide employees with the information and knowledge needed to mitigate risks, to act with high ethical standards, and to conduct business in a responsible way. Employees complete annual mandatory training on Conflicts of Interest, Code of Conduct and Financial Crime. In addition, there are targeted trainings for specific groups e.g. detailed Market Abuse for Investment Professionals. All new employees are required to complete a set of e-learning training modules which covers Code of Conduct, Conflicts of Interest, Risk Management, Data Privacy, Financial Crime, Incident Handling and Information Handling/Information Security Essentials.

For in-scope employees we have the annual Knowledge & Competence training in accordance with MiFID requirements.

Our Stewardship and Responsible Investment approach

Responsible investing is strongly ingrained in NAM's corporate culture and philosophy. We consider it our fiduciary duty to care about all factors that are material to clients' investments, including those that are non-financial, such as ESG factors. That is why we were one of the first signatories of the UN Principles for Responsible Investment in 2007 and have been fine-tuning our comprehensive stewardship and responsible investment framework for more than a decade. To ensure that our RI philosophy and strategy are fully incorporated in the organisation and business strategy, it is anchored in and approved by senior executive management. It is part of our culture.

It is our strong belief that our mission for maximising risk-adjusted performance can best be achieved by integrating ESG and active stewardship in our investment strategy across all our assets.

Under the guidance of our ESG Committee and our Responsible Investment Committee ("RIC") both chaired by NAM's CEO, we have developed policies, procedures and investment products based on our RI beliefs. Our RI framework includes corporate-wide "overlays" that apply to all our funds, which we believe are essential to warrant effective stewardship for all our clients, regardless of the investment mandate. Active ownership is central to these overlays. We are an active owner by purpose and belief, and this guides our stewardship activities on financial and non-financial (ESG) issues, exercising rights and responsibilities, with our investee companies. We see this as a powerful way to affect change and create long-term shareholder value. While engagement is our preferred approach, we have defined and implemented an exclusion policy which sets out our ESG beliefs. This is based on our Responsible Investment Policy and is approved by the ESG committee.

To support the ESG investment guidelines, the ESG Committee owns and approves NAM's Responsible Investment Policy ("RI Policy"), which also details the international conventions we subscribe to and what we require of the companies we invest in. RIC decides the appropriate action when a company is found to breach our guidelines, which may be to exclude, quarantine and/or engage with the company, depending on the type of violation and our ability to influence the company.

NAM ESG research process

Integral to our RI process and implementation of effective stewardship is our ESG research approach. NAM's ESG research approach goes beyond commercial ratings. Since the launch of the first ESG STARS fund in 2011 we have conducted ESG analysis on issuer level via our own ESG framework called STARS. The STARS framework has evolved over the years, initially focusing on business model and financial materiality, to more recently including regulatory requirements such as Principal Adverse Impact Indicators (PAI) and alignment assessment to SDG's. We have developed a proprietary ESG quant platform with several underlying ESG module e.g., a ESG risk score, Climate module, PAI module etc. The platform and the underlying data are reviewed on a regular basis, to ensure their quality, and ensure we provide the investment teams with the most reliable ESG information. The ESG data platform acts as the centralised NAM-wide go-to place to find relevant and actionable sustainability data and analytics. In addition to the ESG platform, we conduct qualitative ESG research across issuers, sectors, and sovereigns.

The qualitative ESG issuer research is built on 4 pillars: Business Model, Environmental, Social and Governance factors. The analysis is built on a materiality map done for each issuer; the materiality map is based on the SASB framework. This enables a materiality-led analysis approach, which then is enhanced with relevant context e.g., sector, industry, and geography. The outcome ESG scores identify risks and opportunities, strengths, and weaknesses for each of the pillars. The combined score of the 4 pillars is used as an aggregated ESG score defining the overall ESG quality of the issuer. This approach ensure that we cover both sides of the double materially concept.

We aligned our research framework with the EU Green Deal back in 2022. This includes, but is not limited to, the requirements identified in the EU Sustainable Finance Disclosure Regulation (SFDR) and MiFID II amendments such as good governance, sustainable investments, and climate risk. In 2023, we enhanced our Sovereign STARS framework and established a process for assessing Use of Proceeds bonds and Sustainability Linked Bonds. The Sovereign STARS framework was strengthened by adding additional sovereign index signals, a proprietary analysis framework and two additional hard exclusions; "not free" from Freedom house and the EU list of non-cooperative jurisdictions.

Responsible Investments: committees, team structure and resources

NAM has two ESG focused committees with specific areas of responsibility:

1. Responsible Investment Committee

The Responsible Investment Committee ("RIC") decides and monitors exclusions and engagements at investment level. The RIC includes members from the Senior Executive Management team and is chaired by the head of NAM, who is also the CEO of Nordea Asset Management Holding AB.

2. ESG Committee

Following a firm wide ESG project carried out in 2021-22, in 2023 we created an ESG Committee, supported by an operational forum, to secure the governance of our ESG related methods and principles. An ESG Operational Forum facilitates discussions and secures alignment and coordination on ESG matters across the NAM internal value chain, ensuring that the relevant decisions-are brought to the ESG Committee for approval. The ESG Committee is also responsible for the content of and adherence to our Responsible Investment Policy.

Responsible Investment team

Our award-winning Responsible Investment (RI) team was established in 2009. The team is comprised of 24 seasoned investment professionals, with a wide range of experience from academia, independent RI organisations and investment management, and who are highly motivated in implementing our stewardship and RI policies. This is slightly down on last year's number, because six private-market professionals had their employment contract changed from Nordea to its minority-owned partnership company Trill Impact in January 2023.

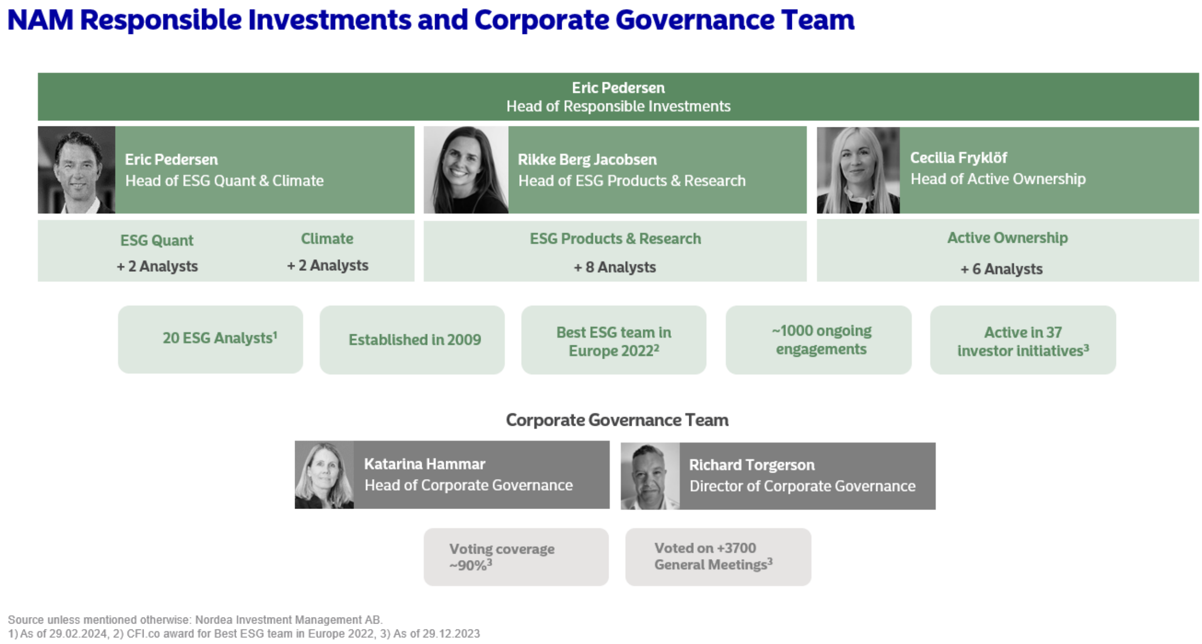


Figure 8: NAM's focused RI resources. Data as of 29.12.2023.

Besides being fully integrated with the investment boutiques managing ESG products and setting the framework for the development of new quantitative tools and data sources, the team carries out ESG research, active ownership activities, and represents NAM in international RI initiatives. The team is continuously developing our RI approach in line with the increasing complexity, depth, and scope of application of ESG methods, and to maintain NAM's leadership in the area. The team maintains both a broad RI coverage and a particular focus on our ESG STARS and thematic strategies, working closely with their respective portfolio management teams. To optimise our resources in the most efficient way, the ESG Products and Research Team supports on thematic engagement to a larger extent, such as the top 200 engagement related to overall net zero alignment strategy. We have been able to establish a structed approach for entity level engagement on principal adverse impact (PAI) outliers.

The RI team often participates in client meetings and ESG conferences to share their latest insights and findings. It also leads ESG training (e.g. climate workshops) both internally and for clients. For example, in 2023 the team offered training across the company around the new EU regulations on sustainable finance, specifically focused on NAMs sustainable investment framework, good governance and Principal Adverse Impact. In addition, our legal team provided the investment organisation with regulatory updates and training on EU SFDR legislation. Recording of the training sessions with supporting material is available to all staff on a dedicated intranet site, "EU Action Plan for Financing Sustainable Growth."

The key RI team members are listed below.

<u>Eric Pedersen</u>

Eric Pedersen is the Head of Responsible Investments at NAM. He serves on the Danish Corporate Governance Committee and was a member of the Finance Denmark Forum for Sustainable Finance. Eric holds an M.A. in Economics from the University of Copenhagen. Having completed his Master's thesis on Economic Reform in India, he began his professional career at the United Nations, being employed as a junior economist by UNDP in Mali, West Africa. After joining Unibank of Denmark (the

Danish predecessor bank of Nordea) in 1996, he has worked in various roles in the Asset Management area, including Head of Product Development, Head of Strategy for the Asset Management and Life business, and Branch Manager of Nordea Bank S.A., Singapore Branch. His latest previous position was as Deputy CEO of Nordea Funds, where he was involved in driving Nordea Bank's early introduction of ESG questions into the customer due diligence and suitability assessment process.

Cecilia Fryklöf

Cecilia joined NAM in 2022 as Head of Active Ownership. Before joining the RI Team, Cecilia was Business Area Lead for Asset & Wealth Management in Nordea's Group Sustainability team, where she most recently worked with the Sustainability Strategy and ESG Regulation of Nordea Life and Pensions. Cecilia also has extensive experience in financial markets from her previous position in Nordea Markets. She holds a BA in Economics from Stockholm University and studied Business Sustainability Management at the University of Cambridge. She has also been trained on the SA8000 Standard, a leading social certification program.

Rikke Berg Jacobsen

Rikke Berg Jacobsen was appointed Head of ESG Products & Research in 2021. Rikke joined NAM in 2014 and has held various positions in IWD and Investment, where she worked closely with the RI team and senior management on several strategic and regulatory projects. She holds a MSc in Accounting and Finance from University of Southern Denmark (Syddansk University).

Corporate Governance and Proxy Voting team

Our Corporate Governance team actively engages with companies in which the funds have significant ownership by voting at annual general meetings in accordance with the Corporate Governance Principles. The team also engage pre- or post AGM to share our expectations and rationale if we disagree with the proposals. The Corporate Governance team works in close collaboration with the Responsible Investments (RI) team and our Portfolio Managers (PM) to align the stewardship work especially on important ESG resolutions. The team is comprised of 2,5 professionals, led by Katarina Hammar

The key team members are below.

Katarina Hammar

Katarina Hammar is the Head of Corporate Governance for NAM. She has a background in responsible investments, product development and risk/financial analysis and more than 20 years in the financial industry. Her previous roles include Head of Sustainability and Active ownership at Lannebo, Head of Responsible investments at NAM and analyst at Fourth National Pension Fund. She holds a Bachelor's Degree in Business Administration (Civilekonomexamen) from Stockholm University and has completed the certified financial analyst program at Stockholm School of economics.

Richard Torgerson
Richard joined the Corporate Governance Team in July 2022 as Director of Corporate Governance. Prior to working for Nordea, Richard was Director of Sustainability Communications at Essity and has a background as Senior Analyst within Corporate Governance and Responsible Investments for Folksam Pensions and Insurance Group. Richard has a Master of Laws from Uppsala University.

Niina Soikkeli
Niina is a Governance and ESG Specialist at Nordea Funds. She has over 10 years' background in the financial industry, including roles related to business development, and most recently driving strategic and SFDR-related regulatory projects. Her previous role was a Senior Business Developer for Nordea Personal Banking Finland. She holds a MSc degree in Economics and Business Administration focused on sustainable global business from the University of Vaasa. She also holds the CFA Institute Certificate in ESG Investing.

Responsible Investment Resources
We are proud of the governance, incentives, and improvements we made to our organisation over the years. Whilst we are satisfied that our organisation is well structured, it allows us to achieve our mission, and to serve well our clients' investment and RI needs, we continue to invest in our team and resources, so we can increase the extent of our stewardship activities. Our engagement activities are all carried out in house, but we might on specific topics collaborate with consultants.
We have chosen the service providers described below, and feed their data into our ESG platform, to allow our investment and Responsible Investments teams to have up-to-date information on all companies we invest in.

In 2023 we carried out a review of our RI resources, described below. Our guiding principle is to ensure that our stewardship and investment professionals have access to a variety of sources which give them all the information they need to make their own decisions, in an easy-to-use format. We paid particular attention at ensuring we resource data covering all aspects of ESG and market-related issues.

These were the systems and resources we used in 2023 to inform and integrate our ESG research process:

- Proxy advisors: we received dedicated proxy-advisor research from both Nordic Investor Service and ISS for upcoming annual general meetings. Following our customary annual review, we confirmed their appointment.
- Engagement portal provider: During 2023 we have implemented a new Engagement portal provider, Esgaia . Esgaia gives versatility, efficiency, and capability to centralise engagement management activities in a cloud-based environment which can enable increased transparency and reporting related to our stewardship activities in accordance with our clients and other stakeholders needs.
- Market data and ESG ratings: for market data we use Bloomberg, MSCI and ISS. For ESG data, we source and feed data from multiple providers into our proprietary ESG data platform, including but not limited to: MSCI ESG, ISS ESG, CDP, Impact-cubed, Verisk Maplecroft, RepRisk, Clarity AI, Upright Project, TrueValue Labs as well as the SASB's Industry Classification System.
- Research data: in addition to market and ESG rating data, for research purposes we use a subset of different research and brokers, including open-source data, frameworks, and reporting standards. These includes, but not limited to: The World Bank, TPI, UNPRI, SASB, SLAPP and various newspapers.

Our annual due diligence of our service providers was carried out as part of the ongoing data review. Based on the Due Diligence assessment, we decided not to replace, terminate or add any new data providers. This was partly due to the ongoing implementation of the providers we onboarded in 2021. We are constantly conducting searches in the market for better quality data.
We asses service providers based on coverage, quality, and cost. Depending on the provider and the type of services (data, platform, qualitative research) we use a sub-set of criteria which include methodology, coverage, usability, data structure, cost, and stability.

During 2023 we conducted a search for additional data providers related to biodiversity. We assessed both our current providers and potential candidates to fulfil our needs related to impact assessments, target setting and reporting. During 2024 we will onboard an additional biodiversity data provider to ensure quality, coverage, our commitment to biodiversity.

Reflections on effectiveness

To assess how effective and appropriate our governance and stewardship practices are, we have designed an annual review process for all our governance pillars and structures. This aims at ensuring that our internal governance continues to be appropriate for the evolving nature of our industry, increased sophistication of our clients, and expanding reach of our business and consequently stewardship expectations. The process is described below and will be repeated in 2024 to ensure it continues to be appropriate given the evolving regulatory environment, client preferences and expectations, and the achievement of our mission.

The annual review assesses these governance components:

1. *Responsible Investment policy and procedures*: the review conclusions are assessed and approved by the ESG Committee. The ESG Committee is chaired by NAM's CEO Nils Bolmstrand and comprised of senior management representing various departments in the organisation.
2. *Corporate Governance Principles:* the review conclusions are assessed and approved by the Corporate Governance Committee which include board members from the Nordea Fund company. These reviews also include peer review and assessment of changes that our service providers propose to their proxy voting policies.

Examples of RI Policies and Procedures Review

Internal Audit performed a targeted review of the ESG Programme Structure and Public disclosures in Q4 2021, with satisfactory results and no audit remarks issued. A further internal audit on ESG Governance framework took place in autumn 2023 with no audit remarks issued. We are focusing on increasing our range of Principal Adverse Impact Indicators and biodiversity metrics across our product range to continue expanding our coverage and integration of ESG issues into our investment process.

Corporate Governance Principles Review

Our Corporate Governance Principles are well described and anchored in our Governance unit, and the principles are review annually, and the last review took place in 2023. As a result, we´ve integrated Environmental and social aspects into relevant sections instead of having it as a separate section.

Examples of Regulatory Review

Building on last years' efforts to improve the provision of ESG data for client reporting purposes, we continue to focus on automation and data quality in what is proving to be an ever-evolving EU disclosure regime.

With the entrance into force of the EU Taxonomy, in 2022 we developed new tools and models to calculate the level of Sustainable Investments as defined by the EU Taxonomy regulation. These have been applied across our product range and will be further developed to align with regulatory requirements as/when they come into force.

Principle 3: Conflicts of interest

In all our activities, we act in the best interests of our clients, and we act honestly, fairly and professionally. We have a documented Conflict of Interest Policy covering situations that may arise in the normal course of business, to which all employees are expected to adhere, on which they receive training, and which is reviewed annually. This policy applies across the entire organisation, and because NAM is specialised in investment management, its investment and stewardship functions are the areas for which the correct policy implementation is particularly relevant.

The policy sets forth the organisational and administrative procedures to identify, prevent and manage Conflicts of Interest to ensure that the clients' best interests are always considered, and to prevent that our clients' interests are damaged by Conflicts of Interest arising within NAM.

The Board is accountable for the company taking all reasonable steps to identify, manage and prevent conflicts of interests. The CEO, department heads, and the senior executive management work together to ensure that all potential conflicts of interests are identified, prevented, managed and, as appropriate, disclosed. The Compliance function reports at least annually to the Board and CEO on conflicts of interest. Conflicts of interest may arise between the company and its customers, shareholders, members of the Board, employees, significant suppliers, or business partners, other directly or indirectly related parties (e.g. subsidiaries) or between customers. Managing conflicts of interests require that a customer's best interest is always considered as paramount, and that all customers are treated fairly.

Conflicts of Interest are separated into two categories to ensure appropriate and proportional management: Individual and Institutional.

Individual Conflicts of Interest

Conflicts of Interest arising with regards to a named individual employee's or Board member's private interest, past or present, professional, or personal relationships, are defined as Individual Conflicts of Interest.

Individual Conflicts can be Permanent or Non-Permanent:

- A Permanent Conflict of Interest is a situation where the Conflict of Interest persists or recurs and needs to be managed on an ongoing basis.
- A Non-permanent Conflict of Interest is a situation that exists during a specific period, or it concerns a specific activity or decision. This needs to be managed on a case-by-case basis.

Institutional Conflicts of Interest

Conflicts of Interest that arise in connection with business activities are defined as Institutional Conflicts of interest, from Investment Services, to across customers, roles, functions, business lines, legal entities, or units in NAM/Nordea or regarding external stakeholders including shareholders.

Some Institutional Conflicts of Interests are inherent Conflict of Interest risks that need to be managed on an ongoing or recurring basis. These Institutional Conflicts of Interest are thus considered Permanent as the circumstances persist or recur during our business activities.

Certain Institutional Conflicts of Interest arise on a case-by-case basis. These Non-Permanent Conflicts of Interest are situations that exist during a specific period or regarding a specific transaction or decision and need to be addressed, specifically each time.

Institutional Conflicts of Interest can involve:

- individual persons as well as larger groups of people or units, decision-making bodies, legal entities, or other non-individuals;
- any external stakeholders like customers, shareholders, sourcing partners and service providers including any Linked Persons;
- the distinct roles and responsibilities assigned to an Employee (this is considered an Institutional Conflict of Interest even though it affects a named individual Employee as these issues do not stem from the individual Employee's personal interest);
- two or more customers.

This list is non-exhaustive.

Managing Conflicts of Interest

Each Conflict of Interest shall be assessed for materiality purposes (as either material or non-material). Materiality is to be assessed inherently i.e. before any preventive or mitigating controls are assigned.

The process for managing conflicts of interest is articulated in four steps:

1) Identification
2) Prevention/management
3) Monitoring
4) Disclosure to customers (where required).

Relevant Persons must immediately communicate and report actual and potential conflicts of interests or changed circumstances regarding actual and potential conflicts of interests to their immediate manager and to the Compliance function. The Board Directive on Conflicts of Interests contains a non-exhaustive list of potential conflicts of interests and a description of how the risks are prevented and managed. Examples of identified potential conflicts of interests include allocations, fee structures, remuneration, inducements, personal account dealing and more. Case by case conflicts are logged by the Compliance function, and the Board Directive will be reviewed at least annually.

Where a conflict of interest is identified, it is recorded in writing. NAM also has internal rules and controls that prohibit employees from having external engagements that interfere with their ability to perform their duties and functions or undermine trust and confidence in NAM.

Please find NAM's Conflicts of Interest Policy here.

Potential conflicts of interest arising during investment and stewardship activities

On a general basis, our compliance function is represented in the Proxy Voting Committee (the "PVC") with a specific focus on managing conflicts of interest that may arise during our investment and stewardship activities. We have policies in place for the purpose of taking all reasonable steps to prevent and manage conflicts of interest. These policies need to be complied with for all areas, including proxy voting. Examples of when potential conflict of interests in relation to proxy voting can arise, and the guiding principles regarding how the PVC, and the CEO as applicable, shall manage/resolve such conflicts and eventually decide on how to settle the conflict, are set out below.

For our proxy voting activities, every year, ahead of the AGM voting season, the Active Ownership Team will search and identify any potential conflicts of interest in relation to the proxy voting. In case a potential conflict of interest is identified, the Active Ownership Team is responsible for informing the PVC and submit the conflict of interest for the PVC to manage/resolve. The PVC shall always consider the best interest of our clients and any final decision shall be made by consensus by the PVC. If consensus cannot be reached, the issue shall be escalated to the CEO.

Below is an outline of how preventative measures are put in place to identify, manage, and mitigate potential conflicts during our investment and stewardship activities, as per our Conflicts of Interest Policy:

Example of potential conflict	How the conflict shall be managed/resolved
Where Nordea Group has a business relation with the investee company being voted on which objectively may affect the voting.	The PVC shall ensure that a position on a vote is not altered due to a business relationship that NAM or any company within the Nordea Group may have with an investee company. This conflict of interest is managed as NAM utilise either the client's own voting principles or NAM voting principles to all client mandates in a manner that considers the clients' best interests.
Another entity within the Nordea Group has a business relation with the investee company being voted on which objectively may affect the voting.	This conflict of interest is managed by the fact that NAM is legally separated from the Nordea Group (including Chinese walls and confidentiality set-ups). In addition, NAM is functionally governed at arm's length from Nordea Bank Abp. In addition, this conflict is further managed by the fact that NAM is utilising either the client's own voting principles or NAM voting principles to all client mandates in a manner that considers the clients' best interests.
NAM employees having an interest in the investee company being voted on, due to being affiliated with the investee company, e.g. as a board member of the investee company and such employee may seek to influence the voting.	To ensure that NAM does not alter a position on a vote due to a NAM employee having an interest in the investee company being voted on, NAM's internal rules require all employees to declare and disclose their outside business interests. In cases where there is an actual conflict, the PVC may determine that it is inappropriate for such employees to direct the voting at meetings of certain companies in which NAM clients invest. In addition, this conflict is further managed by the fact that NAM is utilising either the client's own voting principles or NAM voting principles to all client mandates in a manner that considers the clients' best interests.
The interests of clients differ and may therefore have a different view on how the voting shall be done in relation to the same investee company resulting in a situation where NAM could vote on a matter with a potential voting outcome that would favour one of our clients over another.	This conflict of interest is managed by treating all clients equally in NAM's voting activities. As agreed with the relevant clients, unless a client instructs otherwise, NAM is utilising either the client's own voting principles or NAM voting principles to all client mandates in a manner that considers the clients' best interests.
Portfolio managers in NAM, who manage separate portfolios on behalf of the respective clients, may have a different view on how the voting shall be done in relation to the same investee company.	This conflict of interest is managed by treating all clients equally in NAM's voting activities. As agreed with the relevant clients, unless a client instructs otherwise, NAM is utilising either the client's own voting principles or NAM voting principles to all client portfolios in a manner that considers the clients' best interests.
NAM's third party proxy voting service providers, such as ISS, may provide advisory services to corporate clients whilst at the same time providing proxy voting recommendations to NAM. ISS may in these situations treat the corporate client more favourably in its recommendations due to the use of its services.	NAM conducts ongoing and annual due diligence reviews of third-party proxy voting service providers, such as ISS, to inter alia verify that ISS is independent. This includes for example reviewing ISS conflict management procedures. In case the services provided do not meet the expected standard of service, NAM will initiate a dialogue with the service provider and highlight any issues identified. In case the service provider is unwilling to adjust, NAM will consider replacing the service provider and, as a last resort, insource the service.

