

Nordea

# Requirements for Nordea Sustainable Selection

An external summary of the Nordea Sustainable Selection Framework

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## TABLE OF CONTENTS

<b>1. ABBREVIATIONS AND DEFINITIONS</b> .....	<b>3</b>
<b>2. INTRODUCTION</b> .....	<b>4</b>
<b>3. PROVIDER REQUIREMENTS</b> .....	<b>5</b>
3.1 Commitments and initiatives .....	5
3.2 Integration of sustainability in research and investment decisions.....	5
3.3 Resources and remuneration .....	5
3.4 Active ownership and stewardship.....	5
3.5 Transparency and reporting.....	5
<b>4. PRODUCT REQUIREMENTS</b> .....	<b>6</b>
4.1 Exclusion.....	6
4.2 Exclusion - Sovereign issuers .....	7
4.3 Integration of sustainability in research and investment decisions .....	8
4.4 Resources and remuneration.....	8
4.5 Active ownership and stewardship.....	9
4.6 Transparency and reporting .....	9
4.7 Product requirements for Nordea Sustainable Selection Improve.....	9
<b>5. ASSESSMENT</b> .....	<b>10</b>
<b>6. REGULATIONS</b> .....	<b>10</b>
<b>7. CONFLICT OF INTEREST</b> .....	<b>10</b>

## 1. Abbreviations and definitions

**ESG** – Environmental, Social and Governance

**Framework** – The Nordea Sustainable Selection Framework

**ICPC** – Nordea’s Investment Center Product Committee, a decision body responsible for distribution of Investment Products to customers in Personal Banking, Business Banking and Private Banking

**Insurance Product** – Investment-Based Insurance Products (IBIPs) and investment-based pension products

**Investment Product** – Financial instruments and structured deposits

**MiFID** – Directive (EU) 2014/65 of the European Parliament and of the Council of 15 May 2015 on markets in financial instruments

**Nordea** – Nordea Bank Abp

**Nordea Sustainable Selection** – Nordea Sustainable Selection is Nordea's own navigation tool which makes it easier for you to find products which have been assessed according to our rigorous sustainability criteria

**Nordea Sustainable Selection Improve** – Nordea’s offering of Products that select companies based on their potential to be more sustainable over time. These funds have active ownership at the core of the investment process.

**PAI** – Principal Adverse Impacts, which means those impacts of investment decisions and advice that result in negative effects on sustainability factors as defined in SFDR Article 1(20)

**Product** – Investment Products, Insurance Products and Portfolio Solutions within scope of the Nordea Sustainable Selection Framework

**Provider** – Asset manager, asset owner, product provider or manufacturer of Products

**RIPD** – The Nordea Responsible Investment Product Distribution Policy

**SFDR** – 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

**SI** – Sustainable investments as defined in Article 2(17) of the SFDR

## 2. Introduction

**This document is a short, external version of Nordea Bank's Sustainable Selection Framework for our most sustainable offering in savings and investment products. With this document, we want to be transparent in what we require from the partners we work with, and their products.**

Sustainable investing is the concept of integrating a broad range of risks and opportunities to create long-term value, both financially and in the real economy. Embracing sustainable principles in investment decisions face impact opportunities that come with challenges such as climate change, loss of biodiversity or increasing inequalities in the world. Research shows that companies adopting sustainable business practices get lower cost of capital and demonstrate better operational performance.<sup>1</sup> Sustainability is therefore a core value driver for Nordea and a part of our fiduciary duty to our customers and beneficiaries.

Nordea Sustainable Selection is Nordea's offering with enhanced sustainability criteria. The offering was established to help our customers navigate among the wide variety of products with different sustainability characteristics and ambition levels in the market. Nordea Sustainable Selection includes Products that have been selected and assessed according to our rigorous sustainability criteria alongside financial criteria. Products in Nordea Sustainable Selection focus on investing in companies that apply sustainable business practices.

