Sustainability risk integration in the investment decision-making process

Nordea ASSET MANAGEMENT

Nordea FUNDS

10 March 2022

Background and scope

This disclosure is applicable to Nordea Investment Management AB and Nordea Investment Funds S.A. (jointly referred to as Nordea Asset Management, NAM), as well as to Nordea Funds Ltd.

The Sustainable Finance Disclosure Regulation (SFDR)[1] defines sustainability risk as "an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment".

This statement describes how sustainability risks are integrated into our investment decision processes, as per Article 3 of the SFDR.

This statement applies as of 10 March 2022. It will be reviewed at least annually.

In case of any inconsistency in translations of this statement, the English version will prevail.

ESG integration and sustainability risk

We recognise that integration of environmental, social and governance (ESG) issues into the investment decision-making process forms part of our fiduciary duty towards customers and stakeholders. In order to ensure that investment decisions are based on comprehensive information, we seek to integrate ESG aspects into our investment analysis. Since ESG aspects can have both negative and positive impact, they can be used to identify investment opportunities as well as sustainability risk.

Our overall ESG assessment, based on both quantitative and qualitative ESG information, allows for a robust identification of sustainability risk. We identify these risk types by considering ESG factors in the investment process and assessing the materiality of the negative impact of these ESG factors on the value of the investment.

We have developed policies and procedures to ensure that the issuers we invest in meet our expectations on ESG performance. These include our robust norm-based screening process, allowing us to identify issuers that are allegedly involved in breaches of international law and norms on environmental protection, human rights, labour standards and anti-corruption; where applicable, our principal adverse impact (PAI) due diligence process[2] allowing us to assess both sides of the "double materiality"[3]; and engagement with, quarantine or exclusion of issuers exhibiting high sustainability risk.

[1] Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector.

[2] For more details, please refer to our Principal Adverse Impact statement.

[3] The concept of double materiality refers to, on the one hand, those ESG-related risks that are material to the financial performance of an issuer, and, on the other, to the environmental and social impact of the activities of the same issuer. The two will typically be closely linked, but should not be conflated.

Given the size of our investment universe across our various investment teams and strategies, we use a range of external providers of ESG data as well as proprietary ESG research and tools to assess sustainability risk. Data sources and providers are assessed on an ongoing basis for data quality, coverage and other relevant attributes.

Examples of sustainability risks include[4]:

Climate-related risk

The financial risks posed by the exposure to issuers that may potentially contribute to or be affected by climate change. This includes *physical climate risk*, for example severe weather conditions due to climate change that may impact an investee company and make certain countries higher risk, but also *climate transition risk* such as changes in policy measures, technology or consumer behaviour that have a negative effect on a company.

Social risk

The risks of any negative financial impact on the issuer stemming from the current or prospective impacts of social factors, such as inequality and labour relations.

Governance risk

The risks of any negative financial impact on the issuer stemming from the current or prospective impacts of governance factors, such as bribery and corruption.

Sustainability risk integration into investment decisions

Sustainability risk considerations are integrated into our investment decision framework as part of the overall risk assessment.

How sustainability risk considerations are integrated in practice differ among our investment teams as the relevance, availability of information and time horizon of sustainability risks will vary depending on the investment product's characteristics, including asset class, investment strategy, client objectives, and market trends.

Sustainability risks are considered in the investment decision process together with traditional investment risks (for example market, credit or liquidity risk). Sustainability risks may have a significant impact on traditional investment risks and be a factor that contributes to their materiality.

To integrate sustainability risk considerations in the investment decision-making process, we:

- **Ensure portfolio managers and analysts have access to relevant ESG information**, making it possible to identify 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 consider sustainability 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.

[4] EBA Report: "On management and supervision of ESG risks for credit institutions and investment firms", EBA/REP/2021/18

- **Identify, evaluate and take relevant action on issuers exhibiting high exposure to sustainability 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. Moreover, at the entity level and where applicable, issuers identified as outliers on one or more PAI indicators or with norms breaches are analysed further by our Responsible Investments team. Based on this analysis, the Responsible Investments team issues a recommendation for action to our Responsible Investments Committee, upon which the Committee decides on any actions to be taken. Potential actions include engagement, quarantine or exclusion of the issuer.

To support the integration of sustainability risks in the investment decisions made within our investment teams, our Risk & Performance Analysis team integrate, where applicable, ESG analysis in the risk reporting that is made available to analysts and portfolio managers on a daily basis.

Additional expertise in the sustainability risk domain may be provided by our analysts in our Responsible Investment team, which is responsible for supporting our analysts and portfolio managers ultimately responsible for the investment decision process.

Monitoring, oversight and escalation

The Risk Management Function, which is independent from our Investment department, perform risk oversight, monitoring and escalation based on established policies.

Additional information

More information on NAM's and Nordea Funds Ltd.'s responsible investment framework can be found on nordeaassetmanagement.com and nordeafunds.com respectively.

Appendix – Amendments

Version	Review type	Amendment	Date of version
1	First version	First version of statement published	10 March 2021
2	Annual review	This statement has been reviewed with the following amendments: • New section on “ESG integration and sustainability risk”, providing additional details to our overall ESG approach, hereunder sustainability risk, and examples of sustainability risk • Further describing how sustainability risk integration differs among our investment teams • Section “Sustainability risk integration into investment decisions” further details how we work with integration, including tools to identify and how we take relevant action on identified sustainability risks • Added reference to NAM’s and Nordea Funds Ltd.’s responsible investment framework	10 March 2022