Responsible Investment Policy

Nordea Funds
December 2023

Index/

Nordea Funds Policy for Sustainable and Responsible Investment

Purpose

The purpose of this policy is to set the direction for Nordea Funds' work with sustainable and responsible investments, and our actions as investors and owners. The starting point being to always act in the best interest of the investors.

Scope of the Policy

This policy for Sustainable and Responsible Investment applies to the investments of all funds managed by us. It is the goal to apply the policy as much as possible to indirect investments.

The policy has been approved by, respectively, the board of directors of Nordea Funds and the board of the Danish Nordea Invest fund associations.

This policy is reviewed at least annually.

Our Ambition and Key Value Proposition

It is our vision to be recognized as the leading Nordic fund provider.

Our key value proposition is that our funds will support our customers' financial well-being over time in an easy and sustainable way, surpassing the competition.

We strive to:
- Integrate environmental, social and governance (ESG) factors into our investment processes, observing both sides of the "double materiality", i.e. on one hand ESG/sustainability risks material to the financial performance of an investee company or other entity, and on the other hand to the environmental and social impact of the activities of the same company or entity;
- Actively engage with our investee companies to ensure that they meet our expectations of sound ESG performance and compliance with international norms;
- Offer a wide range of ESG solutions across all asset classes;
- Accept the responsibility to act as an industry leader with respect to ESG/Sustainability.

Background

In 2007 we signed the Principles for Responsible Investments (PRI)[1].

We are committed to integrate ESG factors into our active ownership practices and we believe this will lower the risk of our investments and improve the returns for our investors.

In addition to being committed to PRI we support the United Nations Sustainable Development Goals (SDG's) and comply with international conventions and norms, including, but not limited to:

- 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.

[1] *For more information: www.unpri.org*

Approach

While Nordea Funds set the general policies and principles for sustainable and Responsible Investment, performing the investment activities has been outsourced to Nordea Investment Management (NAM). This also includes conducting the daily work with sustainable and responsible investments.

In practice this means that the Responsible Investment team within NAM does the ESG analyses, conducts the company dialogues and assesses that strategies and processes are followed.

NAM has developed policies and procedures to ensure that investee companies meet NAM's expectations regarding ESG performance, and that that ESG risk/sustainability risk is managed in all NAM's investment processes.

This is supported by a robust norms-based screening process and the consideration of Principal Adverse Impact analysis.

In addition, positions are taken, across all products, including funds, in areas such as climate change, controversial weapons, human rights, etc.

NAM's Responsible Investment Policy is publicly available here.

Norms-based Screening

Our funds are subject to a recurring norms-based screening
which identifies companies allegedly involved in breaches of international law, environmental protection norms, human rights, labour standards, and anti-corruption.

If a company is identified based on the norms-based screening to be breaking international norms an assessment of the company will be initiated to consider actions to be taken. Typical actions are engagement, quarantine or exclusion.

Principal Adverse Impact Transparency

Transparency requirements with respect to adverse sustainable impacts are part of the EU Sustainable Finance Disclosure Regulation (Article 4).

The environmental and social impact of the activities of investee companies is assessed on an ongoing basis with respect to Principal Adverse Impact. Companies identified as outliers on one or more Principal Adverse Impact indicators are analysed further and an assessment is made, similarly to companies identified to breach norms.

Our disclosure statement on the consideration of Principal Adverse Impact indicators can be found here.

Active Ownership and Engagement

We believe that active ownership involves both exercising our formal rights as owners, but also a responsibility to use our influence as owners to encourage and affect companies to improve their environmental, social and governance practices, including a long-term approach to decision-making.

We see engagement as a important tool and we engage pro-actively with both companies and other stakeholders.

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 industry issue.

Our engagements fall into three main categories:

Thematic: Undertaken alone or in collaboration with other asset managers and asset owners, e.g., within the framework of industry initiatives. Via NAM we will in some cases initiate and lead such ad hoc investor alliances.

Norms-based: Can be triggered by observed norms breaches, Principal Adverse Impact red flags, or serious negative news about a company.

