



ESG Engagement Report

Second 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.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- 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 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. In this edition of the quarterly report we have highlighted 3 UN goals; this goals have 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.

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 3 ESG activities over the quarter

Holding	Current Rating	Proxy Voting ³	SDG Engagement	Risk Engagement	Activity
NMC Health	A+	✓	N/A	ESG Reporting	Meeting
BR Properties	B	–	8 13	Environment and supply chain	Meeting
Raia Drogasil	B	–	16	Data Security	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 companies, the processes might last for multiple quarters, as such we might not necessarily report on final decisions.

The NMC Health

NMC Health plc is a diversified health care company. The Company is engaged in business sectors ranging from health care to trading and information technology. NMC Health has a wide network of hospitals, medical centers, and pharmacies worldwide.

We continued to have strong interactions with NMC Health during the quarter. Short interest has levelled off compared to last quarter. The market continues to look extremely closely at this company's practices, as the very concentrated supply chain, the high level of related party transactions, and the ownership structure carry higher than usual governance risk for a UK listed company. In this quarter, NMC Health provided us with some assurance regarding the chair of its audit committee, and other aspects of its disclosure. We were also pleased to see that the company has delivered on its promise to expand its ESG reporting. This has almost tripled in length and provides well-explained data on issues material to the company. We will continue the dialogue as the company is very responsive to our input, and we feel this contributes to mitigating the governance risks of its setup. The company has an ESG rating of A+.

BR Properties

BR Properties is a commercial real estate investment company. The company acquires, leases, develops and sells commercial real estate. BR Properties has properties such as offices, industrial and retail warehouses located in metropolitan areas of Brazil.

During the quarter the RI team met with the company at their corporate headquarters in Sao Paolo, Brazil. BR Properties is divesting its non-LEED certified properties, which will increase the percentage of sustainable building in its portfolio. LEED stands for Leadership in Energy & Environmental designed, and all of the company's new buildings will have this certification. The 8 LEED certified properties out of 40 properties in total represent 90% of the current revenue.

Since we spoke with the company it has increased reporting and public policies on anti-corruption. We informed the company we would like to see an increase in its environmental performance and targets reporting. The company's code of conduct is only related to its own employees. However, its largest labour right risks stem from contractors, which are not covered by the code of conduct. We would like to see BR Properties create a policy and monitoring system to govern its work with external construction contractors. The company has an ESG rating of B.

Raia Drogasil

Raia Drogasil owns and operates a chain of pharmaceutical stores. The company offers skin care, personal care, and cosmetics products. Raia Drogasil markets its products in Brazil. The RI team met the company in Sao Paolo, Brazil during the quarter. The main focus of the meeting was the company's preparation for the new Brazilian General Data Protection Law (LGPD), which will take effect in February 2020. The LGPD is in broad terms very similar to the EU GDPR. The company's exposure to the LGPD comes from its general services where it processes clients' medical data but also the product "Universe". This product is an employee benefit programme which allows around 20 million people to pay for their treatment against their future salaries. The company handles a lot of sensitive data and in case of a data breach, the company might face significant backlash from both corporate and retail clients. The company has contracted an external consultant (KPMG) to review and improve its data security.

The RI team has previously stressed that we would like the company to adopt a more systematic ESG methodology and reporting approach. Raia Drogasil has hired Ernst & Young to develop an ESG management programme, which it will use to increase its reporting. The company has an ESG rating of B.

Complete list of SDGs:



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

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