

## **Methodologies applied to achieve the ESG characteristics of Nordea's funds**

We have developed policies and procedures to ensure that the companies we invest in meet our expectations of ESG performance, and that ESG risk/sustainability risk is managed in all our investment processes. This is supported by a norms-based screening process and exclusion list as well as the integration of adverse sustainability impacts of our investment decision (PAI).

A substantial part of the funds display additional ESG measures. These include the deeper ESG integration and hands-on involvement of the Responsible Investments team in the STARS-funds and our internally developed ESG scoring. Many individual products also have sector-based or other exclusion criteria beyond those implemented at the firm level.

### ***Company level norms-based screening***

Our funds are subject to norms-based screening, which identifies companies that are allegedly involved in breaches of international law and norms on environmental protection, human rights, labour standards and anti-corruption. If a company is identified in this screening process, an internal assessment of the company and the incident is initiated. Typical actions can consist of engagement, quarantine (meaning that the fund can hold on to its investments in the company but not make any further investments at the moment) or exclusion. For more information please refer to the [Nordea Funds Responsible Investment Policy](#).

### ***Company level exclusion list***

Our funds exclude companies involved in serious breaches of international norms, where engagement is deemed not to be possible or effective. For example, we ban investments in companies active in the production of controversial weapons, including – but not limited to - cluster munitions and anti-personnel mines, as well as nuclear weapons. Our funds also do not invest in companies deriving more than 10% of their revenues from thermal coal, and exclude companies involved in the production of fossil fuels from oil sands or through arctic drilling.

[The exclusion list can be found here.](#)

### ***Company level integration of principal adverse impact***

The environmental and social impact of the activities of all investee companies of our funds is assessed on an ongoing basis through our firm-level PAI integration. Companies identified as outliers on one or more PAI indicators are analysed further which may result in a recommendation for action. For more information [please see our Responsible Investment Policy](#) and [disclosure statement on the integration of principal adverse impact on sustainability factors](#).

### ***Minimum share of sustainable investments***

Most of Nordea's funds partly invest in sustainable investments, ie companies and issuers whose activity contributes to an environmental or social objective according to the UN Sustainable Development Goals (SDG) and/or the EU Taxonomy provided that such investment does not significantly harm any other environmental or social objective. The majority (mainly Article 9 funds) or only part (Article 8 funds) of a fund's investments can be sustainable.

[Read the description of sustainable investments.](#)

### ***Active Ownership & Engagement***

We undertake a range of engagement activities with companies, in order to affect and influence these to improve their environmental, social and governance practices, including promoting a long-term approach to decision-making. Our active ownership tools include voting, attending AGMs, standard setting, engagement with companies, filing resolutions etc. [A detailed description of our engagement processes can be found in our Responsible Investment Policy.](#)

### ***Paris Aligned Fossil Fuel Policy***

A substantial and growing part of our funds are also subject to our Paris-Aligned Fossil Fuel Policy (PAFF), which excludes companies involved in fossil fuel production, distribution or services, if these do not have a recognized strategy to achieve an emissions path that aligns with the Paris agreement. For funds where the PAFF is not implemented as a hard exclusion criterion, the PAFF acts as guidance for engagement. The PAFF criteria also inform the prioritisation of our top-down thematic engagements.

[The policy and a list of the companies covered can be found here.](#)

### ***The STARS strategies***

The Stars product range uses our proprietary ESG scoring system and bespoke analysis carried out by the Nordea Responsible Investment team and financial analysts within Nordea Asset management.

The strategies focus on selecting companies, not only with sound fundamentals, but also with high ESG scores (minimum B or B+ on a scale between A-C). Using the Sustainability Accounting Standards Board materiality map, company analysis includes enhanced due diligence on environmental, social and governance risks material to the company, and considers how companies manage their identified ESG risks. Furthermore, each company's business model alignment with the UN Sustainability goals (SDG's) is taken into consideration, as the strategies' exposure aims to skew towards companies whose activities are net supportive or neutral, rather than detracting towards, the SDG's. ESG scores are recalibrated regularly and at least annually, or if triggered by relevant negative or positive events. The ESG model sources data from several external data providers as input for the ESG score.

