SFDR Q&A

Q: How can we say that the product focus on sustainability, if it does not have a sustainable investment objective? / Why is the answer "no" to the first question on the first page – "Did this financial product have a sustainable investment objective?"

A: See Q&A ON PAGE 7.

It is only possible to answer "yes" to this question where the product is classified as an article 9 product. The discretionary solutions are not classified as article 9 but are classified as article 8 (or 6) and that is why the answer is "no" to the first question in the report. There are very strict requirements in the regulation (SFDR) for a product to be classified as an article 9 product. Article 8 funds/portfolios should promote environmental or social (E/S) characteristics and the investee companies should follow good governance practices, whereas article 9 funds should make a positive impact on the society or the environment through sustainable investment. One example of an article 9 fund is the Global Social Empowerment Fund.

Article 8 promotes E/S characteristics and a large part of the funds in the discretionary solutions have a sustainable investment commitment, but not all of them. There is a new SFDR classification policy in place for how we in Nordea assess and classify a discretionary portfolio, describing which requirements a discretionary portfolio need to live up to in order to be classified as article 8.

As of now, there are no article 9 discretionary solutions in Nordea.

Q: What is the report supposed to tell the customer? For example, what do these mean?

How did the sustainability indicators perform?

Sustainability Indicator	Metric	Metric Value	Eligibility	Coverage
Carbon Footprint	Carbon footprint	35 tCO2e / m€ invested	88,02 %	85,80 %
Social Violations	Number of investee countries subject to social violations (absolute number and relative number divided by all investee countries), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law	0 investee countries subject to violations	7,97 %	7,97 %
		0,00 % investee countries subject to violations	7,97 %	7,97 %
Violations of United Nations Global Compact	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	0,22 % involved in violations	87,87 %	86,82 %
Greenhouse Gas Intensity for sovereigns	GHG intensity of investee countries	288,38 tCO2e / m€ of owned GDP	7,88 %	7,88 %

Eligibility: The proportion of the assets in the financial product (relative to NAV), which are in scope for the indicator.

Coverage: The proportion of the assets in the financial product (relative to NAV), where data is available to present the indicator.

A: Sustainability indicators measure how the environmental or social characteristics promoted by the financial product are attained. The investment manager uses the following indicators:

- *Carbon Footprint*
  - *Defined as the total carbon emissions (scope 1 and 2) for the portfolio, normalised by the market value of the portfolio, expressed in tons CO2e / M€ invested. The Carbon Footprint expresses the share of companies' and issuers' greenhouse gas emissions that is owned or funded by the company's investments.*
  - *The carbon footprint metric is used to measure carbon emissions for investments in corporates.*

- *Violations of UN Global Compact (UNGC) principles and OECD Guidelines for Multinational Enterprises*
  - *This is used to measure the share of investments in companies or issuers that have been involved in violations of the UNGC principles or OECD Guidelines for*

Multinational Enterprises. The ten UNGC principles are related to Human Rights, Labour, Environment and Anti-Corruption issues.

- *Green House Gas Intensity*
    - *Defined as the volume of carbon emissions per million euros of Gross Domestic Product, expressed in tons CO2e / M€ Carbon Footprint.*
    - *The GHG intensity metric is used to measure carbon emissions for investments made in sovereigns*

- *Social Violations*
    - *This is measured as the number of investee companies or countries subject to social and human rights violations as referred to in international treaties and conventions, United Nations principles and, where applicable, national law. Social violations are measured in absolute, as well as in relative numbers.*

Q: Why have we chosen these sustainability indicators?

A: The Nordea Responsible Investment Product Distribution Policy (RIPD) constitutes the baseline of responsible investment requirements within Nordea Bank. This policy also contains certain ESG positions on climate change, fossil fuel exposure, breaches of international norms, and controversial weapons. All product providers and products must adhere to these ESG positions.

The sustainability indicators that we have selected align with the ESG positions of the RIPD. The sustainability indicators are subject to data availability and quality.

Q: Why are you sending out this extensive report?

