

The ESG STARS equity funds:

At the forefront of responsible investment

Highlights

- The ESG STARS funds¹ are at the forefront of Responsible Investment (RI) at Nordea Asset Management (NAM)²**
- They aim to:**
 - Beat their benchmark³
 - Invest in companies living up to Nordea's ESG standards
 - Create lasting impact



Responsible Investment at Nordea: it's in our Nordic DNA

Nordea Asset Management's (NAM) commitment to be a responsible asset manager is not new: it is deeply rooted in our Nordic DNA. It's anchored in our corporate culture, philosophy and business model. Environmental, Social and Governance (ESG) issues are gaining widespread recognition and there is mounting evidence that ESG factors can be material to long-term investment returns. We have been focusing on such issues for decades.

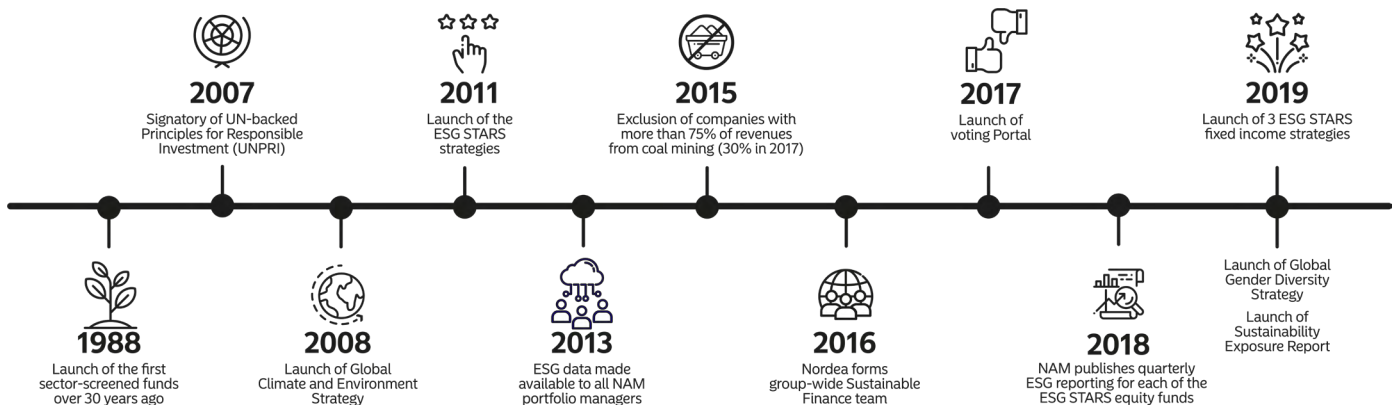
Our Journey

We consider it our fiduciary duty to care about all factors that are material to our clients' investments, whether financial or non-financial: responsible investing is part of this. At the Nordea corporate level, we have defined sustainability-related eligibility criteria that apply to all our active funds. We do not, for instance,

invest in companies involved in the production of illegal or nuclear weapons or that make more than 10% of their revenues from oil sand. We also exclude companies with large and sustained exposure to coal mining, with a 10% revenue threshold on thermal coal and a 30% revenue threshold on total coal (including metallurgical coal). However, beyond these corporate exclusions, we have developed a specific range of cutting edge products that takes Responsible Investment (RI) to the next level. We call these the ESG STARS funds: our ESG STARS equity funds are managed by the Fundamental Equities Team.

Our ESG STARS strategies seek to find **tomorrow's sustainable corporate leaders** with 3 key objectives:

- 1. Beat the benchmark³**
- 2. Invest in companies living up to Nordea's ESG standards**
- 3. Create lasting impact**



1) Please see a full overview of all ESG STARS funds on page 5. 2) Nordea Asset Management is the functional name of the asset management business conducted by the legal entities Nordea Investment Funds S.A. and Nordea Investment Management AB ("the Legal Entities") and their branches, subsidiaries and representative offices. 3) 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.

*investing for their own account – according to MiFID definition

1. How the ESG STARS equity funds invest in companies that live up to Nordea's ESG Standards

- Our award winning Responsible Investment Team conducts in-depth analysis to understand where companies stand regarding ESG factors
- Meeting companies is an important part of our research process
- We ensure the funds invest only in companies able to meet our ESG standards

The idea-generation process shares inputs from the investment team and the Responsible Investment (RI) team. One key source of ideas for our investment team is the Expectations Gap, which looks at the difference between our internal view of a company's ability to generate future cash flows and the market's view. This helps the team to identify potential investment candidates with attractive fundamentals. The RI team can source ideas from its detailed ESG assessment on potential holdings, which it carries out to ensure that a company meets our ESG standards.