Investment-led: Initiated and executed at the level of an investment strategy and or investment team level.

Engagement provides us with an opportunity to improve our understanding of companies we are invested in.

Political engagement - we may participate in activities that can be considered as political engagement, such as providing feedback on regulations and support to policy makers through public endorsement in investor statements. We may also conduct policy engagement, which are activities focused on public policy dialogues with governments as well as public authorities on specific ESG issues. These activities align with our core values and our strategy to deliver returns with responsibility.

These types of activities are subject to careful consideration and diligence. We always assess the appropriateness of an activity that could be considered as political, before we decide to enter into it, and always assess the potential impact of such activity. Our activities focus solely on ESG issues, and do not intend to favour any specific political party or ideology[2] . We believe that our participation in political activities can contribute to long-term value creation and have a positive impact on society.

By working individually or collaboratively with other investors we seek to influence companies and promote better corporate governance, risk management, performance, or disclosure standards with respect to a wide range of ESG related issues.

Exclusions and Quarantines

Recognizing that some types of economic activity or corporate behaviour are not compatible with our vision being at the forefront of sustainable investments we exclude companies involved in serious breaches of international norms, where engagement is deemed not to be possible or effective.

We have excluded companies involved in the development, production, or maintenance of illegal or nuclear weapons, as well as sovereign bonds issued by governments subject to broad sanctions.

We exclude companies with significant revenue derived from sales of coal products and no meaningful opportunity to diversify away from coal.

If a company continues to be on our engagement list and shows no willingness or ability to improve its behaviour it may be excluded.
The consequence of exclusion is that no further shares in the company can be purchased, that present holdings are sold, and that the company is placed on the exclusion list which is published here.

If the acceptability of a company's behaviour is sufficiently in doubt to merit action beyond the regular engagement, but the facts are not sufficiently clear or serious to merit outright exclusion, a company can be "put on hold", i.e. quarantined. This means that no further investments will be made.

A company can be put on hold for all funds or a subset of Nordea's funds, depending on the seriousness of the incident or allegations.

Fossil Fuel Policy aligned with the Paris Climate Agreement

In addition to the norms-based exclusion list, a substantial and growing part of the holdings of our funds is also subject to the NAM Paris-Aligned Fossil Fuel Policy (PAFF), which excludes a company involved in fossil fuel production, distribution or services, if the company does not have a recognized strategy to achieve an emissions path aligned with the Paris agreement.

For investments where the NAM Paris-Aligned Fossil Fuel Policy is not implemented as a hard exclusion criterion, the NAM Paris-Aligned Fossil Fuel Policy PAFF serves as guidance for engagement.

A link to the NAM Paris-Aligned Fossil Fuel Policy and a list of the strategies covered can be found here.

[2] Whilst we are registered as a lobbyist in the United States as a prudent measure, we do not make political contributions nor engage in activities which would require such registration

Stewardship

We believe that a sound corporate governance structure is essential for creating long-term shareholder value.

The board of directors and senior management of investee companies 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 to protect shareholder rights.

In addition to engaging with companies invested in we use our vote to impact numerous issues, including shareholder rights, board composition, remuneration and risk management.

Our ownership activities aim at promoting sustained and sustainable profitability and risk management in investee companies to protect shareholder value and enhance long-term returns.

Our active ownership tools include voting, attending Annual General Meetings, representation on nomination committees and engaging directly with companies.

Our corporate governance principles are described in a separate document which is publicly available on our website.

The corporate governance principles apply to all funds managed by Nordea Funds and its branches and apply to all investments in the Nordic market and globally.

Positions

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 defined positions within the following areas:

- Human Rights
  - Conflict areas
  - Illegal and Nuclear Weapons
  - Soft Commodities
- Climate Change
  - Coal
  - Oil Sand
  - Arctic Drilling
  - Biodiversity
  - Deforestation
  - Water
- Good Governance
  - Pornography
  - Sanctions
  - Corruption
  - Tax
  - ESG in remuneration
  - Diversity

Transparency

Information about sustainable and responsible investments for the funds we offer in the Nordic area is available on our websites, in our annual reports and in the respective fund prospectuses.