A: This is a regulatory requirement and the template is a mandatory template from the regulator. The purpose of the SFDR report templates is to provide standardised disclosures and more transparency on the products' sustainability factors and make it possible for customers to compare a fund/portfolio in Nordea with a fund/portfolio somewhere else. That is why the use of the given template is mandatory. We need to provide this information to our customers in order to be transparent with sustainability information for products that are either Article 8 or Article 9 products. For discretionary portfolios, the requirement is that the reports need to be sent on an annual basis, covering the past year. The first report is send out in May 2023. For funds, the SFDR periodic report is published once a year as part of the annual fund report.

Q: What are the main points in the report template?

A: The periodic reporting template follows up on the information in the pre-contractual disclosure that is given to the customer via FPS in an advice session. The pre-contractual template states which sustainability indicators and PAI indicators the product/portfolio uses to measure performance. The periodic report contains information about the performance of these indicators.

The pre-contractual template is looking ahead – it says what the customer can expect from this product/portfolio. It discloses information about the product so that the customer can properly assess the product before buying it.

The periodic report is looking backwards at the past year and providing numerical data – it describes the outcome and how the product/portfolio performed.

- *Environmental and/or social characteristics promoted by the financial product – to what extent the promoted characteristics were met*
- *How did the sustainability indicators perform that measure the social and environmental characteristics of the financial product.*
- *How did this financial product consider principal adverse impacts on sustainability factors. Principal adverse impacts are the indicators on factors that always are considered doing harm on the environment and the society.*
- *What were the top investments of this financial product*
- *What was the proportion of sustainability-related investments meaning the template also shows what was the asset allocation in the portfolio (share of investments in specific assets) to investments aligned with E/S characteristics.*

Q: How can I compare products?

A: Since the SFDR templates are mandatory to use for all financial market participants offering a fund or a discretionary portfolio, it will be easier for a customer to compare a product in Nordea with a product in another bank. There is also one section in the periodic report template that shows a comparison with the previous period. Then it will be clear how the product has performed from one period to the other.

Q: What are the sustainability indicators supposed to show?

A: First of all, we show which sustainability indicators the product takes into consideration. To continue, the sustainability indicators show how the environmental or social characteristics promoted by the financial product are attained. The numbers show for example the carbon footprint of the portfolio, the proportion of the assets in the portfolio which are in scope for the specific indicator (=the column Eligibility) as well as the proportion of the assets in the product where performance information is available (=the column Coverage).

Q: What are the principal adverse impact (PAI) indicators and what should the customer look at?

A: The SFDR defines sustainability factors as environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters. Principal adverse impact (PAI) is generally understood to mean the negative impact, caused by an investment decision or investment advice, on these sustainability factors. The SFDR includes a set of specific indicators that can be used to measure an issuer's or investee company's negative impact on sustainability factors. The indicators enable identification of the principal adverse impact of investments.

CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS

Adverse Sustainability Indicator		Metric	Metric Value	Eligibility	Coverage
Greenhouse gas "GHG" emissions	GHG emissions	Scope 1 GHG emissions	2 tCO2e	79,43 %	74,97 %
		Scope 2 GHG emissions	1 tCO2e	79,43 %	74,97 %
		From 1 January 2023, Scope 3 GHG emissions	16 tCO2e	79,43 %	74,88 %
		Total GHG emissions	3 tCO2e	79,43 %	74,97 %
		Total GHG emissions Scope 1+2+3	19 tCO2e	79,43 %	74,88 %
	Carbon footprint	Carbon footprint	28 tCO2e / m€ invested	79,43 %	74,97 %
		Carbon footprint Scope 1+2+3	189 tCO2e / m€ invested	79,43 %	74,88 %
	GHG intensity of investee companies	GHG intensity of investee companies	60 tCO2e / m€ of owned revenue	79,43 %	76,72 %
		GHG intensity of investee companies Scope 1+2+3	714 tCO2e / m€ of owned revenue	79,43 %	65,71 %
	Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	1,64 % investments in fossil fuels	79,10 %	47,78 %
	Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources	60,92 % non-renewable energy consumption	79,10 %	64,43 %
			67,87 % non-renewable energy production	79,10 %	1,95 %

Q: The PAI indicators that cover greenhouse gas (GHG) emissions refer to Scope 1, Scope 2 and Scope 3. What do these terms mean?

A: The definition and calculation of GHG emissions follow an internationally defined accounting standard, the GHG Protocol.

