



Nordea  
FUNDS

# Responsible Investment Policy

Nordea Funds Ltd with Branches

Updated July 2020

# Index



Scope of Policy.....	04
Our Vision, Mission and Key Value Proposition .....	04
Background.....	05
<b>Approach</b> .....	<b>06</b>
Norm-based Screening .....	06
Engagement – Active Ownership in Practice .....	06
Exclusions and Quarantines .....	07
Stewardship.....	07
Positions .....	09
Transparency .....	09
Governance.....	09
<b>Our positions</b> .....	<b>10</b>
Illegal and Nuclear Weapons .....	10
Soft Commodities .....	10
Palm Oil .....	10
Sanctions .....	10
Human Rights .....	10
Companies with Business Operations in Conflict Areas .....	10
Climate Change .....	11
Water .....	11
Corruption .....	11
Transparency of Companies .....	11

# Nordea Funds Policy for Sustainable and Responsible Investment

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 Policy

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

The policy has been adopted by, respectively, the board of directors of Nordea Funds and the board of directors the Danish Nordea Invest Fund Associations.

## Our Vision, Mission and Key Value Proposition

It is our vision to be recognized as the leading Nordic fund house and to be at the forefront of sustainable investments. Our mission is to provide high quality, sustainable and relevant investment funds.

Our key value proposition is that our funds will grow customers' savings sustainably over time, and at a higher rate than comparable products.





## **Background**

In 2007 we signed the Principles for Responsible Investments (PRI)<sup>1</sup>.

We are committed to integrate Environmental, Social and Governance (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 base our policy for responsible investments 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.**

1. For more information: [www.unpri.org](http://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 Asset 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 do the ESG analyses, conducts the company dialogues and assess that strategies and processes are followed.

### Norm-based Screening

Our funds are subject to a recurring norm-based screening carried out by ISS-Ethix. ISS-Ethix is a leading provider of analytical services with respect to sustainable and responsible investment and we have cooperated with ISS-Ethix since 2004.

The norm-based screening is used to identify 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 norm-based screening to be breaking international norms an assessment of the company will be initiated and a decision taken whether to open a dialogue (engagement) with the company or not.

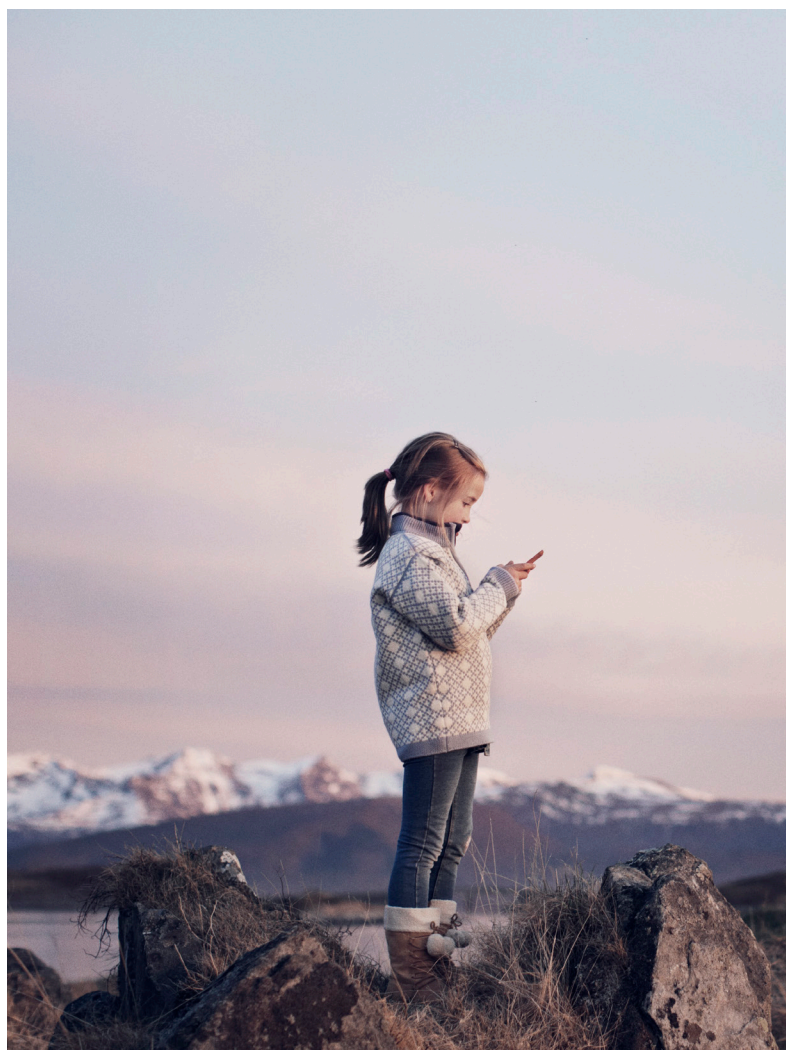
The norm-based screening also identifies companies that may be subject to exclusion based on our exclusion criteria.

