



Responsible investment policy

Updated October 2017

Our Responsible Investment Approach

Nordea Asset Management (NAM) is the largest asset manager in the Nordics with a growing European presence and business. Our assets under management of EUR 217 billion. We are a semi-captive asset manager servicing Nordea Retail Banking, Private Banking and Life & Pensions, as well as Nordic and international institutional clients and third-party fund distributors globally. We employ 675 FTEs and 160 investment specialists. NAM is also the largest Nordic retail fund provider, with a 17% market share, more than 1.7 million unitholders and servicing more than 475 Nordic and international institutional clients. At the same time, we have a growing third-party fund distribution franchise servicing 300 international fund distributors, including 21 global wealth managers.

Nordea AM has developed its policies, procedures and investment products to ensure that the companies we are invested in meet our expectations of sound ESG performance. Nordea AM's Responsible Investment Policy applies to our actively managed products. It does not apply to index funds, fund of funds using index derivatives, index funds or external funds and external funds. When selecting external partners, the partners willingness and ability to address ESG is one of the factors we use in our selection process.

Our actively managed products include ESG data as one of the factors used in assessing investments. We recognize that integrating ESG issues forms part of our fiduciary duty to clients and beneficiaries. By combining financial performance with ESG insight we strive to offer clients responsible solutions. We believe that we can add value to our clients by actively considering ESG in our analysis and investment decisions – in particular through our investment research, and performance monitoring.

The Responsible Investment strategy and activities are overseen by the Responsible Investment Committee (RIC). The RIC includes members

from the Senior Executive Management team and is chaired by Nordea AMs CEO.

Responsible Investment Foundation

Nordea AM has signed the UN Principles for Responsible Investments and are thus committed to integrating ESG factors into our investment analysis, decision-making processes and active ownership practices.

We base our responsible investment policy and strategy 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**

Stewardship and Active Ownership

Nordea's AMs ownership activities aims at promoting sustained profitability and risk management 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 risk and protect shareholder rights. We engage with invested companies and use our vote on numerous issues, including shareholder rights, board composition, remuneration and risk management.

Engagement is an important tool and we engage pro-actively with companies and other stakeholders on behalf of all Nordea funds. 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 sector issue. Engagement provides an opportunity to improve our understanding of companies that we are invested in and by working individually or collaboratively with other investors we try to influence companies and promote better corporate governance, risk management,

performance or disclosure standards and on a wide range of ESG-related issues. As part of our responsible investment strategy we also engage with various standard setters and stakeholders locally and internationally.

All Nordea funds actively managed are subject to Nordea AM are subject to an annual norm-based screening. The screening is used to identify listed companies allegedly involved in breaches of international law, and norms on environmental protection, human rights, labour standards and anti-corruption.¹ If a company is identified in this screening process, we will initiate an internal assessment process of the company and the incident.² The norms-based screening also identifies companies that are subject to exclusion based on our exclusion criteria. Nordea AM does not invest in companies that are involved in the production, development or maintenance of illegal or nuclear weapons, or in sovereign bonds issued by governments subject to broad sanctions and fail to respect human rights. In 2015 we decided to exclude companies with 75% of revenues derived from sales of coal products and do not have a meaningful opportunity to diversify from coal. In 2017 the threshold was lowered to 30%. See below under Positions for more information. Some funds also apply tailored investment guidelines and exclusion criteria in addition.

The list of companies that have been excluded is published on [nordea.com](https://www.nordea.com).

¹ The norms-based screening is not applied on investments in derivatives or ETFs and to discretionary mandates as per prior consent from the client only.

² The internal process includes verifying the companies' involvement in the incident as well as analysing the companies' total ESG performance and the financial materiality of the incident. Cases are put forward to the Responsible Investment Committee, who will decide which companies to engage with and evaluate progress. If a company is not willing or capable to change a norm breaching behavior or underperformance in regards to ESG, the committee can decide to divest or not include these investments in actively managed portfolios.

Positions

We set clear expectations on corporate ESG management and performance in our investments and ownership activities and communicate these expectations to companies we are invested in and other stakeholders. 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 clearly defined positions within the following areas:

Illegal and Nuclear Weapons

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

As of 2010 Nordea AM does not invest in companies which are involved in the production or development of nuclear weapons or illegal weapons such as cluster munitions and anti-personal mines. In 2017 the policy was extended to also include maintenance of nuclear weapons with a 5% military revenue criterion³.

Soft Commodities

In 2012 Nordea decided that it will no longer offer nor recommend wrapped investment products to household customers where basic food commodities, such as wheat, coffee or sugar, are included in underlying assets as international studies indicate that excessive financial speculation contributes to increasing volatility and record food prices.

The decision does not apply to corporate customers with commercial interest related to soft-commodities. Nordea will provide corporate customers with service enabling them to commercially trade and hedge their commercial risks.

Coal

Nordea AM excludes companies with large and sustained exposure to coal mining with a 30% revenue threshold. The sector-based screen on coal mining includes metallurgical coal, thermal coal and coke.

Sanctions

Nordea AM does 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 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 its impact on human rights. Human rights related issues includes 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 instable 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.

³Note that military revenue is based on a company overall revenue from military equipment and is not the same as revenue from nuclear weapons.

As a responsible investor we expect companies to conduct due diligence as defined by the UN Guiding Principles on Business Human Rights; 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 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 on materiality; i.e. 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 against the prospect of the implementation of radical policy measures in order to reduce GHG-emissions globally. There are a number of sectors that are 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 also be transparent in regards to 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 a number of companies that 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

Against the ongoing changes of corruption land-scape we see increased risk to our investments.

The 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 by the use of opaque company and ownership structures, use of 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 in regards to 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 business take a proactive approach towards corruption, implement adequate anti-corruption measures and improve transparency.

Transparency

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

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

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

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Read more about responsible investments in Nordea:

<https://www.nordea.com/en/responsibility/sustainable-finance/responsible-investment/>

<http://sustainablefinance.nordea.com/>