

## Sensitive Industries Guidelines

September 2022

### The ESG STARS concept

- The ESG STARS concept was developed as an approach to integrate traditional financial analysis with ESG/Sustainability analysis including engagement and shareholder action.
- In addition to Nordea Asset Management's (NAM) aim and ambition to deliver Returns with Responsibility<sup>1</sup>, the ESG analysis becomes value-adding to the overall investment analysis as an extra layer of information that improves our knowledge at the company level. It also aims to enhance our risk-adjusted returns and management of reputational risks.
- NAM's ESG STARS strategies are about positive selection based on our proprietary ESG rating threshold and it is not about negative screening. We select quality companies with well managed ESG profiles that generate long term economic value and strive to further enhance these ESG profiles through our engagement activities.
- Norm-based screening, including norms such as for example UN Global Compact, is also a feature in the strategies.

## Guidelines for ESG STARS fixed income strategies – sensitive industries

### Norm-based screening and anti-corruption

NAM's investment products including the ESG STARS strategies are subject to norm-based screening, which identifies companies that are allegedly involved in breaches of international law and norms on environmental protection, human rights, labour standards and anti-corruption.

For further details, please refer to NAM's [Responsible Investment Policy](#).

### Weapons

NAM considers a range of weapon types and their potential use to be controversial, given their indiscriminate effect on human populations. NAM does not invest in companies that are involved in the production or development of:

- cluster munitions
- anti-personnel mines
- biological weapons
- chemical weapons
- weapons with non-detectable fragments, incendiary and blinding laser weapons
- depleted uranium munitions

\* according to MiFID definition

<sup>1</sup> 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.

- white phosphorus munitions.

NAM does not invest in companies that are verified to be involved in the production or development of nuclear weapons. NAM also excludes companies involved in the maintenance of nuclear weapons, with a military revenue threshold of 5%. For further details, please refer to NAM's [Responsible Investment Policy](#).

Additionally, for other (conventional) weapons the ESG STARS strategies apply a 5% production revenue threshold on military equipment. Further for some funds, a 5% production revenue threshold on civilian firearms is applied.

## **Tobacco**

Tobacco use is one of the main risk factors for a number of chronic diseases, including cancer, lung diseases, and cardiovascular diseases. We take the view that tobacco is fundamentally in conflict with the concept of sustainable development because of the health impacts of smoking, the cost of treating individuals, and the effects of passive smoking.

The tobacco industry is also facing high risks in the supply chain since sourcing is often from high risk countries with risk of child labour and poor working conditions. There are environmental risks in the supply chain such as water stress and use of pesticides.

The ESG STARS strategies adhere to restrictions in exposure to tobacco and apply a 5% production revenue threshold on tobacco.

## **Climate change**

NAM has a Climate policy to assess the risk and impact of climate change on investments. For further details, please refer to NAM's [Responsible Investment Policy](#).

The ESG STARS strategies are subject to the NAM's Paris-Aligned Fossil Fuel Policy. The policy requires all fossil fuel companies to demonstrate that they have a decarbonization strategy that is consistent with 2°C of global warming or less. These companies are put on the Paris-Aligned Fossil Fuel list. Companies that are not on the list will be excluded from funds adhering to the policy. For further details, please refer to the NAM's [Fossil Fuel Policy](#).

## **Thermal and metallurgical coal extraction**

NAM excludes companies with large and sustained exposure to coal mining, with a 5% revenue threshold on thermal coal and a 30% revenue threshold on total coal (including metallurgical coal). For further details, please refer to NAM's [Responsible Investment Policy](#).

ESG STARS strategies follow NAM's [Fossil Fuel Policy](#) and adhere to restrictions in exposure to coal mining and do not invest in companies with expansion plans for coal extraction since it is not considered as a sustainable business model.

## **Unconventional oil and gas**

ESG STARS strategies follow NAM's [Fossil Fuel Policy](#) and exclude all companies that are involved in so-called unconventional fossil fuel extraction methods. These methods include Arctic drilling, oil sands extraction, and hydraulic fracturing (shale oil/gas).

## **Conventional oil and gas exploration and production**

ESG STARS strategies follow NAM's [Fossil Fuel Policy](#).

NAM is part of IIGCC (Institutional Investor Group on Climate Change) Climate Action 100+ engagement which is a 5-year engagement with focus on governance and disclosure of climate risk and capital expenditure at risk.