- *Scope 1 covers the direct emissions from the properties and assets of a company, e.g. from heating, transportation etc.*
- *Scope 2 includes emissions from purchased energy*
- *Scope 3 include indirect emissions upstream and downstream the company value chain. For example emissions produced when the end-customer buys, uses and disposes the company's products.*

Typically, Scope 1+2+3 emissions will be significantly higher than Scope 1+2, as the full value chain of a company's operation activities (Scope 3) accounts for a huge share of the company's emissions. For example, this might lead to a significant difference between the metrics Carbon footprint (which only covers Scope 1+2) and Carbon footprint Scope 1+2+3.

The sector distribution of the portfolio also has a significant impact on the total GHG emissions, as some sectors, including energy, steel and cement, are far more carbon-intensive than others.

Q: The PAI indicator "Exposure to companies active in the fossil fuel sector" displays that the fund has investments in fossil fuels. Why is that?

A: The indicator measures the share of investments in companies that are active in the fossil fuel sector.

Most of the underlying financial instruments follow NAM's Paris-Aligned Fossil Fuel (PAFF) policy. This policy requires that fossil fuel companies demonstrate a decarbonization strategy that is consistent with the central climate objective of the Paris Agreement. As a result, transitioning companies that are aligned with the PAFF policy become investable although they currently have an exposure to fossil fuels.

Q: How do I compare the values of the PAI indicators? For example, what is a high carbon footprint or high exposure to companies active in the fossil fuel sector?

A: The values should be interpreted with precaution, as they can change significantly over time depending on the underlying investments. Factors such as the sector and country distribution may have a significant impact on the aggregate numbers. One should also keep in mind that the numbers are calculated as an average over the past year.

In May 2023, the Carbon Footprint (Scope 1+2) of a broad global market index (MSCI ACWI) amounted to roughly 150 tCO2e / m€ invested, whereas a broad emerging markets index (MSCI Emerging Markets) had a Carbon Footprint of about 320 tCO2e / m€ invested. A Carbon Footprint above 250 tCO2e / m€ is considered high by MSCI. Note that these numbers do not cover Scope 3, which accounts for a significant share of total emissions. See also the question on Scope 1, 2 and 3.

In May 2023, a broad global market index (MSCI ACWI) had an exposure of 12% to the fossil fuel sector, and a broad emerging markets index (MSCI Emerging Markets) an exposure of 10%. An exposure of more than 15-20% would typically be considered high.

Q: How should one interpret the PAI indicator "Share of non-renewable energy consumption and production"?

A: The indicator measures the share of non-renewable energy consumption/production in relation to total energy consumption/production among the companies in the portfolio. Non-renewable energy sources are for example fossil fuels such as coal, oil, and natural gas.

Q: The PAI indicator "Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises" shows that there are companies involved in violations. Why is this share above 0%?

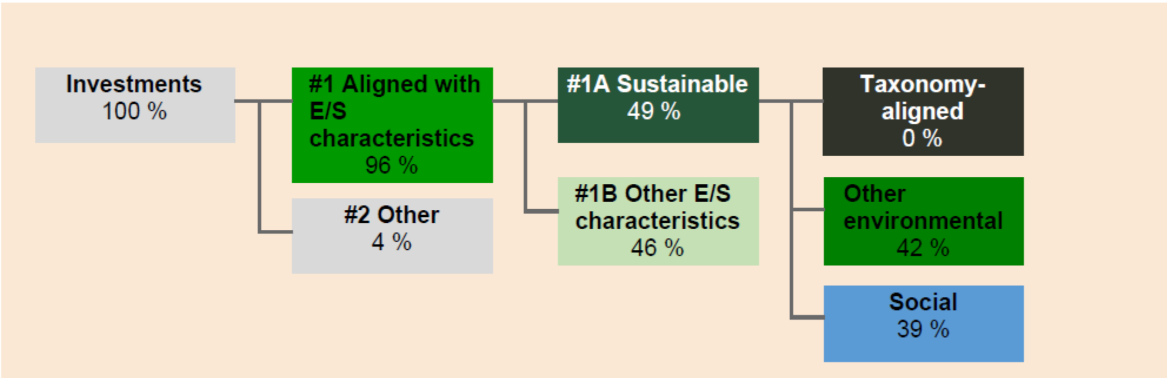
A: The underlying financial instruments adhere to Nordea's Responsible Investment Product Distribution Policy, meaning that they have a process to identify and act towards companies involved in controversies, such as breach of international laws, norms on environmental protection, human rights, labour standards and anti-corruption laws.

