Sustainability risk integration in the investment decision-making process

Nordea ASSET MANAGEMENT

March 2025

Background and scope

This disclosure is applicable to Nordea Investment Management AB, Nordea Investment Funds S.A. and Nordea Funds Ltd (jointly referred to as Nordea Asset Management, NAM).

Nordea Investment Funds S.A. and Nordea Funds Ltd (jointly referred to as the management companies) have delegated the investment management function for the funds managed by them to Nordea Investment Management AB. The management companies retain an oversight obligation in relation to the delegated investment management function.

The Sustainable Finance Disclosure Regulation (SFDR) defines sustainability risk as "an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment".

This statement describes how sustainability risks are integrated into the investment decision-making process and investment advice provided by Nordea Investment Management AB as per Article 3 of the SFDR.

This statement applies as of March 2025. It will be updated on a regular basis.

In case of any inconsistency in translations of this statement, the English version will prevail.

ESG and sustainability risk integration

In order to ensure that investment decisions are based on comprehensive information, we seek to integrate ESG factors into our investment analysis. Since ESG factors can have both a negative and a positive impact, they can be used to identify investment opportunities as well as sustainability risk.

Sustainability risk considerations are integrated into our investment decision-making framework as part of the overall risk assessment. Our overall risk assessment, based *inter alia* on quantitative and qualitative ESG information, allows for a robust identification of sustainability risk. We identify sustainability risk by considering ESG factors in the investment process, and assessing the materiality of the negative impact of these ESG factors on the value of the investment.

As part of our efforts to consider ESG factors, we have developed policies and procedures which include our robust norms-based screening process, allowing us to identify issuers that are allegedly involved in breaches of international law and norms on environmental protection, human rights, labour standards and anti-corruption; where applicable, our principal adverse impact (PAI) due diligence process[1], allowing us to assess both sides of the "double materiality"[2], and engagement with, quarantine or exclusion of issuers exhibiting high sustainability risk.

[1] For more details, please refer to our Principal Adverse Impact statement.
[2] The concept of double materiality refers to, on the one hand, those ESG-related risks that are material to the financial performance of an issuer, and on the other, to the environment and social impact of the activities of the same issuer. The two will typically be closely linked, but should not be conflated.

Sustainability risk integration in the investment decision-making process

Given the size of our investment universe across our various investment teams and strategies, we use a range of external providers of ESG data, as well as proprietary ESG research and tools to assess sustainability risk. Data sources and providers are assessed on an ongoing basis for data quality, coverage and other relevant attributes.

Examples of sustainability risks include[3]:

Climate-related risk

The financial risks posed by the exposure to issuers that may potentially contribute to or be affected by climate change. This includes *physical climate risk*, for example severe weather conditions due to climate change that may impact an investee company and make certain countries higher risk, but also *climate transition risk* such as changes in policy measures, technology or consumer behaviour that have a negative effect on a company.

Social risk

The risks of any negative financial impact on the issuer stemming from the current or prospective impacts of social factors, such as inequality and labour relations.

Governance risk

The risks of any negative financial impact on the issuer stemming from the current or prospective impacts of governance factors, such as bribery and corruption.

The integration of sustainability risk considerations into our investment decision-making process may differ between our investment teams, as the relevance, availability of information and time horizon of sustainability risks will vary depending on the investment product's characteristics, including asset class, investment strategy, client objectives and market trends.

Sustainability risks are considered in the investment decision-making process together with traditional investment risks (e.g. market, credit or liquidity risk). Sustainability risks may have a significant impact on traditional investment risks and be a factor that contributes to their materiality. As such, sustainability risk may not prohibit an investment, but may be relevant in the determination of the overall risk assessment and its materiality.

To integrate sustainability risk considerations in the investment decision-making process, we:

- **Ensure that portfolio managers and analysts have access to relevant ESG information**, making it possible to identify sustainability risks within the investable universe. ESG data and information from external providers (these include MSCI, ISS, Clarity AI and Upright Project) may be supplemented by, and used as input in, our internal proprietary ESG tools developed for use throughout our organisation, including in selected investment teams and in our Responsible Investment team. These tools are aimed at furthering our portfolio managers' understanding and assessment of sustainability risks.
- **Include and consider sustainability risks as part of investment evaluation** in line with the investment strategy of each product.
- **Identify, evaluate and take relevant action** on issuers exhibiting high exposure to sustainability risk. The identification, evaluation and consideration of sustainability risks in the investment decision-making process is done in accordance with the characteristics of the investment strategy and may result in a range of actions, including but not limited to: not investing, divesting, engaging or excluding.

[3] EBA Report "On management and supervision of ESG risks for credit institutions and investment firms" EBA/REP/2021/18

Sustainability risk integration in the investment decision-making process

To support the integration of sustainability risks in the investment decisions made within our investment teams, our Risk & Performance Analysis team integrate, where applicable, ESG analysis in the risk reporting that is made available to analysts and portfolio managers on a daily basis. Additional expertise in the sustainability risk domain may be provided by analysts in our Responsible Investment team, which is responsible for supporting our analysts and portfolio managers ultimately responsible for the investment decision.

Monitoring, oversight and escalation

Sustainability risks are monitored in a similar way as other financial risks. The portfolio management teams in the first line are responsible for the daily management and monitoring of portfolios, including any sustainability risks. Limit Monitoring team is responsible for the daily monitoring of investment limits of the portfolios.

The Risk Management teams monitors sustainability risks of all NAM-managed funds. In case of mandates, the monitoring primarily takes place based on client preferences as set out in the applicable agreement with the client. The following types of ESG-related product level limits are monitored by the Limit Monitoring team:

- All funds comply with company-level exclusions and norms-based screening.
- Funds falling into category Art. 8 or Art. 9 of SFDR are following stricter limits.

The limit monitoring systems run both pre and daily post-trade screenings to prevent and flag any exposure or activity that is not aligned with the investment restrictions. Breaches of ESG-related limits are treated as any other investment restriction and communicated to all relevant stakeholders, including portfolio management.

In addition, NAM maintains the Sustainability Risk Dashboard for all funds, which is based on internal and third-party sourced ESG data from recognized providers (these include MSCI, ISS, Clarity AI and Upright Project) to monitor the sustainability risk level of the direct investments held in the portfolios. Based on the Sustainability Risk Dashboard and discussions with the Risk Management teams, the teams perform risk deep dives and thematic assessments.

Additional information

More information on Nordea Asset Management's and Nordea Funds Ltd's responsible investment framework can be found on nordeassetmanagement.com and nordeafunds.com respectively.

Appendix – Amendments

	Review type	Amendment	Date of version
1	First version	First version of statement published	10 March 2021
2	Annual review	This statement has been reviewed with the following amendments: • New section on "ESG integration and sustainability risk", providing additional details to our overall ESG approach, hereunder sustainability risk, and examples of sustainability risk • Further describing how sustainability risk integration differs among our investment teams • Section "Sustainability risk integration into investment decisions" further details how we work with integration, including tools to identify and how we take relevant action on identified sustainability risks • Added reference to NAM's and Nordea Funds Ltd.'s responsible investment framework	10 March 2022
3	Annual review	This statement has been reviewed with the following amendments: • More precise language describing sustainability risk integration	10 March 2023
4	Annual review	This statement has been reviewed with the following amendments: • New reference to investment advice that may be provided by Nordea Investment Management AB • Clerical adjustments	22 March 2024
5	Annual review	This statement has been reviewed with the following amendments: • Information on external data vendors • Updates to section "Monitoring, oversight and escalation" • Other minor editorial changes.	March 2025