Nordea ASSET MANAGEMENT

30.04.2023

UK Stewardship Code

The UK's Financial Reporting Council's (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 approximately EUR 37bn, total assets of EUR 624bn and EUR 389bn 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 qualifies within the top European financial institutions in terms of market capitalisation.

About Nordea Asset Management[2]

Nordea Asset Management ('NAM', AuM 239bn 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 funds. 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 and offering the best service to clients.

Nordea's success is based on its focus on sustainability and 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 and aims to serve clients in every market condition. NAM solutions cover all asset classes from fixed income and equity to multi asset solutions, and manage local and European as well as US, global and emerging market products.

[1] Source: Nordea Bank Abp. As of date: 31.03.2022

[2] Nordea Asset Management it is the functional name of the asset management business conducted by the legal entities Nordea Investment Funds S.A. and Nordea Investment Management AB and their branches and subsidiaries. Nordea Investment Funds S.A. is the management company and Nordea Investment Management AB is the investment manager of all funds belonging to NAM.

[3] Source: Nordea Investment Funds, S.A., 31.12.2022

CEO Foreword

Sailing through rough seas

Navigating our way through a perfect storm of inflation, supply chain disruptions and war

Last year began optimistically for Responsible Investors. More than 550 asset managers and financial institutions stepped up to fight climate change through loans and investment portfolios worth over USD130tn[4]. But our attention was soon captivated by swelling and surging energy prices driven by Russia's invasion of Ukraine. Even as investors began taking defensive positions in their portfolios, the case for energy sovereignty became crystal clear.

Questions regarding the value of climate and resource efficiency-oriented investment solutions seemed to answer themselves. Although some investors de-emphasised their long-term sustainability goals in a bid to capture the short-term upside of gains resulting from higher energy prices, the long-term prospects for sustainable investing remained strong. Research by Dow Jones in September 2022[5] showed ESG investment is expected to more than double over the next three years, while 66% of financial leaders named ESG investing as the number one driver for sustained, long-term growth. Faced with the dual challenges of our troubled economy and the undeniable need to ramp up ESG investment, we focused our attention on our core mission—delivering returns and responsibility—and let it guide us through a challenging year.

We inaugurated Climate Investing 2.0 and other innovative ESG thematics
Our Global Climate Engagement strategy was launched on 26 April 2022 against the backdrop of the war in Ukraine and resulting energy independence questions. Leveraging NAM's 15 years of expertise in climate investing, the strategy targets companies in sectors essential to the green economy yet in the early transition phase to more sustainable business models. By pushing these companies through engagement to catch up to climate leaders, our approach aims to unlock their under-appreciated value and contribute to the reduction of real-world emissions. This is what we call Climate Investing 2.0.

Last year also saw the launch of our Global Social Bond Strategy, a fixed income solution addressing the "S" in ESG, and our Global Sustainable Listed Real Assets Strategy, which taps into the megatrend of greening core industries like energy, telecoms and transport.

In keeping with our commitment to RI, we continued to expand our ESG STARS family with three additional solutions bringing the ESG STARS family AUM to almost EUR17bn.[6]

We zeroed in on engagement
Active ownership continues to be a strong focal point for us and in 2022, we initiated a concerted engagement campaign to communicate our Paris alignment expectations to the top 200 companies assessed as "not aligned" in our investment universe. The aim is to engage high-emitting companies that have yet to achieve alignment objectives, but which we believe can achieve real-world emission reductions with the help of firm-wide and collaborative engagements.

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[4] Glasgow Financial Alliance for Net Zero, 2022 Progress Report
[5] https://www.dowjones.com/press-room/esg-investment-expected-to-more-than-double-in-the-next-three-years-new-research-from-dow-jones-shows/
[6] As of 31.12.2022

Last year, we also initiated the first phase of a collaboration with selected partners and clients to engage with 15 companies in the oil and gas industry on the disclosure and mitigation of their methane emissions. The coalition of the investors involved in this engagement represents EUR 2.143 tn in AUM[7]. We will continue to drive this engagement forward in 2023.

In 2022, we conducted 994 engagements on various topics ranging from climate action to better sustainability reporting practices. At the end of the year, we considered more than 10% of these engagements to be resolved as companies met our expectations. On the voting side, we yet again achieved our goal to vote in over 95% of all votable meetings, with 3,859 **Annual** General Meetings voted in 2022.
We are also proud to share that we voted on 96% of climate proposals. Our commitment to ESG and the Sustainable Development Goals has brought recognition from across the industry. In 2022 Funds Europe gave us the esteemed *European ESG Manager of the Year* award, one of many we received.

We're thinking forward

Many of the issues that made 2022 a challenging year for the global economy will carry over in 2023. Moreover, with issues like climate change, biodiversity and human rights at the top of the agenda for authorities, companies unable to live up to the rising level of due diligence required will be increasingly locked out of the world's largest markets. This poses risks for investors, which means thorough ESG analysis will continue to be imperative.

And even without these regulatory tailwinds, the power of public opinion should not be underestimated. As we are increasingly confronted with visions of extreme weather events and biodiversity loss, retail investors are likely to become more conscious of the connection between their investments and sustainability factors. As for institutional investors, while we have seen a handful of cases of backtracking in terms of climate commitments, these were dwarfed by the number of entities seeking to strengthen sustainability pledges, and we have the solutions they are looking for. I invite you to read our RI Annual Report to find out more about our ongoing commitment to Responsible Investment.

Nils Bolmstrand

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

[7] Data as of 01.01.2023

Contents

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 third-party fund distributors globally. NAM is the largest asset manager in the Nordics with a growing 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:

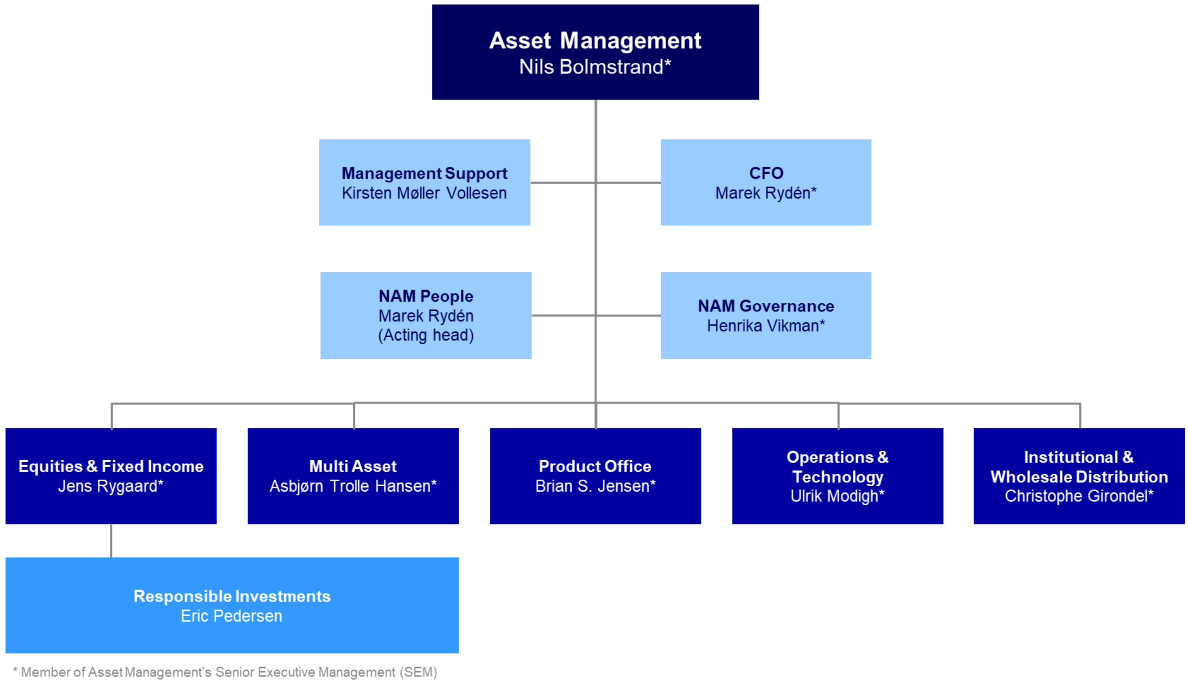


Figure 1: NAM organisation structure. Data as of 31.12.2022.

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, given 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 have highly motivated, engaged and committed employees with a strong sense of belonging to NAM. We achieve this by setting the tone from the top and involving 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, for 2022 and beyond. 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 to anchor Diversity and Inclusion in the NAM culture. NAM has a solid foundation of Nordic values upon which to build, and we seize every opportunity available 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 boutiques, coupled with centralised functions for all non-investment alpha departments, including sustainability.

Our client base is equally split between Nordea (group-related) and external clients. More than 900 people 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 but has also developed a large global business servicing clients across Europe, the Americas and Asia. With EUR 239bn[8] in assets under management, we have experienced strong growth over the past decade.

NAM Value Chain

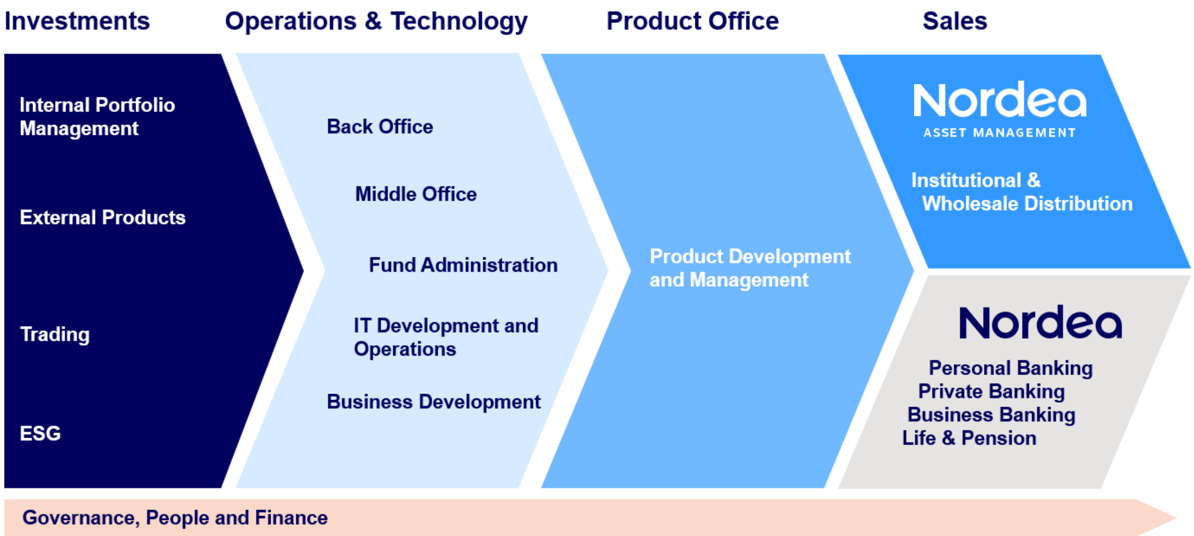


Figure 2: NAM value chain. Data as of 31.12.2022

[8] 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 in order to cater to their differing needs 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 in order to achieve this purpose our fund managers need to retain the freedom to express their convictions as long as they stay within the 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 a must. To satisfy the growing demand for alpha strategies, NAM has established a multi-boutique approach that combines internal and external capabilities, where expertise in any given area can add a competitive advantage and ultimately 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. For example, 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 aim to provide 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 of 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 RI framework.

This is the key decision we made to ensure that our investment beliefs and business strategy enable effective stewardship: as we understand that some of our alpha centres, 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 it as an overlay 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 ultimately 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 very 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.

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 who are 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.[9]

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 emanating 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.

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. Therefore, 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 some key parameters. The purpose is to take learnings on country, region and branch level and decide on actions that can further improve the customer satisfaction. In 2022 the positive customer satisfaction trend achieved 75.9% at a Group level (from slightly below 75% last year, and with a target of 76.1%). We continue to work to improve this metric, refining our customer service and reporting processes, with the aim to beat our target. Our customer satisfaction level has been increasing over the years, prompting us to continue our efforts at a NAM level to improve on this score.

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

[9] 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.

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 in order 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 is 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.

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 ranked 2nd in Social Responsibility & Sustainability, 6th in Appealing Investment Strategy, and 10th of Top 50 Brands.

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;
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 survey by Broadridge.

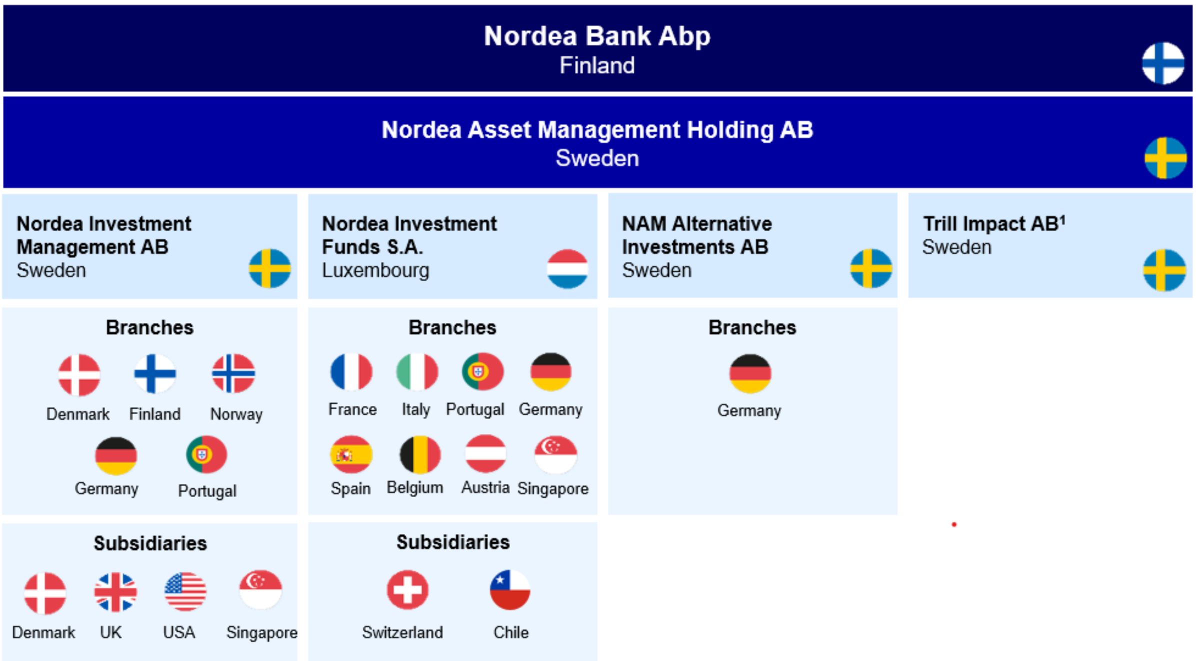
All these three processes showed improved marks compared to the previous year, and good absolute levels, which tells us that we are delivering a good and improving service to our clients.

