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ESG Report

Nordea 1 – Emerging Stars Bond Fund

Fourth quarter 2022



Nordea
ASSET MANAGEMENT

*The fund has been classified as an article 8 fund under SFDR.

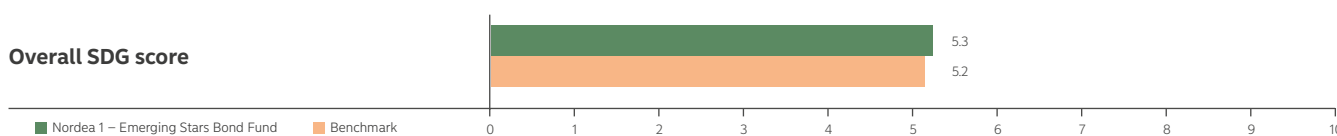
The fund has environmental and/or social characteristics but does not have sustainable investment as its objective.

Nordea 1 – Emerging Stars Bond Fund

This report highlights the alignment of issuers in the fund and the benchmark with the 17 United Nations Sustainable Development Goals (UN SDGs), based on each issuer’s country of risk. The majority of the fund’s investment universe comprises emerging markets sovereign debt, and does not include countries with structurally deficient and non-improving ESG profiles. While engagement is always a preferred approach, we have made a corporate-level decision to exclude certain countries, bonds, stocks, sectors, and practices across our entire active funds range. In addition to the core country exclusion mentioned above, we don’t invest in companies involved in production of illegal or nuclear weapons, cluster munitions, anti-personnel mines, nor maintenance of nuclear weapons. We also exclude companies deriving more than 30% of their revenues from coal (incl. metallurgical coal), more than 5% from thermal coal, or more than 5% from oil sand. Our detailed [RI policy](#) and our corporate [exclusion list](#) are publicly available at nordea.com. Furthermore, companies deriving more than 5% of their revenues from fossil fuels must demonstrate a transition strategy aligned with a 2°C target to be part of our Paris-Aligned Fossil Fuel List or will be excluded. Further information on our fossil fuel policy is available [here](#).

Total sustainability score (vs benchmark)

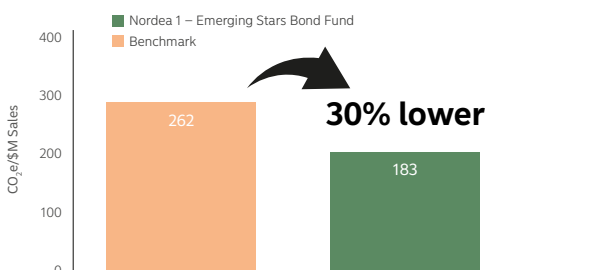
The overall contribution of the fund towards the 17 UN SDGs was in line with the benchmark, with an overall SDG score of 5.3 for the fund and the benchmark, respectively, as illustrated in the chart below:



Data are sourced from Maplecroft.Net Limited (“Verisk Maplecroft”) and follow an approach based on country-specific risk factors which are mapped by Maplecroft to the 17 SDGs. The result is a 0-10 score for each of the 17 SDGs for each country, as well as an aggregate SDG score. We have calculated the weighted average sustainability score for each SDG based on the fund and benchmark issuers’ country of risk. Both sovereign bonds and corporate bonds are captured in the overall country exposure. Please note that the corporate bonds are not considered by issuer specific score, but rather from the country of risk perspective. Please see the section below “Methodology” for further details. **Comparison with other financial products or benchmarks is only meant for indicative purposes.** The total sustainability score represents the Overall SDG Score based on the individual country index score as defined by Maplecroft. Net Limited (“Verisk Maplecroft”). Copyright © 2023, Maplecroft.Net Limited. All rights reserved. Verisk Maplecroft is a Verisk Analytics business. Please note that the Overall SDG score may slightly differ from the aggregated figures due to rounding differences. Further information on SDGs is available at www.un.org/development/desa/en/news/sustainable/sustainable-development-goals.htm. Sources: Nordea Investment Funds S.A., Verisk Maplecroft, United Nations Sustainable Development Goals.

Carbon intensity

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



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

Source: Data sourced from ISS Ethix. For sovereigns (countries) turnovers is replaced by GDP. Please note that only scope 1&2 are taken into consideration, excluding scope 3. The carbon intensity of our fund might therefore appear higher than the benchmark. Scope 1 refers to direct GHG emissions and Scope 2 refers to indirect GHG emissions from the consumption of purchased electricity and Scope 3 refers to other indirect emissions that occur from sources not owned or controlled by the company.

Portfolio coverage for the SDG score

Benchmark	JP Morgan Emerging Markets Bond Index – Global Diversified
The fund uses a benchmark which is not aligned with the environmental and social characteristics of the fund.	
Portfolio coverage	96%
Benchmark coverage	100%
Portfolio holdings	292

Engagement is key for active ownership

The aim of this section is to describe some of the activities that the Responsible Investment (RI) team has done over the last quarter for this specific fund. This tool, therefore, is not meant to be fully comprehensive, but to allow investors to follow-up on the fund's relevant ESG-related issues (Environmental, Social and Governance) and the main activities that the RI team has been involved in.

