



ESG Engagement Report

Second quarter 2019

Nordea 1 – Global 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 – Global 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 consists 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.

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
Sanofi	A-	✓	N/A	Product Quality & Marketing	Research/Call
POOL Corp.	B	–	N/A	General analysis	Research/Call
Facebook	B	✓	N/A	Disclosure	Engagement

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.

Sanofi SA

Being one of the major health care companies globally, Sanofi always asks challenging questions related to ESG-aspects. While on the one hand having shown some positive developments in the corporate governance pillar, and having an overall well managed ESG risk process, with a steady and prominent standing in the Access to Medicine index, we note that the company is involved in a dispute over one of its drugs over side effects on infants.

At this point, we do not have enough tangible information to change our A- rating on Sanofi (i.e. a negative trend due to the legal dispute and its deteriorating performance on equitable pricing strategies) but we are monitoring the ruling and subsequent reaction from the company as it relates to its overall product quality management & marketing strategies.

We believe that this case illustrates the difficulties with balancing different perspectives of a company and landing on a coherent conclusion. Nevertheless, we are monitoring this case quite closely and will use it as a building block for our understanding of the healthcare industry going forward.

POOL Corp.

We added POOL Corp. to the portfolio during the second quarter of the year. While POOL does not have clear links to

positive sustainability aspects, it does not have any detrimental externalities. In the capacity of a wholesale distributor of mainly swimming pool supplies, the company is a good example of a company with low ESG exposure. In a nutshell, this means that we do not expect the company to either benefit or suffer from sustainability related trends.

With regards to the management of ESG risks, we find no evidence of high risks facing the company. Additionally, a strong policy and management framework is in place for addressing issues related to labour and water, which are our focus areas in the context of the company assessment.

We have assigned a B rating to the company reflecting that the company does not have too much to gain or lose from an ESG-perspective.

Facebook

Although we do not own Facebook in the portfolio following our decision last year to remove it from the portfolio, we continued to monitor and follow the company. As part of an ongoing collaborative initiative with fellow investors, we are trying to engage with the company on topics we believe would make it more compatible with the STARS concept, as well as improve some disclosure deficiencies.

During the last quarter, we held talks with the company relating to the disclosure topics of SASB, specifically how we expect the company to communicate around material ESG risks. This included the broader data security disclosures that we believe have room for improvement but also broader sustainability related reporting relevant for the business model ran by Facebook.

We are continuously monitoring the situation with Facebook and hope to reach a conclusion pertaining to the company's eligibility to the STARS portfolios.

Complete list of SDGs:



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

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