For situations where NAM has ongoing engagement with an investee company, the views of the third-party proxy voting provider and NAM differ.	This conflict of interest is managed by treating all clients equally in NAM's voting activities. As agreed with the relevant clients, unless a client instructs otherwise, NAM is utilising either the client's own voting principles or NAM voting principles to all client portfolios in a manner that considers the clients' best interests.

Figure 8: Examples of potential conflicts of interest.

2023 Conflicts of Interest Review

The annual review of all identified potential Conflicts of Interests was conducted once again in 2023. This is done to ensure that preventative measures are in principle sufficient to ensure our clients' best interests. In 2023 no actual conflicts arose, which is a testament to the strong preventative procedures we have in place.

Based on our 2023 review and results, we have assessed that our current Conflict of Interest Policy is appropriate to warrant a pro-active and efficient management of this critical aspect of our business management.

Principle 4: Managing market- and systemic risks, promoting well-functioning markets

Risk management is one of NAM's key functions, as protecting our clients' assets is at the core of everything we do. Investing clients' assets entail taking market risk, and over the years we have developed a comprehensive and integrated market and systemic risk management.

Risk Management Framework

NAM has a structured risk management process and governance, which aims to identify, manage and mitigate market and systemic risks in our investment products.

Maintaining risk awareness in the organisation is an integral part of NAM´s business strategies. NAM has defined clear risk management frameworks including policies and instructions for different risk types.

Our risk management framework covers, but is not limited to, the following risks (the "List of Risks"):

- Market risk
- Credit risk
- Liquidity risk
- Counterparty risk
- Price and valuation risk
- Sustainability risk (see below for further details)
- Operational Risk

Risk Management Process

The Risk Management function, which is independent from our Investment Function, performs risk oversight, monitoring and escalation based on established policies.

For Sustainability risk we align risk oversight with the prospectus disclosure and general company strategy. We focus on Environmental, Social and Governance related risks ensuring appropriate oversight by both ongoing limit monitoring as well complimented with a holistic dashboard oversight. The purpose of the latter is to, based on various indicators, identify and deep dive funds, ensuring that risks are appropriately captured, managed and/or disclosed.

The Price and Risk Committee (PRC) covers market and investment risk of all NAM's products, including investment funds and client mandates. The PRC shall ensure that there are well-functioning processes in place to analyse, limit and control all broad investment risks that the clients are exposed to. The PRC consists of representatives from Investment organisation as well as Middle Office being independent from the investment organisation. In addition, second line of defence functions are represented, including operational and fund risk as well as compliance.

The risk management governance matrix is reported below.

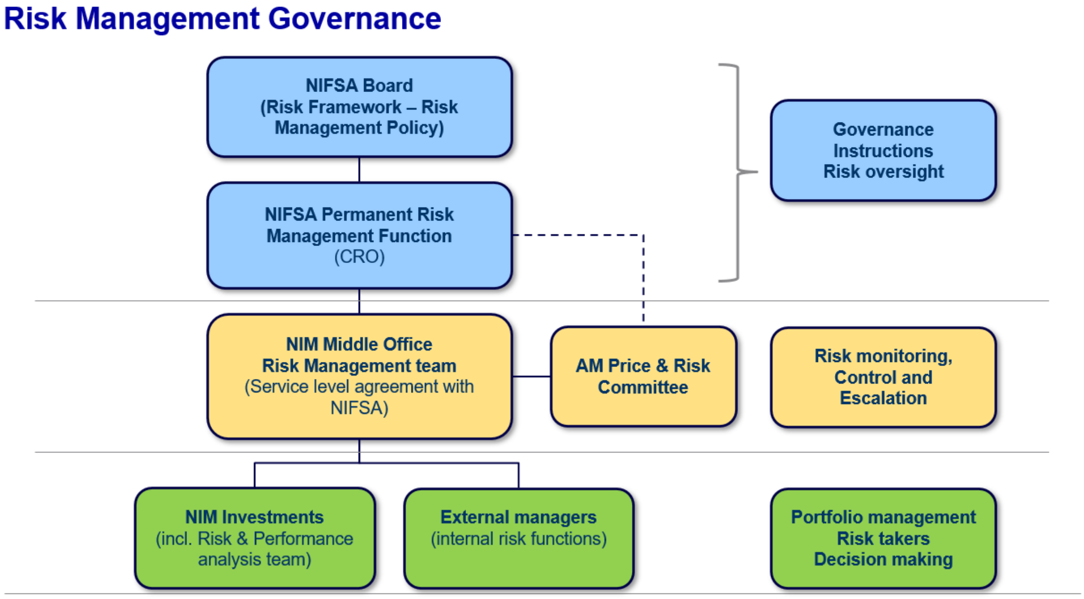


Figure 9: Risk management governance. Data as of 31.12.2023.

Integrating risk management into portfolio management

To integrate risk considerations in the investment decision-making process, we:

- Ensure portfolio managers and analysts have access to all relevant financial (such as market, company, and sector specific) and non-financial (such as sustainability and ESG) information, making it possible to identify market, company, and sustainability risks within the investable universe. The ESG data and information from external providers is supplemented by our internal proprietary ESG tools that we have developed for use throughout our organisation, including in selected investment teams and in our Responsible Investments team. These tools, which include our proprietary ESG data engine, are aimed at furthering our portfolio managers' understanding and assessment of sustainability risks.
- Include and integrate financial and non-financial risks as part of investment evaluation, in line with our belief that integrating such considerations into the investment decision making process can lead to better long-term, risk adjusted returns.
- Identify, evaluate, and take relevant action on issuers exhibiting high exposure to financial and non-financial risk. The identification, evaluation, and consideration of sustainability risks in the investment decision process may for example be supported via our engagement activities. We undertake engagement activities, inter alia in relation to sustainability risk concerns, to influence issuers by contributing to improving their ESG practices and enhanced sustainable long-term returns.

Sustainability Risks

NAM's ESG strategy process has identified four thematic engagement focus areas based on major systemic and sustainability risks and opportunities that have material impact on the climate, nature, and society at large:

1. Biodiversity
2. Good (Corporate) governance
3. Climate
4. Human Rights

Across these four areas NAM regularly engages on policy and regulatory engagement. Our role in influencing industry standards is varied and tailored to our concerns or relevant shared experiences as a market participant. We are members of the Investment Association in the UK, and in 2023 we were active members in several committees and working groups which are relevant to our different asset classes.

Through our participation to industry associations, in 2023 we advocated and answered consultations from the European Commission and ESMA (European Securities and Markets Authority) for change where our experience indicated a need for more clarity, for example on the topic of the implementation of the SFDR or fund naming guidelines. We also have an open, transparent, and pro-active relationship with the primary regulators in the Nordic countries: for example, in 2023 we continued sharing how we manage climate risks and what data and information we require from companies to see improvement in this area.

We engage on our four focus areas to manage risk and contribute to the UN Sustainable Development Goals. This is done in close collaboration between our ESG specialists, portfolio managers, financial analysts, and clients. Updates on the engagements is provided to the RI Committee.

Spotlight on Biodiversity

Biodiversity loss is a systemic risk and one of the biggest global challenges of our time. Nature is being eroded at rates unprecedented in human history and we are facing the irreversible loss of plant and animal species, habitats, and vital crops.

Research by the World Economic Forum (WEF) finds that USD 44 trillion of economic value generation – more than half of the world's total GDP – is moderately or highly dependent on nature and its services[6]. At the same time, WEF estimates that nature-positive transitions could generate up to USD 10.1 trillion in annual business value and create 395 million jobs by 2030[7].

- Biodiversity loss poses a systemic threat as well as company-specific risks. As the single largest asset manager in the Nordics, we acknowledge our role in preventing biodiversity loss and channelling capital flows towards nature-positive solutions. We have been actively working with our portfolio companies to address sustainability risks and seizing opportunities since we became members of the UN Principles for Responsible Investment in 2007. Companies' impact on biodiversity may differ significantly depending on the scope and location of their activities. Significant drivers of biodiversity loss, as identified by IPBES are land-use change,

[6] Source: World Economic Forum

[7] Source: European Commission, The Economics of Ecosystems and Biodiversity

climate change, pollution, and natural resource use and exploitation. To enhance our assessments of the positive and negative impacts of our investments and to enable us to set targets and report, NAM is continuously reviewing and assessing data providers that can contribute to an improved overview of our investments' impacts on biodiversity. This supports us in identifying our largest biodiversity risks as well as which companies are best managing biodiversity related risks. Based on this information, we are moving towards introducing targets to reduce our portfolio's biodiversity impact in line with the commitments made within the realm of the Finance for Biodiversity Pledge.

- Biodiversity risks and impact as described above is incorporated in investment decisions via the Principal Adverse Impact Indicators which is available to all portfolio managers, and by our ESG scores of the companies where biodiversity is a material risk according to the SASB risk map. At the current stage few companies have comprehensive reporting on biodiversity risk and impacts, nor have they made extensive risk assessments. Where relevant NAM engages with companies for disclosure of their assessment of biodiversity risks and impacts and actions taken to reduce negative impact on biodiversity.
- NAM is involved in several investor initiatives on related to Biodiversity and Nature, which aim to educate investors on biodiversity risk, as well as support them in their biodiversity risk management via engaging with issuers and policy makers. These are covered in detail under Principle 9 Engagement.

Corporate governance (including policy and regulatory engagement)

NAM's Corporate Governance Principles focus on a balanced and transparent relationship between companies and shareholders, in which shareholders play a vital role in improving the performance of a company. Our 2023 principles document also defines our expectations on board composition, executive compensation, shareholder rights and capital management. A key factor in the funds' ownership responsibility is to promote sound administration and to safeguard the common interests of unitholders. A healthy, long-term development in the administration of the investee companies' benefits shareholders, employees, and other stakeholders alike. The goal is to increase the return on fund investments and ensure smoothly functioning, reliable capital markets.

Climate change

Climate change is one of the single largest threats to the global economy and in general to the conditions of all life on earth. In addition, it implies specific risks to the companies and other entities we invest in. NAM is working on an ongoing basis to assess climate change risks and the impact of the low-carbon transition on sectors and companies. Climate change presents a challenge to our investments – in terms of its physical impact as well as through the prospect of radical policy measures and changing consumer behaviour with the aim of reducing GHG emissions globally.

NAM´s greatest impact on the climate is through financing and investments. At NAM we recognise that climate change presents both physical and transition risks, and are committed to manage our exposure, and impact on the climate, in line with our Net Zero 2050 commitment. To this purpose, we see individual and collective shareholder engagement as key for us to meet our 2030 objective to reduce the weighted average carbon intensity of our listed equity and corporate bond investments by 50% with a base line of 2019.

We expect companies exposed to climate risk to:

- Have a strong climate governance and demonstrate how they integrate climate change challenges into their business strategies, investment decisions and risk management.
- Be able to disclose how their long-term business strategy and profitability will be impacted by a different regulatory and physical environment.
- Show how they identify and capitalise on opportunities related to climate change.
- Be transparent regarding their position on climate change regulation and interaction with regulators and policy makers.
- Report in line with TCFD recommendations and act to reduce greenhouse gas (GHG) emissions across their value chains in accordance with the Paris Agreement.

An example of how we align our investments according to the identified market and systemic risk is our policy for excluding fossil fuel companies that are not demonstrating a transition plan in line with the central climate objectives of the Paris Agreement. This is a continuation of a theme started in 2021. the number of issuers not meeting the policy's minimum requirements increased in 2023 to 2037. With the NAM Paris-Aligned Fossil Fuel policy, we will maintain the possibility to stay invested in companies that help accelerate the transition to clean energy and phase out of fossil fuels and will divest from companies that are slowing the transition down. Companies with a transition strategy that is aligned with the 2°C target are put on a whitelist called the Paris-Aligned Fossil Fuel List, or the NAM Fossil Fuel Transition List as relevant. Companies not on that list will be excluded. The Paris-Aligned Fossil Fuel List constitute of 165 issuers, as of today.

NAM is part of several investor initiatives on climate change, which aim to educate investors on climate change risk, as well as support them in their climate risk management via engaging with issuers and policy makers. Being part of these investor collaboration initiatives has had a profound influence on how we integrate climate risk considerations, manage our clients' capital, and interact with market participants. We recognise that climate is already having an impact on our investments, via either physical or transition risk, and regulators and policy makers are reacting to it. This represents a concrete market and systemic risk, which we manage by integrating climate and broad ESG factors in our investment management activities and aligning our investments to the transition.

Specific examples of how we interact with market participants on climate change issues are under Principle 9, 10 and 11.

Human rights

While protecting and fulfilling human rights is a legal obligation and the responsibility of governments, it is widely recognised that all businesses have the potential to impact human rights. Poor management is at conflict with the long-term interest in promoting a responsible and sustainable development and may impact companies' license to operate. We expect companies to comply with internationally recognised human rights principles and to prevent and manage their impact on human rights. Our expectations apply both to the investee companies themselves and to their supply chains.

At NAM, we screen all our holdings for breaches of international norms, identifying companies that are allegedly involved in breaches of international laws and norms on human rights and labour standards. In addition, our target for 2023 was that all investee companies in funds managed by NAM are assessed against the minimum safeguards in human rights, subject to data availability, in line with the EU taxonomy requirements.

We engage with companies either independently or through collaborations and initiatives such as the Investor Alliance for Human Rights. Between 2016 and 2020, we were a funding and steering committee member of the CHRB which has now been integrated with the World Benchmarking Alliance (WBA). We continued as members of the Investor Initiative on Human Rights Data targeting proxy-advisors and data-providers. This initiative builds on the work of the Investor Alliance for Human Rights and WBA's Corporate Human Rights Benchmark and aims at improving the depth and breadth of corporate human rights data available to investors, via proxy advisor voting policies and advice

During 2023 labour rights have been in the spotlight and we have conducted in-depth engagements on this issue with Starbucks and Tesla. We saw some encouraging progress at Starbucks, see case study in Section 10 page 80.

The tech-sector continues to demonstrate lack of progress related to human rights and social issues. At Amazon we co-filed a shareholder resolution for the 2024 Annual meeting, asking the board to Commission Third Party Assessment on Company's Commitment to Freedom of Association and Collective Bargaining.

2023 saw some very encouraging improvements regarding labour rights in the mining sector in the Democratic Republic of the Congo (DRC) because of the research report on industrial cobalt mining that we commissioned in 2020. Knowledge of the working conditions in the industrial mines has gone from non-existent to high. RAID's assessment is that it is on the agenda in one way or another in most mining companies in DRC. Mining companies are now looking at the problems associated with using subcontractors and not having their own employees and the proportion of employees directly from the mines is increasing. This means better working conditions and higher wages. In 2023, for the first time in DRC, a worker with an occupational injury won a lawsuit against a mining company.

NAM's participation to industry initiatives

In 2023 we took part in the following regulatory, industry, sector and/or market initiatives:

- **Access to Medicine Foundation –** We are a signatory investor and use the Foundation's Access to Medicine Index and Antimicrobial Resistance (AMR) Benchmark in our analysis and engagements. The Access to Medicine Index analyses the top 20 research-based pharmaceutical companies on how they make medicines, vaccines, and diagnostics more accessible in low- and middle-income coun-tries. It highlights best and innovative practices, and areas where progress has been made and where action is still required. The AMR Benchmark tracks how pharmaceutical companies are responding to heightened drug resistance. We were a member of expert committee between 2017 and 2019. See also below Investor Action on AMR.
- In 2022 we joined the advisory committee of the **PRI-led Collaborative Sovereign Engagement on Climate Change**. The PRI and the advisory committee established an investor working group made up of participating Investors from across the world to lead the engagement activities. As part of the pilot, engagement with the Australian governments were initiated in 2022. Australia is expected to experience significant physical and transition risk on climate, leading to high financial risk, as well as being a net importer of food commodities from countries at elevated risk of deforestation. We are members of the Sub Sovereign working group of the Australian engagement.
- **Canada Climate Engagement (CEC)** - Is a collaborative engagement initiative targeting the country's heaviest emitters. It is co-ordinated by Canada's Responsible Investment

Association, the Shareholder Association for Research and Education (Share) and Ceres. Nordea Asset Management joined CEC in 2023 as the first international supporter.

- **Carbon Disclosure Project (CDP)** - We are a signatory to the CDP, a project that aims to collect and share information on greenhouse gas emissions and climate change strategies. We are also part of the CDP Water Advisory Council.
- **CDP Green Finance Accelerator (GFA)** - NAM is a signatory for the CDP Green Finance Accelerator, which is an initiative designed to drive greater climate and environment-related data reporting from companies. The greater transparency that results will assist investors in focusing their investments and meeting the reporting requirements of the EU's ESG regulations, which are ultimately aimed at directing capital towards greener investment.
- **Climate Action 100+** - We have been active members of the Climate Action 100+ collaborative engagement initiative since its start. It is a global initiative led by investors, to engage with the world's largest corporate greenhouse gas emitters to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures. We are either lead or collaborating investors on the engagements with 10 companies, and fully support its Phase 2 extension, with its focus on decarbonisation performance at company level and more thematic and sector focused engagement streams.
- **Collaborative Sovereign Engagement on Climate Change** – This engagement initiative is a pilot PRI-coordinated investor initiative to support governments to act on climate change. We are part of the Advisory Committee.
- **Diversity Project Europe** - Since 2021 NAM has been a part of Diversity Project UK which is a cross-company initiative championing a truly diverse, equitable and inclusive UK investment and savings industry. In 2023, NAM has committed to a new chapter of the project called Diversity Project Europe covering a larger geographical scope which will enable cross-border collaboration to help promote a diverse and inclusive European asset management industry. The project is a non-profit organisation structured with a board, advisory council and steering group. Kasper Elmgreen, CIO of Fixed Income & Equities, has taken a seat in the advisory council which is a group responsible for defining and setting out the strategy of the project.
- **Emerging Markets Investor Alliance** – We are a member of the Emerging Markets Investors Alliance. It enables institutional emerging market investors to support good governance, promote sustainable development, and improve investment performance in the governments and companies in which they invest.
- **FAIRR** – We have joined the FAIRR's collaborative investor engagement on sustainable proteins which asked several global food companies to diversify their protein sources to drive growth, increase profitability, reduce risk exposure, and improve their ability to compete and innovate in a resource-constrained world.
- **Finance for Biodiversity Pledge** – The Finance for Biodiversity Pledge is a commitment of 153 financial institutions, representing €21.4 trillion in AuM, to protect and restore biodiversity through their finance activities and investments. NAM is a signatory of the Pledge which consists of five commitments financial institutions promise to undertake: 1. Collaborating and sharing knowledge, 2. Engaging with companies, 3. Assessing impact 4. Setting targets, and 5. Reporting publicly on the above before 2025. We´re currently taking part in several work streams such as collaborating and sharing knowledge, engaging with companies, and assessing impact. These working groups has contributed to enhance our assessments of the positive and negative impacts of our investments and to enable us to set targets and report. Based on this information, we are moving towards introducing targets to reduce our portfolio's biodiversity impact in line with the commitments made within the realm of the FfB to support the achievement of the GBF 2030.

- **IFRS Sustainability Alliance** - We are founding member of the ISSB Investor Advisory Group (IIAG), previously SASB's Investor Advisory Group (IAG). As part of this work, we lead disclosure engagements with companies, and demonstrate how SASB standards are used by investors in different fora. Previously known as the Sustainability Accounting Standards Board (SASB).
- **Institutional Investor Group on Climate Change (IIGCC)** - Collaborative climate targets are anchored in the recommendations that these initiatives build on. We participate in the NZAM working groups and presented our approach to other members.
- **International Corporate Governance Network (ICGN)** - ICGN's mission is to promote effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies worldwide. We are a member of ICGN and participate in their events for example voting season updates also, we have been asked to join the human capital committee to work on a position regarding employee representatives on the board.
- **Investor Action on Antimicrobial Resistance** - Investor Action on Antimicrobial Resistance is a coalition between the Access to Medicine Foundation, the FAIRR Initiative, the Principles for Responsible Investment and the UK Government Department of Health and Social Care to galvanise investor efforts to address global antimicrobial resistance. We are an investor and partner and have committed to adopt an AMR lens when engaging with investee companies and help combat the growing threat of drug-resistant superbugs in humans, animals, and the environment.
- **Investor Alliance for Human Rights (IAHR)** - We are a member of this investor initiative focusing on the investor responsibility to respect human rights, corporate engage-ments that drive responsible business conduct, and standard-setting activities that push for robust business and human rights policies. In 2023 we continued to participate in several initiatives within IAHR such as Digital Rights.
- **Investor Initiative on Hazardous Chemicals (IIHC)** - The Investor Initiative on Hazardous Chemicals (IIHC) is an investor-led initiative that encourages chemical companies to increase transparency and stop the production of persistent chemicals. The aim of the IIHC is to reduce adverse impacts from hazardous chemicals and thereby exposure to the financial risks to which they are linked. Cecilia Fryklöf, our Active Ownership head, is member of the Steering Committee of the Investor Initiative on Hazardous Chemicals (IIHC – supported by ChemSec). NAM also leads and support several company engagement streams.
- **Investor Mining and Tailings Safety Initiative** - We joined this investor led engagement which advocates for increased tailings dam safety and transparency in the mining industry. NAM was among 114 investors supporting the creation of a Global Standard on Tailings Management and a Portal which maps tailings dams around the world. The initiative meets periodically to discuss latest development.
- **Investor Policy Dialogue on Deforestation (IPDD)** - We are a founding and advisory committee member of the IPDD initiative, which was formally established in July 2020. The objective of the IPDD initiative is to ensure long-term financial sustainability of investments by promoting sustainable land use and forest management and respect for human rights. We are also part of the IPPD Brazil and IPDD Indonesia Working streams. Considerable progress has been made in terms of awareness-raising regarding the issue of deforestation risk and meeting with key stakeholders. During the past two years, the group has met with several ministries, banks and financial markets regulators, multilateral institutions, NGOs, and academics.
- **Nature Action 100** - In 2023, NAM joined more than 200 institutional investors – representing $26.6 trillion in assets under management, in Nature Action 100, an Investor focusing on

companies “systematically important” to reverse nature and biodiversity loss. The initiative has entered its engagement phase and we participated in the letter that was sent to 100 companies, who have been identified as critical for biodiversity protection and restoration. NAM will take part in several NA100 corporate engagements, which will commence in 2024.

- **Net Zero Asset Managers Initiative (NZAM)** - In December 2020, we were a founding investor, committing to support the goal of net zero emissions by 2050, in line with the global efforts to limit warming to 1.5 degrees through our investments. Part of the NZAM targets that we set was to engage with the top 200 contributors to our financed emissions. In 2023 81% of our top 200 companies were categorised as aligned or engaged to become aligned. This milestone was met through the following key actions:
    - Individual dialogues with companies in which we stated and discussed our expectations of Paris alignment;
    - Engagements via collaborative initiatives (CA100+, CDP non-disclosure campaign);
    - A letter addressed to select company CEOs outlining the six alignment criteria and highlighting our expectation, as well as the expectation of the growing number of net-zero committed asset managers of an increase in alignment maturity if the company is to remain investable in the medium to long term.
- **Net Zero Engagement Initiative** - The Net Zero Engagement Initiative aims to support investors aligning their portfolios with the goals of the Paris Agreement, through engagement of a range of companies not covered by Climate Action 100+’s focus list. This includes more companies who are heavy users of fossil fuels, contributing to demand for its products. We were signatories to a letter sent out to 58 companies in 2023 asking them to disclose a Paris aligned transition plan and we lead or co-lead 10 individual company engagements.
- **Partnership for Carbon Accounting Financials (PCAF)** - In 2020, we joined this global partnership of financial institutions launched in 2015 aiming develop a harmonised approach to measure and disclose GHG emissions associated with loans and investments. A harmonised accounting approach provides financial institutions with guidance in developing risk management and regulatory compliance as well as a starting point required to align their portfolio with the Paris Agreement. In 2023 we continued to promote the use of PCAF in the financial sector.
- **Pharmaceutical Supply Chain Initiative Advisory Panel** – Since 2018 we are on the Advisory Panel of this industry-led organization aimed at establishing and promoting responsible practices for pharma supply chains. The dialogue and relation-ship with PSCI is part of our engagement with the world’s largest pharma companies to address pharma water pollution in India, one of the largest drug manufacturing hubs in the world.
- **Principles for Responsible Investment (PRI)** – PRI is an investor initiative to incorporate ESG in investment processes. We were an early adopter of Responsible Investments and signed up to the PRI as early as 2007.
- **Swedish Investors for Sustainable Development Partnership** – comprising 20 of the largest financial firms in the Swedish market and the Sweden's government agency for development cooperation (Sida). It was formed in 2016 and works to explore the role of investors, risks and opportunities related to the 2030 Agenda. NAM joined in 2020.
- **Task Force on Climate-related Financial Disclosures** – We have been an official supporter of TCFD which is now closed, and the reporting requirements is now included in the ISSB standard. ISSB continues to provide a foundation for climate-related financial disclosures for all companies, aimed at encouraging companies to report on the climate-related risks and

opportunities that are most relevant to their business activities. NAM is a member of the ISSB advisory board described more in detail in the ISSB section above.