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 how the entire Group's legal structure is organised.

NAM is part of Nordea Group's Asset & Wealth Management division. It's a holding company with subsidiaries such as 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 management company authorised by the CSSF (the Luxembourg FSA) to manage UCITS and alternative investment funds. Its legal structure is shown on Figure 4.



1) Nordea Asset Management Holding AB has a 30% ownership stake in Trill Impact AB
Source: Nordea Asset Management Holding AB as of 31.12.2022

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, we structured NAM a functional organisation, 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 flowcharts, 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.

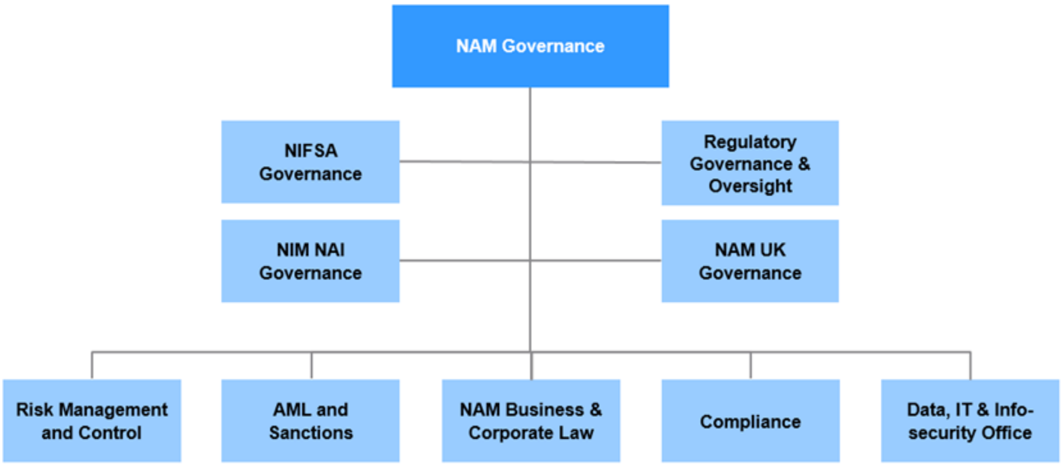


Figure 5: NAM Governance Structure. Data as of 31.12.2022.

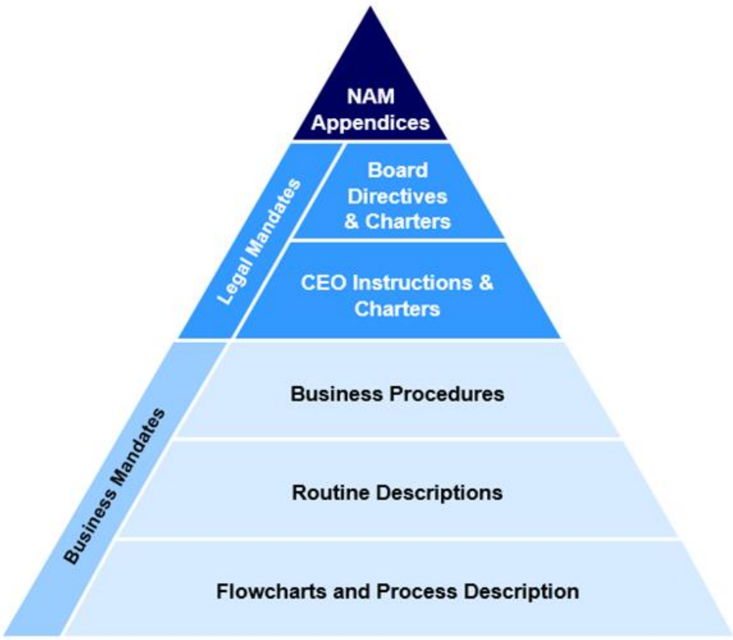


Figure 6: NAM Governance Framework. Data as of 31.12.2022.

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. The Responsible Investment committee is also part of this level because we see Responsible Investments as a vital business function.

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 over their area of competence. Our approach has been fine-tuned over many years and we 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 31.12.2022.

Diversity and Inclusion

In NAM we have a strong focus on diversity and inclusion because we truly 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 into being 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. In 2022 we have strengthened our D&I data collection process to ensure we can track our progress. By Q4 2022 we are representing 45 different nationalities. This is a very positive development, partly due to the fact that we are growing our international presence, but also an indicator that we are embracing working in diverse teams and have learned to take advantage of our different backgrounds and perspectives. 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.

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.

Employee compensation and remuneration

NAM offers fair and competitive, but not market-leading, compensation packages. We have a total remuneration approach to compensation, which recognizes the importance of well-balanced but varied remuneration structures based on business and local market needs. Our compensation aims to being consistent with and promoting 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 and 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 is able to 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 of 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. Ratio between fixed remuneration and variable remuneration varies for different 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 is 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 one 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 & 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 & Compliance factors.

By introducing sustainability and broad ESG targets in 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 as such that they align with our clients' interest.

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 & 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 & Information Handling/Information Security Essentials. In 2022 all employees in Nordea were offered updated Nordea Sustainability learning.

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's 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 Responsible Investment Committee (the "RIC"), 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 uncompromisable ESG beliefs. This is based on our Responsible Investment Policy and is approved by the RIC.

To support the ESG investment guidelines, the RIC 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. The RIC oversees engagements and exclusions and determines NAM's overall ESG investment guidelines, ensuring that NAM follows our RI policy and always acts in the best interest of clients and their preferences. The 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 conduced 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.

In 2022, we aligned our research framework with the EU regulatory green deal initiative. 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.

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") is responsible for securing compliance with our Responsible Investment Policy, decide on exclusions and engagements as well as monitor engagements. 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

NAM created a firm-wide ESG project programme in 2021 to ensure fulfilment of all the regulatory requirements related to the EU Green Deal. The programme covered all aspects of ESG regulatory landscape, with representatives from all areas of the organisation, with the purpose of developing transversal processes and procedures across the whole asset management value chain. A total of 10 streams with identified areas of responsibility and deliverables, analysed ESG indicators, investment strategies, product range, sustainability risk, client documentation, regulatory reporting and disclosures, reporting regularly to a Partner Group made up of key senior executives, bringing relevant decision recommendations and escalating to a Sponsor Group (Senior Executive Management team) when necessary.

As a result of the programme, NAM is establishing an ESG Committee, which will be fully operational during 2023, supported by an operational forum, to secure the governance model around ESG related methods and principles. The structure is being established to ensure that there is an operational forum to facilitate discussions and secure alignment and coordination on ESG matters across the NAM the value chain, as well as that the relevant decision-making structures are in place.

Responsible Investments team

Our award-winning Responsible Investments (RI) team was established in 2009. The team is comprised of 27 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. The team added 7 new resources in 2022, this significant increase in personnel was to meet the increasing regulatory requirements, our strategic ambitions and number of products.

Figure 8: NAM's focused RI resources. Data as of 31.12.2022.

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 increase Active Ownership efforts and to utilize 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. Due to full time equivalent ramp-up, we have been able to establish a structed approach for entity level engagement on principal adverse impact (PAI) outliers and increased the investment-led engagements on product level.

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 2022 the team offered training across the company around the new EU regulations on sustainable finance. 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 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

On October 1, 2022 Cecilia has taken over the position of 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 long 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 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 professionals, led by Erik Durhan.

The key team members are below.

Erik Durhan

Erik Durhan is the Head of Corporate governance for NAM. He has a background in financial and macro analysis as well as a journalist focusing on finance and economics. His previous role was a Chiff Press Officer for the Nordea Group. He holds an MBA from Stockholm School of Economics, as well as an MSc and a degree in Journalism.

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.

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 high standards to our internal policies.

ESG compensation doesn't 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 similar to non-ESG dedicated investment professionals. For investment professionals not managing funds, dedicated ESG targets are applied if they're 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.

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 expanding 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 2022 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 2022 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: To enable us to increase efficiency, transparency and reporting related to our stewardship activities in accordance with our clients and other stakeholders needs, in 2022 we carried out an assessment process of ESG engagement tracking portal providers. The result of the assessment was to terminate ISS (for the engagement portal provision, a separate service to proxy voting), as it didn't fit our needs, and replace it with Esgaia.. Esgaia gives versatility, efficiency and capability to centralize engagement management activities in a cloud-based environment which is what we were looking for.
- Market data and ESG ratings: for market data we mainly 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.

Reflections on effectiveness

In order 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 2023 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 RI Committee (RIC). The RIC is chaired by NAM's CEO Nils Bolmstrand and comprised of senior management representing various departments in the organization. The RIC serves as the highest decision-making body of Responsible Investment within NAM, acting on behalf of all actively managed funds.
2. *Corporate Governance Principles:* the review conclusions are assessed and approved by the Corporate Governance Committee which include 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.
3. *ESG Programme:* it spans 10 sub-projects across the NAM value chain, with over 100 people involved. The programme has recently completed its annual review of the NAM SFDR Entity Level statements on Sustainability risk integration and Principal Adverse Impact (PAI) available on the external websites.

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. The next audit is scheduled for autumn 2023.

We are focusing on increasing our range of Principal Adverse Impact Indicators across our product range to continue expanding our processes.

Examples of Corporate Governance Principles Review

In 2022 we have implemented the ESG Governance Stream of the Programme, with focus on securing quality and ongoing review process for the necessary steering documents and governance on ESG. This was actioned after the previous year's review which showed that in light of current investor expectations around environmental and social issues, our governance principles needed to be updated.

In 2022 we have also rolled out a Change Risk Management and Approval process (CRMA) of all sub projects in the programme, to ensure that risks are taken into consideration. This also followed the previous year's review, which highlighted certain risks that weren't properly considered and quantified. This has now been rectified.

Examples of ESG Programme Review

The 2021 review highlighted improvement need of automation in generating disclosure data for client reports. As a result in 2022 we have increased our focus on ESG data and created automated solutions, which make our processes faster and more accurate.

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. In 2022 the EU regulators also clarified what the requirements were for each category of sustainable funds (Article 6, 8 and 9 of the SFDR), and as a result our internal classification and governance framework were adapted accordingly.

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 organizational 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 ultimately 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 of time, 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 with regard to 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 the course of 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 of time 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 different 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 in the course of 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.

2022 Conflicts of Interest Review

A review of all identified potential Conflicts of Interests was conducted in 2022, as it's done at least on a yearly basis, to ensure that preventative measures are in principle sufficient to ensure our clients' best interests.

In 2022 no actual conflicts arose, which is a testament to the strong preventative procedures we have in place.

On the basis of our 2022 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
- 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.

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.

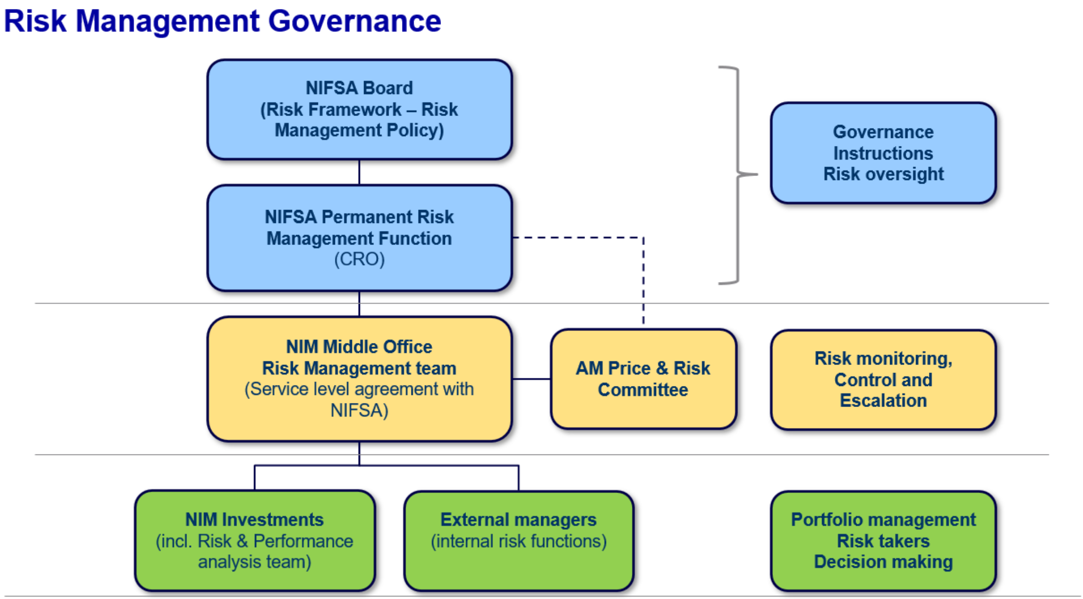


Figure 9: Risk management governance. Data as of 31.12.2022.

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, in order to influence issuers by contributing to improving their ESG practices and enhanced sustainable long-term returns.

An example of how in 2022 have continued to 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. We have during 2022 increased to 17 the number of funds that are covered by this policy and the number of issuers not meeting the policy's minimum requirements are 1,942. 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 approximately of 200 companies, as of today.

Spotlight on geopolitical risks

Nordea monitors macro and geopolitical risk to proactively manage potential as well as actual risks. An historical example is the Covid-19 during which we activated an extensive credit and liquidity risk management activity, with daily meetings and additional monitoring procedures to provide liquidity to the market as well as ensuring we were abreast of any potential sign of deteriorating market conditions. Both risks were largely mitigated by the Fiscal packages produced by national authorities, naturally paving the way to the 2022 inflationary scenario. During 2022 our investment teams and PRC closely monitored the market and central banks' response to the evolving inflation figures, de-risking portfolios as appropriate to stay within each mandate's risk limits.

As a current example we have been following the Russian troop build-up throughout 2021, as well as discussed scenarios and managed the risks during early 2022 both before and after the Russian invasion of Ukraine February 24th 2022. The main focus has been on managing the risks in products exposed to Russian securities as well as monitoring the sanctions implementation through our policy and company engagement.

In summary, the main 2022 macro and geopolitical focus areas were inflation/central bank/recession risk as well as China risk both relating to relationship with Russia, US trade conflict as well as the tension relating to Taiwan.

Spotlight on 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 2022 we were active members in a number of committees and working groups which are relevant to our different asset classes.

Through our participation and engagement, in 2022 we advocated ESMA (European Securities and Markets Authority) for change where our experience indicated a need for more clarity, for example on the topic of the SFDR implementation. We also have an open, transparent and pro-active relationship with the primary regulators in the Nordic countries: for example, in 2022 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.

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[10]. 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[11].

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.

NAM is also a founding and advisory 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. During 2022 an engagement with the government of Australia has been initiated by the IPDD, where Nordea is part of the advisory board, as 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 high risk of deforestation.

