



# ESG Quarterly Report

First quarter 2019

## Nordea 1 – Emerging Stars Equity Fund

The aim of this document is to describe some of the activities that the Responsible Investment (RI) team has done over the last quarter for this specific fund. This tool, therefore, is not meant to be fully comprehensive, but to allow investors to follow-up on the fund's relevant ESG-related issues (Environmental, Social and Governance) and the main activities that the RI team has been involved in.

### Introduction to the STARS concept

Nordea's STARS funds proactively select high-quality ESG companies with the objective to identify tomorrow's winners, which, we believe, will have sustainable business models and the ability to conduct their businesses responsibly in relation to their stakeholders – employees, suppliers, customers, investors and society at large. Nordea's RI team works together with the fund's financial analysts and portfolio managers in order to deliver a solution that is able to:

- **Outperform the benchmark:** creating added value by enhanced long-term returns.<sup>1</sup>
- **Meet Nordea's ESG standards:** analysing each individual stock to ensure that the fund invests only in companies that respect certain ESG criteria. The idea is to invest in leading companies (rated A<sup>2</sup>) or companies with a sufficient rising ESG profile (e.g. rated B- in the case of the Nordea 1 – Emerging Stars Equity Fund), thus avoiding the laggards (lower rated companies).
- **Active ownership:** proactively engaging companies and encouraging them to improve their management systems, their ESG performance or their reporting, as well as exercising formal rights in the voting resolutions.

### Engagement is key for active ownership

Being part of Nordea's responsible investment policy, the fund excludes companies involved in the production of nuclear weapons and cluster munitions as well as companies with large exposure to coal mining (>30% revenues). However, excluding a company from our portfolios is always a last resort: the **STARS concept aims for positive selection** with the objective to influence companies to improve their ESG profiles. **Engagement therefore takes a new dimension with the STARS.** It does not only consist of the traditional forms of engagement, like the exercise of voting rights or entering into a dialogue to encourage companies to improve their management systems, their ESG performance or their reporting. When assessing a company's ESG risk profile we also focus on specific themes utilising UN Sustainable Development Goals. Thus, we distinguish two types of engagement:

- **Risk Engagement:** if a company is not managing its material ESG risks well, the RI team engages with the company on the issue. The ESG risks can be company specific or stem from the country in which the company operates or its industry. Violations of international norms and conventions are also addressed under Risk Engagement.
- **SDG Engagement:** conducted with a specific focus on companies' exposure to certain themes, which might represent a significant material risk for the company. **Nordea believes that companies that align their strategies with the UN Sustainable Development Goals (SDGs) will be successful** in the long-term, because they are adjusting to global society's future needs.

**The UN Sustainable Development Goals (SDGs)** cover a broad range of social and economic development issues as part of the 2030 Agenda. In this edition of the quarterly report we have highlighted 1 UN goal; this goal has been the focus of the engagement activities described in the coming pages.



This is the UN Sustainable Development Goal (SDG) our ESG analysts focused on – during the period covered – when engaging with the companies. The complete list of SDGs can be seen on page 3.

<sup>1</sup> There can be no guarantee that this strategy and process will produce the intended results and no guarantee that the strategy will achieve its investment objective. The value of your investment can go up and down, and you could lose some or all of your invested money. <sup>2</sup> ESG rating scale

## Top 3 ESG activities over the quarter

Holding	Current Rating	Proxy Voting <sup>3</sup>	SDG Engagement	Risk Engagement	Activity
NEW ORIENTAL EDUCATIO-SP ADR	B+	–	16	Governance	Meeting
51job	B-	–	16	–	Research
Magazine Luiza	B	–	16	Governance	Meeting

<sup>3</sup> Proxy voting refers to the last 12 month-period. Generally we vote in annual reports and most of the Annual General Meetings (AGM) which occurs once a year. If there is no vote, it is generally because the fund was not invested at the time when the AGM happened. Please find out more on [nordea.com/sustainability](https://nordea.com/sustainability) or access directly the [voting portal](#).

ESG rating distribution (from best to worst) applicable to this fund:



Sustainable Development Goals (SDG) utilised in this report:



## Rating changes

There were no rating changes during the quarter.

## Main highlights of the ESG activities over the quarter

The following activities have been selected to share with investors some of the highlights of the period. Please note that when engaging companies, the processes might last for multiple quarters, as such we might not necessarily report on final decisions.

### Magazine Luiza

The company operates a multichannel retail platform of mobile, website, and physical stores. The company offers e-commerce services and retails a wide range of electronics, toys, power tools, and houseware products. Magazine Luiza develops big data, machine learning, and other technologies to remove friction from the retail process.

The RI team met with the company during the quarter to discuss issues related to party transactions and data privacy. The company has several related party transactions connected to property leases of its stores and distribution centres, and advertising agreements. The company's corporate governance guidelines ensure that the agreements are made at market price.

Magazine Luiza has been expanding its business partly through technologic innovation and the ability to create a platform, which enables customers to buy products online and have quick delivery. This means that the company is collecting more sensitive data on customers therefore increasing the risk of significant data breaches. The RI team recommended the company to increase its transparency on data security and its management of client's data. While we are monitoring the company closely, the company has an ESG rating of B.

### New Oriental Education & Technology Group

The company offers educational services in China such as foreign language training, test preparation courses for admissions and assessment tests in the United States, China

and Commonwealth countries. It also includes primary and secondary school education, development and distribution of educational content, software and other technology, and online classes.

The RI team engaged with the company during the quarter in the context of New Oriental's business expansion in recent years – through a rapid increase in its numbers of schools and learning centres – on the back of an increasing demand for highly-skilled lecturers. The company's online platform, as well as its structured programs for talent recruitment, could alleviate some of the risks. Its online presence exposes it to privacy and data security risks. The Chinese government's new regulations governing for-profit education could result in additional compliance costs and service quality risks, where the company is well positioned to tackle such areas. The company workforce encompasses 20,000 employees with 70% full-time contracts. Part time employees are mainly connected to higher level English tutoring for older pupils intending to study abroad. This limits the potential conflict of interest of local school teachers have a second secret illegal job as New Oriental teachers and directing their own students to pay for extra education. The industry in China is highly dependent on word of mouth recommendations, and bad examples of teachers' conflict of interest could harm the brand – we would like to see the company be more transparent on the steps they have taken to minimize the risk. The company has an ESG rating of B+.

### 51job, Inc

The company provides integrated human resource services in China, with a strong focus on recruitment related services. The company's recruitment related services are delivered in both print and online formats.

The company's business model is positive, as 51job is essentially an enabler for employment connecting employers with job seekers, which aligns with SDG goal 8 'Decent work and economic growth promoting employment'. The company collects confidential and private information on clients, and candidates while new laws and regulations have increased significantly on these topics in China. The company has a privacy policy and commits to not release personal information

of registered members without consent, however it performs aggregated analysis and share results with corporate clients. The company experienced major data breaches and sensitive data of nearly 2 million users were on sale on the dark web.

The company has reportedly tightened its cybersecurity after the incident which we monitor closely. The company exhibits an ESG rating of B-.

## Complete list of SDGs:



Source: [un.org/development/desa/en/news/sustainable/sustainable-development-goals.html](http://un.org/development/desa/en/news/sustainable/sustainable-development-goals.html)

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