- **UN Environmental Programme Finance Initiative (UNEPFI)** -We signed on to the UNEP FI in 1994. It is a partnership between UNEP and the global financial sector to mobilise private sector finance for sustainable development. Nordea Group became a member of the UNEP FI Banking Committee in 2018, and since August 2020 it holds the Scandinavian seat on the UNEP FI Banking Board which oversees the effective implementation of the principles for Responsible Banking. In 2021, Nordea Group's CEO Frank Vang-Jensen was invited to join the UNEP FI Leadership Council.
- **UN Global Compact -** Initiated by the UN to encourage businesses to align their strategies and operations with ten universal principles building on UN conventions in the fields of human rights, labour standards, environment, and anticorruption. We became a signatory to the UN Global Compact in 2002, first through Nordea Bank Finland. From December 2004 the coverage was extended to the whole Group.
- **World Benchmarking Alliance (WBA)** - Since 2017, we have been part of WBA. Members work together at global, regional, and local levels to shape the private sector's contributions to achieving the SDGs.

In 2023 we supported the following investor statements:

- **Global Financial Institutions Statement to Governments on Deep Seabed Mining:** This letter, signed by 36 signatories of the Finance for Biodiversity Pledge, representing over EUR 3.3 trillion of combined assets, urges governments to halt negotiations underway at the International Seabed Authority, which could lead to a potential start of deep seabed mining (DSM) in international waters.
- **Comment letter to the United States Environmental Protection Authority:** The letter supported the Environmental Protection Agency's (EPA's) updated methane regulation for the oil and gas industry, the largest source of industrial methane emissions in the United States. The letter called for expanded leak monitoring, a phase out of polluting pneumatic devices, and additional restrictions on routine flaring. The final, strengthened regulation was published in December 2023.
- **Letter to the UK Prime Minister from the CEOs of IIGCC, PRI and UKSIF:** CEOs of IIGCC, Principles for Responsible Investment, and UK Sustainable Investment and Finance Association, have sent a letter to UK Prime Minister, Rishi Sunak, following his announcement that the British government would water down key net zero policies. The letter signals deep concern with the recent proposals to 'backtrack on vital policy measures that support the UK's transition to net zero'. The letter was supported by 32 investors and financial institutions.

The participation in these initiatives is an essential component of our portfolio management and stewardship activities. It informs our investment and RI teams on macro, policy, and sector risks, and how these can reflect on our invested companies. As a result, we can make more informed investment and engagement decisions, and plan our strategy accordingly.

NAM has made a substantial effort during the years to increase not only consistency at delivering results for our clients, but also to be a pro-active and engaged market participant. As the list above shows, we want to play our part in contributing to well-functioning financial markets, economic system, and society at large.

Our clients' satisfaction and the risk-adjusted returns over the years, even at times of market and systemic crises, gives us confidence that our approach is effective at identifying financial and non-financial risks, and pushes us to continue to invest in our risk management process so that we can ensure it remains effective.

Reflections on our effectiveness

Risk management is a complex process, which integrates variables of different nature, probability, timeline. These variables interact with each other in ways that are often difficult to predict. This is even more true at a market and systemic level, where the complex and human-driven nature of geopolitics and markets makes modelling extremely difficult. Primary examples are the pandemic and the war in Ukraine: the scenario analysis we performed prior to 2020 did not predict there would be a pandemic, or a war.

- Translating scenario analysis, which explores potential future risks, into portfolio management actions today is not easy, and this is why we invest a significant number of resources in constantly assessing how good our risk management framework is, how the real time results compare with what we had modelled and reflect on how we can make it better. This is a summary of how we assess our performance and how this assessment feeds back into our modelling:
- We monitor the List of Risks on a continual basis, to be able to manage systemic, market and product-related risks. The aim is to ensure that clients receive the products as described in their Prospectus or investment guidelines, whilst at the same time we contribute to well-functioning capital markets. We monitor the List of Risks using our limit system and where relevant complemented by additional KPI and risk factors.
- Any breaches or discrepancies is fed back to the portfolio management team for immediate remediation, and to the risk management team for reflection on how to ensure this does not happen again.
- To ensure a well-functioning risk management framework all active limit breaches are documented in incident descriptions with well-defined cause and actions taken to mitigate the risk. There was only one active limit breach, during one day in 2023, related to the level of utilisation of sell-buy back transaction in a sub-fund, and this type of active breach had not occurred previously. Mitigating actions were implemented to prevent the occurrence of similar breach.
- These are reported, reviewed, and discussed monthly by the PRC to identify and mitigate any future systematic behaviour, and making changes accordingly.
- Monitoring and managing market risk and the related liquidity risk are important to ensure that our products are suitable and support a well-functioning capital market. We review all significant redemptions where indicators show a potential increased cost to ensure that the liquidity created for the redeeming investors is done with the respect to the remaining clients in terms of both the liquidity and risk profile of the product.
- In the case of quantitative models (such as Value at Risk models for market risk or liquidity risk model), these are independently reviewed by an external advisor and where relevant back tested to ensure validity and quality of the results. The back-tests are a key part of constantly reassessing how good our models are, and how they can be improved.

Contributing to well-functioning markets is part of our stewardship responsibilities. It also means that we strive never to find ourselves at the wrong end of a liquidity crisis or selling when everyone else is trying to exit their positions, thereby worsening the stress on the market, and suffering heavy mark-to-market losses for our clients.

The conclusion of the above review process was that our risk management process is robust and has allowed us to manage anticipated and unanticipated risks in an effective manner across our assets. This conclusion is reinforced by the results of our annual Risk and Compliance Self-Assessment, which didn’t identify any significant residual risk within the risk management area. Therefore, we do not anticipate major changes to it in 2024.

Principle 5: Review and assurance

Internal assurance

We rely on our internal framework to ensure that our policies and processes allow us to be effective stewards of our clients' assets. We have an embedded 'Three Lines of Defence' governance framework, where maintaining effective stewardship is a key constituent.

The regulatory requirements and compliance risk related to "active ownership" are included in the compliance risk assessment performed annually and updated continuously. The outcome of the risk assessment forms the basis for the risk-based compliance monitoring program. Activities in the monitoring program are prioritised to ensure comprehensive monitoring of the compliance risk.

Our Internal Audit team prepares a risk-based audit plan that covers all activities and functions of NAM over a multi-year period (typically three years), considering both the risks of a given activity or function of NAM, including its Branches and Subsidiaries, and the effectiveness of the organisation and internal controls in place for that activity or function.

We regularly review and update all our internal policies, to reflect any relevant new regulations, best practices and evolving client demands.

As described in Principle 2, our internal governance and policy review process is carried out on an annual basis and is articulated as follows:

1. Responsible Investment Policy: the review conclusions are assessed and approved by the ESG Committee. The ESG Committee is chaired by NAM's CEO Nils Bolmstrand and comprised of senior management representing various departments in the organisation.

2. Corporate Governance Principles: the review conclusions are assessed and approved by the Corporate Governance Committee, which includes board members from Nordea Fund company. These reviews also include peer review and assessment of changes that our service providers propose to their proxy voting policies.

Overall, we have continued to focus on ESG data quality and made efforts to create automated solutions for our disclosures and reports. Internal Audit performed a targeted review of the ESG Governance framework in Q4 2023, with satisfactory results and no audit remarks issued.

External assurance

The PRI are performing an annual assessment on our fulfilment of the six principles of responsible investing. We have been a Signatory since 2007, and our latest assurance report can be found here: https://ctp.unpri.org/dataportalv2/transparency

During 2021 our ESG STARS fund process was audited to receive the ESG4Real certification by the external organization "RICERT International". RICERT International will perform periodic audit on the processes and products to ensure compliance with the certification. The certification is first re-assessed and renewed every second year and then every fourth year thereafter. In 2023, we met with the certifier and discussed the development of the certification and conducted a review of our processes to cover all Nordea branded funds.

Engaging our clients

In NAM we actively seek assurance from our clients of what their understanding and expectations of ESG products are. We see client engagement as the cornerstone of our external assurance because our business is dedicated to service them.

During 2023, we continued to develop our client engagement approach and further engaged them explaining our implementation and interpretation of current or upcoming regulation, to ensure that clients understood how we have implemented it, and that we had addressed all their outstanding questions. In practical terms, this has been via direct client meetings with our regulatory experts, our ESG team or product specialists to ensure and open dialogue regarding the ESG considerations in the investment strategies and gave them an opportunity to ask any questions and provide feedback to us on what additional information they require.

Additionally, in 2023 we conducted a follow up survey amongst our clients to ensure we understand how they define a sustainable financial product and if there are any discrepancies to be aware of. The exercise has been beneficial for all parties and improved our understanding of general market consensus on definition of a sustainable financial product. The focus of the survey was the new EU regulatory requirements which we believe will be part of market practice for Sustainable products going forward. We focussed on the three criteria/investment methodologies defined by MiFID II as suitable for clients with sustainable preferences:

- Sustainable investments as defined in the SFDR
- Taxonomy-aligned investments as defined in the EU Taxonomy Regulation
- Investable companies' Principle Adverse Impacts (PAI) as defined in the SFDR.

We concluded that most of our clients do not have any expectation of Taxonomy-alignment the coming years due to the inconsistency of data. Many of them do however expect the integration of Taxonomy-alignment to play a larger role in the investment decision making in the future. Regarding the definition of sustainable investments there was a more scattered picture amongst our clients. Most of them were not able to share their definition, but they were extremely interested in exchanging ideas and continue the conversation once they gotten a bit further in their development. The largest discrepancies among our clients regarded the investable companies' adverse impact on the society. Most clients with a defined strategy only referred to their exclusion of controversial sectors and breaches on international norms. However, some clients had clear expectations and excluded investment strategies/funds with too high PAI values (e.g. for CO2e emissions).

This survey helped us ensure that our clients' preferences are properly addressed, when different from what we expected, and as a result that our products and service are fit for purpose.

Stewardship Reporting

The stewardship report is reviewed by the ESG Committee before it is published. The Head of Responsible investment is responsible to ensure that the reporting is understandable by non-professional clients and presents an objective and balanced view of our activities and results. We ensure that our reporting includes positive and negative outcomes, and outcomes where our intended aim has not been achieved and the actions we have taken as a result.

Our report describes our responsible investing framework by asset class, policies, and procedures. The report also contains details on specific responsible investment issues, including company engagement and active ownership. As part of our client service, we provide clients with bespoke stewardship reporting in accordance with their requirements and timelines.

In 2021 we introduced several changes following an extensive review of our reporting and voting practices. Since then, we have continued to engage our clients to gather feedback on the changes introduced the previous year, and on the additional data, metrics, and information that they wanted to receive. Some of our clients are also IIGCC members and committed to the Paris-Aligned Asset Owner initiative or Net Zero Asset Owner Alliance. These clients asked for additional information on the exposure to aligned/aligning/not aligned issuers in their mandates, or invested funds, and this is now provided to them on a regular basis.

Since the review process carried out in 2021, which resulted in a better definition of our stewardship policies, practices and voting principles, we redefined our voting principles. These are aimed to ensure clarity on how we might escalate voting if companies fail to meet our expectation related to board diversity, executive compensation, and climate change:

1. We may vote against the relevant Board member if there is a lack of diversity in the Board (criteria described in our RI Policy).
2. We may vote against remuneration plans and reports that fail to establish a link between Executive remuneration and the achievement of relevant environmental, social, and business ethics KPIs.
3. We may vote against directors with special responsibility for remuneration (typically the Chair of the Remuneration Committee) if such criteria are not made part of executive remuneration plans.
4. We may vote against the discharge of the board, the management, the re-election of the Chairperson and/or certain directors in companies in highly exposed sectors, if they lack a climate transition plan aligned with the Paris agreement. These actions can also be taken when directors have not made sufficient progress in managing climate risks and when executive remuneration does not sufficiently incentivise addressing climate risk.

Responsible Investment Policies and Client Reporting – updates and communication

Our assurance process has allowed us to refine and improve the process regulating our stewardship policies, ESG programme and Client Reporting, from content to review framework.

The Responsible Investment team (the "RI team") is responsible for the maintenance and implementation of our two main stewardship policies:

1. The Responsible Investment Policy describes the framework governing the approach of NAM to responsible investments and ESG/sustainability.

2. The Engagement Policy demonstrates regulatory obligations and efforts to ensure effective shareholder engagement. The Policy outlines the general principles for how shareholder engagement may be integrated in investment strategies and what different engagement activities are carried out on behalf of clients when investing in listed shares.

3. Following feedback from clients, in 2022 we updated our reporting and public statements, introducing new reporting as relevant, for Sustainability Risk Integration in the Investment Decision-Making Process, Principal Adverse Impact and the Integration of Sustainability Risks in Remuneration. In light of these updates, in 2023 we are pleased to be able to report that off the back of these efforts we were ranked #1 in the Nordics and #8 among the world's 69 largest asset managers for how we promote sustainability through our active ownership according to a recent independent Voting Matters where Nordea is compared to its peers. We were also ranked 4th Best Asset Manager in the World for RI Commitment & Brand by Responsible Investment Brand Index 2024. To read the full report, visit: http://ms.spr.ly/6041Y69G3

Final considerations

Our assurance process is a combination of internal and external assurance. Our internal assurance process is very structured and precisely defined: it is one of the pillars of our governance frameworks, as we have found that we need a formal annual review process of our procedures, with a critical review of the conclusions, to improve and adapt given the evolving regulatory framework and client demands. The results of our internal assurance process are reported to the Board, which has ultimate responsibility over the process and results, and reflects our mission and purpose of serving our clients in the best conceivable way.

It is important, however, to receive annual external assurance to validate our outcomes. The feedback we received in 2021 and 2022 was valuable and the changes we introduced received positive client feedback. As illustrated above, in 2023 we found again that by engaging clients we received valuable input on what their requirements are, their understanding of our products, and how we can evolve our client service and product offering. This has become more obvious with the rapidly changing EU regulatory framework, and we seek to continue the practice of client assurance in the years to come.

The combination of internal and external assurance is what we believe the most prudent and effective way to ensure continuous development and improvement of our processes, as to ensure that our offering always meetings our client needs.

Principle 6: Clients and beneficiaries' needs

Client base and asset mix

NAM is an active asset manager with a global business model, offering services to clients in Europe, the Americas and Asia. We manage investments across the full spectrum of asset classes. Our client base is equally split between Nordea Group-related and external clients.

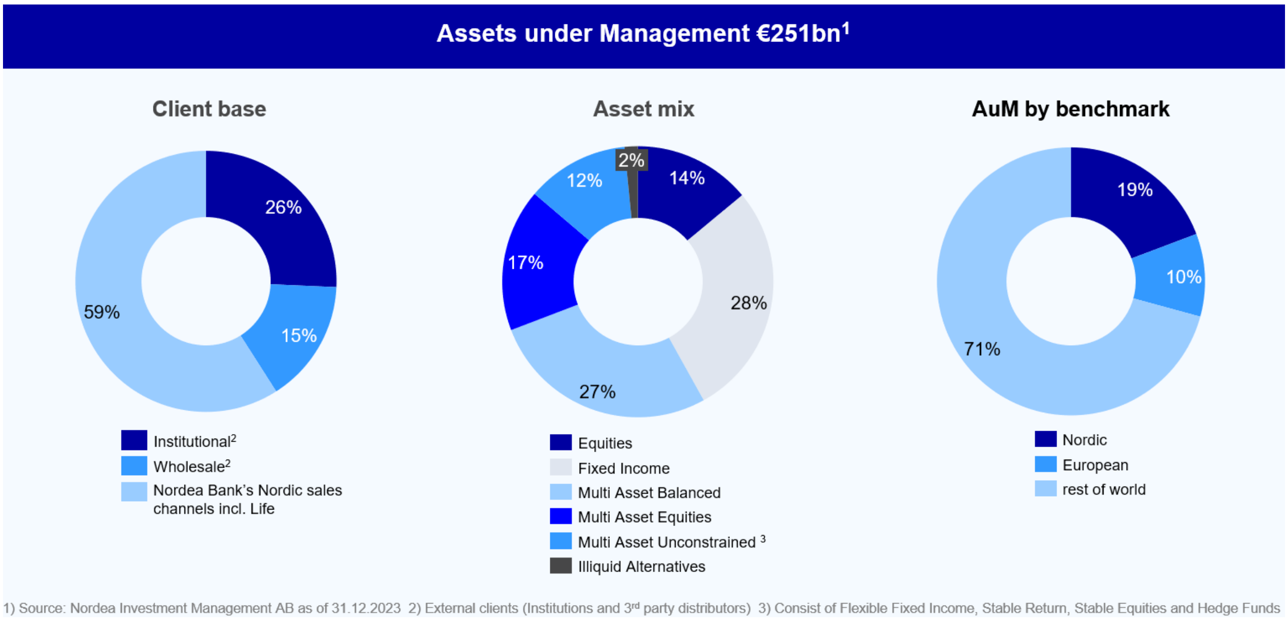


Figure 10: Assets under Management. Data as of 31.12.2023

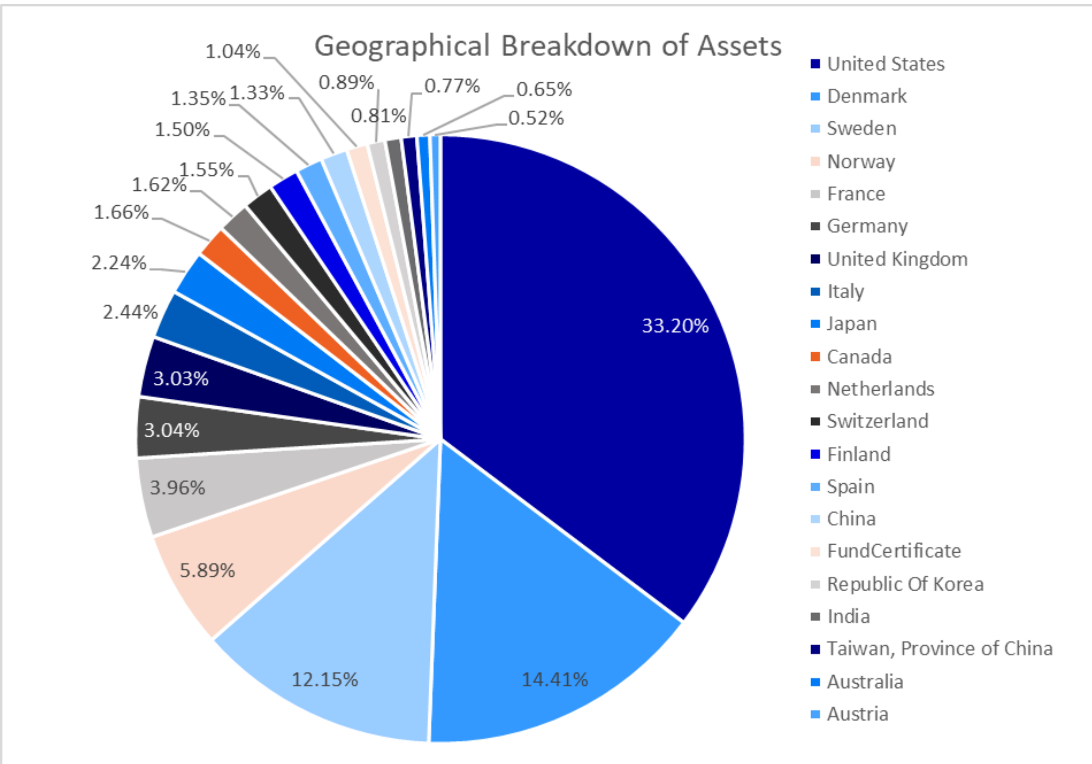


Figure 11: Geographical breakdown of assets. Data as of 31.12.2023

Our clients are historically mostly Nordic, but we have seen an increase of other markets in recent years, as the client geographical distribution shows.

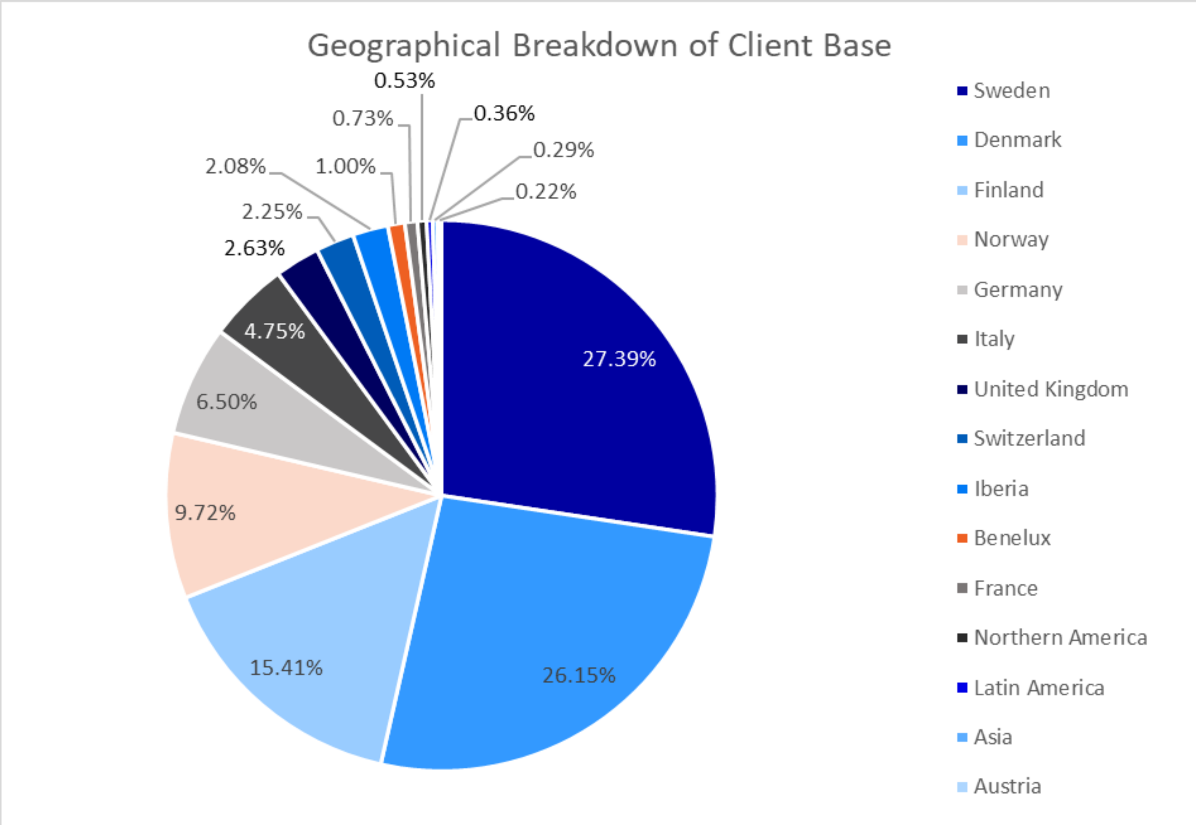


Figure 12: Client base by geographical area. Data as of 31.12.2023

Over the years NAM has expanded internationally, but majority of the client base is still in Europe and in Nordics, as the figure 12 demonstrates.

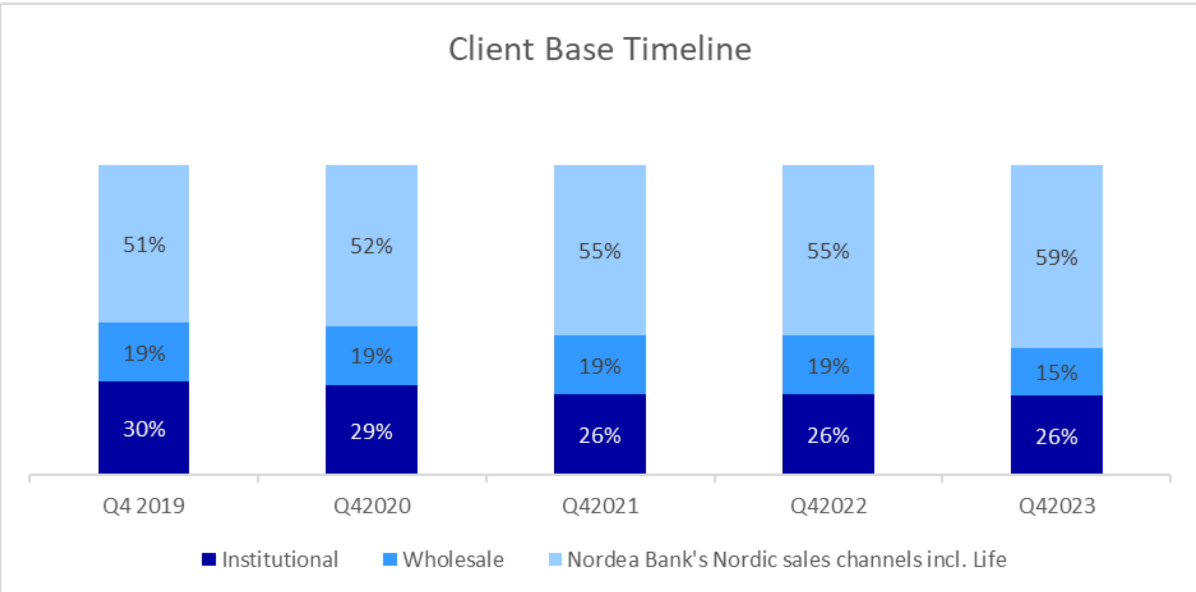


Figure 13: Client base timeline. Data as of 31.12.2023

As figure 14 shows, our share of assets in multi asset-based solutions has been increasing. Over the past ten years, our internal Multi Assets boutique, which manages over EUR 150bn, has developed a strong expertise in risk premia: breaking down assets into their component return drivers. From these, the team has built a wide range of specific investment solutions with the aim of delivering long-term stable returns in all market environments. This suite of outcome strategies stretches from the simple through to sophisticated liquid alternatives to match the spread of our clients' risk appetites and needs.