Governance

The board of directors of Nordea Funds and the board of directors of the Danish Nordea Invest fund associations have decided to delegate decisions regarding engagements and exclusions to the Responsible Investments Committee of Nordea Asset Management, which is chaired by the CEO of Nordea Asset Management. The board receives regular reporting on the activities of the Responsible Investments Committee, including engagements with, and exclusions of, companies.

ESG positions

Human Rights

While protecting and fulfilling human rights is a legal obligation and the responsibility of governments, it is widely recognized that all businesses also 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 comply with internationally recognized human rights principles and to prevent and manage their impact on human rights. Human rights related issues include human right abuses, modern slavery, fair living wage, 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. The expectations in these areas apply both to our investee companies themselves and to their supply chains.

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 a 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 and 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 on-going conflict or human rights violation and how this may have a material impact on the company as well as its stakeholders. Companies should also enable stakeholders to safely report any human rights violations.

Illegal and Nuclear Weapons

We see illegal and nuclear weapons and their potential use as controversial, given their indiscriminate effect on human populations.

We do not invest in companies, which are involved in the production or, development of:
- Cluster munitions
- Anti-personnel mines
- Biological weapons
- Chemical weapons
- Weapons with non-detectable fragments, incendiary and blinding laser weapons
- Depleted uranium munitions

We do not invest in companies that are verified to be directly involved in the production, development or maintenance of nuclear weapons. We also exclude companies involved in the maintenance of nuclear weapons with a military revenue threshold of 5 percent[3].

Soft commodities

We do not offer investment products where basic food commodities, such as wheat, coffee, or sugar, are included as investable assets as international studies indicate that excessive financial speculation contributes to increasing the volatility of food prices and driving prices to record highs.

[3] *Military revenue is based on company overall revenue from military equipment and is not the same as revenue from nuclear weapons.*

[4] *The threshold on metallurgical coal is higher as there are currently no widely available alternatives. Nevertheless, we have chosen to apply a threshold and expects to adjust it downwards as applicable coal-free technologies appear e.g., in the area of steel production.*

Climate change

Climate change is one of the single largest threats to the global economy, and in general for the conditions of all life on earth. In addition, it implies specific risks to the companies and other entities we invest in. We work 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 for radical policy measures and changing consumer behaviour aiming to reduce greenhouse gas emissions globally (transition risk).

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,
- to be able to disclose how their long-term business strategy and profitability will be impacted by a different regulatory and physical environment,
- to show how they identify and capitalize on opportunities related to climate change,
- to be transparent in regard to their position on climate change regulation and interaction with regulators and policy makers,
- to report in line with TCFD recommendations and act to reduce greenhouse gas emissions across their value chains to align with the Paris Agreement.

Coal

We exclude all companies with substantial and sustained exposure to coal mining, with a 5 percent revenue threshold on thermal coal and a 30 percent revenue threshold on total coal (including metallurgical coal[4]).

We phase out investments in coal-based electricity utilities lacking meaningful commitment to a transition to clean energy.

Oil sand

We exclude companies with large and substantial exposure to oil sand with a 5 percent revenue threshold. The extraction of oil from oil sand is the highest cost and most carbon intense hydrocarbon. We believe that, using current methods and technologies, no company can extract oil from oil sand in a way consistent with sustainable development.

Arctic drilling

We do not invest in companies with exposure to oil and gas extraction through arctic drilling.

Biodiversity

Biodiversity loss is a systemic risk. 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. Biodiversity affects our food, medicine, and environment. The continuing loss of biological diversity is expected to cost the global economy several trillion Euros by 2050.

We expect companies affected by these risks to ensure that they report on how they manage biodiversity related risk and impact adequately.

Deforestation

Agricultural expansion is one of the main drivers of deforestation and the associated loss of biodiversity. Soft commodity-driven deforestation presents both sustainability and financial risk for companies in a number of several industries including food products, household products, textiles, and apparel.