We joined the Finance for Biodiversity Pledge in 2021 and being part of this initiative, has enabled us to work together with other investors and financial industry participants to set standards for this increasingly important topic. During 2022, we actively participated in several working groups such as the engagement and policy working groups We also participated in the impact working group which provided feedback to the TNFD framework. The focus during the year has been to assess the different biodiversity data providers and their methodologies. During 2023, we will choose which data providers we will utilise to assess the biodiversity risks of our holdings.
In 2022 we joined the Investors Initiative on Hazardous chemicals. This 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 the financial risks to which they are linked.

Corporate governance (including policy and regulatory engagement)

NAM's Corporate Governance Principles focus on increasing transparency and openness in contacts between the company and its shareholders. Our 2022 principles document also defines how we view transparency and what level of openness we expect from the companies we invest in. An important 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.

[10] Source: World Economic Forum
[11] Source: European Commission, The Economics of Ecosystems and Biodiversity

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 carbon emissions by 50% in our investments, and thus help the entire economic system to transition.

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 in regards to 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.

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 several companies. The initiative was originally planned to run from 2017 to 2022, but it's being extended into a second phase.

We are part of the Institutional Investor Group on Climate Change (IIGCC), which is a leading investor membership body and the largest in the world on climate change. We participate in multiple working groups within IIGCC, including those linked to the Paris Aligned Investment Initiative, which provide a blueprint for how investors can set decarbonisation targets that support the Paris Agreement. With 29 other asset manager members of IIGCC, we also co-founded the Net Zero Asset Managers ("NZAM") initiative. Our inaugural 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.

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 recognized 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 recognized 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 is that all investee companies in funds managed by NAM will be assessed against the minimum safeguards in human rights, 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, see below).

In 2022 we took part in the following regulatory, industry, sector and/or market initiatives:

- *Access to Medicine Index* - The 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.
- *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.
- *Climate Action 100+* - We are a signatory of the Climate Action 100+, a collaborative 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. In 2022 we were lead investor, or collaborative investor, in a number of CA100+ corporate engagements.
- *Collaborative Sovereign Engagement on Climate Change* – This engagement initiative is a pilot PRI-coordinated investor initiative to support governments to take action on climate change. We are part of the Advisory Committee.
- *FAIRR* - We've joined the FAIRR's collaborative investor engagement on sustainable proteins which asked a number of 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 84 financial institution, representing € 12.6 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: 1. Collaborating and sharing knowledge, 2. Engaging with companies, 3. Assessing impact, 4. Setting targets, and 5. Reporting publicly on the above before 2025.
- *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)* - IIGCC provides investors with a collaborative platform to encourage public policies, investment practices and corporate conduct that address long-term risks and opportunities associated with climate change. In 2022 we were lead investor, or collaborative investor, in several IIGCC corporate engagements.
- *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.
- *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.
- *Investor Alliance for Human Rights (IAHR)* - We are a member of this investor initiative focusing on the inves-tor 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.
- *Investor Initiative on Sustainable Forests (IISF)* - IISF works to foster investor collaboration and engagement to eliminate deforestation from soy and cattle supply chains in South America.
- *Investor Mining and Tailings Safety Initiative* - We've joined this investor led engagement which advocates for increased tailings dam safety and transparency in the mining industry.
- *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 part of the IPPD Brazil and IPDD Indonesia Working streams.
- *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. Our 2022 priority was to initiate engagement with all companies categorised as *not aligning*. 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. In total in 2022, 149 companies (75%) on our top 200 list were engaged on the topic of Paris alignment.
- *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 2022 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 RI 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 are an official supporter of TCFD. The recommendations 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
- *Transition Pathway Initiative* - We are a supporter of the Transition Pathway Initiative (TPI), which is a global, asset-owner led initiative assessing companies' preparedness for the transition to a low carbon economy. NAM joined in 2020.
- *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 2022 we have supported several new investor statements:

- Investor Statement for Stronger Biodiversity policies ahead of COP15: Nordea joined the financial institutions call for stronger biodiversity policies ahead of COP15, representing 78 financial institutions managing more than $10 trillion in assets. The initiative urges world governments to halt and reverse biodiversity loss, and calling for a realignment to a nature-based economy that could generate $10 trillion of annual business opportunities and nearly 400 million jobs by 2030.
- Investor Statement to Governments on the Climate Crisis: Nordea signed the 2022 Global Investor Statement to Governments on the Climate Crisis, in which more than 500 investors and institutions with US$39 trillion in assets under management are urging governments to rapidly implement an ambitious programme that will allow them to invest the trillions needed to respond to the climate crisis.
- NAM comment letter to the ISSB's exposure drafts on sustainability and climate-related disclosures for investors: NAM sent a comment letter responding on IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures.
- Environmental Defence Fund's letter commenting on the International Sustainability Standards Board's (ISSB): Nordea signed on to the Environmental Defence Fund's letter commenting on the International Sustainability Standards Board's (ISSB) Exposure Draft IFRS S2 Climate-related Disclosures and in particular the ISSB Oil

& Gas Industry-based disclosure requirements. EDF organised ISSB comment letter with a group of investors and asset managers with specific focus on methane and the oil and gas disclosure requirements.

- Investor Statement on the European Commission's new Directive on Corporate Sustainability Due Diligence and gender: This is a call on policymakers to ensure the Directive is gender-responsive by explicitly and intentionally capturing a gender perspective throughout the Directive. For this legislation to effectively tackle human rights risks and impacts, it must intentionally and explicitly capture a gender perspective. Currently the proposal does not even mention the words "gender" or "women" in its 70 pages.
- NAM comment letter on the SEC's climate disclosure rule: NAM sent a comment letter responding on "The Enhancement and Standardization of Climate-Related Disclosures for Investors".
- Global Investor Support for the SEC Proposed Rule on Mandatory Disclosure: Nils Bolmstrand, NAM's CEO, submitted comments to Investor Agenda on behalf of NAM in support of the SEC Proposed Rule on Mandatory Disclosure.

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 are able to 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 didn't correctly predict there would be a pandemic, or a war.

Translating scenario analysis, which by definition explores possible future risks, into portfolio management actions today is not easy, and this is why we invest a significant amount 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 doesn't 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.
- These are reported, reviewed and discussed on a monthly basis 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, these are reviewed 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. I 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. Therefore, we don't anticipate major changes to it in 2023.

Principle 5: Review and assurance

Internal assurance

We rely on internal frameworks as described below for assurance of our policies and processes, aimed to ensure that they 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 of that framework.

The regulatory requirements and the 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 prioritized to ensure comprehensive monitoring of the compliance risk.

Internal Audit 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 organization and internal control in place for that activity or function.

We regularly review and update all our internal policies, across our departments, to reflect any relevant new regulations, best practices and evolving client demands. We adopt policy updates upon endorsement of the Responsible Investment (RI) and Corporate Governance Committee.

As described in Principle 2, our internal governance and policy review process is carried out on an annual basis (bi-annual for the ESG Programme) and is articulated as follows:

1. *Responsible Investment policy and procedures review*: the review conclusions are assessed and approved by the RI Committee (RIC). The RIC is chaired by NAM's CEO Nils Bolmstrand and comprised of senior management representing various departments in the organization. The RIC serves as the highest decision-making body of Responsible Investment within NAM, acting on behalf of all actively managed funds.
2. *Corporate Governance Principles review:* the review conclusions are assessed and approved by the Corporate Governance Committee which include 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.
3. *ESG Programme review:* it spans 10 sub-projects across the NAM value chain, with over 100 people involved. The programme has recently completed its annual review of the NAM SFDR Entity Level statements on Sustainability risk integration and Principal Adverse Impact (PAI) available on the external websites.

This process is very structured, and it's been refined over the years to reflect our complex organisation, and it has allowed us to have effective and efficient investment management, client servicing, and stewardship processes and outcomes.

Overall, we have increased focus on ESG data and the effort to create automated solutions for our disclosures and reports. With the entrance into force of the EU Taxonomy, we develop new tools and models to calculate the level of Sustainable Investments as defined by the Taxonomy regulation. These have been applied across our product range. In 2022 the EU regulators clarified what the requirements were for each category of sustainable funds (Article 6, 8 and 9 of the SFDR). Following this clarification our internal governance framework was adapted accordingly.

We have implemented the ESG Governance Stream of the Programme, with focus on securing quality and ongoing review process for the necessary steering documents and governance on ESG.

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. The next audit is scheduled for autumn 2023.

We are focusing on increasing our range of Principal Adverse Impact Indicators across our product range to continue improving our processes and implemented in 2023.

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://www.unpri.org/signatory-directory/nordea/1554.article

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 2022, we met with the certifier and discussed the development of the certification. The next review is scheduled for 2023.

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 2022, we actively engaged them explaining our implementation and interpretation of the EU regulation, to ensure that clients understood how we were implementing it, and that we addressed all their outstanding questions. In practical terms, all clients were invited to a meeting with our regulatory expert where we explained the regulation, kept an open dialogue regarding the ESG considerations in the investment strategies, and gave them an opportunity to ask any questions.

Additionally, in 2022 we also conducted a 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 main 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 the vast majority of our clients do not have any expectation of Taxonomy-alignment the coming years due to the lack an inconsistency of data. The majority of them do however expect the integration of Taxonomy-alignment to play a larger role in the investment decision making going forward. In regard to the definition of Sustainable investments there was a more scattered picture amongst our clients. The majority of them were not in a position to share their definition, but they were very 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. The majority of 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 members of the RI 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've 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 a number of changes following an extensive review of our reporting and voting practices. In 2022 we engaged 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.

Further to the changes to the review process implemented in 2021, 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, we introduced the following changes:

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 Chairman 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 doesn't sufficiently incentivize 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 and sustainable shareholder engagement. The Policy outlines the general principles for how shareholder engagement is integrated in investment strategies and what different engagement activities are carried out on behalf of clients when investing in listed shares.

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. SRD II disclosure reports are also publicly available for NIM and NIFSA on our website. For funds, a voting portal provides detailed information about how the Corporate Governance Principles have been implemented through votes during the year.

During 2022, as part of ESG Programme, several development activities have been to provide even more detailed information on fund features and activities in prospectuses and related statements as well as reporting against the new regulatory requirements. OurESG Programme spans the entire value chain to ensure aligned and coherent implementation. The program's partner group, the decision making body consisting of NAM senior executives, is responsible for making the strategic decisions and follows up on the implementation in the business.

In 2022 we have also started a project on further developing applied methodologies and processes, as well as managing our available data. Simultaneously our internal governance has been strengthened in its respective areas, with more detailed documentation (particularly business procedures and routine descriptions) being created. This continues to be a focus area.

Final considerations

Our assurance process is a combination of internal and external assurance.

Our internal assurance process is very structured and precisely defined: it's 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 is 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 possible way.

It is important, however, to receive annual external assurance to validate our outcomes. The feedback we received in 2021 was valuable and the changes we introduced received positive client feedback. In 2022 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.

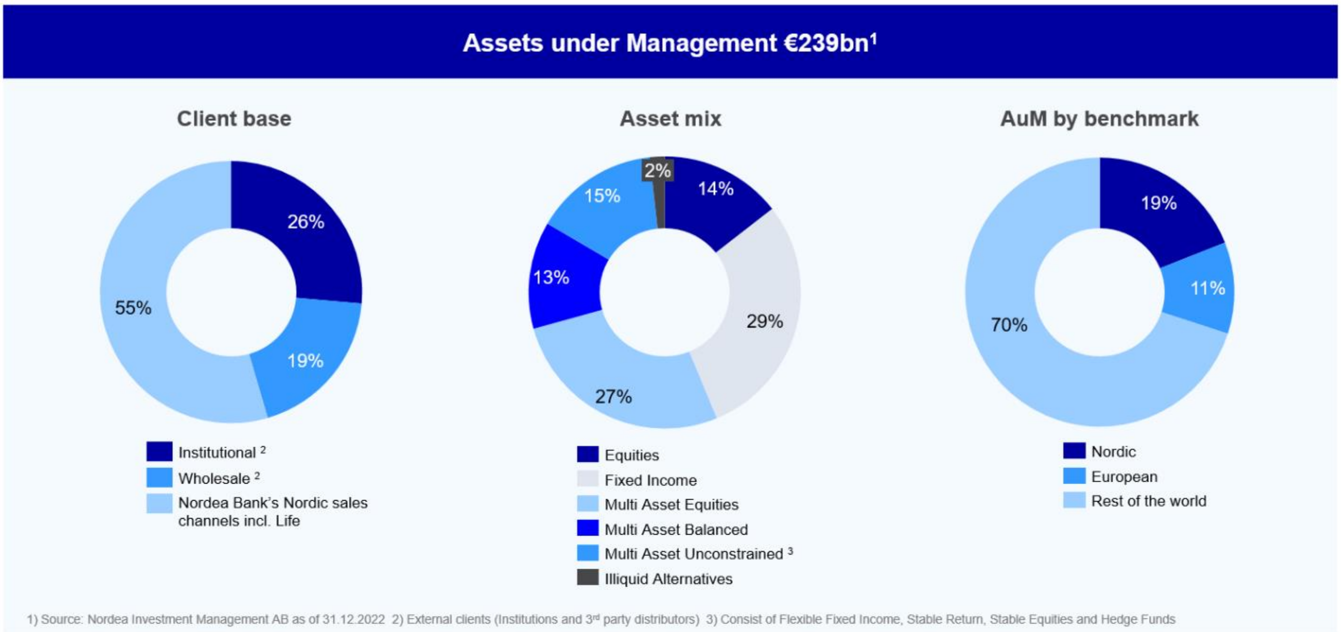


Figure 10: Assets under Management. Data as of 31.12.2022.

