

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)<sup>1</sup> defines sustainability factors as environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters. Principal adverse impact is generally understood to mean the negative impact, caused by an investment decision or investment advice, on these factors.

This statement describes how we consider principal adverse impacts (PAI) of our investment decisions on sustainability factors, as per Article 4 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.

## Description of principal adverse sustainability impacts

Nearly all types of economic activity have the potential to impact various sustainability indicators, both positively and adversely. PAI indicators are a way of measuring how issuers negatively impact sustainability factors.

We aim to manage the risk connected to potential adverse sustainability impact from our investments in several ways, including via general screening criteria, surveillance of norms breaches and our proprietary ESG scoring system. In addition, we monitor and evaluate a range of PAI indicators.

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<sup>1</sup> 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.

The PAI indicators currently monitored and evaluated include:

Adverse sustainability indicator		Metric
<b>CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS</b>		
Greenhouse gas emissions	GHG emissions	Scope 1 GHG emissions
		Scope 2 GHG emissions
		Scope 3 GHG emissions
		Total GHG emissions
	Carbon footprint	Carbon footprint
	GHG intensity of investee companies	GHG intensity of investee companies
	Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector
Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage	
Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector	
Biodiversity	Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas
Water	Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average
Waste	Hazardous waste ratio	Tonnes of hazardous waste generated by investee companies per million EUR invested, expressed as a weighted average
<b>SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS</b>		
Social and employee matters	Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises
	Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises
	Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies
	Board gender diversity	Average ratio of female to male board members in investee companies
	Exposure to controversial weapons (antipersonnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons

## Description of policies to identify and prioritise principal adverse sustainability impacts

Subject to data availability, our Responsible Investments (RI) team monitor the selected PAI indicators for all managed assets on an ongoing basis using an internally developed monitoring system. Issuers identified as outliers on specific indicators, or which exhibit high adverse impact across several indicators, are identified based on data acquired from third party providers and/or internal analysis. These issuers are subject to further analysis by our RI team, which will escalate relevant cases to our Responsible Investments Committee (RIC). Furthermore, PAI is an input into our internal ESG scoring methodology, which is applied to a selection of our products. Finally, PAI data is used by some of our internal investment teams as a direct input into the investment process.

## Description of actions to address principal adverse sustainability impacts

Our RI team maintains our PAI monitoring system and identifies cases for analysis and potential action at entity level. Once these have been analysed by our RI team, they are – where relevant – referred to the RIC. The RIC then decides on the concrete actions to be taken in each case.

## Methodologies and data used to assess each principal adverse impact

### ESG Safeguards

Our responsible investment framework also comprises a baseline integration of ESG safeguards. The ESG safeguards consist of norm-based screening and exclusions, implemented across our product range to ensure the portfolio meets a minimum standard irrespective of the individual portfolio's ESG profile.

Further, a growing part of our product range include additional ESG features. Depending on the investment strategy, the portfolio could for example exclude certain sectors, select securities with higher ESG standards, or invest thematically.

### PAI monitoring

Our PAI monitoring engine applies a risk-based approach. First, the issuer's PAI indicator performance is assessed. Next, issuers are ranked on their PAI indicator performance, both for individual indicators and overall. The output of the total assessment and ranking results in a flag indicating the performance of each issuer. The issuers flagged for poor performance, either overall or on individual indicators, are then analysed by our RI team.

The assessment and performance ranking is performed using our proprietary PAI engine which applies a combination of datapoints, scores and weights sourced from several data providers. For a given indicator, multiple data sources may be used. In these cases, the source considered to be most appropriate is selected. The indicator importance is prioritised according to parameters reviewed and maintained by ESG Analysts in our RI team. These parameters take into account various aspects, including data quality, data freshness and history, data coverage, aspects of the methodology of the data providers, the materiality of the indicator's subject matter, and divergence of indicator values.