If a company is identified to be in breach, an internal assessment of the company and the incident is initiated. Typical actions include engagement, quarantine or exclusion. A quarantine will in nearly all cases be accompanied by direct engagement with the company. Engagements can be ongoing for an extended time and will ultimately lead to changed behaviour or divestment.

The percentage of companies involved in violations is displayed as an average number over the reporting period. Independent of the selected action (engagement, quarantine or exclusion), the company will be in the portfolio for a shorter or longer time and will thus be included in the calculation of the PAI.

Q: How should one read the following table?

What was the asset allocation?



A: The table displays a breakdown of the investments in specific sustainability categories.

- *#1 Aligned with E/S characteristics shows the share of investments aligned with the environmental and/or social characteristics promoted by the product. These characteristics are described earlier in the report. #2 Other covers the remaining investments that do not qualify for #1.*
- *The sub-category #1A Sustainable shows the share of environmentally and socially sustainable investments. The same percentage is displayed in the table on the first page of the report. The sub-category #1B Other E/S characteristics covers investments aligned with the environmental or social characteristics that do not qualify as sustainable investments.*
- *The sub-category #1A Sustainable is then further divided into three parts: Taxonomy-aligned environmentally sustainable investments, other environmentally sustainable investments that are not Taxonomy-aligned, and socially sustainable investments. As the same instrument can*

be both environmentally and socially sustainable, the gross sum of the individual parts will in most cases be higher than the aggregated share reported in #1A Sustainable.

Q: Why do we need to send the report directly to the customers?

A: Regulation requires us to distribute the report to the customer on an annual basis. It is a separate report that will be sent primarily to the netbank (physical if the customer has that requirement). We need to provide the report to the customer in the same manner as we provide the other MiFID reports to the customer.

Q: Why can't we refer to the report at our homepage?

A: *We will investigate this possibility, but we cannot guarantee that at this point.*

Q: Why does the template look like this? Is it possible to modify the templates?

A: The regulation requires us to use the templates and they are mandatory to use. The regulator has created the templates, and we need to answer the questions that the regulation requires.

We are awaiting updates from the regulator on both the templates and also the content. This is completely new data to the whole industry and it is feedback given from the industry that it is complex content and not easy for a retail customer to understand. We follow this development closely and will adopt and adjust accordingly.

Link to intra (see what we have currently):
https://ninaa.oneadr.net/portal/internalportal/appmanager/nordeaportal/desktop/Content/web/s-136712/w/785775?language=en

For example, this is what we have added earlier:

- On the first page of the pre-contractual disclosure, there is a question "Does this financial product have a sustainable investment objective?" What does it mean?

It shows, whether the product is classified as SFDR Article 9 or Article 8 product. The box "Yes" is ticked for Article 9 products. The box that is ticked, gives more information (see example below).

Does this financial product have a sustainable investment objective?

☐ **Yes**	☑ **No**
☐ It will make a minimum of **sustainable investments with an environmental objective**: ___%	☐ It **promotes Environmental/Social (E/S) characteristics** and while it does not have as its objective a sustainable investment, it will have a minimum proportion of ___% of sustainable investments
☐ in economic activities that qualify as environmentally sustainable under the EU Taxonomy	☐ with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy
☐ in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy	☐ with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy
☐ It will make a minimum of **sustainable investments with a social objective**: ___%	☐ with a social objective
	☑ It promotes E/S characteristics, but **will not make any sustainable investments**

Picture 1. Discretionary Art 8 portfolio pre-contractual

In picture 1, you can see an example of the Discretionary portfolio's pre-contractual document. It shows that the Discretionary portfolio does not have sustainable investment as its objective, as at the moment all the Discretionary portfolios are classified as either Article 6 or Article 8. Article 8 portfolios have the sustainability-related pre-contractual documents in place. (For Article 9 products the pre-contractual are also required, but there are no Article 9 Discretionary portfolios at the moment. For Article 6 products, they are not required.)

Article 9 products have sustainable investments as their objective. For Article 9 products, the option "yes" would be ticked in the headline area, and all information given accordingly.