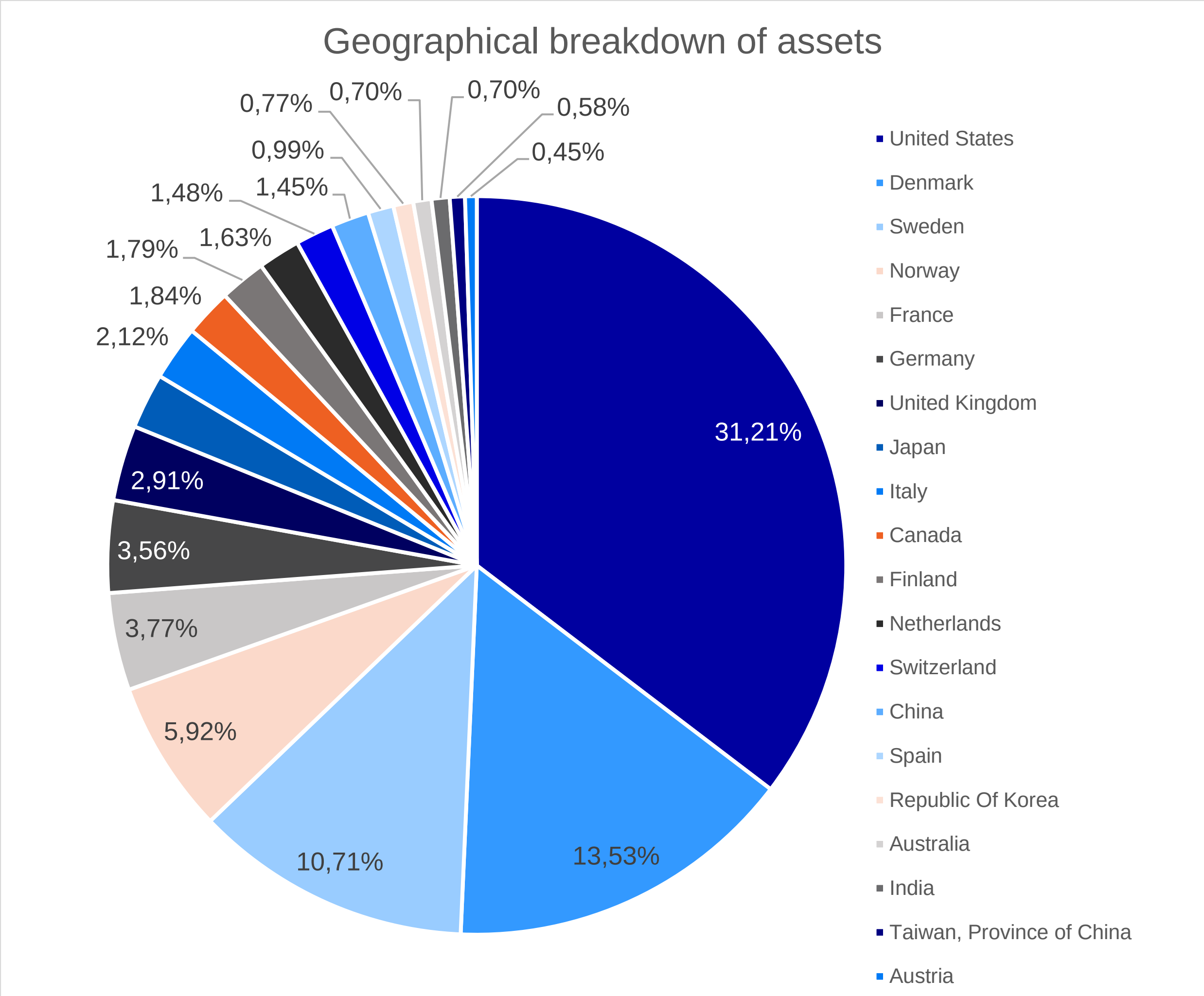


Figure 11: Geographical breakdown of assets. Data as of 31.12.2022.

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

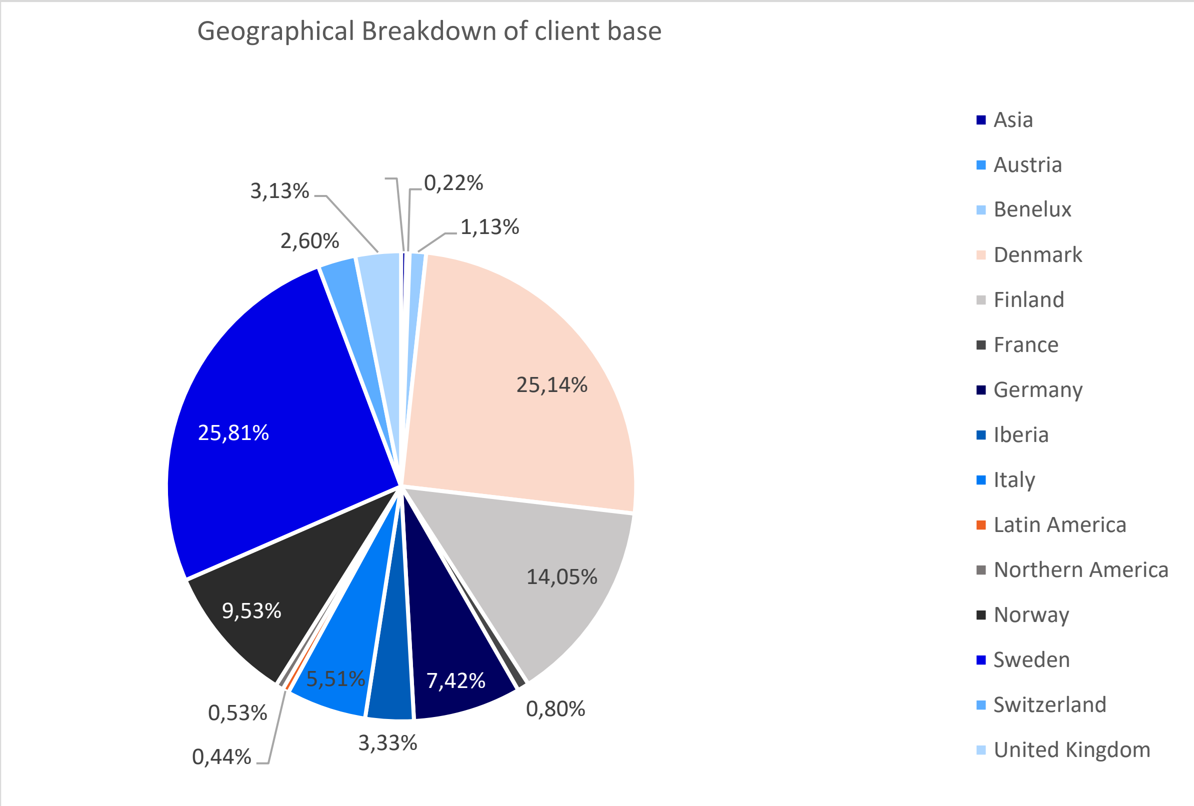


Figure 12: Client base by geographical area. Data as of 31.12.2022.

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.

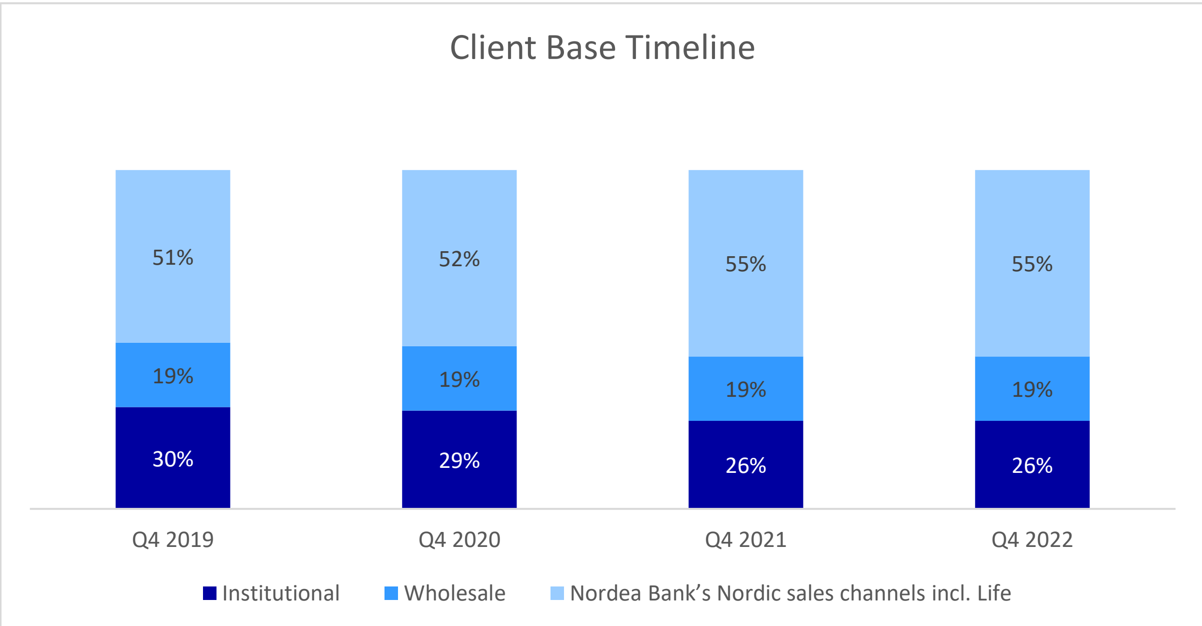


Figure 13: Client base timeline. Data as of 31.12.2022.

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 apparently simple through to sophisticated liquid alternatives to match the spread of our clients' risk appetites and needs.

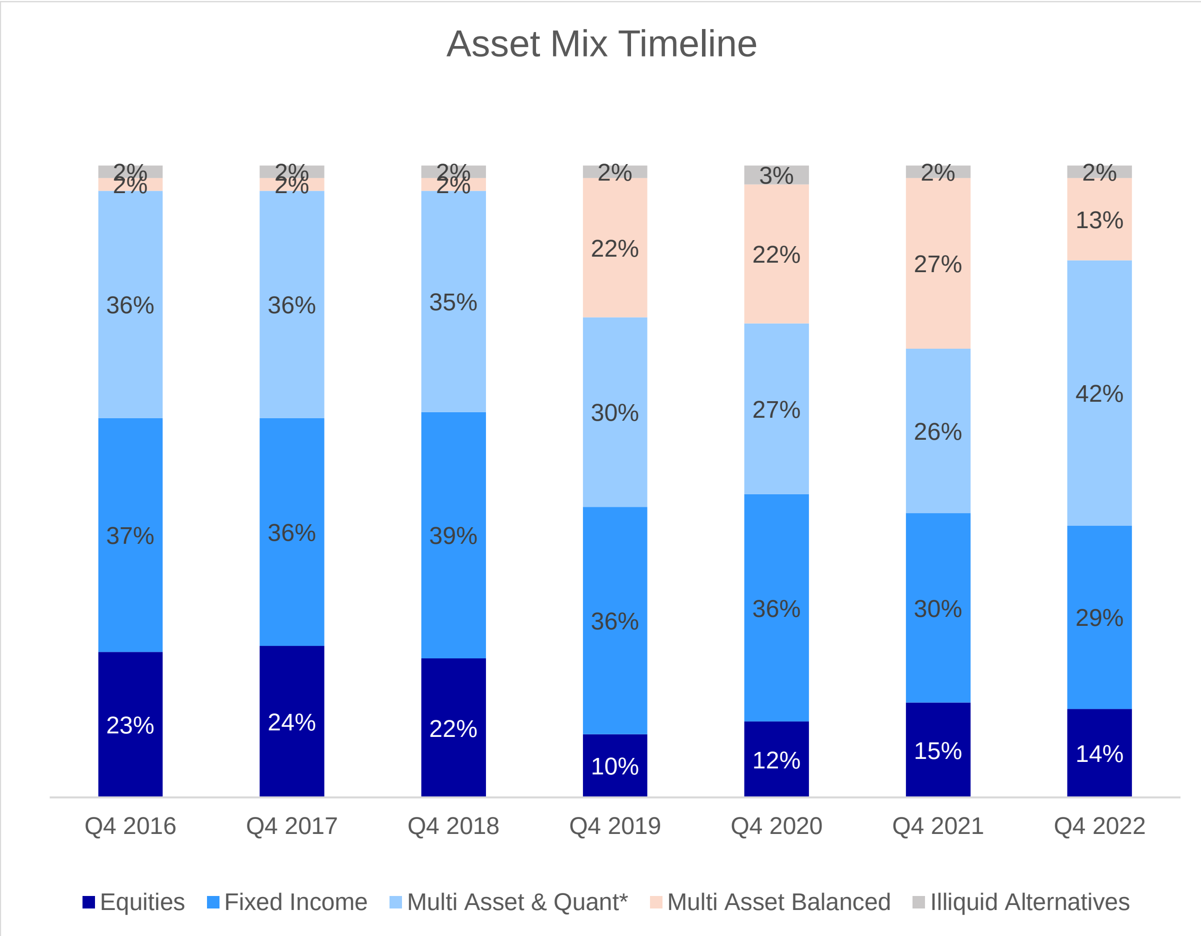


Figure 14: Asset mix timeline. Data as of 31.12.2022. *includes Multi Asset Equities and Multi Asset Unconstrained (consisting of Flexible Fixed Income, Stable Return, Stable Equities and Hedge Funds)

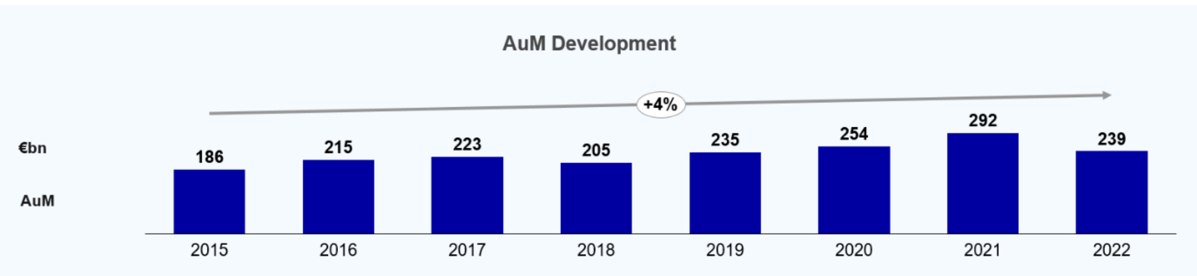


Figure 15: Development of Assets under Management. Data as of 31.12.2022.

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 relatively low barriers to entry, margin pressure, a very high degree of competition among products and their suppliers, and a rapidly evolving market and regulatory landscape. NAM's established market position doesn't make us complacent: we acknowledge that we constantly have to 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 considerably 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 Illiquid Alternatives, NAM has launched a number of solutions in the illiquid 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 greatly 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's 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 ultimately, 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 of 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 Morning Expresso and 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 our content to reflect clients' feedback. An example of this is the wide array of tailor-made contents customized for specific needs. Our customized production in 2022 spanned from ad hoc reports, videos, marketing campaigns, flyers, dedicated presentations and events.

When scalable and appropriate, we leverage key findings and new features across our markets. For instance, after having developed in 2021 a new communication style for our distributors (such as product presentations with a more compelling storytelling), in 2022 we extended this approach to our institutional segment creating a new generation of product campaigns.

Following clients' demand, in 2022 we provided several clients with a customized co-branded version of our ESG e-learning tool which has been integrated in distributors' intranet. We have received very positive feedback on this initiative.

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.

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. 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. On 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 firmly 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. 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 have a relatively low environmental footprint, be dependent on skilled labour and intellectual property (social), and be vulnerable to data privacy regulation such as the GDPR (business ethics). A mining company, on the other hand, will have a high environmental footprint and also need solid relations with its labour force (social). Exposure to systemic risks such as climate change varies from sector to sector, region to region and are thus identified for each company as part of the ESG analysis.