We also recognize that there are companies that have not yet come as far in their sustainable journey, but that are relevant for a more sustainable future and where we see a potential to improve and unlock financial values. Therefore, we also offer Products that focus on selecting companies based on their potential to become more sustainable over time. These funds have active ownership at the core of the investment process, including engagement with company management and voting at general meetings to promote sustainability. We call this category Nordea Sustainable Selection Improve.

In this external version of the Framework, we describe how we combine responsible and sustainable criteria for all Products in Nordea Sustainable Selection and Nordea Sustainable Selection Improve, including ESG investment approaches such as thematic or impact investing. [Nordea's position statements and sector guidelines](#) provide requirements and expectations for the setting of criteria.

The Framework is applicable to different types of Products. The criteria in the Framework apply to all corporate issuers, whether they are listed or private, equity or fixed income. In other words, private equity, venture capital, bonds and notes that are tied to corporations should all adhere to the same Product requirements.

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<sup>1</sup> See for example [Harvard](#) (2020) and [MSCI](#) (2024).

### 3. Provider requirements

In order to drive change, sustainability needs to be at the core of the financial industry. We aim to find the Providers that are committed to driving sustainable change in all their assets and have tangible processes to implement their approach. The first step of the process to get a Product approved for Nordea Sustainable Selection is the Provider assessment. As a prerequisite, all Providers must comply with the [Nordea Responsible Investment Product Distribution Policy \(RIPD\)](#)<sup>2</sup>.

Providers are assessed for Nordea Sustainable Selection in five areas that are described in the following sections.

#### 3.1 Commitments and initiatives

Partnerships and collaborative initiatives are crucial to solving sustainability issues, as players in the financial sector must collaborate to drive change on a global and local scale. Providers in Nordea Sustainable Selection must display a leading role in commitments and initiatives within different areas of sustainable investing. Providers shall also have targets that contribute to Nordea's sustainability targets.

At a minimum in this area, Providers eligible for Nordea Sustainable Selection must

- be a signatory of the UN-backed independent organization [Principles for Responsible Investments \(PRI\)](#)
- have an official commitment to reach net zero emissions of greenhouse gases in their investment portfolios by 2050 and join a global investor initiative such as the [Net Zero Asset Managers initiative \(NZAM\)](#), and disclose a credible pathway with interim targets
- have joined a global investor initiative to prevent biodiversity loss, such as the [Finance for Biodiversity Pledge](#), [Nature Action 100](#), or [Partnership for Biodiversity Accounting Financials \(PBAF\)](#), no later than at the end of 2024

- have joined a global investor initiative to respect human rights, such as the [Investor Alliance for Human Rights](#), no later than at the end of 2024.

#### 3.2 Integration of sustainability in research and investment decisions

Providers that are eligible for Nordea Sustainable Selection shall be at the forefront of sustainable investing and also manifested in the Provider's core business. In addition to that, Providers must show a progressive approach in the implementation of EU regulation. Our assessment of them covers, e.g., the firm-wide approach to sustainable investing, key policies, the sustainable product offering, and minimum standards for exclusion and inclusion of portfolio holdings.

#### 3.3 Resources and remuneration

Sustainability is about people. People manage assets and companies. We want to see that Providers have sufficient resources and competent teams who are incentivised to move towards more sustainable investing. This creates credibility to sustainable, long-term value creation. Our assessment includes areas such as resources, training and education, and long-term financial incentives related to sustainability.

#### 3.4 Active ownership and stewardship

Many industry sectors and companies work hard, or need a push, to become more sustainable. We believe that active ownership is a powerful tool to protect shareholder value, enhance long-term returns and foster positive change in investee companies. Providers that are eligible for Nordea Sustainable Selection must display a strong strategic and practical commitment to active ownership. We put emphasis on proactive engagement and voting as well as on public disclosure of engagement and voting activities. Providers must also display that their shareholder resolution initiatives and participation align with Nordea's expectations on sustainability topics such as climate change.

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<sup>2</sup> The RIPD constitutes the baseline of responsible investment requirements for the Nordea advisory universe. The policy takes into account Nordea's position statements and sector guidelines, which aim to explain Nordea's view on different themes and specific industry sectors.