In-depth ESG analysis: Our 4 step company rating process

1. For each sector our RI team identifies the critical ESG issues to include in its evaluation. The materiality of ESG issues varies sector by sector and this first step is crucial. For example, water pollution and labour rights may be key issues for a manufacturer while the leading issue for a software provider might be data protection.
2. Next, the team identifies ESG risks as well as opportunities at the company-specific level.
3. Then an in-depth analysis is carried out using data from multiple sources (such as data published by the company, specialised ESG data-providers, international organisations and non-governmental organisations). This supports the team by preparing them for meetings with company management and field trips.

4. These steps result in an internally-evaluated ESG score (A/B/C). This score is absolute in nature and a company is not rated relative to peers. It is an aggregated metric that represents NAM's view on how well a company is positioned regarding ESG risks and opportunities.

Notably, our proprietary ESG scoring model includes a business model dimension in addition to other aspects such as environmental or social ones. We assess how sustainability trends can positively or negatively impact a company's business model, its value chain, products and services. We also seek to understand the company's contribution to these themes. This gives our ratings a more forward-looking angle.

Finally, although important, buying external ESG data is only a small part of the ESG assessment.

Meeting our ESG standards

The ESG score represents the minimum expectations we have for the companies included in the ESG STARS funds. Portfolio managers of the ESG STARS funds are able to select only companies with a minimum score of B and are not able to invest in lower rated companies. We apply certain ESG standards to all our actively-managed funds at Nordea: the rating approach used by the ESG STARS funds significantly raises the bar for a company to become eligible for investment.

2. How the ESG STARS equity funds aim to beat their benchmark⁴: true ESG integration

- Alpha generation remains a core part of the ESG STARS' value proposition, as with any actively managed fund
- By truly integrating ESG analysis with bottom-up fundamental research, we aim to select tomorrow's winners

The RI Team carries out the ESG scoring process described on the previous page. While they carry out the detailed ESG analysis, the Fundamental Equities Team undertakes an in-depth financial analysis. Together they identify companies able to deliver sustainable long-term shareholder value.

Each ESG STARS fund has a dedicated ESG analyst participating in team meetings with portfolio managers and providing input at all stages of the investment process.

To identify tomorrow's winners, we incorporate the findings of the ESG analysis throughout the investment process, from idea generation and valuation to portfolio construction and risk management.

ESG analysis integrated into the stock selection:

Step 1: Incorporating ESG factors in Strategic Assessment

Once an idea is validated a strategic assessment is performed. It considers multiple factors in order to rate the strength of a company's sustainable competitive advantage. In their assessment, the portfolio managers fully incorporate the findings of the ESG analysis, including both sector-level and company-specific ESG results. This allows a 360° understanding of the company and its ability to maintain its competitive advantages.

Step 2: Quantifying ESG impact on valuation

The strategic assessment forms the basis for growth and profitability projections and is therefore an integral part of the valuation of the company.

When valuing a company, the managers look at a company's projected growth rate and ability to generate excess return on its invested capital. Companies with strong ESG profiles that are able to conduct their business responsibly in relation to their stakeholders (employees, suppliers, customers, investors and society at large) are likely to have more sustainable business models. Thus the teams build into their models greater sustainability of excess returns for companies with a higher ESG rating.

Fundamental research and ESG analysis are thereby intertwined and enable us to identify companies matching the 6 ESG STARS dimensions. These are the companies that we believe can be the winners of tomorrow.



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3. How the ESG STARS equity funds create impact

- We foster change with our companies by engaging with them around specific ESG topics
- Our teams build structured engagement roadmaps and regularly assess the impact of its engagement activities

Engagement is a key part of the ESG STARS concept. Engagement means having a constructive dialogue with the companies we invest in or are considering for investment. Such dialogue enables us to understand how a company is thinking about and addressing ESG risks or opportunities that are relevant for its business.

For the ESG STARS products, the portfolio managers and our RI team together build an engagement roadmap, identifying the most relevant and material ESG topics for each company. Engagement can take various forms, from conference calls to face-to-face meetings and field visits. While the RI team typically takes the lead in engagement activities, our portfolio managers often participate. We hold upwards of 150 ESG-specific meetings a year. We see engagement as a way to preserve and enhance long-term shareholder value, as well as create a positive impact for the broader society.

We break down our ESG engagement into two categories: Risk-related and Thematic.

Risk-related

Norm-based engagement (incident-driven)	Engagement around material ESG risks
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Risk engagement can include both reactive incident-driven ESG engagement (if a company breaches international norms) and proactive ESG-driven engagement around material ESG risks.

ESG thematic

SDG-related engagement

Thematic engagement focuses on companies' exposure to certain themes which might represent a significant material risk for the company. In particular the team looks at issues related

to the UN Sustainable Development Goals (SDGs). We believe that companies aligning their business models and practices with the SDGs will be successful in the long-term, because they are adjusting to global society's future needs. For example, since 2015 we have engaged with 25 pharmaceutical companies in India to discuss waste water management (their own and their suppliers'), because pharmaceutical water pollution is a significant issue in India. This long-term engagement resulted in an industry-led action plan to address pharma water pollution in India, and in 2020 the Indian government issued a draft bill to limit concentrations of antibiotics discharged by pharmaceutical factories into waterways.

