



ESG Quarterly Report

First quarter 2019

Nordea 1 – Nordic 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.¹
- **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 A²) or companies with a sufficient rising ESG profile (e.g. rated B+² in the case of the Nordea 1 – Nordic 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 4 UN goals; those goals have been the focus of the engagement activities described in the coming pages.



These are the UN Sustainable Development Goals (SDGs) 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.

¹) 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. ²) ESG rating scale

Top ESG activities over the quarter

Holding	Current Rating	Proxy Voting ³	SDG Engagement	Risk Engagement	Activity
H&M	B+	✓	8 12	Labour rights, circularity	Meeting
Sampo	B+	✓	5	Gender diversity	Meeting
NetEnt	B+	✓	3	Responsible gambling	Meeting

³ 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 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 with companies, the processes might last for multiple quarters, as such we might not necessarily report on the final decisions.

Sampo

The group provides commercial and private property as well as casualty insurance products in the Nordics and the Baltics. The company also offers life insurance products in Finland and the Baltics.

We discussed with Sampo their ESG ratings given by external ESG ratings providers, as well as their ESG governance and transparency policy. We also touched upon past sexual harassment controversies within their If P&C Insurance subsidiary.

Sampo's ESG score provided by MSCI is lower than average and we suggested the company to proactively address this via improving their ESG governance, transparency and communication with MSCI as well as other ESG analysis providers. During the last years Sampo has improved on these points and we can expect better ESG ratings going forward.

We see improved ESG governance in reporting lines and group level projects as well as ongoing efforts for development of group level targets. However, we still believe that Sampo should be more proactive as we can expect further strengthening regulations on sustainability governance as well as increasing investor and customer interest.

We acknowledged that Sampo's holding companies have improved their own sustainability work and reporting. For example, If P&C Insurance published a sustainability report for the first time.

Sexual harassment controversies in 2017-2018 were mitigated by several actions taken by If P&C Insurance, including updated training and policies. However, it is still too early to say whether the corporate culture has significantly improved yet. We are closely monitoring the progress of the company on this topic.

NetEnt

NetEnt AB is one of the world's leading suppliers of online casino software, slot machines and games. We met with the company and discussed about ESG transparency and compliance topics. The company has improved its sustainability management and transparency during the last year and will publish their first report according to the GRI Sustainability Reporting Standards this year. They also updated their sustainability related policies and developed new group policies including a Code of Conduct. Due to their position as supplier of games, the company has a lower exposure to AML and responsible gambling risks compared to operators. To manage potential negative impact of gambling the company developed high standard policies and performs due diligence. The company also developed tools to help operators mitigate risks (e.g. limiting the bet size).

We have expressed our concerns about heightened compliance risks due to growth in Asia which was earlier considered as a grey area from a legal perspective. The company argues that they apply the strictest policies (based on the UK law) and do not remain in markets with clear prohibition of online gambling. We urged the company to provide evidence of their proactive management of risks by having middlemen (resellers) in non-regulated markets like Asia. Compliance requirements are included in contracts with resellers, who are required to have policies and monitor operators.

H&M

During our latest meeting with H&M we covered our feedback on the Fair Living Wage program and their circularity commitments.

H&M is planning a new version of their fair living wage roadmap where we expect more transparency on purchasing practices and more disclosure on wage data. More comparative data is required to compare H&M's suppliers with the industry average to better understand the progress on closing the living wage gap.

We noted an increasing regulator interest in understanding how sustainable fast fashion is (example of the UK parliament inquiry). We concluded that we do not see any credible threat from regulations that could increase the cost of compliance

for H&M since these are usually based on best practice in the industry, which is what H&M already does. However, they can impact H&M's competitors which are lagging in sustainability management.

Building in circularity principles into the business model is a long-term process and H&M's offerings are ahead of consumer demand, for example, they already have alternative brands such as Arket that are more slow fashion oriented.

The share of recycled materials which is now 0.5% is expected to increase, but H&M does not yet plan any specific commitments. Even though we understand that the technology is at a very early stage, we encourage H&M to continue to invest in better materials and create more ambitious targets that will bring them closer to closing the loop.

Complete list of SDGs:



Source: un.org/development/desa/en/news/sustainable/sustainable-development-goals.html

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