### 3.5 Transparency and reporting

We build trust and mitigate greenwashing by communicating in an open, honest and transparent way. Therefore, Providers that are eligible for Nordea Sustainable Selection should publicly report on their sustainability goals and performance, including engagement and voting activities.

## 4. Product requirements

When a Provider is approved the next step is to evaluate each specific Product. In a nutshell, we select Products according to the following:

- **We prefer the best:** Products must have a strong ESG integration and investment process that aims to find companies that contribute to the people and the planet.
- **We avoid the worst:** Products must avoid companies that work against sustainable development and show a strong process in how these companies are identified.
- **We emphasize dedicated ESG resources,** as this is needed to make credible company analyses incorporating the full value chain.
- **We monitor** strong sustainability characteristics and performance.

As a prerequisite, all Products must comply with the RIPD and [Nordea's sector and thematic guidelines](#). In addition to that, Products must fulfil our requirements for the following five areas:

### 4.1 Exclusion

#### Exclusion - Corporate issuers

The main objective for investors is generally to generate returns over time. Investors may choose more sustainable products for financial reasons or because they want to be part of the climate transition, for example. Investors may also have preferences to avoid certain sectors, like weapons, tobacco or fossil

fuels, and want to exclude these for ethical reasons. Some of these sectors are also problematic from a sustainability point of view. By excluding a sector, financial performance could temporarily be hurt if the sector rallies. In the longer run, however, stable returns depend on many other factors. At Nordea, we put emphasis on the long-term performance of our products.

We have therefore excluded a few sectors according to industry practice. We use the conventional method of excluding companies based on their level of involvement in the controversial activity. This is measured as a maximum allowed share of revenues from that activity - a threshold value.

#### Tobacco

- Smoking kills up to half of its users, about 8 million people each year, which makes it one of the biggest threats to public health.<sup>3</sup> Smoking is also costly to society in terms of using up significant healthcare resources.
- Exclusion revenue thresholds: 5% for production, 5% distribution, 50% services.

#### Pornography

- We do not allow investments in production of pornography that in a blatant and provocative manner reproduces sexual situations or events that violate human value and dignity.
- Exclusion revenue thresholds: 0% production, 5% distribution.

#### Alcohol

- Our restrictions concerning alcohol have their origin in the extensive damage that alcohol abuse causes to society and human health. Alcoholic beverages are beverages that contain more than 2.25 percent alcohol by volume.
- Exclusion revenue thresholds: 5% production, 50% distribution, 50% services.

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<sup>3</sup> Source: [WHO \(2023\), Tobacco](#).

## Gambling

- Gambling can lead to addiction reminiscent of other types of addiction and can have devastating consequences.
- Exclusion revenue thresholds: 5% production, 5% distribution, 50% services.

## Conventional weapons and/or military products

- Every country has, inherently, the right to self-defence.<sup>4</sup> The military defence is part of the total defence strategy of a country. International arms trade, however, is a sensitive issue and regulated in e.g. [the Arms Trade Treaty](#). Arms trade is seldom transparent. More often it is linked to corruption, money laundering and illegal exports to undemocratic countries. The three largest military importers 2017-2021 were India, Saudi Arabia and Egypt.<sup>35</sup> Another problematic area is the use of the weapons. Apart from the deterring function of arms, when in use they are designed to kill and mutilate human beings, and to destroy built constructions. Defence expenditures are also often in conflict with government budgets for healthcare, education or climate resilience. Hence, it is hard to motivate investments in the defence industry from a pure sustainability and ESG perspective. It is rather a security issue. Military expenses could be seen as an insurance against foreign aggression.
- Exclusion revenue thresholds: 5% production, 5% distribution, 5% services.

## Fossil fuels

- Coal, oil and gas are by far the largest contributor to global climate change, accounting for over 75 percent of global greenhouse gas emissions and nearly 90 percent of all carbon dioxide emissions. For the world to achieve net zero emissions of greenhouse gases, we must end extracting and refining fossil fuels and

transition the world to renewable energy sources.