Award Winning team

Nordea's award-winning RI team is at the forefront of the industry. Besides being fully integrated with the investment boutiques managing ESG products, the 19 dedicated ESG professionals work with ESG data, analysis, product and policy development, and active ownership. Over the years, the team has received multiple awards including repeatedly winning the "Best ESG Investment Process in Europe" award from CFI⁵ and, more recently, the "ESG Engagement Initiative of the year" from Environmental Finance⁶, awarded for the above-mentioned successful engagement around Indian pharmaceutical pollution.



Sustainable Investment Awards 2020
ESG Engagement initiative of the year:
NAM's engagement with the pharma industry in India on water pollution

The RI analysts, who sit close to their respective portfolio management teams in Stockholm and Copenhagen, have both a broad coverage and a particular focus on ESG STARS fund holdings.



Nordea's ESG analyst Olena Velchyko on a field trip to a Cambodian factory

A successful example of engagement

Over the years, we have actively and successfully engaged with companies all over the world to ensure they meet our ESG criteria. One such company is Swedish fashion retailer H&M (Hennes & Mauritz AB). H&M works with many of its suppliers in emerging markets to improve labour conditions. Nevertheless, some of the challenges facing these suppliers have caught our team's attention. On a site visit to Cambodia, Nordea inspected a supplier's factory that had been flagged after an incident where workers fainted due to extreme heat in the building. Our team spotted several issues such as poor ventilation and lack of access to drinking water. As a result of the visit, a number of immediate action points were made to improve the working conditions. These included better air condition and more drinking stations. However, the engagement work does not stop there. Follow-up meetings are scheduled on an ongoing basis with H&M to ensure that they maintain their focus on improving working conditions in their supply chain.

5) Capital Finance International (CFI) is a London-based magazine whose annual awards focus on best practise. CFI awarded Nordea Asset Management "Best ESG Investment Process in Europe" for six consecutive years (2014 – 2019). 6) Environmental Finance, a pan European news outlet reporting on sustainable investment, awarded NAM the ESG Initiative of the Year Award for its work to reduce pharmaceutical water pollution in India.

Why invest in the ESG STARS?

The ESG STARS funds target outperformance while standing at the forefront of Nordea Asset Management's ESG offering.⁷ They represent a unique concept and approach, where the ESG STARS investment teams fully integrate ESG factors into the investment process and use dialogue and engagement to make a real impact. By doing so, the ESG STARS funds not only aim to deliver alpha but allow investors to shape tomorrow's world.

Shaping tomorrow's world. Invest in the ESG STARS.

ESG STARS equity funds

Nordea 1 – Asian Stars Equity Fund

ISIN: LU2152927971 (BP-USD) / LU2152928607 (BI-USD)

Nordea 1 – Emerging Stars Equity Fund

ISIN: LU0602539602 (BP-USD) / LU0602539354 (BI-USD)

Nordea 1 – European Stars Equity Fund

ISIN: LU1706106447 (BP-EUR) / LU1706108732 (BI-EUR)

Nordea 1 – Global Stars Equity Fund

ISIN: LU0985320562 (BP-USD) / LU0985319804 (BI-USD)

Nordea 1 – Nordic Stars Equity Fund

ISIN: LU1079987720 (BP-EUR) / LU1079987134 (BI-EUR)

Nordea 1 – North American Stars Equity Fund

ISIN: LU0772958525 (BP-USD) / LU0772957808 (BI-USD)

ESG STARS fixed income funds

Nordea 1 – Emerging Stars Bond Fund

ISIN: LU1915689316 (BP-USD) / LU1915689829 (BI-USD)

Nordea 1 – Emerging Stars Local Bond Fund*

ISIN: LU1160612526 (BP-USD) / LU1160610405 (BI-USD)

Nordea 1 – European Corporate Stars Bond Fund

ISIN: LU1927797156 (BP-EUR) / LU1927797586 (BI-EUR)

Nordea 1 – European High Yield Stars Bond Fund

ISIN: LU1927798717 (BP-EUR) / LU1927799012 (BI-EUR)

STARS equity products: international ESG-labels



Nordea 1 Funds	European SRI Transparency Code ⁸	LuxFlag ESG Label ⁹	FNG-Siegel 2021 ¹⁰	Towards Sustainability Label ¹¹	Label ISR ¹²
Emerging Stars Equity	✓	✓	★ ★ ★	✓	✓
European Stars Equity	✓	✓	★ ★ ★	✓	
Global Stars Equity	✓	✓		✓	✓
Nordic Stars Equity	✓	✓			
North American Stars Equity	✓	✓		✓	✓

*With effect as of 05.05.2020, the sub-fund is renamed from Nordea 1 – Emerging Market Local Debt Fund Plus to Nordea 1 – Emerging Stars Local Bond Fund.

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