

Nordea

ASSET MANAGEMENT



Responsible investment policy

Updated March 2020

Our responsible investment approach

Nordea Asset Management's (Nordea AM) mission is to create returns with responsibility through operational excellence, risk-adjusted returns and by being ESG-proactive. By ESG-proactive we mean the integration of environmental, social and governance (ESG) issues into our investment processes and product development.

With more than EUR 235 billion under management on behalf of approximately 1.8 million investors globally, Nordea AM believes it is part of our fiduciary duty to deliver returns by being a responsible investor.

Nordea AM has developed its policies, procedures and investment products to ensure that the companies we are invested in meet our expectations of sound ESG performance. Nordea's Responsible Investment Policy applies to all our funds. It does not apply to external funds nor holdings in the fund of funds which are index derivatives or external funds. In our selection process for external partners, the partners' willingness and ability to address ESG is one of the factors we consider.

Our actively managed products include ESG data as one of the factors used in assessing investments. We recognize that integrating ESG issues forms part of our fiduciary duty to clients and beneficiaries. By combining financial performance with ESG insight we strive to offer clients responsible solutions. We believe that we can add value to our clients by actively considering ESG in our analysis and investment decisions – in particular through our investment research, and performance monitoring.

The Responsible Investment strategy and activities are overseen by the Responsible Investment Committee (RIC). The RIC includes members from the Senior Executive Management team and is chaired by Nordea AM's CEO.

Responsible investment foundation

Nordea AM has signed the UN Principles for Responsible Investments (PRI) and are thus committed to integrating ESG factors into our investment analysis, decision-making processes and active ownership practices.

We base our responsible investment policy and strategy on international conventions and norms, including:

- **The United Nations Global Compact,**
- **The OECD Principles of Corporate Governance,**
- **The OECD Guidelines for Multinational Enterprises,**
- **The Universal Declaration of Human Rights,**
- **The UN Guiding Principles on Business and Human Rights,**
- **The Children's Rights and Business Principles,**
- **The ILO conventions on labour standards,**
- **The Rio Declaration on Environment and Development,**
- **The UN Convention on Corruption,**
- **The Convention on Cluster Munitions**

Stewardship and active ownership

Nordea AM's ownership activities are aimed at promoting sustained profitability and risk management in portfolio companies in order to protect shareholder value and enhance long-term returns. Our active ownership tools include voting, attending Annual General Meetings, representation on nomination committees and engagement with companies.

We believe a sound corporate governance structure is essential for creating long-term shareholder value. The board of directors and senior management are accountable to investors for protecting and generating value over the long term. We expect the board of directors of investee companies to oversee and monitor the effectiveness of the company's governance of environmental, social and business ethics-related issues and risk, and protect shareholder rights. We engage with investee companies and use our vote on numerous issues, including shareholder rights, board composition, remuneration and risk management.

Engagement is an important tool and we engage proactively with companies and other stakeholders on behalf of all Nordea funds. We focus our engagement efforts on companies representing our largest holdings, companies selected for our ESG-enhanced funds and companies identified to have a high ESG risk exposure to a certain theme or sector issue. Engagement provides an opportunity to improve our understanding of companies that we are invested in and by working individually or collaboratively with other investors we try to influence companies and promote better corporate governance, risk management,

performance or disclosure standards and on a wide range of ESG-related issues. As part of our responsible investment strategy we also engage with various standard setters and stakeholders locally and internationally.

All Nordea AM funds are subject to an annual norm-based screening. The screening is used to identify listed companies allegedly involved in breaches of international law, and norms on environmental protection, human rights, labour standards and anti-corruption¹. If a company is identified in this screening process, we will initiate an internal assessment process of the company and the incident². The norms-based screening also identifies companies that are subject to exclusion based on our exclusion criteria. Nordea AM does not invest in companies that are involved in the production, development or maintenance of illegal or nuclear weapons, or in sovereign bonds issued by governments subject to broad sanctions or failing to respect human rights. In 2015, we decided to exclude companies who derive 75% of revenues from coal mining and do not have a meaningful opportunity to diversify from coal. In 2017, the threshold was lowered to 30%. In 2019, we further lowered our coal policy to 10% from thermal coal mining and 30% total coal mining. See below under Positions for more information. In addition, some funds also apply tailored investment guidelines and exclusion criteria.

The list of companies that have been excluded is published on [nordea.com](https://www.nordea.com).

¹ The norms-based screening is not applied on investments in derivatives or ETFs and to discretionary mandates as per prior consent from the client only.

² The internal process includes verifying the companies' involvement in the incident as well as analysing the companies' total ESG performance and the financial materiality of the incident. Cases are put forward to the Responsible Investment Committee, who will decide which companies to engage with and evaluate progress. If a company is not willing or capable to change a norm breaching behavior or underperformance in regards to ESG, the committee can decide to divest or not include these investments in actively managed portfolios.

Positions

We set clear expectations on corporate ESG management and performance in our investments and ownership activities and communicate these expectations to companies we are invested in and other stakeholders. As a responsible investor we expect that investee companies operate in line with our commitment to the PRI and in observance of existing laws and regulations, international humanitarian law and international conventions, as well as standards for sound environmental, social and governance performance.

We have clearly defined positions within the following areas:

Illegal and nuclear weapons

Nordea AM sees illegal and nuclear weapons and their potential use as controversial, given their indiscriminate effect on human populations.

Nordea AM does not invest in companies, that are involved in production or development of:

- Cluster munitions
- Anti-personnel mines
- Biological weapons
- Chemical weapons
- Non-detectable fragments, incendiary and blinding weapons
- Depleted uranium munitions

Nordea AM does not invest in companies that are verified to be involved in the production or development of nuclear weapons. Nordea also excludes companies involved in the maintenance of nuclear weapons, with a military revenue threshold of 5%³.