Bottom-up stock selection

An key part of our ESG analysis is interaction and collaboration with our investment team interact and engage with companies. The outcome and knowledge of these activities flows into our companies' assessment. Reputational risk and exposure to controversy is also something we consider at the company, sector and country-specific level. A company's responsiveness to investors' concern, its culture from the top to the ranks, and the direction a company 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). We consider how a company's business aligns with the SDGs, 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 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 way, our research considers 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 makes money (e.g. the products and services they provide) and how it is run matters (e.g. how they conduct business from an environmental, social and governance perspective).

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 new changes at a macro, market or sector level.

In 2022 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 companies across multiple regions and asset classes. The ESG risk score, which is the first module on the platform is based on the SASB materiality map, which provides the material issues per sector. These maps are populated with data points from several providers, and calibrated by our ESG views. 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.

Due to the scale and diversity of NAM's investment strategies, investment teams may employ different 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. If and 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 platform we are able to 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 for the specific sector and geographical location.

Certain countries are more advanced from a sustainability point of view (e.g. Europe), whilst others are further behind (e.g. emerging markets). This means that the expectations on ESG advancement is higher for companies in Europe than in EM.. This reflects on our expectations from companies, and how we vote. For example, in 2022 our expectations from European companies around Say on Climate proposals was higher than for US companies, and no expectation was developed for EM companies. For Paris-alignment transition plans, our expectations from Developed Markets ("DM") companies are different in speed and features from EM companies: in 2022 we recognised that EM companies needed more time than DM companies to implement transition plans, while DM companies should have committed to Net Zero 2050 and implemented those plans. Nonetheless, we engaged EM companies to disclose against TCFD and work to set a transition plan.

Our investment teams form their investment decisions taking the regional differences into account, just like our ESG 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. 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. In the previous chapters we described how we source, select and integrate externally-generated ESG data and systems to support our stewardship activities.

Stewardship and ESG principles across all NAM's assets

The ESG considerations applied 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 means that every investment boutique has access to NAM's proprietary ESG Model 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.

On the subject of 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. We communicate our voting principles 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. 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.

We extend this equity approach to all our listed equity investments.

ESG integration in listed issuers' corporate bonds

In 2022 we have further strengthened 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 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 general lower for smaller and private companies than for larger listed companies, but in 2022 we found that smaller companies were increasingly prone to listen as they receive fewer investor requests for dialogue, and their financing needs have escalated. 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*. This is where the geographical dimension makes the most difference in terms of how we assess and integrate ESG factors. The methodology provides a detailed assessment of ESG factors relevant to, among others, economic development, corruption, human rights, vulnerability to climate change and has a grounding in academic research. This model was developed in close co-operation with our EM Debt credit analysis team, ensuring that it not only produces robust results but also meets their investment needs.

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. By definition, all investments are illiquid and primarily entered into 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.

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 ultimately responsible for the investment decision process. Engagements may be part of the pre-investment due-diligence process where relevant.

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 doesn't depend on the particular 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.

The real difference in engagement execution is with our private equity and private credit exposure, where we engage with our invested managers rather than with issuers.

ESG tools and systems

In 2022 we continued to developed on 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 Our 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 Model (more below)

Searching and selecting the most qualified external data suppliers that meet our search criteria. To that effect, all of our Service Providers are selected to provide a specific service as detailed 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 Model, 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 takes into account 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 finalizes the Analyst ESG score The 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 currently use internal tools to track and document our engagements (as described under Principle 2). In 2022, we initiated an assessment of new potential engagement platform providers, with the aim to increase efficiency, transparency and our reporting capabilities. In 2023 we have planned on onboarding a new engagement platform provider, and we are progressing well in the selection process and expect to finalise onboarding in 2023.

In addition to the tools described above, we have developed 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, our client engagement has also identified a need of tightening our policy exclusions, on the basis of the increased awareness and sensitivity of our clients regarding environmental and social issues.

As a result, in 2022 our critical environmental thresholds have been tightened: NAM does not invest in companies deriving more than 5% of their revenues from thermal coal(changed in 2022 from 10%) , production of fossil fuels from oil sands (5% revenue threshold, changed in 2022 from 10%), or through arctic drilling (5% revenue threshold, unchanged). Similarly, we also exclude companies involved in production or distribution of adult entertainment with 5% revenue threshold in a sub-set of funds (new 2022 criteria). For this purpose, we maintain a firm-level exclusion list that applies to all Nordea-branded investment strategies. Any addition to – or removal from – the list is decided by the RIC.

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 appropriate at all times. 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. 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 [12]. More details on our PAFF Policy can be found here.

2022 Examples of exclusion decisions

In 2022, the RI Committee decided on the exclusion of 11 companies from all NAM portfolios (from 6 in 2021) because of involvement in controversial weapons. Another 16 companies were also excluded for violating NAM's environmental policies and five companies were excluded for violating international norms. Finally, NAM also added all issuers from Russia and Belarus to the exclusion list because of the invasion of Ukraine.

As a result of the 2022 changes to policies and exclusions lists, all of the companies captured by the new rules were sold during the year whenever allowed by settlement conditions.

[12] 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 in order to assess the quality of the underlying information that we deploy in our strategies.

ISS and Nordic Investor Services were 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 2022 after our annual review. They provide recommendations based on our voting and corporate governance principles. We make all voting decisions, whereas the external advisors 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 a selection of proxy voting advisers (currently ISS and Nordic Investor Service) to advise on and deliver our proxy votes. However, our corporate governance team retain full control of their voting decisions and may not always follow the recommendations these advisors issue. 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 in order 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 service needed, 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.

In 2021 we have contributed to ISS' client survey to express our view that their voting recommendations should include climate assessments. In 2022 we reassessed ISS' climate assessment and we were pleased to see that it had been significantly upgraded.

Example: Say on Climate proposals

Say on Climate resolutions are quite new, first introduced in late 2020, to then become increasingly popular in 2021 and 2022. In 2022 we engaged with ISS individually and collectively through the IIGCC on their Say on Climate stance, to share our views on how these proposals are a very useful accountability mechanism on a corporate climate strategy. We were very happy to see that ISS has published their proxy voting stance on these proposals which takes into account the feedback of investors, and is aligned with our views.

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 research, which we continue to engage our proxy advisors on.

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. This is equally true whether we hold the shares or bonds of an issuer.

While we fully 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 equally important and reinforcing 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. We have observed how engagement can create value in the long term by comparing the progress of companies under engagement versus companies not under engagement, and are committed to continuously improve and increase our engagement effort and scope.

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. 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. The 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).. The dialogue allows us to put forward our expectations on corporate behaviour and to support companies 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 inv-estability of a company, failure to meet expectations will entail escalation of the issue through other stewardship activities, such as voting against the Board or against particular Board motions, and ultimately 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 31.12.2022.

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 a material financial risk 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 this risk 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 prioritize companies for engagement

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

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

- ✓ Our commitment to the net zero transition 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 PAI):** 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 our in-house database and reviewed by the RI team to monitor progress.

Investment-led engagement

Investment-led engagement relates to ESG-related risks or opportunities identified by Portfolio Managers (PMs), financial analysts or the RI team via our company assessments. These engagements are done in close collaboration between the PM and the RI team. For this category position size (nominal or volatility-adjusted) is key to prioritize engagement, given the impact those positions have on performance.

PMs and the RI team engage proactively with companies in the most ESG focused portfolios when we see material ESG risks that may not be adequately managed or opportunities that may not be fully capitalized on. Together the PMs and RI team identify risks and opportunities within our holdings and set engagement goals and milestones to track the engagement. The engagement goals vary, depending on the investment process and level of ESG integration of an individual investment product.

Investment-led engagement

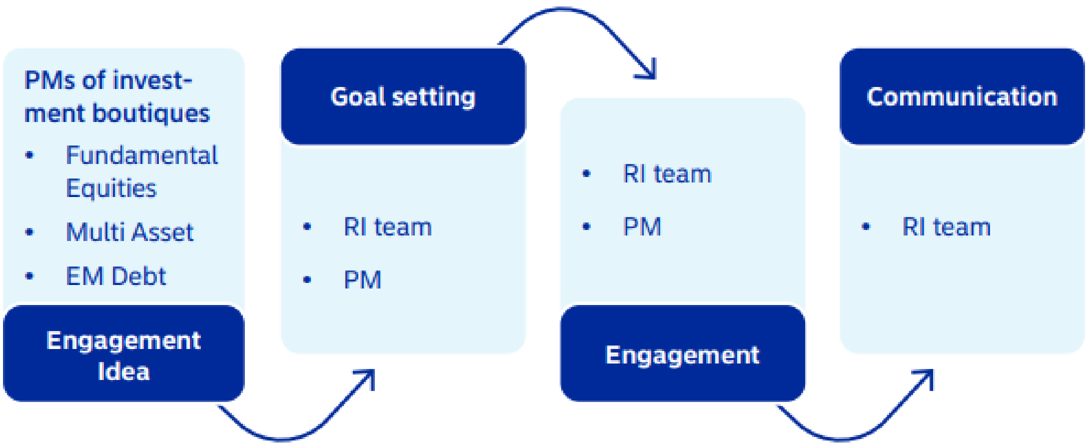


Figure 17: Investment-led engagement process. Data as of 31.12..2022.

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. Ultimately 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 in order 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 in order 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.

Examples of engagement topics

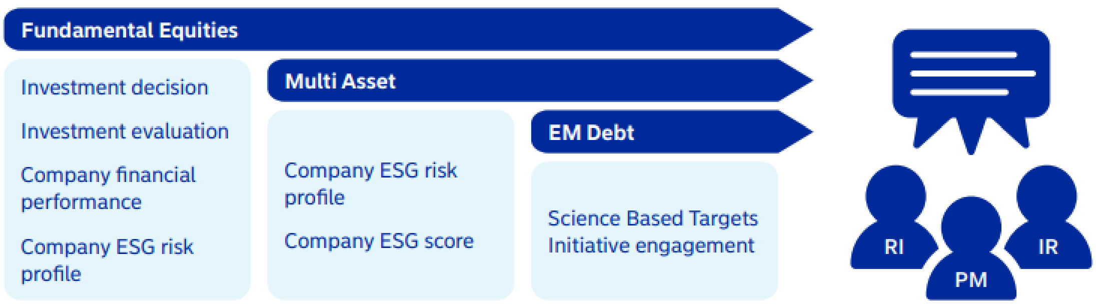


Figure 18: Investment-led engagement topics. Data as of 31.12.2022.

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.

For each incident- or norms-based engagement an engagement plan with clearly defined yearly targets is created. The engagement targets are measurable and are used to monitor and evaluate progress.

The RI team presents the RIC with an overview of the companies in breach with international norms or conventions 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.

As for PAI-driven engagement, companies that are outliers on specific PAI issues are identified and engaged in a forward-looking way, with the aim to pre-empt the issues identified from later reaching the level of an incident or norms breach.

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 2022, 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).

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, 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, PRI, CDP, ISSB, the Investor Alliance for Human Rights or through ad hoc initiatives. Typically on topics such as climate collaborating with other investors members of Climate Action 100+ and IIGCC proves to be very 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. 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.

Engagement overview in 2022

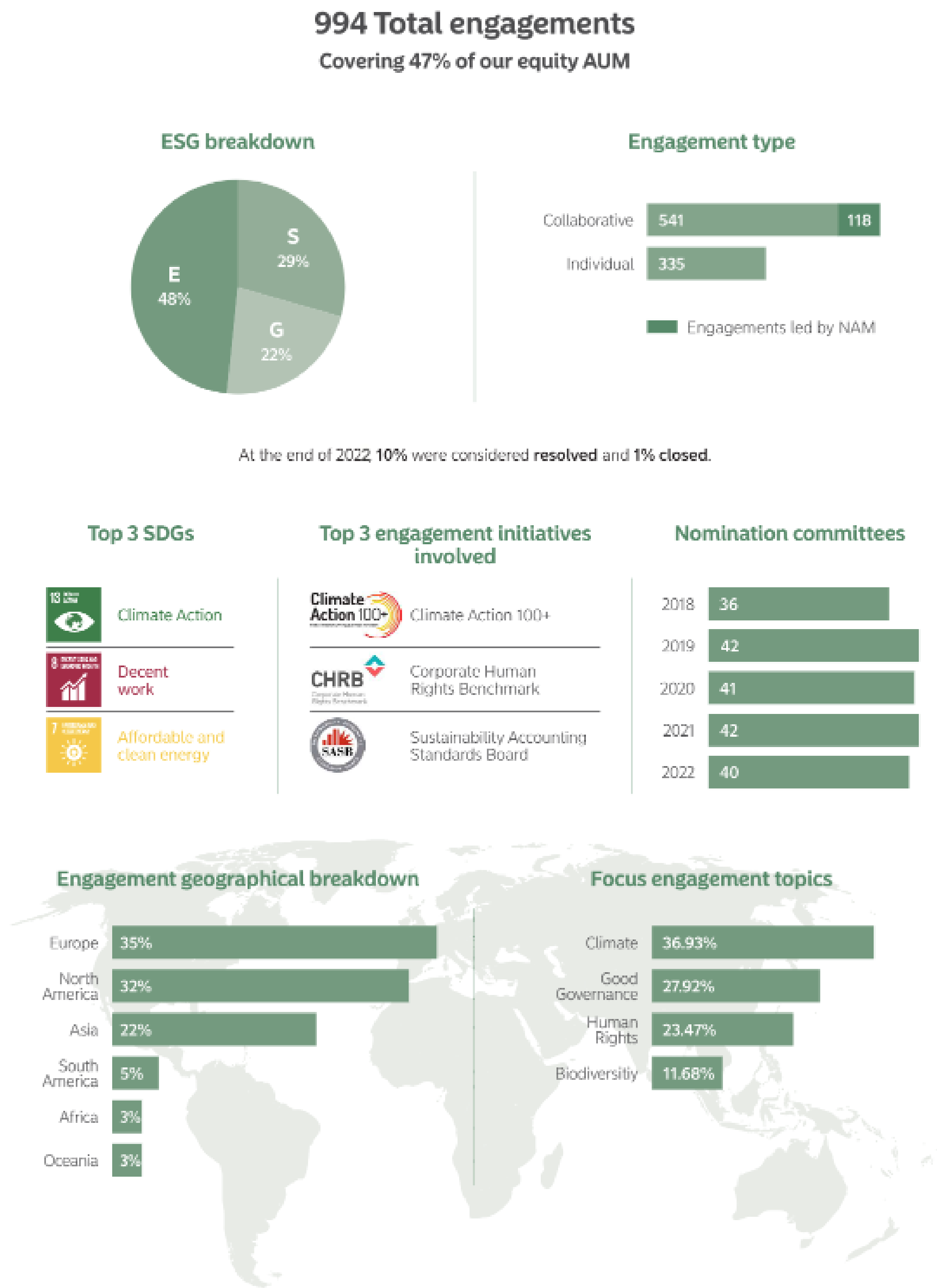


Figure 19: 2022 engagement overview. Data as of 31.12.2022.