Being part of Nordea's responsible investment policy, the fund excludes countries with a structural and non-improving ESG profile and companies involved in the production of nuclear weapons and cluster munitions as well as companies with large exposure to coal mining (>30% revenues). However, excluding a country or a company from our portfolios is always a last resort: the **STARS concept aims for positive selection** with the objective to influence countries and companies to improve their ESG profiles. **Engagement therefore takes a new dimension with the STARS.** It does not only consist of the traditional forms of engagement, like the exercise of voting rights or entering into a dialogue to encourage the improvement of their public governance and management systems, their ESG performance or their reporting. When assessing a country or company's ESG risk profile we also focus on specific themes utilising UN Sustainable Development Goals. Thus, we distinguish two types of engagement:

- **Risk Engagement:** if a country and/or a company are not managing their material ESG risks well, the RI team engages with the public authorities and companies' management on the issue. The ESG risks can be company specific or stem from the country in which the company operates or its industry. Violations of international norms and conventions are also addressed under Risk Engagement.
- **SDG Engagement:** conducted with a specific focus on countries or companies' exposure to certain themes, which might represent a significant material risk. Nordea believes that countries and companies that align their strategies with the UN Sustainable Development Goals (SDGs) will be successful in the long-term, because they are adjusting to global society's future needs.

Engagement cases

Alibaba Group Ltd.

Nordea ESG scoring ³	Proxy Voting ⁴	SDG Engagement	Engagement topic
B	✓	<div style="display: flex; flex-direction: column; gap: 5px;"> <div style="background-color: #800000; color: white; padding: 2px 5px; text-align: center;">8</div> Decent work and economic growth </div> <div style="display: flex; flex-direction: column; gap: 5px;"> <div style="background-color: #FF0000; color: white; padding: 2px 5px; text-align: center;">5</div> Gender Equality </div>	Gig-worker's working conditions Protection of female employees rights

Overview

Alibaba Group Holding Ltd. provides online and mobile marketplaces in retail and wholesale trade. They are one of the biggest companies in China, directly employing more than 240,000 people. The company was founded by Chung Tsai and Yun Ma in 1999 and is headquartered in Hangzhou, China.

Background

Alibaba plays a vital role in strengthening China's position as a global supplier with its wholesale platform, as well as in creating entrepreneurship in China after the market reform in 1997 which saw the country transition from a fully planned economy. Alibaba's ecosystem spans across multiple industries

and is an integrated part of almost all Chinese people's lives. NAM has been a long-term investor in Alibaba, and for the first time in a long time had the chance to visit the company's HQ in China and carry out an onsite engagement.

The Engagement

We met with Alibaba to follow up on labour rights topics, as the company had been noted by ISS in 2020 for its inability to respect the rights to safe and healthy working conditions of gig-workers on its Ele.me platform (a digital food delivery platform, similar to Uber Eats or Wolt). In addition to that, we also discussed its workplace diversity and engagement following the sexual assault scandal in 2021.

3) Current scoring, based on Nordea proprietary ESG model. 4) Proxy voting refers to the last 12 month-period. Generally, we vote in annual reports and most of the Annual General Meetings (AGM) which occurs once a year. If there is no vote, it is generally because the fund was not invested at the time when the AGM happened. Please find out more on nordea.com/sustainability or access directly the [voting portal](#).

Outcome

Since 2020, Alibaba had carried out various structural changes and reforms to protect gig-workers' safety and health conditions. Regarding safety measures, Alibaba changed the strictness level of its algorithm, which previously would impose severe penalties if drivers deliver late (even by minutes). The improved KPI measures removed those strict time controls and, instead, use the overall rating over a longer period of time. Furthermore, the new algorithm imposes mandatory 20-min rest time after delivering for 4 hours to protect drivers. During 2021, Ele.me achieved training for over 5 million drivers, and 30,000 road safety training sessions in collaboration with local traffic bureaus. Besides, Ele.me launched "smart helmets" in a few pilot cities to minimise its drivers' mobile use during driving.

Regarding employee health, Ele.me offers health packages according to Chinese Labour Law, annual physical checks, as well as mental health counselling. Those are now reported under the annual "Ele.me Gig-worker Annual Report". In addition, Ele.me initiated a career development track for employees who would like to develop in the company's district logistics hubs, operation centres, among others.

When asked about working conditions during China's strict covid lockdown, Ele.me platform reported to have established a "Pandemic Care fund", which includes a 300,000 RMB compensation. If a driver caught covid during working hours, they could apply for 150 RMB isolation care payment per

day. However, Ele.me were not able to provide the number of employees who actually received the payment. NAM welcomed those initiatives, and suggested Alibaba to further improve disclosure, such as reporting the exact number of employees who received the compensation so that its impact can be assessed.

On the topic of workplace diversity, Alibaba introduced a series of changes since the sexual assault case in 2021, which is now considered closed as per the court's decision. Alibaba's CEO, Daniel Zhang took this very seriously. Immediately after the scandal, they established an internal Workforce Environment Committee that reports directly to the CEO. Additionally, a whistle blower channel was built specifically for sexual harassment and emergency support. We acknowledged Alibaba's rapid action and determination to change workplace culture, and will monitor if any similar cases resurface in the future. It is important to point out that Alibaba has an employee diversity split of 49.5%, which is ahead of many other tech giants such as Amazon (44.8%) and Apple (42%).

Lastly, during onsite engagement, we noticed the company culture of Alibaba is quite collaborative, friendly and college-like. They refer each other as "Tong Xue" (or "study buddy" in Chinese), and their office sites are referred as "campuses". We observed a sense of proudness and belonging among them, and noted that it is a popular career destination for fresh graduates in China.

Description of Verisk Maplecroft methodology

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

Complete list of SDGs:



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

Please note that each fund and benchmark are assigned a score ranging from 0.00–10.00 based on the above 17 UN SDGs. For the approach to be meaningful and sound we have assumed that the minimum coverage at the fund level should at least be 60 %. This means that for a fund score to be meaningful at least 60 % of its holdings need to have a score from a country perspective.

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