Soft commodities

In 2012, Nordea decided that it will no longer offer nor recommend wrapped investment products to household customers where basic food commodities, such as wheat, coffee or sugar, are included in underlying assets as international studies indicate that excessive financial speculation contributes to increasing volatility and record-high food prices.

The decision does not apply to corporate customers with commercial interests related to soft commodities. Nordea will provide corporate customers with services enabling them to commercially trade and hedge their commercial risks.

Palm oil

Nordea AM acknowledges the risks related to palm oil production including deforestation, biodiversity, GHG emissions and labour rights. Therefore, we expect companies across the palm oil value chain to make sufficient efforts towards ensuring traceability, creating relevant policies aligned with a No Deforestation, No Peat, No Exploitation (NDPE) policy and Roundtable on Sustainable Palm Oil (RSPO) standards as well as maximizing the use of Certified Sustainable Palm Oil.

Coal

Nordea AM excludes companies with large and sustained exposure to coal mining, with a 10% revenue threshold on thermal coal and a 30% revenue threshold on total coal (including metallurgical coal).

Oil sand

Nordea AM excludes companies with large and sustained exposure to oil sand with a 10% revenue threshold. The extraction of oil from oil sand is the highest cost and most carbon intense hydrocarbon. We believe that with current methods and technology, there is no company that can extract oil from oil sand in a way that is consistent with a sustainable development.

Sanctions

Nordea AM does not invest in sovereign bonds issued by governments which are subject to broad sanctions and fail to respect human rights.

³Note that military revenue is based on a company overall revenue from military equipment and is not the same as revenue from nuclear weapons.

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 conflicts with the long-term interest in promoting responsible and sustainable development and may impact companies' license to operate.

We expect companies to obey internationally recognized human rights principles and to prevent and manage its impact on human rights. Human rights-related issues include complicity in human right abuses, modern slavery and child labour, occupational safety and health, the rights of indigenous people and displacement of local communities, freedom of association and collective bargaining and international humanitarian law.

Companies with business operations in conflict areas

Business operations in areas affected by conflict are exposed to higher risk due to unstable political conditions, weak regulatory frameworks, and pervasive violence. Companies may, knowingly or unknowingly, have business operations and products with high potential impact on the conflict or human rights violations.

As a responsible investor we expect companies to conduct due diligence as defined by the UN Guiding Principles on Business Human Rights, become more transparent and report on their political risk and impact analysis, including human rights impact. Companies also need to assess and report on how their business operations or products may directly or indirectly impact an ongoing conflict or human rights violation and how this may have a material impact on the company as well as their stakeholders. Companies should also enable stakeholders to safely report any human rights violations.

For an investor timely and adequate information is key. We expect companies to report on

materiality, i.e., aspects that reflect a company's significant economic, environmental and social impacts and value and which can substantially influence the analysis and decisions of investors and other stakeholders.

Climate change

Climate change is one of the single largest threat to our economy and Nordea AM is working on an ongoing basis to assess climate change risk and the impact of the low-carbon transition on sectors and companies. We support the TCFD recommendations and we want to continue to promote increased transparency, development of tools and methods to manage climate-related risks and opportunities and contribute to best practice in the industry. We will also aim to align our portfolio with the Paris agreement in the long term as well as further reduce the financial risk related to climate change in our portfolios.

Climate Change presents a challenge to our investments – in terms of its physical impact as well as against the prospect of the implementation of radical policy measures in order to reduce GHG emissions globally. There are a number of sectors that are particularly exposed to climate change.

Companies in these sectors

- need to demonstrate how they integrate climate change challenges into their business strategies, investment decisions and risk management,
- should be able to disclose how their long-term business strategy and profitability will be impacted by a different regulatory and physical environment,
- need to show how they identify and capitalize on opportunities related to climate change, and
- should also be transparent in regards to their position on climate change regulation and interaction with regulators and policy makers.

Water

Water crises have been identified as the global risk that can be the most impactful in the next 10 years. By 2025 two thirds of the world's population will be subject to water stress. Economic growth and climate change are putting extreme pressure on groundwater and

renewable surface water resources. Scarce water resources are an issue for a number of companies that we are invested in. Certain industry sectors have in some geographical areas of operations a particularly high exposure to water risk.

We expect companies in the high risk sectors to ensure that they address and manage water risk adequately.

Corruption

The evidence of a correlation between corrupt business practices and the negative effects on long term financial return is growing. Corruption induces great business-related costs and market inefficiency and hinders economic, political and social development. Corruption is often aided by the use of opaque company and ownership structures, use of joint ventures and offshore companies and non-transparent jurisdictions. More and more countries are adopting and strengthening anti-corruption legislation and enforcement and there is more international co-operation in regards to anti-corruption enforcement.

Transparency requirements, both voluntary and mandatory, are being developed requiring companies to disclose information on corporate and ownership structures, on their anti-corruption programs, and do country-by-country reporting on taxes and government payments. As investors we demand that businesses take a proactive approach towards corruption, implement adequate anti-corruption measures and improve transparency.

Transparency

For an investor timely and adequate information is key. We expect companies to report on materiality; i.e. aspects that reflects a company's significant economic, environmental and social impacts and value and which can substantially influence the analysis and decisions of investors and other stakeholders.

We support standardized and integrated reporting which incorporates material sustainability information with financial information.

We strive to be transparent in regards to how we work and incorporate ESG in our responsible investment decisions and activities. We regularly report via our website, through our Annual Report and through the PRI reporting framework.

Nordea Asset Management/ Responsible Investments
M711
Mäster Samuelsgaten 20
105 71 Stockholm
Sweden

Read more about responsible investments in Nordea:

<https://www.nordea.com/en/sustainability/sustainable-business/investments/>