2022 Climate engagement (Eq) example: Antofagasta

Background:
We have repeatedly engaged with Chilean mining company Antofagasta on topics related to labour rights and worker safety, water management, and climate risk. Over the course of this engagement, we have seen Antofagasta implementing numerous positive initiatives.

Engagement:
In 2022, we held three meetings with the company, including with the Independent Director and Chair of the Audit and Risk Committee, the Chair of the Remuneration and Talent Management Committee as well as with the VP of Sustainability and Corporate Affairs. The discussions revolved around the need to reduce the copper carbon footprint, an introduction of scope 3 emissions reduction targets, the obtainment of third-party verification of emission targets as well as the progress towards fulfilling their fresh-water reduction target.

Outcome:
Antofagasta has a long-term target of being carbon-neutral by 2050, as well as reducing its scope 1 and 2 emissions by 30% by 2025. Due to the natural deterioration of the mines, the GHG intensity of mining will increase over time. Therefore, the focus is to use renewable energy to power the mining production. Antofagasta informed that they have achieved securing 100% renewables for the mining equipment in all four mining sites during this year. Additionally, there are several other initiatives on fleet transformation of goods and employees, as an effort to reduce scope 2 emission. The company also shared their progress towards the "90% recycled water" ambition. This will be achieved through the desalinated water projects in their biggest mine, and they are working towards exceeding the 90% target to 95% in 2022. When discussing climate change response, Antofagasta integrated TCFD's recommendation on different climate scenarios. The company observed a constant increase of extreme weather over past 10 years, which prompt them to conduct ongoing environmental assessments, indigenous consultation, and increased CAPEX and OPEX allocated for climate risk. This is also in line with their view towards the increasingly stringent environmental regulations amid Chilean political changes.

We will remain in continuous dialogue with Antofagasta about their climate strategy and progress on decarbonization. Whilst we acknowledge the advancement they have made across climate and other ESG topics, we remain conservative in our analysis towards the worsened climate conditions as well as political and regulatory uncertainty in Chile, which led us to downgrade their ESG scoring from A to A- in 2022.

2022 Climate & biodiversity 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]

To produce aluminium, companies need to mine or procure bauxite. China Hongqiao has long been involved in mining and refinery operations in Guinea which have in the past led to disputes between local stakeholders, NGOs and the companies active in the segment, amongst others China Hongqiao. During our research into the company, we came across multiple articles detailing a project that is under development in the Eastern part of the country with the goal to mine iron ore and build out the associated transportation and logistics infrastructure. Given some of the past disputes, political instability in the country, and the sensitive flora and fauna in the region (including IUCN red-listed chimpanzees), we saw a need to engage with this company on both the Climate and Biodiversity themes.

Engagement:

Climate: We discussed the topic of decarbonization and sustainability reporting, which was lacking clarity and specific timelines. The company executives explained that they are currently in the process of relocating 2 mln tonnes of capacity to Yunnan province in China, which boasts a high share of hydroelectric power, thus allowing large swathes of captive-coal emissions to be avoided. Furthermore, the company laid out parts of their CAPEX strategy for decarbonization which included both the relocation as well as recycling projects. In addition, the company said that going forward, they aim to bolster their reporting through the publication of a net-zero timeline as well as short and medium-term targets. Given the current initiatives and execution, the company expects to cut their emissions by 2/3rds over the coming 10 years.

Biodiversity: To further clarify the project in Guinea, we followed up with China Hongqiao with our research findings including questions on reconciling the stringent project timeline provided by the government with environmental and social considerations, mitigation measures to minimize disruption to local flora and fauna as well as stakeholder engagement. China Hongqiao stated that they are committed to developing the project and associated infrastructure fully in line with Guinean law and international standards. Furthermore, they explained that there is an audit regime agreement with the project partners which includes quarterly external audits. On the topic of endangered species, the company stated that the project consortium has tried best to adhere to 'Avoidance' principles and have thus included additional kilometres of tunnels, bridges and culverts to circumvent critical areas or fit the purpose of fauna crossings. Finally, the company stated that they have been in active communication with a range of international and local NGOs to consult opinions and develop a stakeholder engagement plan with local communities.

Outcome:

Climate: Following the information provided by China Hongqiao, in the coming reporting cycles we will follow the execution of their capacity shift, as well as the publication of emissions and future targets to assess their performance towards Paris alignment.

Continued…

Biodiversity: Given that the project is still evolving and final details are being agreed upon, the success of mitigation measures and the overall impact of the project is yet to be seen. We've strongly encouraged China Hongqiao to offer the highest degree of transparency possible throughout this project. They had hired a consultant to review the revised IFC performance standards and set up a structure and process relating to Environmental and Social Impact Assessments. We expect that the quarterly audit regimes should be made publicly available where possible. Additionally, given the occurrence of stakeholder disputes in the past, we have stated that the company should in accordance with regulations, international standards and best-practices surrounding data protection and anti-retaliation, report on the number and subject of grievances. Going forward, we will continue to follow the developments around the project. As there are multiple publicly-listed companies involved and final details are still under discussion, we will focus our engagement efforts in 2023 on a separate project partner to whom we have larger holdings exposure.

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

2022 Climate & biodiversity engagement (Eq & FI) example: Norsk Hydro

Background:
Norsk Hydro is an aluminium and energy company with operations ranging from mining and energy to end-user aluminium products. The company is a beneficiary of a global transition to the decarbonisation of the primary aluminium production. While Norsk Hydro is one of the leaders in decarbonising the production of Aluminium and in its sector, it still reports high GHG emissions on an absolute scale.

Engagement:
Given our ownership in Norsk Hydro and the GHG intensity of its emissions, the company is on our internal Top 200 list of carbon emitters and also contributes significantly to the GHG emissions of some of our portfolios. We set out to engage with the company in order to learn more about their decarbonisation strategy, relevant target setting, CAPEX alignment with its decarbonisation strategy as well as biodiversity risk management.

Outcome:
We met with Norsk Hydro's Investor Relations team as well as their climate and biodiversity specialists. The company informed us about the status of their engagement with the Science Based Target initiative (SBTi) and clarified that there is currently no definite guidance from SBTi on aluminium production. Norsk Hydro is convinced that its targets are science based and sufficiently ambitious. In this context, we acknowledge that the company has to wait for the finalization of the SBTi guidance in order to commit and have approved their targets under the initiative.

Regarding its capital expenditures, Norsk Hydro already reported a significant share of its capex to be eligible under the EU Taxonomy. Here, the company provided us with additional colour on the topic: its investments in its smelters, CO_2 reduction technology investments as well as its own recycling efforts are expected to be not only Taxonomy eligible but also aligned. On the contrary, its investments in minority-owned assets and a fuel switch in one of its production facilities will not be eligible nor aligned with the EU Taxonomy. The fuel switch will nonetheless provide significant real-world improvements, as the production facility is switched from heavy fuel oil to natural gas which reduces refinery emissions by approx. 700k tonnes of GHG emissions. We strongly commend this initiative which has real world impact and will improve the company's GHG emissions profile.

Continued...

Overall, it is our assessment that the company is a beneficiary of the global transition to the decarbonisation of aluminium production. We acknowledge that the company has set ambitious targets (although not approved by SBTi due to the lack of a finalized guidance for the sector). We outlined in the call with the company that we expect it to report on its decarbonization and the achievements of its interim- and long-term targets which it has now also set for Scope 3 emissions. With regards to biodiversity, we underscored the importance of effective risk management, since the company's business operations can potentially have high impact, if not managed properly.

We will follow-up with the company in due time in order reiterate the importance of the discussed topics. The achievements of the company's interim targets on decarbonization as well as effective biodiversity risk management will provide us with further comfort in our ESG case.

2022 Good governance engagement (FI) example: Ferde

Background:
Ferde is a regional toll company, owned by three municipalities, that finances toll projects and conducts toll collection in Agder, Rogaland and Vestland counties in Norway. The overall company goal is to ensure toll financing through efficient toll collection and sound financing conditions in the southwest toll region. 2019 was Ferde's first full year as a regional toll company, when 23 toll companies were merged. The company has been undertaking a significant operational transformation in recent years, as it has moved from being privately-owned to publicly-owned.

Engagement:
In 2021 the Norwegian Data Protection Authority fined Ferde NOK 5 million, for, among other things, allegedly unlawfully transferring personal data about Norwegian motorists to China. The data protection agency concluded that Ferde had breached several of the organization's basic responsibilities under the General Data Protection Regulation (GDPR) over a period of 1–2 years.

Nordea decided to engage with Ferde on the basis of a concerning corporate governance history with evident conflicts of interest and related-party transactions, and the more recent data protection breaches. Nordea's objective with the engagement during 2022 was for Ferde to strengthen their internal controls, risk management and data protection.

Outcome:
Ferde has taken a number of actions and made significant investments to improve their internal control and risk management such as building up their internal risk management capabilities and strengthening their risk management processes. Ferde also implemented a new digital risk management system to improve risk management processes and traceability.

Ferde's sourcing processes have been professionalized, with greater involvement from legal, and a dedicated system for contracts. Data protection has been a focus area with GDPR considerations now integrated in sourcing routines, and in other areas which involve handling of personal data. The employees have been receiving training on information security and the GDPR requirements to ensure that customers' and employees' personal information is handled according to the regulation. Nordea has seen significant improvements and continues to follow Ferde's progress.

2022 Human rights engagement (Eq) example: Tesla

Background:
Tesla, as the world leading company on Electric Vehicles (EVs) production, 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 a number of 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.

Field study in the Democratic Republic of Congo (DRC)
As part of improving our understanding of the challenges related to this green transition supported by EVs, we commissioned a field study from RAID (Rights and Accountability in Development), which was published in 2021 with the title "*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 nearly half of the global supply of cobalt in 2020.

In the report, RAID 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.

Engagement:
Following the publication of the RAID report, in 2021 NAM held a first meeting with Tesla to express our concerns and to understand how they responded to and were addressing the findings of the report. Tesla's responsible sourcing team had just returned from a trip to the DRC and were able to share some helpful information and updates.

Tesla commits to international standards on business and human rights and says that sourcing from industrial mines is a means to remove the human rights issues and child labour typically featuring in artisanal mining in the DRC from their supply chain. Investors, including NAM, however, remain concerned about the persistent high human rights risk exposure of the company.

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. As we didn't see the progress we were wishing for, we decided to escalate the engagement and at Tesla's 2022 AGM a number of human rights- and climate-related shareholder proposals went to a vote. Nordea supported these resolutions and also voted against two board of directors due to poor board and management oversight of ESG risk exposures at the company.

Continued...

Outcome:
NAM has since 2017 been part of a collaborative investor engagement based on the Corporate Human Rights Benchmark (CHRB) company assessments. We use the CHRB as a means of tracking companies' progress on their human rights performance. In 2020, the car manufacturing sector was included in the CHRB assessment for the first time, consisting of 30 car manufacturing companies, including Tesla. The overall average score of this sector received the lowest ever score for a CHRB-benchmarked sector. Also Tesla scored very low on their overall performance on human rights as well as on human rights due diligence. The 2022 CHRB assessment showed slight improvements in the human rights performance, but we will continue our dialogue with Tesla on this topic and seek for further improvements, as the company is not progressing as fast as we would like.

2022 Good governance engagement example: Board Diversity

Background:
This is a follow on from our 2021 engagement example. We expect a board to include a strong presence of independent non-executive members and to be diverse on 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 to improve on this metric.

Engagement:
At the end of 2021, we initiated an engagement with 75 companies having zero females on their board. We initially targeted companies in developing markets, including China and Japan, but also a few European 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 election of directors is on the agenda.

In early 2022 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 2022 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 couple of years of engagement, starting to see the results. At end of 2022, 40% of the companies we engaged with had appointed one or more female director in their board. We will continue to vote against relevant board members during the upcoming voting season in those companies where we are not seeing improvements.

2022 Climate engagement (FI) example: Bank of America

Background:
Bank of America (BoA) is a diversified financial services company that provides a broad range of financial services to corporate and consumer customers. BoA has specifically progressed on its digital transformation plans and reduced its number of branches. Bank of America provides loans to community development financial institutions in the US to support affordable housing, small business growth and neighborhood stabilization. BoF has a goal to provide USD 125 billion in financing to low carbon and other sustainable businesses by 2025 through lending, investing, capital raising, and advisory services.

Engagement:
The purpose of the Bank of America (BOA) engagement was to better understand BOA's fossil-fuel finance activities and plan and to request that BOA consolidate their ESG disclosures into the TCFD report as currently the information is spread over many documents and it is difficult to get a full picture. Further to ask for the net-zero targets to be verified by SBTi

Outcome:
We have seen no improvement in climate finance, on the contrary BoA is expanding finance of controversial fossil-fuels, which was a topic we decided to engagement with them on. As BOA does not have plans to reduce carbon finance (it being driven by clients finance needs) and BOA being one of the largest financiers of fossil-fuel extraction – including controversial extraction – BOA will not be considered a sustainable investment. NAM will monitor the next BOA TCFD report and the next Banking on Climate Chaos report and based on that decide if the engagement should be re-opened.

Based on the ESG analysis and engagement with BoA it is the conclusion that a score of B+ is too high. BOA does have reasonably good governance and excellent sustainability considerations for own operation. But for fossil finance and green finance there is a dissonance between what is publicly communicated as strategies and then what we see in terms of finance of controversial fossil. Further the engagement showed that BOA is not proactive in reducing fossil-fuel finance. Thus we downgrade the ESG score from B+ to B- and will continue to monitor their TCFD reporting, NGO reports on fossil-fuel finance to follow the trajectory of BOA.
The impact of BoA not being considered a sustainable investment is that the company cannot be held in SFDR art 9 funds and that the company will not count towards any commitments to sustainable investments. The impact of the ESG score change is that BoA cannot be held in NAM's equity STARS funds while still marginally being allowed in the fixed income STARS funds where the ESG limit threshold is lower than for equity STARS funds.

2022 Decarbonisation and H&S engagement (FI) example: GMR Hyderabad International Airport

Background:
The company is operating the fourth largest airport (by passengers) in India. It is unlisted and has only a limited amount of ESG information publicly disclosed.