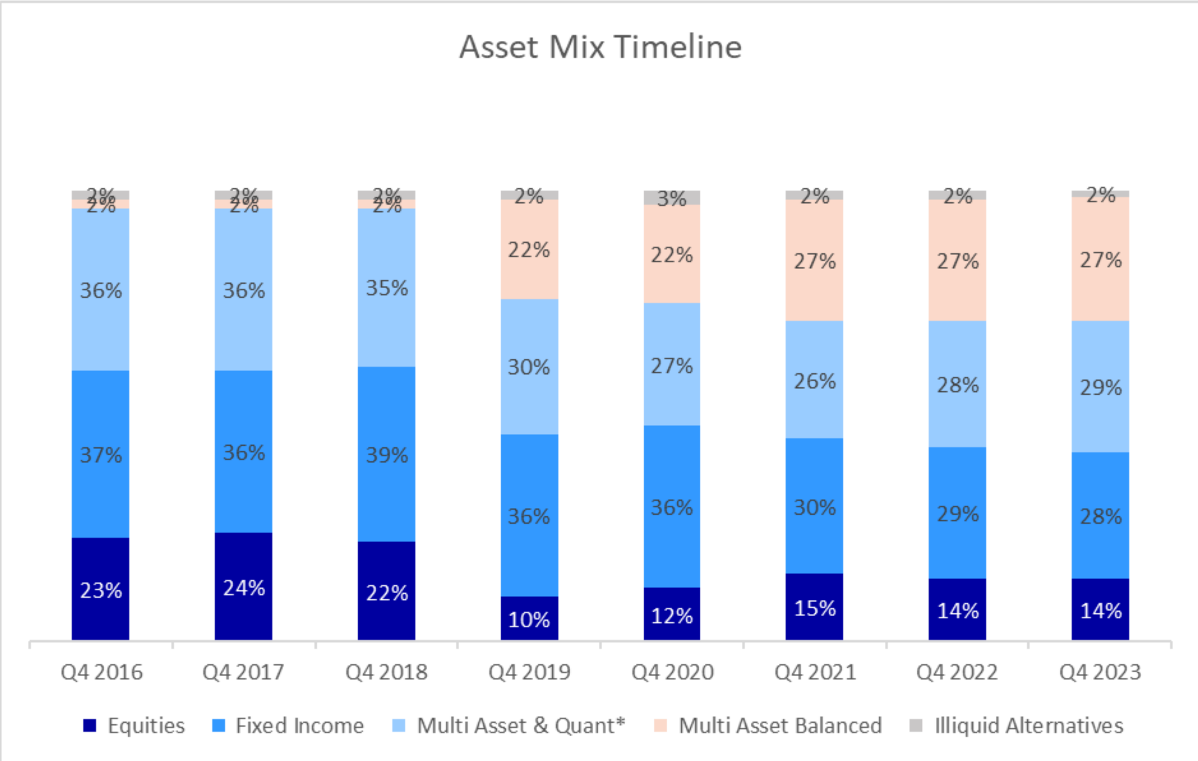


*Figure 14: Asset mix timeline. Data as of 31.12.2023. *Includes Multi Asset Equities and Multi Asset Unconstrained (consisting of Flexible Fixed Income, Stable Return, Stable Equities and Hedge Funds). Please note that we updated figures for 2022 as Multi Asset & Quant in Q4 2022 included Multi Asset Equities and Multi Asset Balanced.*

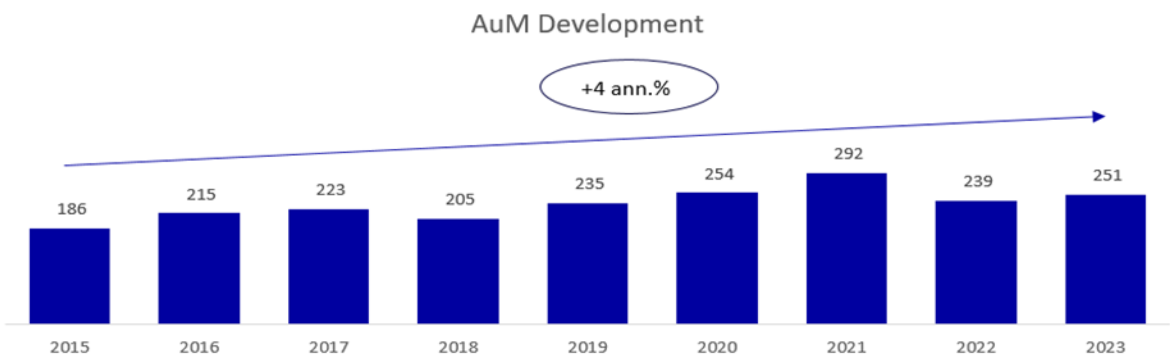


Figure 15: Development of Assets under Management. Data as of 31.12.2023

Incorporating clients' views on investment strategies

NAM's business is in investment products and solutions. These products and solutions can only succeed if they meet clients' needs, in both risk/return profile, and environmental/social preferences. Asset management is a constantly evolving business, with low barriers to entry, margin pressure, an extremely high degree of competition among products and their suppliers, and a rapidly evolving market and regulatory landscape. NAM's established market position does not make us complacent: we acknowledge that we constantly must deserve our clients' trust and innovate our product offering to meet evolving needs.

For new and existing investment strategies, we seek clients' views as follows:

1. Annual (or more frequent) review meetings with our clients: to understand their needs and level of satisfaction towards the product we offer, on both the non-ESG (investment) and ESG side. Specific topics are their views on risk, liquidity, investment universe and investment horizon of a new or existing strategy. Their feedback is then used to improve our current product offering, to develop new products and ESG processes.
2. Informal one-to-one client meetings: to provide an update on their invested product, also in response to market and regulatory developments, as well as testing our new investment strategy ideas.
3. Client surveys: where we gather views on strategy and ESG preferences, changing demand patterns, and risk appetite. These are typically done on a yearly basis.
4. Events and conferences: both in-person and digital, where host roundtables and discussions on a variety of topics, inviting a wide range of participants, from clients, to prospects, to industry experts.

For new strategies, the continuous and open dialogue helps us finetune the investment strategy and clients' preferences and is a valuable input to the overall construction process: our mission is to deliver the best risk-adjusted returns to our clients, given their investment mandate preferences, and with a strong stewardship process underpinning it.

When a client awards us a specific mandate, we ensure that we have requested and incorporated their preferences on risk/return profile, liquidity of the asset class, time horizon, stewardship, and reporting requirements.

We have chosen this approach because we realised that depending on the client, the topics (improving existing strategies or developing new strategies), the time of the year (certain months tend to be quieter or busier, and outreach activities need to take this into account), the quality and amount of information can vary. By engaging clients in a variety of formats (formal vs informal, in-person vs remote, individual vs collective) we can collect better quality intelligence, which we then feed back to our client service, product development and portfolio management teams.

Time horizon

A large part of our institutional clients has a long-term horizon and assess our products and performance over a multi-year horizon (over 3 years). This is particularly true for our equity and fixed income assets. This is why our equity and fixed income investments typically have the same long-term horizon, over 3 years.

As for our Private Assets Solutions, NAM has launched several solutions in the Private Assets space, covering various asset classes and investment formats, from direct investments with commitment structures to funds of funds. For these products, the investment horizon is typically 10 years+.

Finally, our multi-asset funds have a shorter time horizon, in most cases around 3 years. Each NAM product and fund has a stated investment horizon which is duly communicated to clients to ensure full alignment on objectives and expectations.

Active ownership and stewardship

Active ownership is a pillar of our NAM-wide RI framework, and we are committed to act honestly, fairly and professionally in accordance with the best interest of our clients.

For clients who have their own stewardship policies, and own segregated accounts, we ensure that such policies are integrated into portfolio management and proxy voting. We appreciate any feedback and input: we take their concerns related to our stewardship process, practices, and holdings very seriously. We deliver any feedback or input to our Responsible Investments team to discuss it internally. Dependent on the type of concern and how it fits within our RI framework and policy, different approaches can be taken (e.g. materiality question).

Our active ownership tools include voting, attending AGMs, standard setting, engagement with companies, and filing shareholder resolutions. For our pooled accounts, we select the engagement approach deemed to be in the best interest of our clients, in consideration of the specific product's investment strategy, local laws and regulations, and our own internal policies. Each fund's features are duly explained to clients to ensure alignment of expectations.

For clients not wishing or able to have their own segregated accounts, we discuss their preferences on ESG matters and how they fit individual NAM funds. We ensure that clients understand the product offering and that they choose the fund best aligned to their preferences and objectives.

It is inevitable that clients invested in pooled funds may have different views on specific stewardship issues, and it is not always possible to accommodate all opinions because we need to manage pooled funds according to the individual fund's objectives, and our overarching stewardship policies. For example, it has happened that individual clients within our pooled funds express varying views on how they would vote at selected AGMs. We always remain at clients' disposal to discuss any concern and collect their opinions, but we manage pooled funds in a way which we believe serves all clients' best interests.

Client Reporting

For an investor, timely and adequate information is key. We support standardized and integrated reporting which incorporates material sustainability information with financial information.

Our regular monthly fund factsheets used to incorporate only financial data. Following clients' feedback, in May 2021 we introduced extended ESG reporting to our monthly reports, which in addition to financial data, it now also includes ESG-related KPIs and ESG rating data. In addition, on a quarterly basis, we publish more extensive ESG Reports that include voting statistics, SDG exposures and engagement content for our ESG STARS and Thematic funds.

Being transparent in the communication with our clients is a duty for us. We report transparently not just on investment performance, risk, and portfolio characteristics, but also on how we work and incorporate ESG in our responsible investment decisions and activities.
All these reports are available on our website:

- Daily/weekly/monthly statistical data and investment reports, both on our website and directly to clients depending on their stated preferences.
- Annually via our Responsible Investment Annual Report, where we disclose on several engagement cases, from collaborative to thematic, and the engagement rationale. We show how we take an active part in the industry-wide discussion around responsible investment, and how we promote best practices across the investment community.
- Annually via our Climate Report, where we disclose our climate strategy and targets, as well as how active ownership plays a role in our climate strategy.
- Annually via the PRI reporting framework, on the PRI website.
- Also available on our website, with client login needed: Annual corporate governance activities report.
- Monthly Nordic magazine, NAM Talks and ESG Matters webinars, and client presentations with engagement examples.
- Voting Portal, showing how we have voted in AGMs for stocks held across our funds.
- A wide range of ESG educative content in our online ESG e-learning centre, e.g. webinars and podcasts such as NAM talks; ESG Insights reviews and articles.
- Extensive ESG reports which include ESG data voting statistics, SDG exposures and engagement content for the ESG STARS and Thematic funds, available on our ESG STARS website.
- Our policies: the RI policy, Corporate Governance Principles, Engagement policy and Paris-Aligned Fossil Fuel Policy.

Improving our communication and reporting

We seek our clients' feedback on our communication methods. This takes various forms, so we can ensure that we have full coverage, and all our clients are heard at regular instances:

1. One-to-one meetings and calls with our clients (at least annually, or more frequently if the client demands it, and whenever a client requests it). These meetings are followed by a meeting report which is shared onto our internal reporting system, so that we can assess feedback on our performance and communication material. We act on this feedback to provide our clients with the information they need.
2. Events, both physical and digital, for our clients (several events a year). These are useful opportunities for communicating our thinking, receiving feedback, so we can shape and improve our offering.
3. Regular surveys (such as our annual ESG survey) for collecting clients' views about various aspects of sustainability. We discuss the findings with our clients aiming to share information and shaping more effective marketing contents and tools.

As a result of this process, we regularly adjust our communication style and content to reflect clients' feedback. One such dialogue in 2023 was with a top 10 global wealth manager, asking us to adapt our presentation material to better support their commercial needs. This project focussed on the "why the asset class in question, why now and why Nordea?" The results were presented to their advisory channels as part of a campaign to encourage clients to move out of cash deposits and into bond funds. By listening to their needs, offering our support, and aligning ourselves to their content needs and communication style, we built a closer relationship with the client and achieved results that might have otherwise been more muted. The success of this collaboration has initiated several similar projects with other distribution partners.

To assess our effectiveness in communicating to clients, we continued to run monthly Advisory calls throughout 2023, where we convene our country client service teams. During these calls, our country teams share their findings on clients' feedback in their region, and region and following each interaction with clients as described above. Client service and sales teams have thereby an opportunity to reflect on how client expectations and feedback are met by our existing methods of communication. Our client service and sales team can then adjust our offering accordingly with clients' expectations. Following analysis and assessment of both internal and independent client feedback our current assessment is that we are effective in our client communication. In addition, during 2023 we have extended the group to include the Marketing Advisory specialists to take full advantage of this forum and improve internal communication and provision of external marketing collateral because of these discussions.

This level of transparency and reporting is the result of years of clients' engagement. Our clients' positive feedback gives us reassurance that we are meeting their expectations, and as needs and regulations evolve, we will continue to upgrade and improve our practices. An example of this, taken from 2023, is a new initiative to appoint ESG ambassadors in each of the country sales teams. Employees have a key role to play in the journey of implementing ESG across the entire value chain, and it is therefore essential to continue investing in building RI expertise. Focusing both on employees meeting customers, leading to better quality advice, and increasing the positive impact that Nordea and our customers have, and developing the skills of the entire workforce.

Evaluating our effectiveness in client communication

To assess our effectiveness in communicating to clients, we have set up monthly Advisory calls where we convene our country client service teams. During these calls, our country teams share their findings on clients' feedback in their region and following each interaction with clients as described above. Client service and sales teams have thereby an opportunity to reflect on how client expectations and feedback are met by our existing methods of communication. Our client service and sales team can then adjust our offering accordingly with clients' expectations. As outlined in the examples above Following analysis and assessment of both internal and independent client feedback our current assessment is that we are effective in our client communication.

Principle 7: Stewardship and ESG integration

ESG and stewardship integration

ESG and stewardship integration in the research process and portfolio management

Creating long-term value relies on finding sustainable investments. Our investment research is integrated with, and augmented by, a double-materiality review of governance, environmental footprint and social impacts, risks, and opportunities.

As a general consideration, our stewardship activities are centralised and our beliefs apply to all companies regardless of the individual instrument we hold, and products those bonds or shares are held in. One example is to require all our invested companies to gradually become Paris aligned and our stewardship activities follow this belief. There are nuances of how quickly we expect companies to align, depending on sectors and geographies (more below). Hard to decarbonise sectors will require more time to align to net zero than carbon-light sectors, and our stewardship activities take this into account.

We passionately believe that companies should follow the best available science and sectoral pathways to decarbonise their operations. We use and apply the IPCC reports, IEA Net Zero scenario, the SBTi sectoral pathways to inform and guide our stewardship activities, independently of whether we hold equity or bonds.

Top down & sector allocation

The initial part of our process is identification of financially material ESG issues – those which are likely to influence the financial performance of a country, sector, or company and the material impact of the products and/or services provided by the company. We weigh these issues flexibly, according to their materiality for the specific sector and geographical location. We use the SASB materiality map as a guideline, and we supplement with our own insight into the specificity of each company. Which issues we consider material, and the weight we assign to them, will vary on a sector-by-sector basis. A software company, for example, will be dependent on skilled labour and intellectual property (social), and be vulnerable to data privacy regulation such as the GDPR (business ethics). A bank on the other hand will have a higher indirect environmental risk depending on their financing activities within heavy emitting industries such as the fossil fuel industry. Exposure to systemic risks (direct and indirect) such as climate change or biodiversity varies from sector to sector, region to region and are thus identified for each company as part of our ESG analysis.

Bottom-up stock selection

A key part of our ESG research is based on collaboration with our investment team and interaction and engagement with issuers. The outcome and knowledge of these activities flows into our research. Reputational risk and exposure to controversy is also something we consider at the issuer, sector and country-specific level. An issuer's responsiveness to investors' concern, its culture from the top to the ranks, and the direction as the issuer is moving to are also parts of the final evaluation.

A key part of the analysis is to evaluate the business model and its alignment with the UN Sustainable Development Goals (SDGs and the EU Taxonomy), this is also known as double materiality. We consider how a company's business aligns with the SDGs or the EU taxonomy, whether the service or product the company offers contributes positively to society, how significant aligned activities are, as a proportion of revenue, how much Capex or/and Opex is directed into them, and whether they are a visible driver of growth. This is relevant both because the SDGs present large and durable business opportunities, and because SDG alignment – or the lack thereof – is an indicator of a company's material impact on the world around it.

This approach ensures that our research includes both sides of "double materiality." Our assessment of the business model is weighted at 30%, as a baseline, in our internal scoring process. In other words, both how a company manages it financial ESG risk (e.g. the products and services they provide) and how it manages its impact on the environment and the society

Ongoing monitoring

Our investment team systematically reviews all new and material information, both financial and non-financial, as part of our ongoing monitoring. This includes regular meetings and calls with the invested companies, as well as a systematic review of any recent changes at a macro, market, or sector level.

In 2023 we have further developed our proprietary ESG platform, Our ESG platform automates parts of this ESG analysis, allowing significant scale with its systematic coverage of thousands of issuers across multiple regions and asset classes. The ESG risk score is based on the SASB materiality map, which provides the material ESG issues per sector. These maps are populated with data points from several providers and calibrated by our ESG views and RI policy. We continuously work to improve our platform, and to align the produced scores with the scores our analysts produce.

A fundamental part of corporate governance is a dialogue between NAM and the companies invested in. This is done on a multitude of levels. The Portfolio Managers' and analysts engage on a regular basis with a sub-set of the issuers in the portfolio on financial matters. The Responsible Investment team interact with issuers on ESG related aspects, the Corporate Governance team on governance related issues. Our three teams conduct company meetings and company analysis, focusing on different issues, but always sharing their findings and ensuring that the Portfolio Managers have all relevant information at hand when making investment or disinvestment decisions.

For example, Portfolio Managers may monitor investment exposure in their investee companies through meetings with their companies' investor relations teams and/or the management. At the same time, they rely on the ESG, and governance research produced and shared by our Responsible Investments and Corporate Governance teams and made available through our systems.

Due to the scale and diversity of NAM's investment strategies, investment teams may employ distinctive styles and strategies when communicating and engaging with investee companies. For example, it might be deemed necessary to escalate a corporate governance issue to the highest levels of a company's management team. If this does not yield any result, a vote against the management on the specific issue at the annual general meeting ("AGM") might be warranted. We always strive to explain the rationale behind our votes against, either at the AGM or before, to companies and clients alike. When useful, we cooperate with other investors to increase pressure.

All our voting activities are shared publicly through our ISS voting portal. We are also tracking and sharing information of all our engagement activities with the investment teams.

Exit strategy

Through our ESG platform we can quickly identify ESG changes which can lead to a change in the investment thesis. The same can happen after a re-rating, a material change in the company business, or a company meeting which highlighted issues leading to a change to the investment thesis. This will prompt our team to exit the trade in a way that minimises the impact on the rest of the portfolio.

Geographical considerations

A key part of our process is identification of financially material ESG issues – those which are likely to influence the financial performance of the company or a country. We weigh these issues flexibly, according to their materiality, local rules and laws for the specific sector and geographical location.

Certain countries are more advanced from a sustainability point of view (e.g. Europe), whilst others are less developed (e.g. emerging markets). As such, our expectations on ESG advancement are higher for companies in Developed markets compared to Emerging markets. This view is also reflected in our expectations to companies, and a view that is factored into our climate-related performance and transition plans. As an example, as part of our commitment to take PAI into consideration, we identity outliers on GHG emissions intensity, segmented by sector and geography. Additionally, when assessing sufficiency of company targets against Paris aligned pathways, we use pathways by International Energy Agency (IEA) and One Earth Climate Model (OECM) (among others). These agencies also acknowledge that EM countries will decarbonise at a lower rate and transition plans should not jeopardise energy security.

Our investment teams form their investment decisions taking the regional differences into account, just like our Responsible Investment and Corporate Governance teams adapt their stewardship activities to the individual regions, countries, and concerns to ensure they are appropriate for the individual companies’ stage of development. As an example, dialogues about climate change with state-owned companies in some Asian markets is easier than human rights. Filing shareholder resolution is more common practice at US companies than in other geographies. Our participation in market and industry associations ensures that we inform, and are informed by, what other investors and market participants do.

ESG and stewardship integration across different asset classes and strategies

ESG issues are an increasingly important source of risk and opportunity, and therefore we integrate ESG considerations into all our investment solutions with firm-level elements applicable to all our holdings. The strength of our approach is that our fund managers are involved throughout the ESG research process and can incorporate ESG information directly into their investment decisions. Both research and integration methods vary between asset classes and strategies

Stewardship and ESG principles across all NAM's assets

ESG considerations apply across all our holdings, regardless of the investment mandate, include voting and engagement, our company wide ESG limits and exclusion list, individual company ESG analysis, and the provision of ESG data and research to all portfolio managers. This is all consolidated into our ESG data platform. Every NAM investment boutique has access to NAM's proprietary ESG Tool and ESG analysis from the RI team, as well as ESG data from external data providers – all via our proprietary ESG data platform, which covers more than 23,000 companies (making up to over 123,000 securities), aggregates information from multiple sources and supports both our investment and ESG analysts.

On a yearly basis, or more often, if necessary, we communicate to our ESG data providers our needs in terms of data and format, so that it can be integrated into our platform. On an ongoing basis, we assess the quality of the data and services from our data providers.

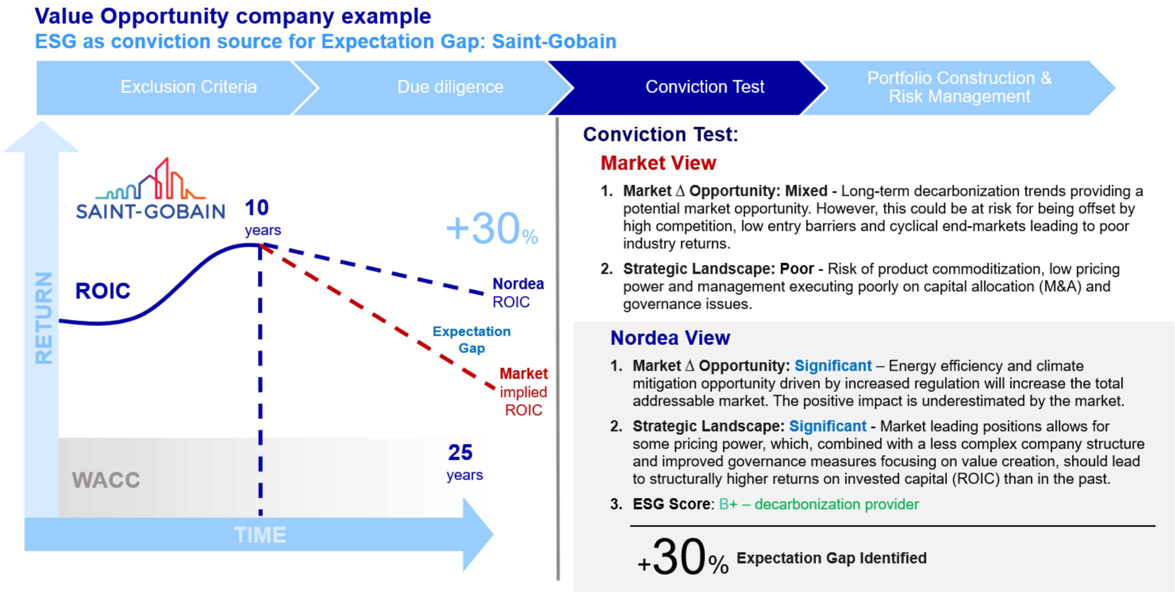
Regarding voting, for our equity holdings, and differently from engagement, which is entirely conducted by our internal teams, ISS provides our Corporate Governance team with proxy voting support services and voting recommendations based on our Corporate Governance Principles. We perform regular due diligence to ensure operational integrity, quality of research and implementation of the Nordea custom voting policy. During 2024 we will add an additional service provider, Glass Lewis, related to proxy voting research/recommendations. We communicate our voting principles to ISS once a year: our preferences are broken down by sub-category (e.g. under the category environmental, we express our criteria for climate and individual climate issues, like coal). More details on how we communicate and assess the service we receive from our service providers can be found under Principle 8.

ESG risk exposure is included in our regular portfolio performance reviews, alongside financial data. At the same time, sustainability risks are taken into consideration in all investment decisions. Going a step further in ESG integration we have developed the ESG STARS concept, which implements enhanced ESG integration.

ESG integration in listed equity

Within our equity ESG research, portfolio managers (PMs) work closely with the RI team as we perform our ESG analysis and engagement dialogues. The resulting ESG scores that we assign to companies define the investment universe. ESG STARS products, for example, cannot invest in C-scored companies. Depending on the investment approach, the ESG score can affect both the discount rate a PM uses when valuing future cash flows, and how long the PM expects the company to generate above-average returns. Thus, the ESG score affects how we value both the risks and the opportunities a company is facing.