To exclude a company is usually not a constructive long-term solution as this may not lead to an improvement in the actions of the company. We see exclusion as the last resort and prefer instead, if it is possible, to use our ownership to influence the company to develop in a more sustainable and responsible way.

### Engagement

#### – Active Ownership in Practice

We believe that active ownership involves both exercising our formal rights as owners, but also is a responsibility to use our influence as owners to



encourage and affect companies to improve their governance structures, ESG-focus and reporting on sustainability and responsibility.

We see engagement as an 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. Engagement provides us with an opportunity to improve our understanding of companies we are invested in. 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**

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 and failing to respect human rights.

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 on [www.nordea.com](http://www.nordea.com).

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

### **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.

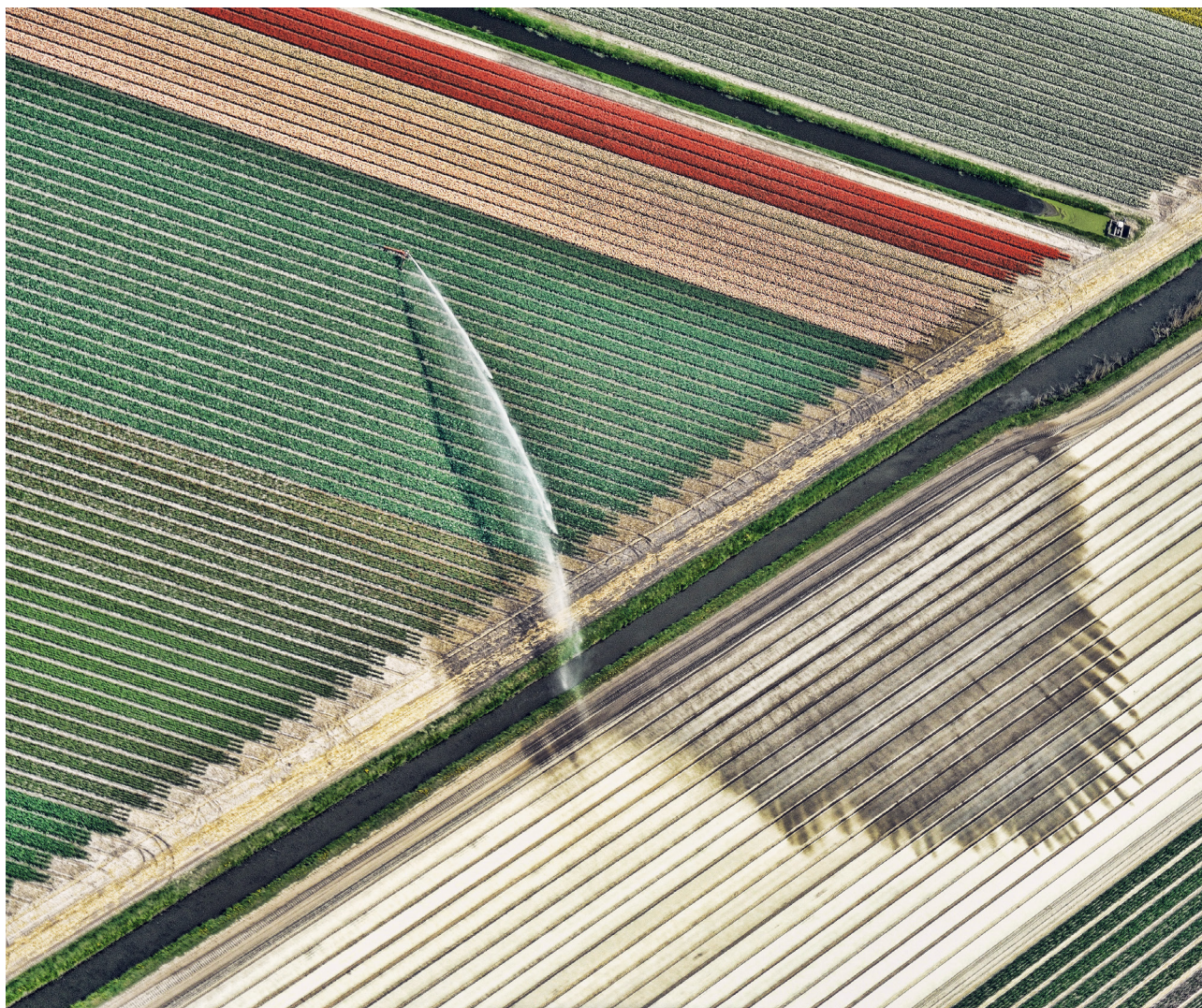
Our corporate governance principles are described in a separate document which is publicly available on our website. The corporate governance principles apply to investments in Nordic companies listed on Nordic stock exchanges. Where applicable they also apply to other companies listed on Nordic stock exchanges. For investments in companies listed on trading venues outside the Nordic area we apply separate international guidelines which are also publicly available on our website.