We recognize the vital role forests play in climate change mitigation, biodiversity protection and in supporting livelihoods.

We expect all relevant companies in our investment portfolios involved in production, trade, use or financing of forest-risk commodities, particularly palm oil, soy, timber and cattle products, to commit to eliminate deforestation and the loss of other valuable ecosystems from their operations and supply chains. Sufficient measures include, but should not be limited to, implementing a strong governance framework which clearly articulates the investee company board's accountability for and oversight of deforestation risks, and ensures traceability of forest-risk commodities.

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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 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 several companies 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.

Good Governance

Our ownership activities are aimed at promoting sustainable profitability and sound management of ESG risks and other risk types 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 risks, 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.

We expect companies affected by these risks to ensure that they report on how they manage the related risks and impacts adequately.

Pornography

We do not invest in companies involved in production or distribution of pornography with a 5 percent revenue threshold.

Sanctions

We do not invest in sovereign bonds issued by governments that are subject to relevant sanctions imposed by the UN, EU, USA or other applicable local regulators. Sovereign bonds are tracked on the basis of their Human Rights performance using NAM's proprietary methodology, which is based on the United Nations Universal Declaration of Human Rights and other recognised standards.

Corruption

The evidence of a correlation between corrupt business practices and the negative effects on long term financial return is growing. Corruption lead to significant business-related costs and market inefficiencies and hinders economic, political, and social development.

We expect companies to take a proactive approach towards corruption and responsible payments to ensure that adequate measures are implemented, and that transparency is being elevated.

Tax

We recognize the importance of companies being accountable for and transparent about their tax practices. We expect our portfolio companies to have a tax policy that outlines the company's approach to taxation and how it aligns with the overall business strategy. We also expect companies to have a robust tax governance and management framework in place, to pay taxes where economic value is created and to provide country-by-country reporting.

ESG in remuneration

We expect the board of directors of companies we invest in to ensure that overall remuneration to executive management is appropriate and reasonable, aligned with the strategy of the company, and that it promotes a sound performance for the company in the long term. We favour variable compensation plans that are based on clearly defined performance criteria, and which include ESG criteria.

Diversity

We expect the board of directors of companies we invest in to include a strong presence of independent non-executives members and to be diversified on gender, experience, age and other factors. A board should preferable be made up by at least 40 percent of either gender.

Transparency

For an investor timely and adequate information is the key. We expect companies to report according to materiality; i.e. emphasize 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.

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

We strive to be transparent regarding how we work and to incorporate ESG in our responsible investment decisions and activities. We regularly report via our website, our Annual Report and via the PRI reporting framework[5] .

A Sustainable Fund Company

For Nordea Group, sustainability means taking responsibility for the impact Nordea has on the surroundings.

This encompasses the ability to be a credible and reliable partner which acts in the best interest of customers and ethically and responsibly towards society. Human rights, employee rights, environmental responsibility and anti-corruption are included in the decision-making processes in order to contribute to sound financial markets. Sustainability is at the core of the business development, and the way of creating value. Nordea is committed to integrate sustainability into relevant processes in all business areas.

Nordea Funds' principles for sustainability are based on Nordea's Code of Conduct which guide behaviour in our daily work and when making business decisions. We take these principles and other relevant environmental, social and governance principles into consideration when evaluating business risks and opportunities.

Nordea Funds expect business partners and suppliers to adhere to these principles:

- We are committed to good corporate citizenship
- We are committed to human rights, labour rights and freedom
- We are committed to equal opportunities and diversity
- We are committed to caring for the wellbeing of our employees
- We are committed to ethics, honesty, and sincerity
- We are committed to caring for the environment
- We reject bribery and corruption.

[5] Nordea's PRI Signatory Profile and Transparency Report can be accessed here.

The policy is owned by Nordea Funds Ltd. Latest update by Nordea Funds Communication: 12_2023

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LEI CODE: 529900EJK6EZ8VHYAT71