An illustrative example of ESG integration in listed equities:
In our view, Saint-Gobain should benefit structurally from their market leading position within energy efficiency and climate change mitigation product offerings (E) as well as from their strategic decisions on capital allocation, company structure and management incentives (G). The market is currently underestimating the company's transition that will lead to improved returns, which translates into our fade rate being higher than the market implied.



Source: Nordea Investment Management AB. For illustrative purposes only. Reference to companies or other investments mentioned should not be construed as a recommendation to the investor to buy or sell the same but is included for the purpose of illustration. There can be no warranty that an investment objective, targeted returns and results of an investment structure is achieved. The value of your investment can go up and down, and you could lose some or all of your invested money.

ESG integration in listed issuers' corporate bonds

In 2023, we have continued to enhance our approach to issuers where we hold a fixed income position, extending our coverage and expectations for credible transition plans to smaller issuers as well.

Engagements with companies where we hold a fixed income instrument is based on the same processes and with the same targets as for equity. Where the escalation tools for equity are filing resolutions, voting and share ownership, the escalation tool for fixed income is future participation in the ongoing financing of the company. The number of companies willing to engage on these issues is generally lower for smaller and private companies than for larger listed companies, but in recent years we have found that smaller companies were increasingly prone to listen as they receive fewer investor requests for dialogue, and their financing needs have escalated. An example is Verd Boligkreditt,, NAM portfolio managers met with Verd Boligkreditt to discuss improving their climate reporting. While Verd reported some data using the Harmonized Transparency Template, they did not disclose important metrics like average energy consumption or emissions.

NAM stressed the value of these disclosures for investors assessing transition risks. In their nascent sustainability strategy, Verd had committed to reducing portfolio emissions but not set strong coordination or targets.

During a follow up with the PM, we found that Verd had begun calculating and publishing average energy use per square meter across their property portfolio. This new reporting level allows for better monitoring of Verd's energy profile and progress towards net zero.
Every additional disclosure of environmental impacts helps create a more complete picture of climate risks and opportunities as the real estate sector transitions. This engagement successfully encouraged Verd Boligkreditt to strengthen reporting, an encouraging step for more transparent and sustainable investing.

The tools, particularly at the time of escalation (more in Principle 11), are different but ultimately, we want to see all corporates we have an investment with implement and deliver on a credible transition plan.

For sovereign debt, we have built an ESG assessment methodology based on country risks. The methodology provides a detailed assessment of ESG factors relevant to, among others, economic development, corruption, human rights, vulnerability to climate change based on various indices. We apply a manual overlay on top of sovereign ESG data/indices, this enables us to incorporate ESG factors in a forward-looking manner. For example, despite Nigeria is performing poorly across several ESG indicators, we have invested in Nigeria's sovereign bonds as it is our conviction that the newly elected president, represented an opportunity for Nigeria to reposition itself and improve democratic governance, increase their sustainability security, including the elimination of a climate-negative fuel subsidy that has been in place for decades.

Since 2022 NAM has been engaging with issuers of covered bonds. The engagement programme has the purpose of incentivise issuers of covered bonds to disclose environmental metrics such as energy performance (EPC), energy use in KwH/m^2 and greenhouse gas emissions in tCo_2e/m^2. While the engagement programme was initiated in 2022, it was expanded in 2023 to a total of 37 issuers engaged by the end of 2023. So far, one of the engaged issuers have increased ESG disclosures during the period. While this is a low number, NAM recognise that the state of data that the issuers have available is often not sufficient for reporting purposes. NAM will continue the engagements, so issuers understand that there is a need for the data and ESG integration in covered bonds. NAM uses the information from the issuers to measure the level of sustainability of the funds containing covered bonds. Also, NAM utilizes the environmental impact data in connection with ESG assessments of the issuers for security selection.

ESG integration in Private Equity and Private Credit

In this asset class we manage funds of funds. Our funds invest in private equity or private credit funds, which in turn invest in the equity or bonds of private companies. All investments are illiquid and primarily entered on a forward-looking basis. Consequently, ESG is integrated into the strategy prior to investing, through a combination of ESG-due diligence of the fund managers and exclusion of companies based on their exposure to activities that have been deselected based on current ESG standards covered by or NAM's responsible investment policies. As NAM does not have direct contact with the investee companies, engagement is done via the pre-contractual due diligence with the funds. Ongoing due diligence is conducted by the investment management team as part of the investment process. Due to the nature of the investments type, ESG integration is core during the initial ESG due diligence.

For ESG integration in Private Loans

In Private loans NAM invests directly, and thus carries out a complete ESG assessments on each investment. Sustainability risks are included in the investment decision process as part of the overall risk assessment and are considered together with traditional investment risks (for example market, credit, or liquidity risk). Additional expertise in the sustainability risk domain may be provided by analysts within NAMs Responsible Investment team, which is responsible for supporting NAMs analysts and portfolio managers responsible for the investment decision process. Pre-investment due diligence engagements may be part of evaluating potential investments. This type of fixed-term loan asset class is well-suited for engagements before investing takes place, but not after, as the loans cannot be cancelled by the bank unless the borrower breaks the terms of the agreement. While post-investment engagement is not appropriate, pre-investment engagement is very suitable for this asset class. This is because the investment manager has direct access to management during the term negotiation phase. They may also have relevant experience to share regarding the companies' environmental, social and governance improvement journeys.

ESG integration in Multi-Asset Funds

Finally, stewardship for our multi-asset products is done at an underlying invested company level, regardless of whether the investment is in shares or bonds. Our Responsible Investments and Corporate Governance Teams' stewardship work is done at a company level and does not depend on the fund or investment product.

Time horizon considerations

Our RI beliefs and policies apply to issuers regardless of the instrument we hold (equity or fixed income). Our multi-asset funds have an average time horizon of three years, whilst our alpha funds have three years+. Our clients' expectations are aligned with these time horizons. Our engagements are long term, with pre-set timebound deliverables determined on an annual basis.

ESG tools and systems

In 2023 we continued to develop our proprietary ESG data platform, which is the main tool that we use to maintain and develop analytical tools and solutions based on ESG Data and ensure that ESG Data is promptly and systematically integrated into the investment process. The platform is available to all our portfolio managers through a web-user interface as well as through systemic integration of data feeds to their relevant systems and NAM's portfolio management software tools. The ESG data platform is maintained by our ESG Quant team which works in an agile setup with data and software engineers on, amongst other things, the following modules:

- Applying ESG data to meet ESG regulatory requirements
- Develop and maintain ESG modules related to various ESG subjects, such as but not limited to, ESG Risk, Climate and Engagements
- Develop and maintain ESG analytical tools that allow for exploration and use of ESG data for research and analysis
- ESG risk score tool

Searching and selecting the most qualified external data suppliers that meet our search criteria. To that effect, all our Service Providers are selected to provide a specific service as detailed in Principle 2 and monitored for quality and effectiveness as detailed in Principle 8.

One of the modules maintained on the ESG Data Platform is the NAM ESG risk score tool, which produces a risk score with the goal of automating and assisting with an analyst's ESG analysis process and creation of an ESG profile for a selected issuer. Both the Quant ESG score and the Analyst ESG score are the result of an assessment of what the material ESG risks and opportunities of an issuer are, how they are monitored, mitigated, and reported, and considers the issuer's SDG alignment. The ESG Risk Scores consist of a letter on a scale from A (best) to C (worst) with steps including plus '+', neutral '/' and minus '-' that split the distribution into comparable tranches. As an example, the lowest ESG Score for a company/issuer is C- (C minus) and the highest is A+ (A plus). The RI team supports in-house investment boutiques with validating and, where necessary, expanding upon the initial ESG assessment done by the in-house investment teams. It also sets and finalises the Analyst ESG score, ESG scores, and the resulting rating are the main ESG factor inputted in our quantitative and multi-strategy funds that have a more trading orientated approach.

Changes in the ESG Risk Score trigger a deep dive into the issue responsible for the change, increased monitoring, and revaluation of the investment.

A secondary tool we have onboarded during 2023 is an engagement platform, Esgaia, to track and document our engagements (as described under Principle 2). The aim with the new provider is to increase efficiency, transparency, and our reporting capabilities to fulfil our clients' needs.

In addition to the tools described above, we have continued to develop regulatory tools, the Principal Adverse Impact (PAI) Engine and the Sustainable Investment (SI) Engine, respectively. The tools allow us to view the performance of a selected issuer (as well as portfolios and benchmarks of course), across regulatory requirements related to the PAI indicators and SI requirements (steps related to Good Governance, Do No Significant Harm and Environmental or Social contribution).

Investment exclusions

While our experience proves that active ownership can often be an effective tool to improve ESG performance, manage risk and identify opportunities, some types of economic activity or corporate behaviour are not compatible with our vision of returns with responsibility. Such companies are excluded as a matter of firm-wide policy. In addition, specific strategies have further screening criteria, corresponding to their level of ESG focus.

NAM excludes companies involved in serious breaches of international norms where engagement is deemed not to be possible or effective. For example, we ban investment in companies active in the production of controversial weapons, including – but not limited to – cluster munitions, anti-personnel mines as well as nuclear weapons.

In addition to this, we engage with our clients on an ongoing basis to understand their preferences for possible tightening of our policy exclusions on environmental and social issues.

Following our internal review of our priorities, beliefs, and client feedback, in 2023 we decided not to implement any new or tightened thresholds in our Responsible investment policy.

We review our exclusion list at least on a yearly basis to ensure that with the evolving science, our investment beliefs, stewardship practices and values, it is always appropriate. We are confident that our current stance is appropriate and aligned.

Our exclusion list is publicly available here.

In addition to the firm-wide exclusion list, a substantial and growing part of NAM's strategies is also subject to additional exclusions that are implemented on a fund level, such as our Paris-Aligned Fossil Fuel (PAFF) Policy which applies to 230 funds. The PAFF policy excludes companies involved in fossil fuel production, distribution, or services if they do not have a recognized strategy to achieve an emissions path that is consistent with the Paris Agreement's goal [8]. More details on our PAFF Policy can be found here.

2023 Examples of exclusion decisions

In 2023, the RI Committee decided on the exclusion of 3 companies from all NAM portfolios (from 11 in 2022 and 6 in 2021) because of involvement in controversial weapons. Another 20 companies were also excluded for violating NAM's environmental policies and 23 companies were excluded for violating international norms. Furthermore, in 2022, NAM added all issuers from Russia and Belarus to the exclusion list, because of the invasion of Ukraine. The policy remains in place.

[8] This analysis builds on data from the Transition Pathway Initiative (TPI), among other sources. Information on the TPI can be found here.

Principle 8: Monitoring managers and service providers

RI data and service providers

We use various service providers to inform, assist and integrate our stewardship effort. We source data and research from market-leading providers globally. We recognise that each of the leading providers has its own methodology and inbuilt biases, but by taking inputs from a range of sources and applying our own proprietary analysis and approach we believe that we can gain a fuller understanding of companies we invest in. Comparing the data, we receive is crucial for us to assess the quality of the underlying information that we deploy in our strategies.

ISS was selected to provide proxy voting services after a thorough benchmarking and RFP process that included the major providers of proxy voting services. They were reconfirmed in 2023 after our annual review and after they acquired Nordic Investor Services, they provide customised voting recommendations based on our corporate governance principles. We have also decided to add Glass Lewis as a research provider. We make all voting decisions, whereas the external advisor only provide input and second opinion when prompted.

MSCI ESG, ISS ESG, CDP, Impact-cubed, Verisk Maplecroft, RepRisk, Clarity AI, Upright Project, and TrueValue Labs are our data providers for ESG data, and they were selected according to the same process.

Service providers monitoring

Proxy advisors

We use ISS as proxy voting advisers to provide research and deliver our proxy votes. The actual voting decisions are also influenced by the engagements with companies, and the views of internal investment experts, such as the RI team and PM. Our corporate governance team retain full control of their voting decisions and may not always follow the recommendations the advisor issues. On a day-to-day basis, voting is delivered on the ISS voting platform by the corporate governance team with support from the RI and investment teams, who analyse resolutions and carry out ongoing dialogue with companies pre- and post-AGM with the aim of better understanding their strategy and pushing for continuous improvement in practices.

We perform annual due diligence of our proxy advisors to monitor how they perform and evaluate the quality of their service to ensure operational integrity, quality of research and implementation of the NAM custom voting policy based on our corporate governance principles. We have identified climate research as an area that the proxy advisors should strengthen.

Our Corporate Governance Team performs weekly due diligence to ensure that they provide us with the contracted service, primarily proxy voting reports for our holdings, to ensure that we vote as close as possible to 100% of our assets. We have constant monitoring of our positions and systems built to ensure we can vote at General Meetings, using both our own and custodial data and the ISS voting platform. Reports to highlight upcoming AGM are received from the ISS platform and upcoming shareholder resolutions are monitored through the CA100+/PRI/ShareAction/Ceres platforms.

We participated in ISS client survey and roundtable also in 2023 to share our views on topics such as unequal voting rights, climate, and performance criteria in remuneration policy.

Other service providers

All our service providers go through the same regular monitoring and due diligence. We seek to identify any significant discrepancies in terms of the outputs from different ESG or climate-related data providers, and (in addition to our standard ESG analysis) conduct a deeper analysis ourselves. For ESG rating providers, we analyse how they produce their ratings, understand the differences, and monitor any evolution in their methodologies. See also below and Principle 3.

Service providers assurance process

We have incorporated automated testing as part the data sourcing process, both where we are sourcing data from data feeds, as well as APIs. These tests include aspects such as mapping issued securities to the correct company, making sure the type of data received is correct, making sure that provided data is within a specific range, making sure that dates are within the correct range and data type, no duplicates are received and more.

For the ESG solutions we create in-house we use *unit tests* which verify that the output of the functions we create behave as they are intended. This is done to ensure that the data from providers align with their methodology. We also produce data confidence indicators which signal if the data received from the providers is stale, imputed/estimated or if it deviates from other data sources. We also use a strict 4-eye review process on any code changes related to data received from our providers.

For data: tests run automatically when we receive updated data from the providers. This is different for each provider, majority of them are on a daily or weekly basis but a few are updated monthly.

For methodology and service: Overall service is assessed on an ongoing basis. We formally review the parameters used for our ESG solutions (the parameters are based on data from providers) on a yearly basis. Intra-year, we are in continuous contact with our providers: with some of them we pose methodology questions and raise data challenges on a weekly to a monthly basis, and with all of them we carry out quarterly checkpoints.

We have a dialogue with our service providers and provide feedback when we identify issues in the data for example by speaking to the company about specific data. We then expect that service provider to review our input and let us know what their views are.

Thanks to this continuous dialogue and feedback mechanism, we are satisfied that our service providers meet our needs and provide us with the service we have contracted them for. The area of improvement is climate and biodiversity research, which we continue to engage our proxy advisors on. We have had dialogues with several providers related to their biodiversity data and research solutions to ensure continued development and expansion of metrics. We engage with our main providers of climate-related data at least once per quarter, and typically more often than that, where we give extensive input, feedback and suggestions on both planned and implemented updates to their datasets. In the last year, these discussions have focused primarily on topics related to portfolio carbon footprint attribution analysis, corporate climate alignment assessment methodologies and climate scenario analysis. This has led to some concrete improvements, specifically related to the analysis of realised and expected emission reductions on issuer-level. As part of these engagements, we have also been invited by one of our data providers to speak at multiple events to share our view of best practices and the evolution of climate data.

Principle 9: Engagement

Engagement

Being an active owner is central to us achieving our mission of superior long-term risk-adjusted returns because it allows us to work with companies to address ESG risks and opportunities and help them make progress. This is true across our entire investment universe, as our active ownership activities span across all our products, whether they are dedicated ESG or not. This belief guides our engagement approach.

We believe that active ownership is a powerful way to protect shareholder value, enhance long-term returns and foster positive change. This is what our clients expect, and our RI approach is one of the key reasons why they invest with us. 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 rights to support and influence the company.

While we are fully prepared to exclude or exit companies when we deem it necessary, our experience proves that active ownership can often be an effective tool to improve ESG performance, manage risk and identify opportunities. Our active ownership takes place in two streams – engagement and voting – both are equally important and reinforce one another.

Our engagement approach

We believe that improved management of sustainability risks and opportunities is vital to creating returns with responsibility, and that engagement can result in competitive advantage, increasing the likelihood of companies being successful in the long run – benefitting companies, clients, and society at large. Engaging with our investee companies enables us to address material sustainability risks and opportunities and the adverse impacts their operations.

Our engagement activities combine the perspectives of portfolio managers, financial analysts and ESG specialists to form a holistic opinion and establish coherent engagement objectives. Portfolio managers actively participate in engagement activities together with our ESG analysts. Engagements often run over several years and are carried out either by NAM alone or in collaboration with other institutional investors. Collaboration with other investors is done either under the umbrella of one of the several investor collaboration initiatives described under Principle 4, or bi-laterally (more under Principle 10).

During the engagement period, we conduct regular email exchanges, calls and meetings with the company and track progress against predefined engagement objectives and milestones Engagement may entail a dialogue with the companies' executive bodies and non-executive directors such as the Chair, the Lead Independent Director, and the Chairs of the Sustainability/Remuneration/Nomination committees. Annual General Meetings are a particularly important occasion to express our confidence, or lack of, on individual corporate issues. We use our voting also in cooperation with other investors (joint voting, where this is not in contravention with local laws. The dialogue allows us to put forward our expectations on corporates and to support them in enhancing their sustainability performance. Progress reports and outcomes of the engagement are communicated to portfolio managers and financial analysts, allowing the information to be considered in investment decisions. In cases where an engagement relates to critical issues for the specific investment case or the general investability of a company, failure to meet expectations will entail escalation of the issue through other stewardship activities, such as voting against the Board or Board motions, and the consideration of quarantine or divestment.

NAM's engagement activities are carried out on behalf of all our funds, and follow this process:

Figure 16: Engagement process. Data as of 31.12.2023.

The overarching objective of our engagement is to help achieve our purpose of delivering the best possible annualised returns for given levels of risk, given our overarching sustainability beliefs. Environmental, social and governance factors can become material financial risks and exert a negative effect on company valuations, as well as potentially affecting a company's license to operate. Our clients want to know that by investing with us, they will contribute to the advancement of a sustainable environmental and social agenda, as well as make good risk-adjusted returns. Engagement is a valuable tool to manage these risks and achieve our purpose.

This agenda is equally important to our employees, and the achievement of our mission to accelerate progress towards a diverse, inclusive, and equitable culture within NAM and Nordea at large. Our sustainability commitments and activities have become, over the years, a key factor on which we can attract and retain our valuable employees.

How we select and prioritise companies for engagement

NAM is invested in thousands of issuers globally. We cannot materially engage with all issuers, nor would it be desirable. We have therefore designed rules that determine which companies we will engage with, and with what priority and intensity, so that we maximise the impact of our stewardship activities.

Based on the overarching objectives above, and the priorities and expectations of our four sets of stakeholders (our clients, employees and communities, investment teams, and stewardship team), we have defined the most important drivers:

- ✓ Our commitment to the net zero transition, biodiversity, and a just society;
- ✓ Our business model and objective to maximise returns for any set level of risk;
- ✓ Our values.

This allowed us to identify three categories of engagements, on which basis we select and prioritise the companies to engage with:

1. **Investment-led engagement:** This relates to material ESG-related risks or opportunities identified by portfolio managers and financial analysts via our company assessments. This typically involves the largest holdings in our funds.
2. **Incident- and norms-based engagement (including Principal Adverse Impact):** Addresses companies that are in breach of international norms or conventions or those involved in ESG-related incidents, regardless of holding size. Significant deviation (outliers) from the relevant peer universe on PAI (Principal Adverse Impact) metrics may also trigger engagement.
3. **Thematic engagement:** This type of engagement is initiated for investee companies with the most material exposure to one or several of our four focus areas:
    - Biodiversity
    - Climate
    - Good governance (including policy and regulatory engagement)
    - Human rights

Each theme is closely aligned with the SDGs and relevant ESG risks and has been selected and defined through close collaboration between ESG specialists, portfolio managers, financial analysts, and clients. All our engagements are tracked in Esgaia, our engagement portal, and reviewed by the RI team to monitor progress. Esgaia is accessible to all investment teams in NAM.

Investment-led engagement

Investment-led engagements are identified by Portfolio Managers (PMs), financial analysts and/or the RI team, and are carried out in close collaboration across teams. Investment-led engagements are often proactive of nature and are carried out when material ESG risks are identified that may not be adequately managed, or when opportunities are not deemed to be fully capitalized on. Together, the PMs and the RI team establish the engagement objectives as well as the milestones towards fulfilling the objectives and engages and monitor how the company develops towards fulfilling the stated goals. The engagement goals vary, depending on the investment process and level of ESG integration of an individual investment product. For an example of an investment led case study, please see: Investment-led: Varun Beverages.

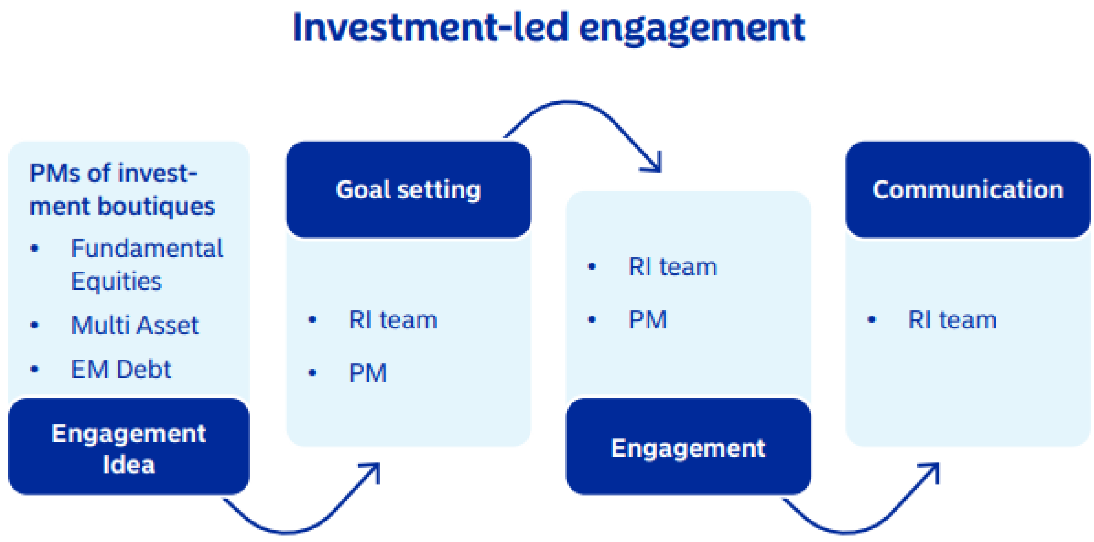


Figure 17: Investment-led engagement process. Data as of 31.12.2023.

The short- or intermediate-term engagement goal may differ between different investment boutiques, although the ultimate purpose of engaging is always to see companies materially improve on their environmental and social sustainability profile. The long-term climate engagement goals are identical, we want all companies to transition to Net Zero 2050, as consistent with our overarching commitment to transition our investments to Net Zero 2050.

For example, in *fundamental equity* products the short- or intermediate-term engagement focus may be on ESG topics that could impact the company's financial performance or valuation metrics. Our *multi-strategy and quant*-based investment products, on the other hand, can target ESG topics where a holding is underperforming and aim to improve the company's ESG score to retain it in the investable universe.

In *fixed income*, investment-led engagements may target issuers that are currently un-investable for a strategy due to their insufficient ESG performance and aim to improve it to be able to include them. Other cases are engagement to target issuers seeking to refinance their bond issue, whether with an ordinary or labelled bond issuance, to secure material ESG commitments.

Finally, our *thematic products* will naturally primarily focus their engagements to addressing topics and performance connected with the theme of the product. These engagements tend to be proactive of nature and focus on seizing thematic opportunities and/or managing risks related to, for instance but not limited to, the energy transition.

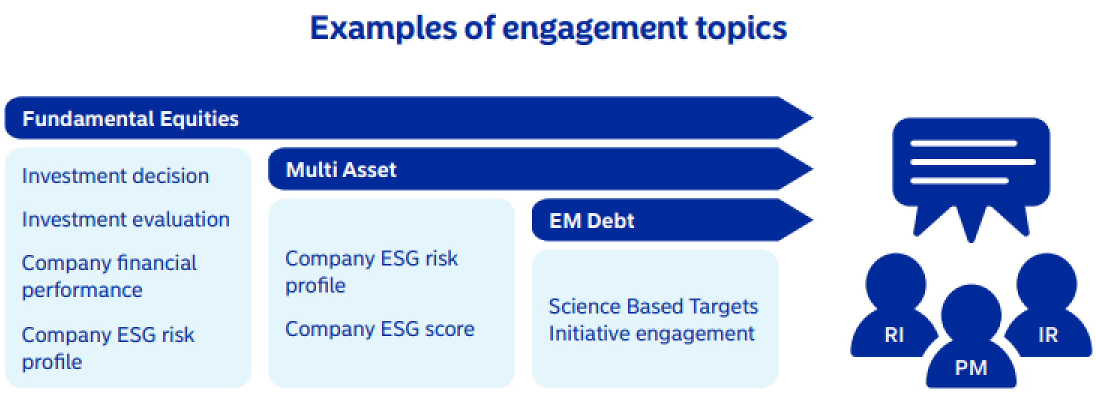


Figure 18: Investment-led engagement topics. Data as of 31.12.2023.