The worst performing issuers, or "negative outliers" will be analysed by our RI team and where relevant escalated to the RIC, who will decide on the appropriate action. Cases may also be triggered by internal analysis, based on information/data from other sources. The range of possible actions consist of the following:

- **Engagement:** The issuer is identified as a candidate for an engagement case. This can be due to various reasons such as the issuer's PAI performance, either overall or on certain indicators, or low data coverage for the issuer compared to benchmark. The RI team engages with the issuer and tracks performance after the engagement based on relevant PAI-related KPIs
- **Exclusion:** The issuer is deemed not eligible for investments across our managed portfolios, and is added to our [exclusion list](#)
- **No action:** The PAI indicator level of the issuer is deemed acceptable or judged not to reflect the actual ongoing performance of the company, and no further action is needed at this point. The issuer will continue to be assessed on an ongoing basis

In deciding the appropriate action, the RIC considers, among other things, the severity and scope of individual adverse impacts, and the probability of occurrence and severity of adverse impacts, including their potentially irreparable characteristics.

### Actions taken or planned in relation to PAI

We have a long history of ESG integration, norms-based exclusions and ESG-themed engagement. For further information, please refer to our [Responsible Investment Annual Report](#) and our [exclusion list](#). In addition, NAM conducts its voting activities through the Fund Companies which can be accessed via the [voting portal](#).

### Engagement policy summary

On behalf of our clients, we undertake a range of engagement activities with issuers in order to affect and influence these to improve their ESG-related practices, including promoting a long-term approach to decision-making. Our active ownership tools include voting, attending annual general meetings (AGMs), contributing to the development of industry ESG standards, direct engagement with companies and the filing of shareholder resolutions.

Our engagement with issuers falls into three main categories: thematic, norms and investment-led. These engagement types may overlap and be applied to an issuer simultaneously.

**Thematic engagements** may be undertaken either by us alone or in collaboration with other asset managers and asset owners. Collaborative engagements can take place within the framework of industry initiatives such as Climate Action 100+, Sustainability Accounting Standards Board (SASB), The United Nations Principles for Responsible Investment (PRI), CDP or Investor Alliance for Human Rights, or through ad hoc initiatives. We will in some cases initiate and lead such ad hoc investor alliances. Our Thematic engagements will typically relate to issues in one of the four core areas of our ESG strategy:

- Climate
- Human rights
- Good corporate governance
- Biodiversity/water

**Norms engagements** are triggered by observed norms breaches, PAI red flags or other serious negative information, as described above.

**Investment-led engagements** are initiated and executed at the individual investment strategy level.

In tandem with our direct engagement activities, we vote as many AGM's as practically possible, prioritising votes related to the four core areas of our ESG strategy listed above while in general insisting that issuers 1) Act in the long-term interest of shareholders, other stakeholders and society at large, 2) Safeguard the rights of all shareholders, 3) Ensure an efficient and independent board structure, 4) Align incentive structures for employees with the long-term interest of shareholders, other stakeholders and society at large 5) Disclose information to the public in a timely, accurate and adequate manner and 6) Ensure high social, environmental and ethical standards and accountability.

For more information, please refer to NIM's [Engagement Policy](#), NIFSA's [Engagement Policy](#), NIFSA's [Corporate Governance Principles](#), Nordea Fund Ltd.'s [Corporate Governance Principles](#), NIM's [SRD II disclosure report](#) and NIFSA's [SRD II annual report](#).

### References to international standards

Our application of PAI builds on the United Nations Sustainable Development Goals (SDG's) and relevant international conventions and norms, including, but not limited to:

- United Nations Global Compact
- OECD Principles of Corporate Governance
- OECD Guidelines for Multinational Enterprises
- Universal Declaration of Human Rights
- UN Guiding Principles on Business and Human Rights
- Children's Rights and Business Principles
- ILO conventions on labour standards
- Rio Declaration on Environment and Development
- UN Convention on Corruption
- Convention on Cluster Munitions
- Paris Agreement under the United Nations Framework Convention on Climate Change

In relation to the alignment with the Paris Agreement, our application of PAI includes a requirement for investee companies that are active in the most climate-critical sectors to demonstrate a credible transition strategy that is compatible with the Paris Agreement's climate objectives. This includes assessments of their decarbonization pathways as well as their positive contributions to climate mitigation. As the methodologies for assessing this progressively reach greater maturity for a greater number of sectors, the number of companies subject to this requirement will grow.

### Additional information

More information on NAM's and Nordea Funds Ltd.'s responsible investment framework can be found on [nordeaassetmanagement.com](https://nordeaassetmanagement.com) and [nordeafunds.com](https://nordeafunds.com) respectively.