Engagement:
We asked the company for more information on their decarbonization and Health & Safety (H&S) strategies. A virtual meeting was held with members of the company's top management and representatives from other companies of the GMR group. The company gave a thorough overview over its ESG initiatives and mentioned its goals to publish its inaugural sustainability report in 2023 and start engaging with ESG rating agencies which should enhance the transparency of the company's ESG initiatives. We encouraged the company to develop a Paris aligned carbon reduction roadmap, and shared a concrete timeline. As part of the initiative, the company is increasing the solar capacity and is looking into reducing Scope 3 emissions.

We raised our concerns over a worsening trend in the H&S statistics. We made clear that in order to participate in their next bond issue we need to see adequate transparency in their upcoming sustainability report, a strengthening of their governance practices, meeting their timeline to publish their strategy to align their business to the Paris Agreement, and a plan to reverse their H&S trend.

Next steps:
The company indicated that it has initiated several initiatives to tackle the worsening H&S trend, including H&S audits by third parties. They have also accepted to start working on the stated environmental issues. We will keep tracking the company's progress on decarbonization and H&S initiatives and assess whether the progress is sufficient ahead of their next financing round.

2022 Nutrition engagement (FI) example: Grupo Bimbo

Background:
Grupo Bimbo from Mexico is the largest baking company in the world. As part of the product mix, the company is also selling sugary snacks.

Engagement:
We contacted the company to find out in which ways the company is working towards making its product portfolio healthier. The company provided details about the international standards that they align their products with and their internal thresholds in terms of saturated & trans fats, sodium and added sugar. They also highlighted a pilot project in regenerative farming for wheat plantation, which is their main raw material. Also we were interested in learning how we as investors can track progress on this. The company indicated that it will start reporting an overall score which represents the overall nutritional value in their reporting in 2023. The score is based on an external measurement parameter used by the Access To Nutrition Index Initiative to assess the nutritional quality of the portfolios of food companies.

Next steps:
We communicated to the company that transparency and improvements in the overall nutritional profile of the product mix is of high importance for us, as it would contribute to alignment of their business closer to the UN sustainable development goals and ensure a more sustainable future for the company. We continue to track the progress of the company on nutritional value disclosures and regenerative farming and consider whether to participate in their refinancing.

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 2022, we participated in 659 collaborative engagements, leading 118 of those. This is just short of 10% fewer collaborative engagements than in 2021 (from 724 to 659), but we're leading in over 50% more (from 77 to 118). This to show how we have stepped up our leadership and commitment to drive change.

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

1. NAM's proprietary methane collaboration

In July 2022, we initiated the first phase of a collaboration with selected partners and clients to engage with 15 companies in the oil and gas industry 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. Initial collaborators include Carbon Tracker, the Environmental Defense Fund and Amundi Asset Management: 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.

In these early days for the initiative, our primary engagement objective is for investee companies to join the Oil and Gas Methane Partnership (OGMP) 2.0 framework. OGMP is the gold standard in methane measurement, reporting and target setting. In addition to joining the OGMP, investee companies are asked to identify the actions taken to reduce methane emissions and to share the cost/benefit analyses of these actions in engagement meetings.

In 2022 we had engagement meetings with Aker BP, Diamondback Energy, Enerplus, EOG Resources, Equinor, Ovintiv, Petróleo Brasileiro S.A, Pioneer Natural Resources, OMV, Xcel Energy and YPF. Although we still see gaps in the maturity of these companies in tackling methane emissions, we are seeing progress in the engagement. Many of the companies are taking action to reduce their methane emissions and are in dialogue with the OGMP 2.0 programme on membership. Petrobras and EOG Resources joined the OGPM 2.0 in January 2023. We have expanded phase one of the engagement to additional companies and our engagement continues.

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 four engagements, including L-Air Liquide and state owned South African utility Eskom, and we are a collaborative investor in further eight, including SSAB, Xcel Energy and International Paper company.

We feel encouraged by some positive developments we have seen related to CA100+ focus companies:

- 75% of the companies have set a clear ambition to reach net-zero GHG (greenhouse gas) emissions by 2050
- 92% of the companies have board-level oversight of climate change
- 91% of companies have disclosure aligned with TCFD (Taskforce for Climate related Financial Disclosures) recommendations

The companies included in CA100+ still have some way to go to meet the expectations in the CA100+ benchmark and to be aligned with the goals of the Paris agreement, and our engagements continue.

2022 Collaborative Engagement (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 – such as those reported to OGMP 2.0 - 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.

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 2022 Corporate Human Rights Benchmark was published in November 2022. Compared to the 2020 CHRB ranking, the 2022 assessment showed that 66% of food and agricultural products companies, 65% of ICT (Information and Communication Technology) companies, and 57% of automotive companies improved their scores on key human rights indicators, and that the share of companies that scored zero on HRDD has decreased.

The report also shows that assigning human rights responsibilities to the board and senior management level appears to be key for better action on human rights due diligence. Most of tech companies that scored zero on HRDD (70%) had not elevated human rights responsibilities to board and senior management.

One of the key findings of the 2022 assessment points to the need for legislation on human rights. Investors, including NAM, have stated their support for robust mandated human rights and environmental due diligence in the EU as laid out in the proposed Corporate Sustainability Due Diligence Directive (CSDDD).

Finally, related to climate, it is also 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.

In 2022 the investor coalition engaged with 106 companies that scored zero on HRDD. NAM was the lead investor on 6 of those company engagements. When relevant, we also use the CHRB when assessing or engaging other companies.

2021-2022 Human rights/CHRB engagement (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 a number of years as collaborative investor. We also conducted individual engagement.

Engagement:
At the 2020 and 2021 Annual General Meeting (AGM) of Starbucks, we voted against the chair of the Nomination and Corporate Governance Committee due to the lack of progress and transparency on how Starbucks addresses human rights. Ahead of the company's AGM in 2022, we wrote to the Chair of the Board, informing them that based on their 2021 CHRB assessment results, continued low scores and limited disclosure, we were again considering voting against the chair of their Nomination and Corporate Governance Committee.

Outcome:
In response, the company informed us that Starbucks has published a new Global Human Rights policy which is applicable to all their partners, expecting them to comply with the policy and extend it to their supply chain. On 9 May 2022 we and our collaborating investors met with the company. The company informed us that they had published the Starbucks Fiscal 2021 Global Environmental and Social Impact report with human rights disclosure and their new Zero-tolerance indictors.

At their 2022 AGM we supported the only ES proposal on Report on Prevention of Harassment and Discrimination in the Workplace. Although there were no updates related to HRDD ahead of the 2022 AGM (due to the 2-year reporting cycle and next results being published only later that year), we again decided not to vote against director and instead to follow-up with the company in early 2023, after 2022 CHRB assessment has been published.

Finally, in the 2022 CHRB assessment, Starbucks had improved their score. We will decide in a CHRB investor meeting at the end of March 2023 on how to proceed with Starbucks.

4. FAIRR

FAIRR is a collaborative investor engagement initiative focused on sustainable proteins. It asks the global food companies in its target list 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. We are a collaborative investor in several companies' engagement working groups. As part of this, we engaged The Hershey Company during 2022.

In the engagement we expressed the six main asks related to the FAIRR initiative:

1. Materiality
2. Strategy
3. Product Portfolio
4. Consumer Engagement
5. Tracking and Reporting
6. Additional Q&A

We additionally discussed some of the controversies the company and more broadly the industry have faced, such as the alleged anti-union action against a worker and the issue of child labour in the global cocoa supply chain.

5. Finance for Biodiversity Pledge

The Finance for Biodiversity Pledge is a commitment of 126 financial institution, representing €18.8 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 a contributing to the development of the initiative via our active participation in several working groups including the Engagement with Companies working group which provide 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. 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.

7. 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. As of 1 August 2022, the IFRS Foundation's International Sustainability Standards Board (ISSB) assumed responsibility for the SASB Standards.

As part of this work, NAM leads disclosure engagements with companies and demonstrates how the SASB standards are used by investors in different fora. We are a collaborative investor in several companies' engagement working groups. In 2022, ISSB progressed in developing standards on both sustainability-related disclosures and climate-related disclosures, receiving over 1,400 responses from key stakeholders worldwide to its consultation on draft standards. In progressing the development of the IFRS Sustainability Disclosure Standards, the ISSB prioritised agreeing clarifications and amendments that support and further progress towards interoperability. This includes confirming use of the TCFD architecture as the basis for its Standards and modifying some disclosures and language in relation to transition plans. One year on from the announced establishment of the ISSB at COP26, the ISSB is became fully operational in 2022 and committed to issuing its first two Standards in 2023.

8. 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 77 investors representing over USD 5.9 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.

In November 2022, the IPDD issued its first progress report.[13]

- The IPDD coalition has nearly doubled in size in two years. As of December 2022, IPDD is supported by 67 global institutional investors, from 19 countries, representing approximately USD 10 trillion of AUM.
- Considerable progress has been made in terms of awareness-raising about 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.
- A clear message has been conveyed to governments that financial market participants and investors consider deforestation to pose investment-relevant, material risks and may affect these companies' access to capital markets.

[13] https://www.tropicalforestalliance.org/assets/IPDD/Final_IPDD-Deforestation-Report.pdf

- IPDD has helped demonstrate government engagement adds value and has contributed to the efforts of other stakeholders who share investors' concerns about deforestation risks.

New deforestation data published by the National Institute for Space Research's (INPE) in November 2022, shows that deforestation in Brazil's Amazon Rainforest retreated slightly from a 15-year high. The destruction reduced by 11%. With the incoming Lula government, committing to combating deforestation, 2023 will be a critical year.

Indonesia's downward trend in deforestation continued for a fifth year in 2021, with the rate of primary forest loss falling 25% compared to 2020.

In October 2022, IPDD Indonesia members travelled to Jakarta to meet with government authorities and other stakeholders to discuss sustainability partnerships with key stakeholders in the country and share investor perspectives on ESG and deforestation. A trip to Brazil is planned for 2023.

11. Responsible Tax Engagement

In 2022 we joined a collaborative engagement on responsible tax, targeting 15 global companies in IT/Tech sector. The engagement is coordinated by a Danish engagement firm "*Engagement International*". NAM is a collaborative investor.

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% recently agreed by 138 jurisdictions aims to make sure companies pay a fair share of tax and to taxing companies where they generate the profit, in order to limit tax evasion and stop governments racing to cut taxes in a bid to attract companies. The engagement 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.

The engagements are still in their early days and we will report on progress next year.

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 at the AGM, and supporting and co-filing shareholder resolutions are our most typical escalation strategies to manage insufficient progress. Our escalation strategy is determined by the particular issue and expected company's responsiveness.

For Fixed Income assets, our strategy depends on whether it is a company or a government 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.

2022 Escalation engagement (Eq) example: Berkshire Hathaway 2022

Background:
We have continued to engage from 2021 on our concern of lack of sufficient decarbonization commitments and lack of TCFD disclosure during 2022. We are collaborative investors within ClimateAction 100+.

Engagement:
In 2022 we followed up with another letter and discussion with Berkshire Energy on the topic of net zero emissions and exposure to thermal coal. We also supported a shareholder proposal filed by lead investors of Climate Action 100+ addressing how Berkshire Hathaway manages physical and transitional climate-related risks and opportunities, as well as another proposal asking for GHG Emission Reduction Targets at the company's 2022 Annual Meeting.

Outcome:
We will continue to pursue an escalated engagement strategy, particularly in collaboration with other investors.

2021 Escalation engagement (Eq) example: ExxonMobil

<u>Background:</u>
Exxon Mobile is a company failing to make progress on several climate-related issues according to our assessment. Among these, we consider their continued lobbying against the goals of the Paris Agreement to be one of the most critical issues. We firmly believe that corporate lobbying and public affairs efforts should refrain from providing direct or indirect support to regulatory initiatives that risk slowing down the energy transition. This is a follow on from 2021.

<u>Engagement:</u>
Our escalation strategy started 2021 was to file a shareholder resolution. The proposal asked Exxon to report on how the company's lobbying efforts, including through trade groups, align with the goal of the Paris Agreement.

We were happy to see that the resolution received the majority support in ExxonMobil's AGM in May 2021.

In 2022, Nordea followed up by engaging Exxon Mobil directly on Paris agreement alignment and again highlighted the importance of addressing climate issues is a structured and transparent manner. As part of Nordea's methane engagement, Nordea sent a letter to Exxon Mobil's CEO in July 2022 on the critical role of reducing methane emissions to align with 1.5 degree pathways. Nordea and our partners in the methane engagement urged Exxon Mobil to join the Oil and Gas Methane Partnership 2.0 (OGMP 2.0) without delay. OGMP is the gold standard in methane measurement, reporting and target setting.

<u>Outcome:</u>
As an element in the escalation strategy, Nordea is also engaging with Exxon Mobil on methane in collaboration with the Climate Action 100+ leads. Exxon Mobil has so far not heeded requests from the investor cohort to various levels in the organisation to follow the example set by many of their peers in joining the OGMP 2.0. Nordea is targeting to engage with Exxon Mobil executives in June 2023 as part of a visit to the Permian Basin and Houston, Texas.

2022 Escalation engagement human rights and tax practices (Eq) example: Amazon

Background:
We have engaged with Amazon on several issues over the years. In some of the engagement areas, the company has not been as responsive as we expected and therefore we decided to escalate our active ownership efforts.

One critical issue we have raised with Amazon is human rights. We have done so on our own and together with several other investors within a collaborative engagement based on the Corporate Human Rights Benchmark (CHRB), which we have been an active member and lead investor of since 2016. The company has scored low on its human rights performance for several years, but the most recent CHRB assessment published in November 2022 shows some improvements.

Engagement:
We have met with Amazon on several occasions to discuss their human rights approach and informed them on how we vote at their AGMs. At the 2021 AGM we supported several human rights-related resolutions, including the freedom of association and collective bargaining. Amazon workers have for years been striking over collective bargaining rights and working conditions and Amazon has been accused of various efforts to defeat workers' attempts to organize and bargain collectively.

In January 2022, we co-signed an investor letter addressed to the Chair of Amazon's Nominating and Corporate Governance Committee on worker representation and freedom of association, internationally recognized human rights. Following our letter, in May 2022, we had a pre-AGM meeting with the company to discuss, among other things, the shareholder proposals asking for a Report on Protecting the Rights of Freedom of Association and Collective Bargaining.

At the AGM in May 2022, we voted in favour of the shareholder proposal and against the Chair for poor board oversight of ESG risk exposures at the firm. The proposal received strong support and was supported by 39% of the overall vote cast and 47% of independent shareholders. As there was no indication from the Board of Directors whether they intended to implement the proposal and address shareholders' concerns in a meaningful way, in November 2022, we decided to co-sign an investor follow-up letter to Amazon's Board of Directors. The letter asks the Board to conduct an independent third-party assessment of Amazon's commitment, policies, practices on freedom of association to identify, address and prevent any misalignments with the ILO Declaration on Fundamental Principles and Rights at Work and the UN Guiding Principles on Business and Human Rights. The assessment findings and recommendations should be made public as well as the Company's plans and timeline to implement the recommendations.