## Utilities companies

Thermal coal miners and coal-focused power companies are bearing the brunt of the shift away from carbon so far. A raft of regulations already exists but heightened ambition will tighten policy for the utilities sector. These regulations include specific carbon reduction targets, incentives to increase renewable energy generation, demand side energy savings and carbon pricing, alongside more indirect requirements for disclosure and water management.

The utility companies in our ESG STARS portfolios must comply with NAM's Paris-Aligned [Fossil Fuel Policy](#).

Nordea Asset management is part of IIGCC Climate Action 100+ engagement which is a 5-year engagement with focus on governance and disclosure of climate risk and capital expenditure at risk.

## Nuclear energy

Nuclear energy production has several challenges including waste management, health & safety risks and impact from potential accidents. We limit exposure to nuclear energy in utilities companies due to the high ESG risks.

## Biodiversity

NAM has published a position statement on biodiversity as part of the [Responsible Investment Policy](#). We expect companies exposed to issues related to the loss of biodiversity to ensure that they report on how they manage the related risks and impacts adequately.

## Water use

Our position statement on water use and scarcity is embedded into NAM's [Responsible Investment Policy](#). We expect companies in the high-risk sectors to ensure that they address and manage their water risk adequately.

## Taxation

We expect our portfolio companies to have a tax policy that outlines the company's approach to taxation and how it aligns with the overall business strategy. We also expect companies to have a robust tax governance and management framework in place, to pay taxes where economic value is created and to provide country-by-country reporting. Tax is one of the aspects we look at in our Good Governance position statement which is part of NAM's [Responsible Investment Policy](#).

## Alcohol

The harmful use of alcohol is a public health problem. We also see growing regulatory initiatives globally aimed at reducing the harmful use of alcohol. Public concern about alcoholic beverages and any resulting restrictions (e.g. excise tax) as well as shifts towards healthier beverages may cause social acceptability and consumption to decline.

ESG STARS strategies only invest in alcohol companies that have policies and practices to address responsible marketing, consumption and sale of their products. This can include membership in and compliance with the Beer, Wine and Spirits Producers' Commitments to Reduce Harmful Drinking.

The ESG STARS strategies adhere to restrictions in exposure to alcohol and apply a 5% production revenue threshold on alcohol

## Adult entertainment

The harmful effect of adult entertainment on the workers' physical and mental health are well documented.

The ESG STARS strategies adhere to restrictions in exposure to adult entertainment and apply a 5% production revenue threshold on adult entertainment.

## Gambling

There are concerns regarding the negative social impact of gambling addiction, especially on vulnerable groups such as children.

ESG STARS strategies only invest in:

- Companies involved in the gambling industry that are aware of the potential negative effects of gambling on individuals and communities and recognise their responsibilities in this regard. This may include employee training, monitoring of that they comply with standards for responsible gambling, member of responsible gambling initiative, functions to help control excessive gambling and process to handle request from people who wants to be blocked from gambling.
- Companies in the gambling industry that are mainly in regulated markets or transferring business to regulated markets

The ESG STARS strategies adhere to restrictions in exposure to gambling and apply a 5% production revenue threshold on gambling.

## Oppressive regimes

For ESG STARS strategies, companies (taking into account state-owned companies) whose operations are involved with/exposed to oppressive regimes are reviewed as part of the ESG assessment. Our key guidelines in this regards are the UN Guiding Principles on business and human rights. The review is on a case by case basis and could lead to the exclusion of the company.

NAM does not invest in sovereign bonds issued by governments which are subject to broad sanctions.

## Death penalty

For ESG STARS strategies, companies (taking into account state-owned companies) whose operations are involved with or supportive of death penalty are reviewed as part of the ESG assessment, depending on exposure. The review is on a case by case basis and could lead to the exclusion of the company.

NAM does not invest in sovereign bonds issued by governments which are subject to broad sanctions.

## Forward contracts on agricultural commodities

Since 2012, NAM has not offered investment products where basic food commodities such as wheat, coffee or sugar are included in the underlying assets. This position is covered in NAM's [Responsible Investment Policy](#).

## Use of Derivatives

The use of derivatives in funds classified as SFDR Article 8 (including ESG STARS strategies) and 9 is allowed for efficient portfolio management purposes. The derivative instruments do not require an ESG assessment.

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