### ***Thematic strategies***

Our thematic ESG funds all apply proprietary methods to identify companies that can be expected to contribute to, or benefit from, the ESG theme in question. Often, in-depth research will reveal potential investee companies with activities in areas that are not reflexively associated with the theme of the strategy: For example, the holdings of the climate strategy are far broader than the traditional renewable energy and related sectors usually associated with combating or adapting to climate change. Methods are optimised according to the specific theme and may differ from product to product.

### ***Strategies for balanced funds based on Nordea's Sustainable selection***

Our balanced funds with a sustainable profile are primarily investing in other funds that are eligible within the sustainable selection that Nordea offers. These are funds that have higher thresholds for integrating ESG-risks or that invest according to a specific theme that supports a sustainable transition, i.e. climate or social efforts. The strategy can also hold direct investments that apply the same methodology as the funds following the Nordea's sustainable selection.

### ***ESG-strategy equities***

Our ESG-strategy funds utilise an approach to ESG where we screen out holdings with a lower ESG-score according to either MSCI or our own proprietary ESG scoring system.

At the same time the strategy applies a sector-based exclusion, limiting the exposure to businesses with more than five percent of revenues from the industries alcohol, coal mining, gambling, military equipment, pornography and tobacco.

It also applies a low carbon overlay that specifies that the total carbon footprint of the fund needs to be at least 25 percent lower than benchmark.

### ***ESG-strategy bonds***

The strategy focuses on both government issued bonds and corporate issued bonds with different risk profiles. A large proportion of the bonds are government bonds from Euro countries, which by most research firms are rated to have a high general ESG rating (Governance, Social & Environment), i.e. they have a high level when it comes to environmental considerations, social responsibility and a highly functional governance and judicial system. However, if international sanctions or violations of international conventions occur in a Euro country, the country's government bonds will be excluded.

Another part of the portfolio consists of corporate bonds. The companies that issue bonds are assessed from a sustainability risk perspective, which is carried out in collaboration between the Responsible Investments team and the responsible portfolio managers. As with sustainable equities, we use a combination of quantitative and qualitative analysis.

### ***Sector screenings and other exclusions/limits***

Exclusions aim at limiting the investment exposure to certain sectors or activities that may be considered to be damaging for the environment and/or the society at large. Sector screenings assess a company's involvement in a specific activity measured by the revenue derived from this activity. Sector exclusions are the result of screenings based on the data and methodology of selected data vendors. Strategies are available with different exclusion filters including ethical filters targeting tobacco, alcohol, gaming, pornography etc. In addition, some products also feature targets or limits on carbon footprint/intensity relative to benchmark, targeted minimum ESG score or other exclusion lists like the so-called "NBIM list" of the Norwegian Government Pension Fund Global or the Carbon Underground 200 list.

### ***Referrals for further reading***

For more information on the methodologies used to assess, measure and monitor the environmental or social characteristics or the sustainable investment objectives, [please see Nordea Funds Responsible Investments Policy](#). For more product specific information on environmental or social characteristics or the sustainable investment objective of the funds, please visit [nordea.fi/funds, Responsible investments](https://nordea.fi/funds/Responsible%20investments).

### ***Sourcing and governance of ESG data***

Given the size of our investment universe across its various investment boutiques and strategies, we use a range of external data providers of ESG data, as well as internal research and our proprietary ESG scoring platform.

We evaluate the quality of the all internal and external data on an ongoing basis, and continuously assess if new data providers can improve the analysis and models. All data providers have to fulfil the expectation set forth in Nordea's Supplier Code of Conduct. Prior to a data provider being chosen as a supplier extensive market research is conducted, and the potential data providers are assessed on issues such as: data quality, coverage, security, methodology, price, reliability and conflict of interest.