Incident and norms-based engagement (including PAI)

Our incident and norms-based engagements address companies suspected of breaches of international norms or conventions or those involved in ESG-related incidents. Engagements with these companies are initiated based upon decision from the RIC. Outliers in terms of Principal Adverse Impact (PAI) metrics may also be engaged. NAM's RI team maintains NAM's PAI monitoring system and identifies cases for analysis and potential action at an entity level. Once these have been analysed by the RI team, they are – where relevant – referred to the RIC. The RIC then decides on the concrete actions to be taken based on how critical the incident, affected norm or PAI scores are.

The objective of engaging a company in breach of international norms or conventions or those involved in ESG-related incidents or outliers in terms of PAI is to ensure that the company is taking sufficient measures to address the issues and to strengthen relevant policies and practices and reduce the risk of future norms breaches or incidents.

The RI team presents the RIC with an overview of the companies in breach with international norms or conventions, and PAI on a quarterly basis and provides a recommendation of the preferred action at the end of the pre-defined engagement period. Actions include closing the engagement due to sufficient evidence that the company has addressed the norms-breach or incident, or escalating through voting, collaborative engagement, or divestment, if the company has failed to display adequate measures to address the issue and to strengthen relevant policies and practices. Incident- and norms-based engagements are inherently backward-looking, in that it is triggered only after the event.

Engagements that are based on outliers on specific PAI metrics can, depending on the specific data point and metric, be both backward-looking as well as forward-looking and already have the status of an incident or norms breach. Where feasible, we aim to engage in a forward-looking way, with the aim to pre-empt the identified issues from reaching the level of an incident or norms breach at a later stage. For examples of Incidents/Norms and PAI, please see the following case studies: Incident/Norms: Oil & Natural Gas, PAI: Norfolk Southern Corp.

Thematic engagement

NAM's thematic engagements will typically concern one or more of the core focus areas of interest identified in NAM's ESG strategy and ESG funds:

- Biodiversity
- Good governance (including policy and regulatory engagement)
- Climate
- Human Rights

These thematic focus areas are related to major systemic and sustainability risks and opportunities, covering the double materiality perspective, which means that we can engage both on financially material ESG topics as well as topics that have material impact on the climate, nature, and society at large. By engaging on our focus themes, we contribute to the UN Sustainable Development Goals.

Thematic engagements are selected and defined through close collaboration between our ESG specialists, portfolio managers, financial analysts, and clients, based on material exposure. In 2023, we engaged across all our thematic focus areas. Each theme has theme-specific rules on how to determine which companies to engage with. Under Climate for example, we use the list of the Top 200 companies contributing to our financed emissions, see engagement example in the next section). Under Social and Human rights, we use for example our norms screening, controversy alerts, and Corporate Human Rights Benchmark (CHRB) assessments identifying human rights due diligence laggards.

Typically, our thematic engagements run for several years, and when the engagement is not successful, we use escalation tools such as voting against the Board and filing shareholder resolutions. Thematic engagements can be done individually, where we combine the perspectives of our portfolio managers, financial analysts and ESG specialists to form a holistic opinion and establish coherent engagement objectives and milestones, or in collaboration with other asset managers and asset owners. Collaborative engagements take place within the framework of investor initiatives such as Climate Action 100+, IIGCC, CEC, Nature Action 100, PRI, CDP, ISSB, the Investor Alliance for Human Rights, Investors initiative on Hazardous chemicals or through ad hoc initiatives. Typically, on topics such as climate and biodiversity, collaborating with other investors members of Climate Action 100+, Nature Action 100 and IIGCC proves to be remarkably effective, as we tend to have a common agenda and framework. In some cases, we are the initiator and lead of such initiatives. For all our engagements, we typically choose a mix of collaborative and individual engagement to ensure that we cover the most relevant companies to engage, and we maximise the effect of the engagement.

During the engagement period, we conduct regular meetings with companies and track progress against our pre-defined engagement objectives, milestones, and timeline. This process is the same for investee companies in both equity and fixed income funds. Progress reports and outcomes of the engagement are communicated to clients, portfolio managers and financial analysts, allowing the information to be considered in all investment decisions. Should the engagement process fail, we will further escalate the issue through other stewardship activities such as co filing or voting for our equity holdings. Escalation related to fixed income holdings could include but not limited to quarantine, no reinvestments in new issuance of bonds, and as a last resort exclusion. As an example, please read our case study related to Climate (Equity) engagement on Diamondback Energy (OGMP 2.0) further down. Biodiversity Fixed income PFAS engagement (FI) example: Avinor.

Engagement overview in 2023

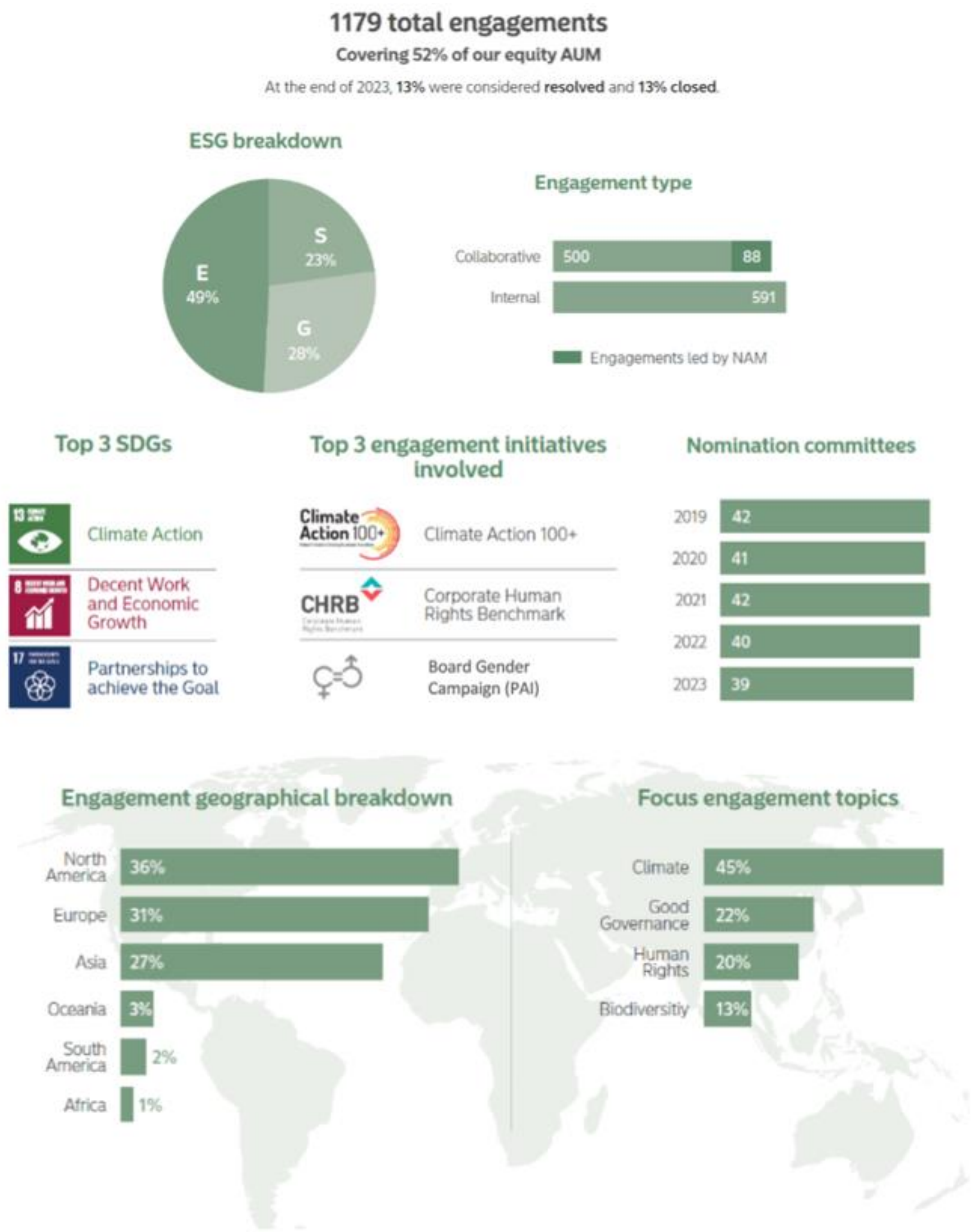


Figure 19: Source: Nordea Investment Management AB. Data as of: 29.12.2023. United Nations Sustainable Development Goals, https://sdgs.un.org/goals

2023 Biodiversity Fixed income PFAS engagement (FI) example: Avinor

NAM Engagement on PFAS:
During 2023, we increased our research efforts, focus and engagement activity on the topic of PFAS (per- and polyfluoroalkyl substances). PFAS, sometimes also referred to as 'forever chemicals' are a group of man-made chemicals which are characterized, amongst others, by their persistency in the environment and have been used in various industries for decades.

Given their persistency and the adverse health effects of some compounds within the PFAS family, regulatory pressure, especially in the United States and the European Union have been increasing. Furthermore, during the year, litigation on the subject, mainly in the US, increased, resulting in many costly settlements.

Considering these developments, we have assessed various investee companies' exposure to PFAS and initiated multiple engagements with companies along the PFAS value chain. We will continue this work in 2024.

Background:
Avinor is a wholly owned state limited company under the Norwegian Ministry of Transport and Communications and is responsible for operating 43 state-owned airports. All Avinor's airports have one or more locations that are contaminated with PFAS due to previous use of firefighting foam. Avinor has, following an order from the Norwegian Environment Agency, initiated extensive clean-up work to prevent PFAS compounds from spreading in nature.

Since 2001, Avinor has used Perfluoroktylsulfonat (PFOS)-free firefighting foam and since 2012 has used firefighting foam completely without fluorine compounds. However, historical use has led to ground pollution at Avinor's airports. The pollution is primarily connected to active and disused fire training areas, as well as other areas that were previously used for training activities. These pollutants still contribute to some PFAS leaking into nature around the airports.

Engagement:
Nordea decided to engage with Avinor as the legacy pollution is likely the largest source of PFOS/PFAS pollution in Norway with significant potential environmental and health impacts. We are following up on the actions being taken to secure strong ESG governance and transparency. We are also working to understand downside risks and potential future liabilities - as of December 2022, an accounting provision of NOK 1,007 million had been made for the clean-up work.

Nordea met with the company in 2023 for a deep dive into PFOS pollution and to share our ESG governance and disclosure expectations. We will continue the engagement in 2024 on strengthened ESG governance and increased transparency, for example by requesting that the company respond to the CDP Water Security report.

Outcome:
Avinor is following up on several orders from the Norwegian Environment Agency to map and develop action plans and implement clean-up measures at PFAS contaminated sites. Avinor has carried out significant supplementary investigations and surveys (of the earth, water, sediment, and biota) at ten priority airports, as well as Svalbard. Action plans for Haugesund, Svalbard, Kirkenes and Stavanger have been sent to the Norwegian Environment Agency, and work is being done on the remaining airports. The clean-up work appears to be progressing as planned and Nordea will continue dialogue with Avinor during 2024 on PFOS pollution, ESG governance and increased transparency.

2023 Climate engagement (Eq) example: China Hongqiao Group

Background:
China Hongqiao is one of the world's largest producers of primary aluminium. The sector generates around 2% of global human caused GHG emissions. Especially in emerging markets, aluminium smelters are heavily reliant on captive coal-fired plants to satisfy their electricity needs.1 Given the vast production volumes and electricity needs that China Hongqiao has, the company is one of the Top 200 contributors to our financed emissions. On this "Top 200" list, we track and analyse how our investments contribute to our overall financed emissions profile and subsequently with whom we pursue engagement should they not be on 'Paris-aligned' decarbonization pathway.2 As in 2022, China Hongqiao remained on our Top 200 list and thus we followed up on our engagement, focusing on climate and the progress made since 2022.

Engagement:
Last year we discussed the levers of China Hongqiao's decarbonization journey, which mainly hinges on a capacity shift to the Yunnan province, which boasts an abundant share of carbon-free, hydroelectric power. While they already have around 1/3rd of their total output located in the province, further relocations were pursued less actively due to lower rainfall during the season and the impact on the availability of hydroelectric power.

In addition to these broad operational changes which will significantly decrease emissions, we followed up on increased disclosures as well as reporting frameworks such as TCFD. Our key ask is the crafting of a transition plan, which quantitatively and qualitatively lays out the main levers of decarbonization, targets and CAPEX required.

Outcome:
While there were fewer positive developments than we hoped for on the reporting side, the company's representatives laid out that in the coming year they will align with TCFD and ISSB and also increase disclosures surrounding risks. In addition, the company laid out how their carbon intensity has decreased, showing the benefits of their capacity shift. We will continue to follow-up with the company going forward in relation to future climate targets, disclosures as well as the messaging and content of their overall transition strategy.

1. WEF (2020): Why addressing the aluminium industry's carbon footprint is key to climate action
2. Net Zero Asset Managers Initiative (2021): NAM - Initial Target Disclosure

2023 Good governance engagement example: Board Gender Diversity (Eq/Fi)

Background:
This is a follow on from our 2022 engagement example. We expect a board to include a strong presence of independent non-executive members and to be diverse in gender, experience, age, and other factors. A board should preferably have at least 40% of either gender. This is part of our corporate values, and we want to see our invested companies improve on this metric.

Engagement:
At the end of 2021, we initiated an engagement with 75 companies with zero females on their board. We initially targeted companies in developing markets, including China, but also a few European and Japanese companies scoring poorly on this topic. We advised the companies that if this ratio does not improve, we may vote against relevant directors at the next Annual General Meeting or when the election of directors is on the agenda.

In 2022 and 2023 we followed up with the companies that did not give us a satisfying response and where we could not identify any progress in terms of improved ratio of female board directors. We expressed our intentions to escalate this through voting, and during the 2023 voting season, we started to cast votes against relevant board members in those companies that did not show progress or response.

Outcome:
We are now, after a couple of years of engagement, seeing the results. At end of 2023, 56%of the companies we engaged with had appointed one or more female director in their board. For 27% of the companies, we saw no improvements, and thus will continue to vote against relevant board members during the upcoming voting season in those companies. Finally, 17% of the engagements were closed with no outcome due to divestment during the period.

2023 Water engagement investment led (Eq) example Varun Beverages

Background:
Varun Beverages is an Indian company which manufactures, bottles and distributes beverages. The company's operations are heavily reliant on freshwater, the main raw material used in its products. Thus, having the ability to draw groundwater from underneath its manufacturing plants and freshwater from surface sources is essential to its production process.

Given that India is one of the most climate vulnerable countries on earth, and with an increasing frequency and magnitude of droughts, for a company like Varun it is paramount to properly manage water as their key raw material. We expect that this will help Varun to remain a viable business long-term, safeguard their market share and ensure their social license to operate – thus keeping it an attractive investment opportunity.

In 2018, we initiated our engagement with Varun by conducting a field visit to one of their manufacturing sites to hold dialogues with the plant manager and employees. In addition, during our trip we met with the CEO and Chairman in a separate meeting.

In 2020, we followed up on our engagement to further discuss the topic of water management, highlighting that the company should increase the transparency of its water management activities and have these audited.

Finally, during 2023, we once again resumed our engagement with Varun to follow-up on their progress in related to water and to also introduce further sustainability-related topics into our long-standing dialogue with the company. such as climate targets and the reduction of their plastic footprint.

Engagement:
During our engagement with the company, we welcomed the revision of their water usage ratio (WUR) target following progress in their water recharge effort during the year. in addition, we encouraged the company to detail, and further strengthen, policies that are in place to secure water for operations in both the short- and long-term areas affected by high water stress.

Furthermore, we discussed securing the supply of recycled plastic in line and in advance of regulatory changes as well as the targets for recycled content the company has set to move in the same pace, or even ahead of, their customers and further secure licensing agreements.

Outcome:
Since we started this engagement in 2018, we have seen progress from the company evidenced by increased disclosures surrounding their water figures, the auditing thereof as well as a recharge ratio that has outpaced the rate of consumption.

Going forward, we will increasingly focus our conversation on other material sustainability factors for Varun, including corporate climate targets and their plastic footprint, while continuously monitoring their progress and ambition in water management.

Principle 10: Collaboration

As discussed in the previous section, NAM strongly believes that collaborative engagement is a crucial part of its engagement activities to achieve real world progress with the issuers of which we hold equity or bonds. Therefore, we invest a substantial amount of time in collaborating with other investors to magnify our impact.

In 2023, we participated in 588 collaborative engagements, leading 88 of those. This is just short of 10% fewer collaborative engagements than in 2022 (from 659 to 588). This change is mainly related to us closing our SASB disclosure engagement in its current format, more detailed information related to the engagement will be found on point 8 below "International Financial Reporting Standards (IFRS) Sustainability Alliance."

The collaborative engagements where we are the most active are the following:

1. NAM's proprietary methane collaboration engagement (Equity and Fixed income)

We continued a collaboration with selected partners and clients, engaging with 63 oil and gas, midstream and utilities companies on the disclosure and mitigation of their methane emissions. Methane is a powerful greenhouse gas, estimated to be contributing to 25% of global warming today. Reducing methane emissions is critical for our investee companies to achieve a 1.5-degree pathway and we believe that reducing methane emissions from oil and gas in the next decade is one of the most cost-effective forms of climate risk mitigation.

Collaborators include Carbon Tracker, the Environmental Defense Fund, Amundi Asset Management, and investors from across Europe, the United States and Canada: we believe that having a combination of investors and civil society organisations which can contribute scientific and data insights to the effort is a more powerful way to proceed than just investors alone.

Nine companies in the engagement group joined the OGMP 2.0 in 2023: Aker BP, Coterra Energy, Chesapeake Energy, Diamondback Energy, EOG Resources, INPEX, KazMuynayGas, Petrobras and PPT E&P. In significant turnarounds Exxon Mobil and Chevron announced their decision to finally join the OGMP 2.0 in the first quarter of 2024. Equinor and Pioneer Natural Resources achieved the Gold Standard in 2023 based on a credible implementation plan. Equinor is the most mature of the engagement group. Although we have seen strong engagement results in 2023, the engagement is experiencing resistance to joining on the OGMP 2,0, especially from midstream and utilities companies and operators in the Permian basin and Canada. At the end of 2023 there were no OGMP 2.0 members in Canada, a country with historic under-reporting of methane emissions. During 2024 we would like to see Xcel Energy, Duke Energy, Sempra Energy, PG&E, National Grid, YPF, Pertamina Persero, TC Energy and Pembina Pipeline, among others, joining the OGMP 2.0 and accelerated progress on their methane mitigation journey. These priorities were reflected in the activities in 2023, during which the engagement workstream complemented 1:1 engagement with methane policy engagement and interaction with oil and gas leaders at industry events in Amsterdam, Houston, and Calgary as ways to effectively advocate for industry-wide methane mitigation.

2023 Collaborative Engagement (Methane/ Climate) (Eq) example: Diamondback Energy

Background:
An example of progress where we lead a collaborative engagement is Diamondback Energy. Diamondback is an independent oil and natural gas company headquartered in Midland, Texas focused on the acquisition, development, exploration and exploitation of unconventional, onshore oil and natural gas reserves in the Permian Basin in West Texas, the basin with the highest methane emissions in the United States.

During 2022 and 2023 we engaged with the company on their methane emissions and disclosures, progress towards Paris alignment and methane policy advocacy. We chose to focus our efforts on the topic of methane emissions based on Diamondback's methane emission volumes and the urgency of reducing their methane emissions to achieve alignment with the Paris Agreement.

We assessed the company as a suitable candidate to join the OGMP 2.0 as they had already committed to implement continuous emission monitoring systems and had set targets to reduce their methane intensity. Diamondback had a wide range of abatement opportunities and expected that additional asset level data on methane emissions – such as those reported to OGMP 2.0 - would help in targeting abatement efforts for their assets in the Permian basin.

Engagement:
In 2022 we sent a letter to the CEO of Diamondback encouraging them to join the OGMP 2.0 and met with the company on methane in the second half of 2022 and in 2023. We expressed our expectation that the company should follow the example set by several of their peers and business partners and improve their measurement and management of methane emissions.

Outcome:
The company acknowledged the importance of this issue and assessed the feasibility of reporting according to the OGMP 2.0 standard. We followed up on progress in February 2023. In March 2023, Diamondback announced that they had joined the Oil and Gas Methane Partnership 2.0.

In June 2023, we visited a Diamondback facility in Midland in the Permian basin, to see first-hand how the company is monitoring and mitigating methane emissions. We met with Diamondback's CEO and specialists to discuss methane management and the company's mitigation roadmap in more detail. We continue to follow the company's progress towards being on a pathway aligned with the OGMP 2.0 'Gold Standard.' Diamondback will report to the OGMP 2.0 programme for the first time in May 2024 and their assessment will be available in November 2024. The visit to Diamondback was filmed and will likely be included in an independent documentary due for release in the next couple of years.

2. Climate Action 100+ and its European arm IIGCC

We are active participants in Climate Action 100+, a collaborative five-year global initiative led by investors to engage with the world's largest corporate greenhouse gas emitters to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures. We co-lead engagements for Air Liquide and Xcel Energy, and we are a collaborative investor in further eight, including SSAB, Walmart, Samsung Electronics, and International Paper company.

In addition, in 2023 we joined IIGCC's Net Zero Engagement Initiative, which was set up to compliment the Climate Action 100+ focus list, including more companies on the fossil fuel demand side. The central ask of investor engagement via NZEI is a corporate net zero transition plan., that is in line with the Net Zero Investment Framework (NZIF) corporate criteria. These are the same criteria that we use for our own in-house Paris alignment maturity assessment. As of date we are lead on 9 NZEI engagements, including Hindalco Industries, Solvay, and Antofagasta.

2023 Collaborative Engagement (Climate CA100) (Eq) example: Petrobras

Background:
An example of progress where we lead a collaborative engagement is Petróleo Brasileiro S.A, known as Petrobras. During 2022 we engaged with the state-owned Brazilian oil and gas company on their methane emissions and on other climate topics such as their net-zero reporting and targets, in our capacity as lead for the Climate Action 100+ investor cohort. We also engaged with Petrobras as part of our initiative on methane.

We chose to focus our efforts on the topic of methane emissions based on Petrobras' methane emission volumes, their suitability as a candidate for the OGMP 2.0, and the urgency of reducing their methane emissions to achieve alignment with the Paris Agreement. International Energy Agency data has clearly identified high levels of abatable emissions at offshore oil and gas assets, where Petrobras is a dominant player. Petrobras is in a production growth phase and therefore it should be a priority to build engineering solutions which minimize methane emissions into the design of the new fields and production units. We saw a wide range of abatement opportunities at Petrobras, and we expect that additional asset level data on methane emissions would help in targeting abatement efforts.

Engagement:
We sent a letter to the CEO of Petrobras encouraging them to join the OGMP 2.0 and had meetings with the company on methane in the second half of 2022. We expressed our expectation that the company should follow the example set by several of their peers and business partners and improve their measurement and management of methane emissions.

Outcome:
The company acknowledged the importance of this issue and conducted an extensive technical review on the feasibility of reporting according to the OGMP 2.0 standard. In January 2023, Petrobras announced that they had joined the Oil and Gas Methane Partnership 2.0. Nordea continues to follow-up on Petrobras' progress on achieving the Gold Standard. In November 2023, UNEP assessed that Petrobras had achieved the Gold Standard based on a credible implementation plan. The Gold Standard has been awarded to companies who demonstrate an explicit and credible path to report all material assets at levels 4 and 5 within 3 years for operated ventures and within 5 years for non-operated ventures. The Gold Standard is maintained by meeting the credible path and continuing to progress reporting to level 5 for the overwhelming majority of material assets.

3. Corporate Human Rights Benchmark (CHRB)

Corporate Human Rights Benchmark (CHRB) provides a free and publicly available comparative assessment of the world's largest publicly listed companies. It assesses company's policies, processes, and practices related to human rights.

Between 2016 and 2020, Nordea was a funding and as steering committee member actively involved in the development of the CHRB, which has now been integrated with the World Benchmarking Alliance (WBA).

Since 2017 NAM has been a collaborative investor engaging with companies scoring zero on human rights due diligence. The engagements are coordinated by the Investor Alliance on Human Rights, its sister initiative (see also initiative n.6).

The 2023 CHRB assessment, published in November 2023, ranked 110 of the world's largest apparel and extractives companies on their corporate human rights performance. For many of these companies it was the fifth time being benchmarked. One of the main findings in the recent CHRB report is that Five years of CHRB data shows that many companies have made significant improvements on their human rights disclosure and practices, 70% of the companies are making progress and 12 companies - Amazon, ENEOS, Heidelberg Materials, Hermes, LPP, NLMK Group, Nornickel, OMV, Puma, Ralph Lauren, UltraTech Cement, Wesfarmers – have made major improvements. They improved their score on fundamental human rights indicators by more than five times the average and improved their sector ranking by over ten places. The companies have clear and senior internal responsibilities for the daily implementation of human rights and 83% of these companies now implement some part of a human rights' due diligence process.