#### VOTING PORTAL

To see how Nordea Funds is voting, visit our **Voting Portal** at [Nordea.com](https://bit.ly/2YKmWdO)

The portal is updated continuously and contains our historical voting since 2016.

<https://bit.ly/2YKmWdO>





## TYPES OF COAL

Thermal coal is a lower quality coal type which is used for heating. This is the most polluting type of coal and the type that can be replaced by alternative energy sources.

Metallurgical coal is a coal type which exclusively is used in steel production. There are not many viable alternatives for this type of coal and its use is exclusively in industrial settings that can implement carbon capture techniques.



## 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:

- Illegal and Nuclear Weapons
- Soft Commodities
- Palm Oil
- Coal
- Oil Sand
- Sanctions
- Human Rights
- Companies with Business Operations in Conflict Areas
- Climate Change
- Water
- Corruption
- Transparency of Companies

## Transparency

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

## Governance

The board of directors of Nordea Funds and the board of directors 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.

# Our Positions

## 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 production or development of:

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

We do not invest in companies that are verified to be involved in the production, development or maintenance of nuclear weapons. We may, however, invest in companies involved in the maintenance of nuclear weapons provided that the total military revenue of the company does not exceed 5 percent of total revenue. (*Military revenue is based on company overall revenue from military equipment and is not the same as revenue from nuclear weapons*).

## Soft Commodities

We do not offer nor recommend investment products to household customers 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 volatility of these commodities and record food prices.

## Palm Oil

We acknowledge the risks related to palm oil production including deforestation, biodiversity, GHG emissions and labour rights. We expect companies across the palm oil value chain to make sufficient effort to ensure traceability, relevant policies aligned with a No Deforestation, No Peat, No Exploitation (NDPE) policy and Roundtable on Sustainable Palm Oil (RSPO) standards and maximized use of Certified Sustainable Palm Oil.

## Coal

We exclude companies with large and sustained exposure to coal mining with a 10 percent revenue threshold on thermal coal mining and a 30 percent revenue threshold on total coal mining. The sector-based screen on coal mining includes both thermal and metallurgical coal mining.

## Oil Sand

We exclude companies with large and sustained exposure to oil sand with a 10 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 technology, no company can extract oil from oil sand in a way consistent with sustainable development.

## Sanctions

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

## 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 obey internationally recognized human rights principles and to prevent and manage their 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 and to be transparent and report on their political

risk and impact analysis, including human rights impact. Companies are also expected to assess and report on how their business operations or products may directly or indirectly impact an on-going conflict or human rights 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 based on materiality; i.e. prioritize 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.

## Climate Change

Climate Change presents a challenge to our investments – in terms of its physical impact as well as in terms of the prospect of the implementation of radical policy measures to reduce Green House Gas emissions globally. There are several sectors 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,
- should be transparent regarding 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 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.

## Corruption

As the corruption landscape changes, we see increased risk to our investments.

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 using opaque company and ownership structures, 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 regarding 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 of Companies

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. (Nordea's PRI Signatory Profile and Transparency Report can be accessed here: <https://www.unpri.org/signatories/nordea/1554.article>)



**Nordea Funds Ltd**

Aleksis Kivis gata 7, 00500 Helsingfors  
[www.nordea.fi](http://www.nordea.fi)

Hamnbanegatan 5, FI-00020 NORDEA, hemort Helsingfors, FO-nummer 1737785-9.