Nordea

Statement on the integration of sustainability risks in investment decisions and advice

Published March 2021. Updated September 2024.

Approved by Nordea Bank Investment Center Product Committee.

Information about policies on the integration of sustainability risks in Nordea Bank Abp

1. Purpose

This document describes how Nordea Bank Abp ("Nordea") integrates sustainability risks in investment decisions and in investment and insurance advice with respect to financial products. The EU Sustainable Finance Disclosure Regulation ("SFDR") defines sustainability risk as an environmental, social or governance ("ESG") event or condition that, if it occurs, could cause a negative material impact on the value of the investment. In short, ESG risks that can negatively impact the value of an investment.

SFDR focuses on double materiality on entity and product level. The concept of double materiality covers how companies are affected by sustainability issues and, conversely, how their activities impact society and the environment. We measure the exposure to sustainability risks of the investments and also the principal adverse impacts ("PAI") on the environment and society. Find the statements on PAI here*.

Examples of sustainability risks and how they relate to financial risks

Environmental risks	Social risks	Governance risks
• **Climate change:** Climate-related risks are financial risks posed by the exposure to an investment that may potentially contribute to, or be affected by, climate change. The value of the investment can be negatively affected by physical risks (e.g. flooding, storms) as well as by transition risks (e.g. new regulation, disruptive technologies and changing consumer behaviour to reduce greenhouse gas emissions globally). • **Biodiversity, natural capital and ecosystem services:** The health of the oceans, and the extinction of most edible fish species due to overfishing, are examples of concerns also for investors. When ecosystems collapse or diminish it could have cascading effects along supply chains, that could then lead to inflationary pressures and even systemic financial risks.	• **Human and labour rights and conditions:** Labour practice related risks are financial risks posed by the exposure to an investment that may fail to adhere to adequate labour practices. For example, a company's issues related to working conditions or worker pay can lead to lower productivity and reputational damage. Consequently, this may negatively impact the value of investment in the company.	• **Corruption:** Corruption affects both the companies' reputation and profits, which damages also the shareholders. Monitoring the corruption risks protects investment portfolios from value depreciation. • **Board composition:** Risks related to board composition are financial risks posed by the exposure to an investment that may fail in e.g., the lack of board diversity or independent directors. The value of the investment may be negatively affected by, for example, strategic decisions that benefit management but not shareholders.

*Under Sustainability-related disclosures (SFDR)

2. Sustainability risk integration in Nordea

We consider relevant ESG factors when evaluating risks and opportunities. Nordea's principles and policies guide our decisions, work and behaviour. This includes situations that might negatively impact the value of our customers' investments. We integrate sustainability risks, alongside other financial risks, in our decision-making processes and our investment and insurance advice. We execute this through our assessment processes which includes requirements on products and product providers ("providers").

The table above shows examples of sustainability risks and how they relate to financial risk i.e. potential negative impact on the value of the investments. These are risks that may be relevant for our financial products in advice as well as our discretionary portfolio management.

The range of potential sustainability risks and how they can affect the value of the investments are described more broadly in a Nordea ESG Investments Publication "How sustainability risks affect investments".

3. Investment decision-making

At Nordea, we offer discretionary portfolio management. This service adheres to policies for investment and insurance advice as described below. Nordea has outsourced the management of discretionary portfolio management solutions to Nordea Investment Management AB ("NIM"). We evaluate NIM's sustainability capacity and practices on a regular basis. We assess that NIM has robust processes for integration of sustainability risks in the investment decision-making processes. This is for example based on the quality in NIM's methods for identifying material sustainability risks, and NIM's integration of external and in-house ESG research to its investment analysis and decisions.

You can find information on how NIM integrates sustainability risks in the document Sustainability Risk Integration in the Investment Decision-making Process and in its Responsible Investment Policy. Nordea is responsible for the customer relationship for the outsourced service, and we therefore monitor NIM's management of the portfolios regularly.

4. Investment and insurance advice

At Nordea, we integrate sustainability risks in our investment and insurance advice through our assessment processes and requirements on providers and their products. Financial products in the advisory universe are required to integrate sustainability risks in investment decision-making processes. Both providers and products need to pass through our processes and meet our specific requirements to qualify for distribution to Nordea's customers, as described in the following sections.

Nordea sees integration of sustainability risks in investment advice as an important component of product risk mitigation and believes that it can enhance the risk-adjusted return. Sustainability risks can be financially material and therefore, the integration of sustainability risks helps investors understand the risk exposure in their holdings and the investment opportunities arising from different sustainability factors such as climate change, biodiversity, human rights and gender diversity. We monitor the products' exposures to key sustainability risks on a regular basis, both at the level of individual products and for the advisory universe on aggregate.

More details about these processes and requirements are included in the Nordea Responsible Investment Product Distribution Policy ("RIPD"), and below.

Requirements on providers

- **PRI**

As a starting point, we consider commitment to the [Principles for Responsible Investments (PRI)] to be a foundation for committing to integration of ESG factors into investment analysis, decision-making processes, and active ownership practices. This includes the integration of sustainability risks, which enables lowering of sustainability risk, and thereby financial risk, in products. In Nordea, we require that all providers are signatories of the PRI and have processes that ensures compliance with the principles.

- **Climate commitment**

Climate change is one of the largest threats to the global economy and in general to the conditions for all life on earth. In addition, it implies specific sustainability risks to companies and other entities subject to investment. Climate change presents challenges in terms of its physical impact, also called physical risk, as well as through the prospect of radical policy measures and changing consumer behaviour to reduce greenhouse gas (GHG) emissions globally, which is called transition risk.

We require that managers of liquid funds and pension solutions, to be eligible for advice in Nordea, commit to transform their investment portfolios to net zero by 2050 at the latest, in alignment with the Paris Agreement. The commitment includes setting targets and establishing methods to accomplish the targets. If succeeding with this commitment, the providers can mitigate sustainability risks related to climate change in their products. We follow up on providers' progress regularly.

Requirements on products

- **Product integration**

Financial products eligible for advice in Nordea must have sustainability risks integrated in investment decision-processes and have adequate methods for doing so. This is to ensure that each product integrates all material sustainability risks that are relevant for the specific product. The exposure to relevant material sustainability risks is assessed when selecting financial products for advice, and reviewed regularly. With this process we aim to ensure that providers mitigate the financial risk, by integrating all relevant material sustainability risks, in the products we give advice on to customers.

- **RIPD exclusion criteria**

In addition, financial products selected for advice must adhere to the exclusion criteria of the RIPD. The criteria cover exclusion of selected businesses that are exposed to high sustainability risk, and which we do not want to include in advice, for example:

- controversial weapons, such as chemical and biological weapons – which expose investees to financial risk through e.g., incompatibility with international conventions and harmed reputation.
- selected fossil fuel activities, such as coal mining and Arctic drilling – which expose investees to financial risk through e.g., unsustainable business models with high level of direct greenhouse gas emissions produced from their business, and therefore exposure to climate change related transition risk.

Compliance with the RIPD exclusion criteria is ensured through assessment of product strategies and policies, and screening of product holdings in the selection process and in ongoing monitoring.