But there is still work to do as the average pace of improvement remains slow. 47% of extractives and 62% of apparel companies score below 20 out of 100 points and both sectors have low scores on due diligence-related indicators may indicate a failure to adequately manage salient and material human rights risks. It In 2023 the investor coalition selected 110 companies that scored zero on HRDD to engage with. NAM was the lead investor on six of those company engagements, among them McCormick and Geely. When relevant, we also use the CHRB when assessing or engaging other companies. EV manufacturers are one example. It is clear that companies with an effective human rights approach are better equipped to plan for a just transition. Eight out of the ten highest-scoring companies from the automotive sector are also among the ten highest scoring on our just transition indicators. Starbucks is another – the company scores better than zero on HRDD, but low overall.

2023 Collaborative Engagement (Human rights/CHRB)(Eq) example: Starbucks

Background:

Starbucks is one of the companies that have been assessed by the Corporate Human Rights Benchmark (CHRB) since 2017, scoring low on human rights due diligence. We have engaged with the company on human rights and transparency for several years as collaborative investor. We also conducted individual engagement. We have seen progress related to Starbuck's human rights policy and CHRB score, but we and the other CHRB investors decided to continue engaging Starbucks on their overall CHRB score.

Also, the company continued to be involved in labour disputes with staff in the US and 268 of Starbucks' 9,000 company-operated stores voted to unionise. Early March 2023 National Labor Relations Board judge Michael Rosas ruled Starbucks had committed "hundreds of unfair labour practices" in response to unionisation efforts in Buffalo.

Engagement

We also continued our individual engagement with Starbucks. For the 2023 AGM a shareholder proposal asking the company to Commission Third Party Assessment on Company's Commitment to Freedom of Association and Collective Bargaining Rights was filed. At the 2023 annual meeting 25 March we supported the proposal (Item 8) which received 52% support.

In May 2023, ISS issued a RED signal "relating to UN Global Compact Principle 3. Currently, Starbucks Corporation has yet to address the repeated findings by the Administrative Law Judge (ALJ) to the United States (U.S.) National Labor Relations Board (NLRB) that it is failing to respect freedom of association and right to collective bargaining across its stores in the U.S., most recently in April".

In August the company reached out to discuss ESG topics. "Key members of our Legal, Public Affairs and Partner Relations teams will be available on the call." We met with the company on 21 September and discussed the shareholder proposal and the independent assessment as well as the ISS Red flag.

Outcome:

In November 2023 the Company announces that its Board of Directors intends to establish a new Environmental, Partner and Community Impact (EPCI) Board Committee, as a continued evolution of the overall governance approach to the company.

And a month later, on 13 December, Starbucks BoD Chair Mellody Hobson and chair of the Nominating and Corporate Governance Committee Jørgen Vig Knudstorp issued a Letter to Shareholders saying:

"At our March 2023 Annual Meeting, a majority of our shareholders approved a resolution calling for an independent, third-party assessment of that commitment. In response, the Starbucks Board of Directors (Board) engaged Thomas M. Mackall, a highly qualified and deeply experienced, independent assessor to investigate our past practices and deliver a comprehensive and impartial report."

At the same day Starbucks released the results of an independent third-party assessment of the company's collective bargaining commitments, as previously promised. The audit found that the company could have handled unionization better in multiple ways but, "found no evidence of an anti-union playbook," aka – no (purposeful) union-busting.

The next day Starbucks reached out to us, informing that the assessment was published and asked if we would like a meeting with them. A meeting was set for January 2024.

4. IIHC- Investors Initiative on Hazardous Chemicals

IIHC is a collaborative investor engagement initiative focused on Hazardous chemicals. In 2022 we joined a collaborative engagement campaign targeting producers of hazardous chemicals such as PFAS. This engagement is coordinated by the Investor Initiative on Hazardous Chemicals (IIHC), which is supported by the Swedish NGO, ChemSec, and draws upon ChemSec's benchmark assessments, 'ChemScore', of the 50 largest chemical producers in the world. During 2023, we also became members of the Steering Committee of the IIHC and were leads on three of the engagements, acting as support on one further engagement. Currently, 16 companies are actively engaged in the initiative.

The three main asks in the initiative are:

1) Increase transparency, by disclosing the full list and production volumes of all hazardous chemicals produced globally.
2) Publish a time-bound phase-out plan of products that are, or contain, persistent chemicals
3) Develop safer alternatives for hazardous chemicals.

In November 2023, the new rankings, ChemScore report cards[1] , were released and in tandem all 50 CEOs of companies assessed by ChemSec received letters including the three asks from IIHC. These letters are then followed up by each engagement team to support and monitor the progress of the companies.

Related to the Investors initiative on hazardous chemicals we´ve also supported public policy. In May 2023, we took part in a discussion through ChemSec with the cabinet of EU Commissioner Thierry Breton in Brussels and with companies actively working on sustainable alternatives for hazardous chemicals. As the only investor present, a representative from NAM's Responsible Investment team presented our views on chemicals regulation within the EU as well as the necessity of clear classification frameworks for sustainable or 'green' chemistry.

Furthermore, we were able to discuss the importance that ESG reporting in the chemicals industry plays for us as investors at the GC3 Conference in Leverkusen, where we participated in a panel titled 'The Role of ESG Reporting in Driving Growth of Sustainable Chemistry Investment' together with company representatives and the European Commission.

[1] ChemSec (2023): ChemScore Report 2023

5. Finance for Biodiversity Pledge

The Finance for Biodiversity Pledge is a commitment of 153 financial institution, representing €21.4 trillion in AuM, to protect and restore biodiversity through their finance activities and investments. The Pledge consists of five steps financial institutions promise to take:

a. Collaborating and sharing knowledge
b. Engaging with companies
c. Assessing impact
d. Setting targets
e. Reporting publicly on the above before 2025.

We are contributing to the development of the initiative via our active participation in several working groups including the Engagement with Companies working group, which provides guidance on how to engage companies on biodiversity-related topics and identifying collective biodiversity engagement opportunities, the Impact Assessment working group which works to develop biodiversity measurements as well as guidance of how to integrate biodiversity into financial decision making, and the Target Setting working group which aims to establish a target-setting framework for financial institutions.

6. Nature Action 100

NAM is a member of Nature Action 100 which is a global investor engagement initiative launched in 2023 and focused on driving greater corporate ambition and action to reverse nature and biodiversity loss.

The initiative engages companies in key sectors that are deemed to be systemically important in reversing nature and biodiversity loss by 2030. 100 companies are targeted in the initiative, and investors will start to engage companies in 2024. NAM will participate in nine company engagement streams which will commence in the first quarter of 2024The expectations outline six actions that investors will call on companies address. These are: Ambition, Assessment, Targets, Implementation, Governance, Engagement. A benchmark for the six actions will be developed and shared with the companies during the beginning of 2024.

7. The Investor Alliance for Human Rights (IAHR)

We are a member of this investor initiative focusing on the investor responsibility to respect human rights, corporate engagements that drive responsible business conduct, and standard-setting activities that push for robust business and human rights policies. We are currently a collaborative investor in several companies' engagement working groups which include the Corporate Human Rights Benchmark (CHRB) Investor Initiative; and the Investor Initiative on Digital Rights.

8. International Financial Reporting Standards (IFRS) Sustainability Alliance

We are founding member of SASB's Investor Advisory Group (IAG), which has now transitioned into the ISSB Investor Advisory Group (IIAG) after the consolidation of the Value Reporting Foundation's into the IFRS Foundation. During 2023 we did a final review of the companies that were part of the SASB corporate disclosure engagement. As a founding member, and at the time, Chair of SASB's Investor Advisory Group (IAG), we encouraged global and sector specific standards for sustainability reporting enabling investors to accurately assess financially material risks and opportunities of their investee companies.

Throughout the active engagement period in 2023, companies received letters as well as invitations to Corporate Investor Dialogues. Overall, we see the engagement as a broad success, with 231 (86.8%) companies out of the initial 266 having started to report at least partially SASB-aligned metrics. At the end of our review, 34 (12.8%) companies did not report in anyway in line with recommendations of SASB, while one company was removed from the scope during the engagement period given a change in our holdings.

In 2022, it was announced that the SASB Standards amongst others will consolidate under the IFRS Foundation, which newly established the International Sustainability Standards Board (ISSB). NAM remains present on the ISSB Investor Advisory Group through our Head of Responsible Investments as well as our Head of Active Ownership

Swedish Investors for Sustainable Development Partnership

This initiative comprises 20 of the largest financial actors on the Swedish market and the Sweden's government agency for development cooperation (Sida). It was formed in 2016 and works to explore the role of investors, risks and opportunities related to the 2030 Agenda. NAM joined in 2020.

9. Digital rights

We were one of the 176 investors representing over USD 9.2 trillion in assets, signing an investor statement expressing investors' concern about the weak governance of digital rights risks and the lack of transparency and accountability in the information and communications technology sector, affecting people's rights to privacy and freedom of expression, including a lack of users' control over their own information and how it is used. The statement requests companies to consider:

a. Commit to and implement robust human rights governance
b. Maximize transparency on how policies are implemented
c. Give users meaningful control over their data and data inferred about them
d. Account for harms that stem from algorithms and targeted advertising.

Within this initiative, we previously acted as a lead investor on Yandex. After our Responsible Investments Committee decided to exclude Russian holdings, due to the ongoing war against Ukraine, we are no longer lead on any company but continue to be a support-investor on 26 companies.

10. Investors Policy Dialogue on Deforestation (IPDD)

NAM is a founding member of the Investors Policy Dialogue on Deforestation (IPDD), a collaborative engagement aimed at initiating and coordinating a public policy dialogue on halting deforestation in selected countries, established in 2020. NAM is a member of the management committee as well as the Brazilian and Indonesian work streams. The IPDD engages with public agencies and industry associations on this issue.

A new IPDD Consumer Countries workstream was launched in 2022, which will engage with government-related authorities and associations, and other stakeholders in key consumer regions - European Union, United States, United Kingdom, and China- on deforestation-free commodity regulation.

As of December 2023, IPDD is supported by 79 global institutional investors, from 20 countries representing approximately USD 10 trillion of AUM. Considerable progress has been made in terms of awareness-raising regarding the issue of deforestation risk and meeting with key stakeholders. During the past two years, the group has met with several ministries, banks and financial markets regulators, multilateral institutions, NGOs, and academics. While the rate of deforestation in Brazil's Amazon fell by nearly 50% in 2023 compared to the previous year, deforestation may be on the rise in Indonesia after a decades-long decline, due to palm oil production and nickel mining for EV batteries.

During 2023, we took part in a field trip to Brazil together with an IPDD members delegation to meet with companies and policymakers to discuss Brazil's anti-deforestation agenda. In November 2023 Brazil issued its first sustainable sovereign bond under Brazil's Sovereign Sustainable Bond Framework, including actions and projects associated with environmental or social issues.

11. Responsible Tax Engagement

Responsible tax is becoming increasingly important to investors, both as an ESG issue and as a legal and compliance issue. The global minimum corporate tax rate of 15% agreed by 138 jurisdictions in 2022 aims to make sure companies pay a fair share of tax and to taxing companies where they generate the profit, to limit tax evasion and stop governments racing to cut taxes in a bid to attract companies. In 2023 we continued taking part in a collaborative engagement on responsible tax, targeting 15 global companies in IT/Tech, biotech, and extractives sectors. The engagement is coordinated by a Danish engagement firm "*Engagement International*" and aims at establishing a dialogue with companies around how they manage tax-related issues associated to business activities and transparency, including country-by-country reporting. We have participated in several calls with companies during the year and have seen satisfactory progress in some of the companies, such as Nvidia. Other companies, such as Amazon, Apple, and Alphabet, have not been responsive and willing to have a constructive dialogue with us to discuss their governance and management of responsible tax issues so in December we sent escalation letters to the Chairs of Amazon, Apple, and Alphabet.

Nordea aquaculture engagement on nature and climate

In 2023 Nordea Asset Management initiated the first phase of an integrated nature and climate engagement with eight aquaculture companies. Companies in scope initially include Austevoll Seafood, Bakkafrost, Grieg Seafood, Lerøy Seafood, Måsøval, Mowi, Nordic Aqua Partners and SalMar.

In collaboration with the Norwegian Veterinary Institute, the engagement asks seafood producers to implement biosecurity plans based on best operating practices to prevent disease occurrence, reduce mortality and secure fish health and welfare.

Sound biosecurity practices also contribute to efficient production of food that is safe to eat and reduces climate impact. In addition, the engagement outlines expectations for improved nature and climate disclosures and target-setting, and sustainable aquaculture certifications across all operations.

Principle 11: Escalation

Escalation is a key part of our engagement process and stewardship tools. We set objectives, timeframe, and escalation strategy for each engagement we undertake. We prioritize issues for escalation based on progress of engagement, timeframe and our focus areas.

Our strategy differs between equity and fixed income investments. For equities, voting against the company or certain board members at the AGM, is our most typical escalation strategies to manage insufficient progress. This is a global approach. At European and US companies where shareholder proposals are common, we support, or in some cases file, shareholder proposals as a means of escalating an engagement. Our escalation strategy is determined by the issue and expected company's responsiveness.

For Fixed Income assets, our strategy depends on whether it is a company or a sovereign issuer. If it is a company, and it needs to issue more bonds, we demand progress on our key issues or withhold from purchasing the new issue. We may also sell our bonds if we feel we cannot continue to support the company.

For a government, we demand progress on key issues, otherwise we may sell our holding and refrain from buying any further bonds from that specific sovereign issuer. In both cases, we typically continue to engage to pursue progress.

2023 Escalation engagement (Eq) example: Oil & Natural Gas Corp (ONGC)

Background:
ONGC is active in a host of conflict-affected and high-risk areas, amongst others Myanmar and South Sudan. While the situation in Myanmar was continuously deteriorating throughout the year, South Sudan has a 'revitalized peace agreement' in place. Nonetheless, the UN continuously reports of violence and human rights abuses[9] and other reports highlight the role played by the oil and gas industry and associated revenues as a driver of the conflict. In addition, in their Myanmar business, the company has multiple JVs in place, in which the military is also a party of through an entity sanctioned by the EU.

Engagement:
We reached out to ONGC to better understand their business in the respective countries as well as to understand their human rights due diligence processes in these conflict-affected and high-risk operating contexts.

Our key aims were to gain confidence into the process and oversight mechanisms in these areas, how the company exercises leverage under the UN Guiding Principles as well as red lines they draw.

Outcome:
Following the engagement, we did not receive the necessary reassurance that the company effectively analyses and mitigates human rights risks within their operations as well exercises the leverage they have. Given the gap between our expectations and the company's practices and implementation, our Responsible Investments Committee (RIC) decided to exclude ONGC (and affiliated entities) from all NAM portfolios and add them on our public exclusion list.

[9] OHCHR (2023): UN experts tell Human Rights Council that violence against civilians persists in South Sudan, fuelled by pervasive impunity

2023 Escalation engagement (Eq) example: Toyota Motors

Background:

Toyota Motors is a holding across several NAM's portfolios, including NAM's Climate Engagement strategy. According to our assessment, the company is failing to make progress on several climate-related issues, including its climate lobbying practices and its support for vehicle electrification.

Engagement:

Since the initiation of the investor engagement initiative Climate Action 100+ (CA100+), we have been engaging Toyota on aligning its business with the Paris Agreement's goals and trajectories. On the back of the launch of NAM's Climate Engagement strategy in 2022, we further elevated our involvement by conducting regular individual dialogues with the company, with a key focus on sold products ("Scope 3 Category 11" emissions) as well as their climate lobbying activities.

Two compliance scandals have become known during the past couple of years, one at the subsidiary Hino in relation to emissions performance cheating, and one at Daihatsu connected to cheating during security testing.

In addition, CA100+ and the research organization Influence Map have stated that Toyota's lobbying has actively sought to prevent the wider adoption of full-battery electric vehicles. With this as a backdrop, at the 2023 AGM NAM decided to vote against the election of Mr Akio Toyoda due to reasons such as lack of independence of the Board (with the former CEO as Chairperson), lack of governance oversight in relation to the scandals in subsidiaries, and low proportion of zero-emissions vehicles in its total sales. Further, we voted in favour of a resolution concerning elevated transparency on climate lobbying activities to signal the need for Toyota to align its lobbying activities with the Paris Agreement's goals and trajectories.

Outcome:

The resolution failed to pass but following the AGM, Toyota expanded the lobbying review to cover additional trade associations. Even though we welcome the improvement, we wish to see a continued expansion of the scope as well as additional clarity into the underlying assumptions behind the review. We consequently set out to continue to engage Toyota to further elevate the quality and scope of its lobbying assessment and will also seek the implementation of robust measures related to governance oversight. Last, we expect the company to increase its support for vehicle electrification, thus helping to decarbonise the use of sold products ("Scope 3 Category 11" emissions).

2023 Escalation engagement (Eq) example: Norfolk Southern Corp (NSC)

Background:
As part of our ongoing PAI screening on entity level, in 2023 we became aware of a controversy flagged by one of our data providers of a derailment and spill of coal, from the Class I freight rail operator, Norfolk Southern. While external sources highlighted that the company was quick to remediate the spill, our own research showed that in recent years, the company's accident rate had increased.

We contacted NSC to discuss their general processes associated with derailment and spill response and their views on their increased accident rate. Shortly after this initial outreach, the company experienced a derailment in East Palestine, Ohio where hazardous materials, which was widely covered in the news and elicited bipartisan political reactions in the United States.

As the company did not respond to our initial meeting requests and with further information on the derailment pointing to potentially more structural problems in the safety systems and procedures of Class I railway operators, we quarantined NSC across NAM portfolios, meaning that portfolio managers were unable to increase their position as long as the quarantine was in place.

Engagement:
We had two meetings with NSC during 2023. In our initial dialogue, we highlighted to the company, that they are under quarantine following the East Palestine derailment. Our goals were to get a preliminary understanding of investigations into the accident's root causes by regulators, safety upgrades the company has implemented, and their approach to regulation, which was widely discussed after the accident.

The company was open in their communication with us and in detail laid out what operational and equipment changes they are implementing to increase safety. Furthermore, we had a discussion on their approach towards regulatory affairs, where we laid out that we would like to see a more constructive angle from their side, laying out which regulations they support and do not support and for which reason, given that they highlight the data-driven nature of their positions.

Outcome:
Overall, we feel that NSC is making meaningful upgrades within their safety set-up and showed a willingness, albeit delayed, to engage. Given the updates we received and the dialogue we had, our Responsible Investments Committee (RIC), decided to lift the quarantine of NSC. Going forward we will continue to monitor the investigations of regulatory agencies and assess the company's statistics regarding accidents and derailment.

2023 Escalation engagement (Eq) example Tesla

Following insufficient progress with Tesla's 2022 engagement, in 2023 we have escalated our efforts.
Here is an update version of the engagement:

Background:
This is a continuation from a 2022 engagement. Tesla, as one of the world's leading Electric Vehicles (EVs) makers, is an interesting as well as challenging company from an ESG perspective. We engage with the company both individually as well as via collaborative investor engagement.

Industry experts including the International Energy Agency (IEA) forecasts that the sales of EV will reach 200 million by 2030. According to Tesla's 2020 and 2021 Impact Reports, the company aims by 2030 to build 20 million cars – annually. This goal and Tesla´s contribution to sustainability and the green transition was also addressed by the company's Chair at the 2022 AGM.

We recognise that EVs are a critical technology supporting the transition to a carbon-free economy. However, EV supply chains also present environmental and human rights concerns such as labour rights issues, child labour, water pollution, and deforestation. Key to the EV technology is the battery, containing several different minerals and lithium, nickel, and most importantly - cobalt. The demand for these minerals is expected to increase dramatically and could potentially mean opening of hundreds of new mines.

EV supply chains also present environmental and human rights concerns such as labour rights abuses across the mining sector and in car manufacturing, child labour in cobalt mining, water pollution, deforestation etc.

Engagement:
Nordea has since 2017 been part of a collaborative investor engagement based on the Corporate Human Rights Benchmark (CHRB) company assessments[1]. We also use the CHRB as a means of tracking companies 'progress on their human rights performance. In 2020, 30 companies in the car manufacturing sector, including Tesla, were assessed for the first time. Tesla as well as the overall average score of this sector received low scores on their overall performance on human rights as well as on human rights due diligence. The 2022 CHRB assessment that was published in November 2022 showed some improvements.
To improve our understanding of the challenges related to the green transition, we commissioned a field study from RAID (Rights and Accountability in Development), published in 2021: *The Road to Ruin? Electric vehicles and workers' rights abuses at DR Congo's industrial cobalt mines*. The study looked at five of the biggest cobalt mines in the DRC owned or operated by multinational mining companies which together produced then nearly half of the global supply of cobalt.

The report describes widespread exploitation of workers at many of the DRC's industrial mines. The research traced cobalt from these five biggest cobalt mines to the supply chains of several EV makers and electronics manufacturers that purchase and use the batteries made from cobalt. One of the identified companies was Tesla. As part of the study RAID reached out to the companies that were highlighted in the report and Tesla was very responsive.

Following the publication of the RAID report, Nordea also had a meeting with Tesla to express our concerns and to understand how they responded to and were addressing the findings of the report. The company's responsible sourcing team had just returned from a trip to the DRC and had some helpful information and updates to share. Tesla said it commits to international standards on business and human rights and says that sourcing from industrial mines is a means to remove human rights issues and child labour in artisanal mining in the DRC from their supply chain. Investors, including Nordea, remain, however, concerned about the high exposure of the company to persistent human rights risk.

Proxy voting:
Proxy voting is an important part of our active ownership. It is also a way to express our position on various issues to companies that we are invested in. At Tesla's 2022 AGM several human rights- and climate-related shareholder proposals went to a vote. Nordea supported these resolutions and voted against two board of directors due to poor board and management oversight of ESG risk exposures at the company.

We have since then continued to escalate our engagement efforts towards Tesla.

Escalating the engagement with Tesla:
In April 2023, Nordea, together with 16 other investors, wrote an open letter to Tesla's Board of Directors saying that the "Board's meagre oversight of CEO Elon Musk and other critical aspects of corporate strategy, including the company's approach to human rights and labour rights" exposes the company to substantial legal, operational, and reputational risks, thereby jeopardizing its long-term value," As the CEO of SpaceX, Tesla, and X (then Twitter) we believed that Musk as "overcommitted at a time when the company faces critical challenges, including increased competition, regulatory scrutiny, and a stock slide." We also expressed concern of the continued human rights risk exposure of the company related to the sourcing of cobalt from the DRC where child and forced labour is pervasive and forced labour related to other high-risk areas in their supply chain. There is also evidence of poor labour management at Tesla's factories.

In April 2023 we also co-signed a letter to Tesla Shareholders urging them to vote AGAINST the election of J.B. Straubel to the Tesla Board of Directors (the "Board") on 16 May, due to lack of independence.

In May the same year Musk announced that he was stepping down as CEO of X. But as we had not received any response to our request for a meeting or concerns related to the company's poor ESG management remained, we decided to vote against some of the board member, including the Chair, at Tesla's 2023 AGM.[2] Director support levels at Tesla's 2023 AGM in May signalled that a significant number of investors are also concerned about the Board's performance. Tesla Board Chair Denholm received only 73.9% support while new Director Straubel received only 86% support. We voted against both directors.

At the 2023 AGM CEO Elon Musk also announced that Tesla will conduct third-party audits of its cobalt supply chain to ensure there is no child labour within it. "You know what, we will do a third-party audit…" Even for the small amount of cobalt that we do use we will make sure that no child labour is being exploited". [3]

On 27 October 2023 Tesla workers in Sweden go on strike. The strike escalates continuously and to other unions and Nordic countries.

In December 2023 Nordea and 15 other Nordic institutional investors managing a total of $1 trillion in assets sent a letter to Tesla's board saying that we are "deeply concerned" about Tesla's attitude to worker rights in Sweden and demanded that the carmaker accept collective bargaining agreements for its staff". The letter received a lot of attention from international media. [4]

We have, however, not heard back from the board yet. Tesla's 2024 Annual Meeting will take place in May 2024.

Outcome:
While we are continuing our engagement efforts regarding Tesla, we have received feedback that the report has had an impact on EV manufacturers, the mining industry in the Congo and for workers. The report mentions several electric car manufacturers: General Motors, Renault Group, Tesla, Toyota, Volkswagen and Volvo Cars. We have had meetings with a number of these companies regarding the report.

Several companies previously considered purchasing from industrial mines meant that they were buying "clean cobalt", i.e. that they then minimized the risks of child labour and other violations of human rights and controversies linked to cobalt that occur in small-scale mines in the Congo. Our report showed the EV manufacturers that there are also human rights issues in the industrial mines, especially regarding subcontractors and non-permanent miners. Most EV manufacturers were unaware of this fact.

Several companies considered that the report has "changed the conversation you have with cobalt suppliers - you now ask how they handle labour rights and employees via staffing companies in their companies and pressure them when it comes to paying living wages". One company mentioned that they always take the report with them when meeting with suppliers.

Following the report several electric car companies made visits Congo and met suppliers but also interest organizations and trade unions for the first time.