- Exclusion revenue thresholds: 0% extraction of unconventional fossil fuels, 5% exploration, 5% production, 5% distribution, 50% services, with certain exemptions for fossil fuel companies in the power generation sector with a credible transition plan in line with the [Paris Agreement](#) on climate change:
  - In general, companies must have targets for short- and medium-term emissions reductions, disclose their emissions, have a decarbonisation strategy that setting out the measures to deliver on the targets, and demonstrate that new capital expenditures support net zero emissions by 2050. Emissions performance shall be monitored by the fund manager.
  - Companies cannot be involved in expansion plans for fossil fuels.
  - Companies must derive less than 50% of total revenue from fossil fuel operations (e.g. power generation and distribution).
  - Companies considered as sustainable investments must be aligned with the [EU Paris-aligned Benchmark \(PAB\) exclusion criteria](#).

## 4.2 Exclusion - Sovereign issuers

Products must also refrain from investments in bonds from the following sovereign issuers:

- The issuer country is subject to EU or UN financial sanctions
- The issuer country is not a [party to the Paris Agreement](#)
- The government of the issuer country is involved in serious and systematic human rights abuses. This is measured by the below indicators. Breaches must be explained by the Provider, which could lead to approval on a case-by-case basis.
  - [Global Rights Index](#): Issuer countries with a score of 5 or higher

<sup>4</sup> The inherent right of all States to individual or collective self-defence as recognized in [Article 51 of the Charter of the United Nations](#).

<sup>5</sup> Source: [Sipri \(2021\), Trends in International Arms Transfers](#).

- [Fragile States Index](#): Issuer countries with a total score of 60 or higher, or 5.5 or higher on human rights
- [Global Slavery Index](#): Issuer countries with a Vulnerability score higher than 50%
- [Democracy Index](#): Issuer countries categorized as “Authoritarian” or “Hybrid regime”, meaning a country with a score lower than 6
- [Corruption Perceptions Index \(CPI\)](#): Issuer countries with a score of 50 or lower
- [Freedom in the World Index](#): Issuer countries categorized as “Not Free”.

### 4.3 Integration of sustainability in research and investment decisions

Nordea considers integration of ESG risks in the investment process to be a value driver and a part of our fiduciary duty, which means our obligation to customers and beneficiaries to act in their best interest. Companies with high ESG standards are in general also well run and more focused on long-term value creation. They are often better at mitigating risks and seizing opportunities than peers, and demonstrate higher productivity in their operations. Using less energy and material than peers, providing a culture where people want to grow and contribute, and being prepared for tougher regulations are just a few examples of why good ESG management makes companies stronger over time.<sup>6</sup>

Products that are eligible for Nordea Sustainable Selection should clearly be oriented towards issuers that have a strong sustainability commitment. It should be reflected in their business model, supply chain management and development plans. As a rule of thumb, Products must fulfil the following requirements:

- commit to a minimum sustainable investment (SI) share of 40%
- consider negative impacts on the environment and society (PAI)

- be covered by the Provider’s net zero commitment
- consider biodiversity and ecosystem services risks for businesses in high-impact sectors and geographies
- evaluate anti-corruption structures and practices in governance.

The companies that the Product invests in, as well as entities in their value chain, should also comply with international norms and conventions. Products must have a process on how to identify and act towards companies involved in controversies, such as breaches of international law and norms on environmental protection, human rights, labour standards and anti-corruption laws.

Use of proceeds bonds from corporate and sovereign issuers must fulfil the following requirements:

- The bond must be aligned with an established and comprehensive framework such as the [ICMA Green Bond Principles](#), [Social Bond Principles](#), or [Sustainability Bond Guidelines](#)
- Alignment with the above framework should be verified by a credible third party
- The bond must pass the do no significant harm test and good governance assessments of the Provider’s Sustainable Investment (SI) model. The assessment must safeguard that the specific project respects human rights
- The proceeds of the bond must be aligned with at least one of the [17 global Sustainable Development Goals](#) decided on by the UN in 2015.