On December 2nd, Amazon responded to the letter, but as the response did not come directly from the board nor sufficiently addressed the presented concerns. As a result, a group of shareholders filed a new shareholder proposal for the 2023 AGM in line with the request stated in the letter.

Another issue we discussed with Amazon was responsible tax practices, which is becoming increasingly important to investors, both as an ESG issue and as a legal and compliance issue. We have clear expectations (see page 18) on the tax management and disclosure towards our investee companies, which includes having a robust tax governance and management framework in place, paying taxes where economic value is created and to provide country-by-country reporting. This is important to guarantee that companies fiscally contribute to the countries where they generate value, and support the proper and just functioning of the state.

Continued...

In the beginning of 2022, Amazon got in dispute with investors over a shareholder resolution asking the company's board to issue a tax transparency report to shareholders. In January, Amazon asked the US Securities and Exchange Commission (SEC) to exclude the proposal from a vote at its AGM that was going to be held in May. In March we signed an investor letter to SEC regarding Amazon's no action request. The letter was signed by 100 entities, including 24 institutional investors, all in support of the proposal and its request for greater tax transparency and public country-by-country reporting. On 6th of April it was announced that SEC ruled against Amazon and the proposal was allowed to go to a vote at the AGM on 25 May. The tax proposal received 21% support, including ours.

Outcome:
To take our engagement efforts on this issue further, in 2022, we decided on taking a wider industry approach and joined a collaborative engagement on Responsible Tax targeting 15 global companies in IT/Tech, including Amazon. The engagement aims at establishing a dialogue with these companies around how they manage tax-related issues associated to business activities and transparency, including country-by-country reporting. We will continue the escalated engagement during 2023.

2022 Escalation engagement data privacy and security and antitrust violations (Eq) example: Alphabet

Background:
In the past two year we saw a growing number of controversies and lawsuits at Alphabet in the areas of data privacy and security and antitrust violations. Alphabet's platforms have been found to be used for disseminating dis- and misinformation, with negative societal impacts and high human rights risks. Alphabet's forays into AI pose other risks.

At the same time, shareholders experience limited access to the company, poor transparency on financial and non-financial disclosures and lack of adequate board oversight. The current Audit and Compliance Committee is deemed insufficient to oversee an extensive list of issues (financial, operational, data privacy and security, competition, legal, regulatory, compliance, civil and human rights, sustainability, and reputational risks), as well as AI ethics and non-English content management.

Engagement:
Against this background we decided in late 2022 to co-file a shareholder proposal at Alphabet for the 2023 Annual meeting, asking that "the Board commission an independent assessment of the role of its Audit and Compliance Committee in ensuring effective Board oversight, above and beyond legal compliance, of material risks to public well-being from company operations."

We also note the lack of transparency in regards to how Alphabet effectively manages tax in a responsible manner. We included the company in a collaborative engagement on responsible tax management that we joined in November 2022 and will continue during 2023.

Outcome:
This has not been a successful engagement so far. We will have further dialogue with our collaborative investors ahead of the AGM and depending on the vote outcome, plan accordingly.

2022 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 have been 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 strengthening their governance structures and risk management frameworks. However, due to the issues spanning many years and significant systemic weaknesses observed, a decision was taken 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 continues dialogue with the bank during 2023 on these issues.

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 Brazil and deforestation);
- 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 doesn't 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 an important 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 2022, we joined 40 Nomination 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 take action 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 use two proxy voting advisors to support us on proxy voting – Institutional Shareholder Services (ISS) and Nordic Investor Services. They provide 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.

In 2022 we have voted at approximately 3900 AGMs on thousands of proposals, including ESG issues such as climate, data privacy, diversity, as well as remuneration programmes and capital structure. This is a small decline compared to last year, mainly due to the 2021 post-pandemic high number of Extraordinary General Meetings.

Voting statistics

In 2022, our voting covered around 95% of all meetings and about 99% of our equity AUM and reflects our ambition to vote in all general meetings in our portfolio companies. The outcome in 2022 is well above our stated target of 90% of possible voting.

There are a number of 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.

We have focused our resources and efforts on voting on climate and social resolutions, as we believe it is important that climate topics, as well as ESG in general, are considered on the board level.

Our Voting Policy contains our guidance principles on how to vote on ESG and non-ESG routine votes and shareholder resolutions. We consider these voting principles, guidelines, engagement and escalation status, our proxy advisors' opinions to form our decisions.

During 2022, we voted on over 96% of the climate-related proposals, and supported 93%. Another evidence of our focus on voting on ESG topics, is the recent report from ShareAction, where we are among the top Asset Managers in supporting environmental resolutions, as well in ESG voting in general[14].

The reason we do not support all shareholder resolutions put forward at AGMs is that not all are – in our opinion - in the best interest of our clients. It can be that the resolutions are of badly formulated, i.e. not in favour of the topic they seem to address, that they are contradictory, i.e. two or more resolutions addressing the same question but with different goals or targets, or simply that the resolutions are of such generic nature, posted at many different AGMs, that the company already addresses the question or even does more on the question than the resolution aims at.

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 the management

In 2022 we voted in line with management in 88% of the agenda points, 12% against, 0% abstained. For the 12% of votes against, we have done so after analysing each individual proposal, concluding that opposing the management was in the best interests of shareholders and our clients. For example, we will vote against the management if we believe a proposal diminishes shareholder rights, or if remuneration incentives are not aligned with the company's long-term performance and creation of shareholder value. Such votes will typically follow an engagement and be part of our escalation process. We aim to inform companies of our intention to vote against before the meeting, along with our rationale. Where there have been ongoing and significant areas of concern with a company's performance we may vote against individual board directors, if the national regulation allows.

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.

[14] ShareAction, Voting Matters 2022 report, available here.

Overview of our voting activities in 2022

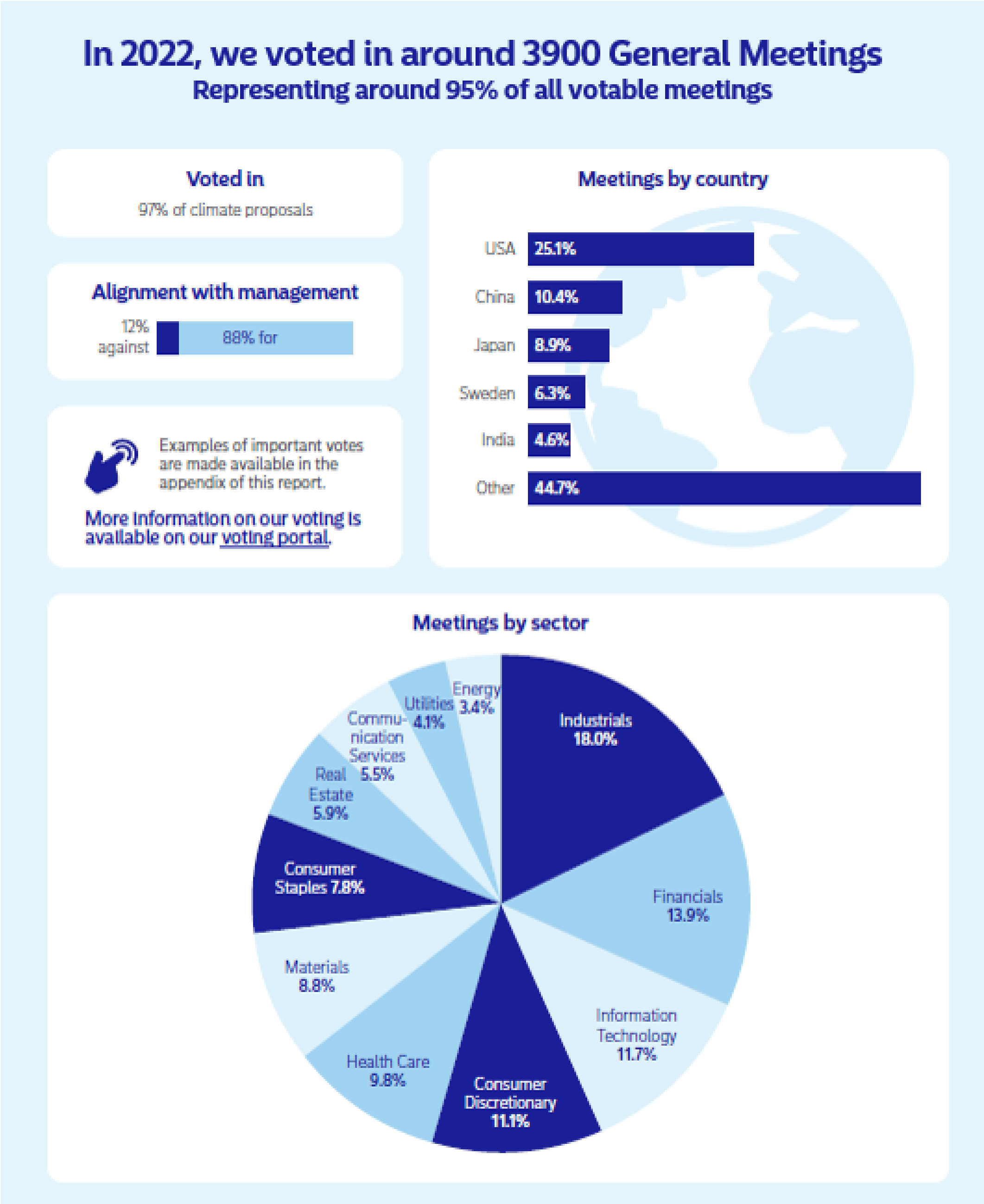


Figure 20: Overview of voting in 2022. Data as of 31.12.2022

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

Examples of individual votes in 2022

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 a number of 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 very 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

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

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

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

Especially in American companies we see a steady increase in shareholder proposals on social issues, often related to diversity and human rights. This year we supported proposals in the social category in, among others, Meta, Alphabet and Twitter. The proposals focused on a requirement to find Independent Director Nominees with human- and/or civil rights experience. These companies have faced multiple issues in the human rights area, including the handling of hate speech and possible detrimental effects on civil rights stemming from the companies’ technology, which pose a risk to shareholders.

Stock lending
At the time of the creation of the Corporate Governance Principles and throughout 2022, 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 hasn't happened in 2022.

Fixed Income Rights and Responsibilities
Fixed income investments do not generally 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're part of. ESG analysis and our different 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 2022 we initiated a review of our due diligence process of labelled bonds and minimum requirements for when a use of proceeds bond is eligible for investment. The process prior to investing in a use of proceeds bond review the full set of 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. This is particularly important for sub-investment grade bonds. If there is room to negotiate with the company on terms, ahead of the issuance, we do so.
The fast-developing market of Green Bonds and Sustainability-linked bonds 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. In 2022 we have reviewed prospectuses of selected issuers where the KPIs and SPTs were already largely achieved, or not sufficiently ambitious. We accept that with these novel instruments the risk of greenwashing is very high. Equally, the coupon step-up needs to be sufficiently punitive to incentivise the company to work hard to meet the KPIs.

We also review the SPO (Second Party Opinion) which must be provided by a reputable agency, such as Sustainalytics, to help us assess the suitability, adequacy and ambition of the sustainability terms.

We have developed a 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, is issued under a NAM approved framework e.g., ICMA, has a SPO by an agency 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 is, a SLB issued by Teva and a social bond issued by Guatemala.

Teva issued a SLB which lives up to our minimum requirement, but despite fulfilling our minimum requirements we ultimately decided not to invest due to poor ethical track record and involvements in several controversies. The SLB structure of the bond was not weak, but we assessed that they failed to address the most relevant ESG issues the company is facing and showcase how they are addressing these. Teva is a good example of a use of proceeds bond which on the surface comply with the marked standards and frameworks but where the company clearly is lagging on other ESG metrics.

Guatemala Government issued a social bond in 2021, we identify the investment opportunity in the secondary market in 2022. In our assessment of the label and KPIs the conclusion was that it was not eligible for investment as the Guatemala Government bond only complied with 2 of the 4 ICMA principles and thus they are not fulfilling our basic requirements for labelled bonds. We decided to divest the green bond issued by the Guatemala Government as they did not live up to our reporting standards. Upon divestment, we informed the issuer about the lack of reporting standards, and they have since changed their framework.

In 2022 we were informed that Emirate of Sharjah and Al Rajhi Bank were either planning to or were issuing the use of proceeds bonds in Q1 2023. Assessing use of proceeds bonds is ongoing, which either can be done within the book building phase or prior depending when information is available. These two issuers are interesting due to the attractiveness of the use of proceeds, but the issuers are facing severe ESG risks.

Emirate of Sharjah: During 2022 we reviewed the sustainability framework in preparation for the SPO due to be published early in 2023. Preliminary findings noted that the list of eligible projects included some types of projects that may have less environmental or social benefit than others, potentially constraining the impact of Sharjah's sustainable financing. Moreover, it emphasizes that the target populations in some social categories seem narrow when compared to the total inhabitants of the country. This engagement continues into 2023.

In September 2022 Al Rajhi Bank issued SOP on their Sustainable Finance Framework covering SBP, SLP, GBP, GLP, and SBG. The SOP showcased that the framework is aligned with the use of proceeds bond framework. However, not all project categories include clearly defined thresholds or incorporate market-based taxonomies. The bond has reference to a few certifications for green buildings and clean transportation. However, the performance criteria for projects in some categories, especially in "access to essential services" and "pollution prevention and control", are less transparent. Eligible projects could also lead to negative environmental and social outcomes. However, the framework does not include further information on the process to manage or mitigate potential risks associated with the eligible categories. Because of this, we decided not to accept the bonds terms and conditions and engaged with the issuer with the objective to enhance their ESG disclosures:

Corporate ESG Strategy assessment in 2022:

- Lack of disclosure on exposure to high impact sectors (coal/oil/gas) in terms of loan exposure and ESG requirements on companies from the sector
- Lack of information on "green" mortgage products or other incentives for energy intensive buildings (e.g. by offering lower rates)
- Lack of information on medium-term carbon reduction targets for the loan book
- Lack of information on medium-term sustainable financing targets
- Lack of information on adherence to international ESG banking standards, such as the Equator Principles or UN Principles of Responsible Banking. We understand the bank partly uses those guidelines in its loan approval process, but we cannot find the bank's name on for example the Equator Principles website.

Sustainable Bond Framework issued by Al Rahij Bank :

- Not all project categories include clearly defined thresholds or incorporate market-based taxonomies. There is a reference to a few certifications for green buildings and clean transportation. However, the performance criteria for projects in some categories, especially in "access to essential services" and "pollution prevention and control", are less transparent.
- Eligible projects could also lead to negative environmental and social outcomes. However, the framework does not include further information on the process to manage or mitigate potential risks associated with the eligible categories.

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