The report has also had an impact on the mining industry in the Congo:

Knowledge of the working conditions in the industrial mines has gone from non-existent to high. RAID's assessment is that it is on the agenda in one way or another in most mining companies in the Congo.

Many mining companies are now looking at the problems associated with using subcontractors and not having their own employees. The proportion of workers via subcontractors is decreasing and the proportion of employees directly from the mines is increasing. This means better working conditions and higher wages.

For the first time in the Congo, a worker with an occupational injury won a lawsuit against a mining company – he got his job back, his hand restored, and compensation and it set an important legal precedent.

In regards to labour and workers' rights we continue to monitor the situation and will engage further if no progress is made.

[1] https://www.worldbenchmarkingalliance.org/publication/chrb/
[2] https://www.nordea.com/en/sustainability/voting
[3] https://www.tesla.com/en_eu/2023shareholdermeeting
[4] Nordic investors urge Tesla to back down in Swedish labour dispute | Reuters; Tesla's (TSLA) Nordic Dispute Sparks Angry Letter From Money Managers - Bloomberg; Elon Musk's fight with Nordic labor intensifies as pension fund dumps Tesla shares | Fortune Europe

2023 Escalation engagement (FI) example: Askim og Spydeberg Sparebank

Background:
Askim og Spydeberg Sparebank is a local Norwegian savings bank serving private and business customers in Viken county with finance, insurance and savings products. The bank is headquartered in Askim and has three additional branches in Spydeberg and Ski. As of January 2021, Askim og Spydeberg Sparebank left the Eika alliance and is now part of the newly established LOKALBANK alliance.

In November 2021, there was negative press coverage regarding the bank's CEO and pell-mell transactions with some of the bank's clients and an agent/client. BDO was hired to investigate the relationships and transactions as well as doing a review of the bank's guidelines, policies and internal control. In March 2022, the BDO report concluded with lack of compliance and suspicion of serious breaches to internal controls. The BDO report was provided to the Norwegian Financial Supervisory Authority (NFSA) who published their report in September 2022 highlighting long-standing compliance and risk management issues, including weak internal controls in the credit processes and conflicts of interest. The bank has posted losses of MNOK 100 during the past 3 years because of these compliance cases.

Engagement:
Nordea has been engaging with Askim og Spydeberg Sparebank in recent years and during 2022 on compliance concerns. These were escalated in 2022 by holding further meetings and communicating our concerns. In 2022 there were some changes in the board and leadership. The chair of the board did not take a new term and the bank appointed a new CEO in 2022. The board was heavily criticized by the NFSA for not intervening in the compliance cases and the remaining board members left the board based on the NFSA’s evaluation. We requested meetings with the new Chair and CEO to formally communicate our expectations.

Outcome:
The bank has made some progress in improving their governance structures and risk management frameworks. However, due to the issues spanning many years and significant systemic weaknesses observed, Nordea took a decision in February 2022 to quarantine (hold/sell position) Askim og Spydeberg Sparebank. Nordea met with the company again on their progress in June 2022 and upheld the quarantine. Nordea continue~~s~~ to meet with the bank during 2023 on these issues and observed a strengthening of the risk and compliance function with the addition of key resources and capability building at all levels, including the board. The company has undertaken extensive measures to improve their routines, process, tools and internal controls~~.~~ Based on the changes made the bank, Nordea decided in April 2023 to take the company out of quarantine (hold/sell position).

Principle 12: Exercising rights and responsibilities

Exercising our rights and responsibilities is a core part of our stewardship process. We believe that sound corporate governance contributes to shareholder value and adds value to all types of investments. Corporate governance is essential for a transparent relationship between companies and investors (shareholders and bondholders), in which investors play a vital role in improving the performance of a company. As a significant owner and bondholder in several listed companies, NAM plays a key role in promoting the companies' progress towards better results by being an active owner.

Exercising rights and responsibilities, across asset classes, is achieved by:

a. Taking part in Nomination Committees
b. Participating in shareholders' meetings
c. Voting at AGMs (equity investments only)
d. Holding regular dialogue with the companies concerning key ownership issues
e. Other ways of engagement.

We require our invested companies to timely disclose this relevant and material information:

- financial and operating results
- company objectives
- risk factors
- stakeholder issues and governance structures
- description of the relationship of the company with other group companies
- data on major shareholders and other parties that control or may control the company
- information on special voting rights, shareholder agreements, the beneficial owner of a controlling interest or of large blocks of shares
- significant cross-shareholding and cross guarantees
- differential voting rights and related party transactions.

This approach is applied across all the issuers we have exposure to:

- Multi-asset class funds are invested in listed equities, sovereign bonds, and corporate bonds. Stewardship, including exercising rights and responsibilities, is done for individual issuers, so it feeds into our exposure to that issuer, whether it is in listed equities, sovereign bonds, and corporate bonds;
- With corporate bond investments we do not have the right to vote at companies' AGMs, but we still exercise sound corporate governance practices to promote long-term financial viability in the investee companies, adoption of sustainable environmental and social practices, and ensure the repayment of principal and interest;
- Sovereign bonds fall into our engagement efforts with individual governments, particularly if there are ESG issues (see our example of our engagement with Australia and Climate change. We support governments such as Australia to establish a credible net zero transition plan and to improve disclosure on climate risks and opportunities");
- For illiquid investments: our private equity investments are all through funds of funds, for which we engage with our managers setting out our stewardship expectations from them. For private debt, we engage with the companies as we do for our corporate bond investments.

For commingled funds, our approach to exercising rights and responsibilities does not vary. We adapt to local regulations, but our guiding principles are identical.

For segregated managed accounts, we implement our client's instructions if different from our standard policy.

Cooperation with other investors plays a significant role in exerting influence when necessary. This can be done through many different means, including working groups or ownership committees, as well as nomination committees in those markets in which this is the norm. We strive to enhance proper corporate governance practices by working with other institutions and joining working groups.

Nomination Committees

Increasingly we are being invited by companies in the Nordics to join their Nomination Committees. This practice is sadly not accepted in other countries. 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 issue. During 2023, we joined 39Nomination Committees. Joining Nomination Committees is a big investment of our team's time, but we see it as an important opportunity to help shape companies' boards and their sustainability agenda.

Our Voting Policy

Our Voting Policy determines the principles for our proxy voting in equity investments. We have an aggregated voting strategy, meaning that we strive to vote in the same way for most, if not all, the total holdings we have in any given company.

Except on specific clients' request (segregated managed accounts only), we regard the following principles as best practice. Of course, national characteristics, laws, and regulations differ between the markets our Funds invest in, and pragmatism shall be applied in our corporate governance work.

Voting Policy Key Features

- *Ownership rights.* The exercise of ownership rights by all shareholders shall be facilitated, including giving shareholders reasonable notice of all matters with respect to which shareholders are required to or may act in the exercise of voting rights.

- *Equality among owners.* Boards shall treat all the companies' shareholders equitably and shall ensure that the rights of all investors, including minority and foreign shareholders, are protected.

- *Unequal voting*. Companies' ordinary shares shall feature one vote for each share. Companies shall act to ensure the owners' rights to vote. Divergence from a 'one-share, one-vote' standard that provides certain shareholders with power that is disproportionate to their equity ownership shall be both disclosed and justified.

- *Access to the vote*. The right and opportunity to vote at shareholders' meetings hinges in part on the adequacy of the voting system. Companies shall explore initiatives to expand voting options to include the secure use of telecommunication and other electronic channels.

- *Shareholder participation in governance*. Shareholders shall have the right to participate in key corporate governance decisions, including the right to nominate, appoint and dismiss directors and the external auditor, and the right to approve major decisions.

- *Shareholders' right to convene a meeting of shareholders.* Each company shall provide holders of a specific proportion of the outstanding shares of a company, no greater than ten percent (10%), with the right to convene a meeting of shareholders for the purpose of transacting the legitimate business of the company.

- *Shareholder questions.* Shareholders shall be given the right to ask the board, management, and external auditor questions at shareholder meetings.

- *Major decisions*. Major changes to the core businesses of a company and other major changes in the company which may, in substance or effect, materially dilute the equity, erode the economic interests, or share ownership rights of existing shareholders, including major acquisitions, disposals and closures of businesses, shall not be made without prior shareholder approval of the proposed changes.

Our Voting Policy is called Corporate Governance Principles, available here.

Customised Voting

For our pooled funds, proxy voting shall be exercised based on the shareholders' best interests, which are guided by our stewardship, governance and engagement processes and activities. Clients in pooled funds cannot vote differently.

Clients with segregated mandates can require us to apply their own voting policy, subject to an agreement on appropriate fees. In these cases, clients may override our voting decision under their policy.

We welcome discussions with all clients on their perspectives on voting issues, outside of the peak season. Where we have a voting-related concern, within practical limits we contact the company ahead of the meeting to discuss.

Proxy advisors

We currently use one proxy voting advisor services to support us on proxy voting – Institutional Shareholder Services (ISS) Starting 2024 we have decided to add Glass Lewis. We receive two types of recommendations based on our Corporate Governance Principles. We take all voting decisions; the external advisors only provide input and a second opinion when prompted to inform our decisions.

Execution and monitoring of voting rights

We use the ISS voting platform to cast our votes, and our back-office team to monitor its execution.

We have constant monitoring of our positions and systems built to monitor our rights to vote at Annual General Meetings, using both our own and custodial data and the ISS voting platform. Reports on upcoming AGMs are sent by the ISS platform to our Corporate Governance, RI and Investment teams for consideration. The Corporate Governance team leads on the voting decisions, after consultation with the RI and Investment teams. One unanimous decision must be reached for each voting right.

Voting statistics

In 2023 we voted in at more than 3,700 shareholder meetings on thousands of agenda items, including ESG issues such as climate or diversity, as well as remuneration programmes and capital structure items. Overall, the outcome in 2023 was well above our target of voting at more than 90% of our holdings. Compared to 2022 there was a small decline in the total amount based on the number of holdings in our portfolios decreased by approximately 200 companies during 2023. There are several reasons why we have not achieved 100% voting: certain countries operate a share-blocking practice, in some others there were technical issues, and in others there is a Power of Attorney requirement.

In 2023, a lot of our work revolved around alignment with the Paris Agreement and on climate proposals that require companies to disclose information about its governance, strategy, risk management and targets related to climate related risks. As such, our activities in this regard were wide ranging, from shareholder proposals in favour of aligning targets for indirect scope 3 emissions with the Paris Agreement, like we did with Total Energies and Shell, to requesting better reporting on GHG emissions targets with Public Storage and reporting on Corporate Climate Lobbying practices with Toyota Motor Corp.

To help us monitor our shares and voting rights, we use several external and internal technical applications, such as Broadridge, ISS and our internal systems.

Voting against management

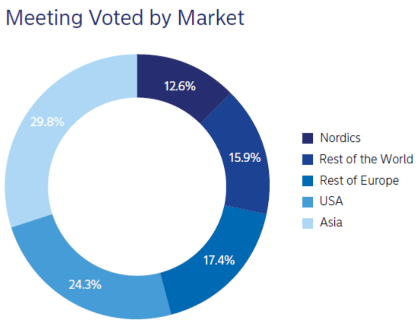
On most occasions we voted in favour of management proposals, which is the starting point when deciding how to vote. However, on 12% of agenda items our votes were against the management recommendation in 2023. Our reasons for voting against may vary case by case but requires that the proposal be deemed not be in the best interest of our unitholders or goes against good governance expressed in our Corporate Governance Principles.

A vote against management is likely to be considered if these criteria are met:

1. We have repeatedly engaged with the company on the same topic over a period of several years;
2. We have not seen progress.

All our votes are logged on our Proxy Voting Dashboard, which is publicly available here.

Overview of our voting activities in 2023



Number of shareholder proposals we voted on 2023

1075 of which we supported:

67%

Environmental proposals

148 of which we voted in favour on

70%

Social proposals

220 of which we voted in favour on

84%

Combined Environmental and Social proposals

58 of which we voted in favour on

38%

Governance proposals

649 of which we voted in favour on

63%

4

number of shareholder proposals Nordea co-filed. For the shareholder meetings at Alphabet, Chevron, Exxon and Microsoft.

Figure 20: Overview of voting in 2023. Data as of 31.12.2023

More detailed voting information can be found on our [Proxy Voting Dashboard].

Significant votes 2023

Company name	Public Storage	International Paper Company	Microsoft	Starbucks Corp.	Exxon
Summary of resolution	Shareholder resolution: Report on GHG Emissions Reduction Targets Aligned with the Paris Agreement Goal	Shareholder resolution: Require independent chair	Co-filed shareholder resolution: Tax transparency report in line with Global Reporting Initiative's (GRI) Tax Standard.	Shareholder resolution: Commission Third Party Assessment on Company's Commitment to Freedom of Association and Collective Bargaining Rights	Co-filed shareholder resolution: Tax transparency report in line with Global Reporting Initiative's (GRI) Tax Standard
Nordea vote	**FOR**	**FOR**	**FOR**	**FOR**	**FOR**
Rationale	Increased transparency positive to assess progress to align with Paris agreement.	Our opinion is that it is in the best interest of shareholders to separate the CEO and COB functions.	The proposed GRI Tax Standard would enhance the company's transparency in communicating its tax practices to investors globally.	This would better evaluate various allegations related to freedom of association and collective bargaining and the company's management of any associated risks	The proposed GRI Tax Standard would enhance the company's transparency in communicating its tax practices to investors globally.
Outcome of vote %	**34,7% FOR**	**37,1% FOR**	**21,2 % FOR**	**52% FOR**	**14% FOR**

Company name	Meta	National Grid	Glodon Co Ltd	Evolution	Solvay
Summary of proposal/resolution	Management proposal: Elect Director Mark Zuckerberg	Management proposal: authorize the company to call a general meeting with two weeks' notice	Management proposal: elect Chai Mingang as Director	Management proposal: Approve Remuneration of Directors in the Amount of EUR 400,000 to Chairperson and EUR 100,000 for Other Directors	Management proposal: Approve Exceptional Bonus for the CEO
Nordea vote	**AGAINST**	**AGAINST**	**AGAINST**	**AGAINST**	**AGAINST**
Rationale	We believe it is in the best interest of shareholders to separate the	Shortening the notice period is considered negative for shareholders, especially	There are 0% females on the board, so we voted against a member of the Nomination Committee to	The remuneration is excessive and not in line with peers.	The proposed one-off award is in cash, and not necessarily aligned with longer-term interests of

	CEO and COB functions due to the board's supervisory role.	international ones.	express our concern.		shareholders. - The proposed bonus is above market practices.
Outcome of vote %	**8,1% AGAINST**	**7,3% AGAINST**	**18,7% AGAINST**	**The proposal passed***	**34,4% AGAINST**

*Swedish companies do not disclose or count exact votes.

We will continue to engage on these topics and exercise our votes to achieve a change.

Examples of individual votes in 2023 are shown below.

COMPANY	DATE OF VOTE	SUMMARY OF PROPOSAL	MANAGEMENT RECOMMENDATION	OUR VOTE	RATIONALE FOR THE VOTING DECISION	OUTCOME
Walt Disney Company	9th March	Reduce ownership threshold for shareholders to call special meeting (Shareholder proposal)	AGAINST	FOR	We believe that lowering the threshold to call special meetings would enhance the rights of shareholders.	AGAINST
A.P. Moller-Maersk A/S	15th March	Approve remuneration report	FOR	AGAINST	We voted against the proposed renumeration program as the value in the program were not attached to any attached performance measures.	FOR
Topdanmark A/S	24th March	Require that Topdanmark joins the International Investor Coalition Net Zero Asset Owner Alliance (Shareholder proposal)	AGAINST	FOR	We think that the shareholders would benefit from a stronger alignment between the company's stated goals and its actions regarding corporate responsibility	AGAINST
Ericsson	29th March	Approve discharge of supervisory board members.	FOR	AGAINST ALL	In October 2021, the US prosecutors determined that Ericsson had breached the obligations under the Deferred Prosecution Agreement related to potential bribes paid in Iraq previously. At the AGM we voted against discharge of responsibility for the entire Board and the CEO as we did not have enough of information on the nature and reason for the breaches of settlement with Department of Justice.	FOR
Meta platforms	25th May	Elect Director Mark Zuckerberg	FOR	AGAINST	We voted against the election of Mark Zuckerberg since significant risks to shareholders stemming from severe ESG controversies have been identified at the company, which reflects a failure by the board to proficiently guard against and manage material environmental, social and governance risks. We also think that roles of CEO and Chair should be separated. We supported several shareholder proposals at the AGM.	FOR
Amazon.com	25th May	Report on protecting the rights of freedom of association and collective bargaining (Shareholder proposal)	AGAINST	FOR	We believe shareholders would benefit from increased transparency and disclosure on how the company is managing human rights-related risks	AGAINST
Exxon Mobil Corporation	25th May	Set GHG emissions reduction targets consistent with the Paris Agreement Goal (Shareholder proposal)	AGAINST	FOR	We think that additional information on the company's efforts to reduce its carbon footprint and align its operations with Paris Agreement goals would allow investors to better understand how the company is managing its transition to a low carbon economy and climate change related risks.	AGAINST

Walmart	1st June	Report on lobbying payments and policy (Shareholder proposal)	AGAINST	FOR	We think that disclosure of the company's direct and indirect lobbying expenditures and decision-making process, along with its public policy priorities and trade association payments, would allow shareholders to better assess the risks and benefits associated with the company's participation in the public policy process.	AGAINST
Alphabet	1st June	Report on managing risks related to data collection, privacy and security (Shareholder proposal)	AGAINST	FOR	At the Alphabet AGM we supported several shareholder proposals, besides Report on managing risks related to data collection, privacy, and security, such as Report on physical risks of climate change, Report on climate lobbying and Report on steps to improve racial and gender Board diversity. Management voting recommendations was against on all these proposals. The dominant position of Google, its impact on society and integrity of individuals is particularly important for us as investors.	AGAINST
FedEx Corporation	19th September	Report on climate lobbying (Shareholder proposal)	AGAINST	FOR	It is our understanding that an assessment of the alignment between the company's lobbying activities and the goals of the Paris Agreement would give shareholders a better understanding of the company's management of its lobbying activities and any related risks and benefits.	AGAINST

In 2023 we continued to support climate related resolutions focused on adequate management of climate risks and actions that enable transition at a scale and pace in line with societal ambitions of limiting global warming to 1.5 degrees unless proposals were considered too prescriptive in its wording and impractical to implement timewise.

In addition, in 2023, as an escalatory step, we voted against the chair for several Oil & Gas majors. One example is Exxon Mobil, which we see as failing on several fronts in transparency and management of key ESG risks. On climate in particular, the company consistently fails to meet even minimum decarbonisation expectations as set forth by CA100+, the collaborative engagement initiative which NAM is part of. The company has set no target for reducing emissions from products sold and continues to be amongst the world’s largest investors in new oil fields. In addition, Exxon continues to be involved in several severe climate controversies. As a result, we voted against the election of chair and for proposals supporting adoption of Scope 3 GHG reduction targets, methane emissions disclosure and improved reporting on potential costs of environmental litigation and asset retirement obligations under the IEA NZE Scenario.

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

There was an increase in Freedom of Association and Collective Bargaining related proposals submitted in 2023, most/all of which we supported. In two cases we also escalated our engagement on this topic, namely Amazon and Starbucks.

At Amazon's 2023 AGM we supported a shareholder proposal asking the board to Commission a Third-Party Assessment on Company's Commitment to Freedom of Association and Collective Bargaining. The proposal received 44% support. Still, the Board did not respond directly or offered to meet to discuss the proposal nor address shareholders' concerns on the matter sufficiently. In December 2023 we co-filed the re-filed shareholder resolution at Amazon asking the board to Commission Third Party Assessment on Company's Commitment to Freedom of Association and Collective Bargaining.

At Starbucks 2023 AGM we supported the shareholder proposal asking the company to Commission Third Party Assessment on the Company's Commitment to Freedom of Association and Collective Bargaining Rights. It received 52% of investor support, including ours. We met with the company to discuss the proposal and the independent assessment.

In November 2023 the Company announced that its Board of Directors intends to establish a new Environmental, Partner and Community Impact (EPCI) Board Committee, as a continued evolution of the overall governance approach to the company. A month later, on 13 December, Starbucks BoD Chair Mellody Hobson and chair of the Nominating and Corporate Governance Committee Jørgen Vig Knudstorp issued a Letter to Shareholders saying:

"At our March 2023 Annual Meeting, a majority of our shareholders approved a resolution calling for an independent, third-party assessment of that commitment. In response, the Starbucks Board of Directors (Board) engaged Thomas M. Mackall, a highly qualified and deeply experienced, independent assessor to investigate our past practices and deliver a comprehensive and impartial report."

On the same day Starbucks released the results of an independent third-party assessment of the company's collective bargaining commitments, as previously promised. The audit found that the company could have handled unionization better in multiple ways but, "found no evidence of an anti-union playbook," aka – no (purposeful) union-busting. The next day Starbucks reached out to us, informing that the assessment was published and asked if we would like a meeting with them. A meeting was set for January 2024.

Antimicrobial Resistance (AMR) is one of our prioritized issue areas. We supported three shareholder proposals on complying with the World Health Organization Guidelines on Antimicrobial Use Throughout Supply Chains at Tyson Foods, McDonalds and Hormel Foods.

Noteworthy is that the number of anti-ESG proposals have increased compared to last year, although none passed. 70% of the proposals focused on social topics.

Stock lending

At the time of the creation of the Corporate Governance Principles and throughout 2023, there was no securities lending program in action. If it is in the best interest of the shareholders that securities remain in a securities lending program the NAM Funds are not obliged to remove them from the lending program. This has not happened in 2023.

Fixed Income Rights and Responsibilities

Fixed income investments do not come with voting rights, but we apply the Corporate Governance Principles set above and throughout this document to pursue the long-term success of the company and its ability to repay its obligations. We aim to maintain good connections with many bond issuers as well as a wide range of intermediaries so that we have access to the information we need. This is true as for example our participation in the several collaborative investor initiatives we are part of. ESG analysis and our diverse types of firm-wide engagement also include fixed income issuers.

As bondholders we have the largest effect in our stewardship process when companies need to refinance their bonds. In those cases, we find that we make the most progress in our asks if we tie improvements to their corporate governance practices, and any ESG issues, to our purchase of their next bond issue.

Due diligence
During 2023 we continue enhancing our due diligence process of labelled bonds and minimum requirements for when a use of proceeds bond is eligible for investment.

All bonds are assessed following the process prior to investing, to ensure the use of proceeds bonds is evaluated based on public offering documents, such as Prospectus and Subscription Agreement, to ensure that we fully understand and accept the repayment terms, coupons, tax status, callability and rank in the capital structure. The assessment is done in collaboration between the investment teams and the RIC. This enables us to prepare PMs in deals where negotiate with the company on terms, ahead of the issuance is possible.

The fast-developing market of Green Bonds and Sustainability-linked Bonds(SLBs) is of high interest to us. For these instruments, our standard corporate-bond due diligence is enhanced by a full review of the use of proceeds (green bonds only), KPIs (Key Performance Indicators) and SPTs (Sustainability Performance Targets) associated to the bond issue.

SLB proceeds are used for general purposes, thus SLBs represent a high risk of greenwashing. In addition to the review of the KPIs and SPTs, our assessment includes an evaluation of the impact of the coupon step-up such as the size of the step-up and timeliness of the step-up relative to the maturity date of the bond.

We have developed our own process for analysing and assessing the ESG and sustainability quality of labelled bonds. The process ensures that bonds which we labelled as Green, Social, Sustainable or Sustainable linked bonds are living up to our governance criteria, do no significant harm, are issued under a NAM approved framework e.g., ICMA, have a pre-issuance second party opinion (SPO) by recognized verifiers approved by NAM. Labelled bonds which fail to live up to one of these criteria, will not be classified as sustainable or labelled. Examples of such bonds which are failing to live up to our criteria:

Ford Motor Co issued a green bond in 2022, with the use of proceeds to be allocated exclusively to Clean Transportation projects. Initially, the issuer and the bond were living up to our labelled bond criteria. However, we decided to divest the green bond in 2023 as the issuer fails on "Do no Significant Harm (DNSH)" due to a negative impact on biodiversity from its past operations. The issuer's bond framework does not address the incident that causes the failure on DNSH.

Majid Al Futtaim (MAF) Holding issued a green bond in 2023. The green bond documentation was aligned with the ICMA principles. As a real estate company, the issuer seeks to certify their buildings and reduce carbon emission. Moreover, it has a 2040 net positive carbon target. However, after investing in the bond, we conducted a post-investment assessment which resulted in a divestment decision. That was due to the weakness of the issuer's sustainability claims in its business activities.

Our conclusion is that the green-washing risk was extremely high as the issuer is involved in business activities such as indoor ski-slopes which conflicts with its “energy efficiency” claims.

Gabon has completed a debt-for-nature swap in 2023. This bond was marketed as a “Blue Bond,” however the use of proceeds of this financial instrument is not ring-fenced, hence the bond does not fall into the “blue” category under the ICMA principles. The issuer does not have a framework and a second-party opinion (SPO) for this issuance. Even though, we initially invested in this bond, we decided to divest after the military coup d’état in Gabon. We require that the debtor country has ability to meet nature conservation commitments under debt-for-nature swaps. In this case, our assessment led us to the conclusion that the future for nature conservation commitments is uncertain.

Disclaimer