### 4.4 Resources and remuneration

For Products, we strongly prefer a dedicated internal ESG team and internal ESG research over the use of external rating agencies’ research and ratings. In this section, we assess the Product in the following areas:

<sup>6</sup> See for example [Harvard](#) (2020) and [MSCI](#) (2024).



- number of dedicated full-time employees within ESG and engagement, including changes in the last 12 months
- number of issuers covered by each analyst
- long-term financial incentives related to sustainability for the portfolio managers that account for exclusions and ESG integration.

#### 4.5 Active ownership and stewardship

We put emphasis on proactive dialogues and voting as well as public disclosure. Active ownership can also be used to improve a company's management of sustainability. At the Product level, the Provider should

- demonstrate that it carries out engagement on sustainability aspects with a number of issuers in the product
- engage to improve the performance of outliers on PAI indicators
- report on the outcome of these dialogues in publicly available documentation.

#### 4.6 Transparency and reporting

Public reporting of Product's holdings and sustainability performance enables justification of the investments and increases credibility. Our assessment covers the following areas:

- public reporting on the investment rationale for the holdings and examples of best practice, supported by relevant sustainability key performance indicators (KPIs)
- public reporting of holdings.

#### 4.7 Product requirements for Nordea Sustainable Selection Improve

As an active owner, we use our power to influence companies and push them to be more sustainable. We sometimes see investment opportunities in companies that are neglected by the market due to poor ESG performance, but have a strong potential to improve. With clear improvement targets for each company, we can unlock financial

values while, at the same time, contributing to real world impact.

Therefore, we created Nordea Sustainable Selection Improve to help our customers find Products that focus on selecting companies based on their potential to become more sustainable over time.

For Products in this category, we have the same overall Product requirements as for the Products in Sustainable Selection, but with a few exceptions:

- **Exclusion:** The requirement to exclude fossil fuels is less strict
- **Integration of sustainability in research and investment decisions:** The requirement to commit a minimum sustainable investment share of 40% does not apply.

The Provider must demonstrate how active ownership and stewardship strategies are applied at the Product level. Furthermore, these Products must have a clear and measurable target for improvements in the sustainability profile of the issuers. The target must also be reflected in KPIs that enable the Product to be held to account over time. The KPIs must include metrics that demonstrate:

- how the Product's investee companies are selected
- the long-term, future sustainability profile of the Product's investee companies
- how active ownership and stewardship are applied to support improvements in the Product's investee companies, including credible, rigorous and evidence-based KPIs relating to the contribution of the stewardship activities
- to what extent the Product's investee companies have become more sustainable over time, and separate changes in the portfolio from changes within an individual company
- a process for divestment of investee companies that do not show improvement over time.

## 5. Assessment

Providers and Products eligible for Nordea Sustainable Selection are assessed in relation to the requirements in the Framework.

Providers and Products in Nordea Sustainable Selection are monitored on an ongoing basis and reviewed at least annually.

## 6. Regulations

Providers and Products must comply with all regulatory requirements needed to be in scope for Nordea Sustainable Selection. Three relevant regulations in this respect are

the [SFDR](#), [the amended MiFID II](#), and [the EU taxonomy regulation](#).

## 7. Conflict of interest

Nordea is aware of that potential or actual conflicts of interests may arise as part of Nordea's engagement activities. Consequently, Nordea has policies in place for the purpose of taking all reasonable steps to prevent conflicts of interests. Where such conflicts cannot be avoided, Nordea will identify, manage and monitor the conflicts and, where appropriate, disclose them to clients to prevent them from adversely affecting the interests of the clients.

This document is a short external version of the internal Nordea Sustainable Selection Framework. The document gives a summary of the criteria and assessment process for Products and Product Providers, but it does not include all details of the assessment. The full Framework is owned by the Sustainable Investments team of Nordea Bank Abp. The current version of the Framework was adopted by the Investment Center Product Committee in Asset and Wealth Management on 4 October 2023. This document has been prepared for informational purposes only and it is not to be relied upon as investment, legal, tax or financial advice.