



ESG Quarterly Report

Third quarter 2018

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 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 3 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. ²) ESG rating scale

Top 4 ESG activities over the quarter

Holding	Current Rating	Proxy Voting ³	SDG Engagement	Risk Engagement	Activity
Varun Beverages	B	✓	13	Climate Change	Meeting
Taiwan Semiconductor Manufacturing	A+	✓	8	Talent retention	Meeting
Hans Laser	B	–	8 13	Talent retention/ Environment	Meeting
Kingdee	A	–	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

Samsung Fire and Marine Insurance was downgraded from A to A- 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.

Varun Beverages

The company produces and distributes carbonated soft drinks and non-alcoholic beverages, as well as packaged drinking water. Varun Beverages serves customers worldwide, however majority of its operation are located in India. The company's biggest client is PepsiCo Inc., and it has adopted its water saving programme.

Nordea's Responsible Investment (RI) team held meetings with the company during the quarter. Varun Beverages is highly exposed to the risks of operational disruptions, due to higher water prices associated with water shortages. It lags its peers in reporting water consumption metrics and reduction targets. Although the company faces risks of workplace accidents that can lead to production disruptions, it has certified only some of its operations to the OHSAS 18001 standard.

On the positive side, the company has made some efforts to capitalize on the growing market for nutritional products through sales of sugar-free or with fewer calories products. The RI team is planning to meet the company in India in Q4 2018. The overall rating of the company is B.

Taiwan Semiconductor Manufacturing

Taiwan Semiconductor Manufacturing Company ("TSMC") manufactures and markets integrated circuits. The company

main products are wafers which are thin slices of semiconductor material used in the fabrication of electronic circuits. These products are mainly used in computers, communication, consumer electronics, automotive, and industrial equipment industries.

Nordea's Responsible Investment team started discussion with the company during the third quarter 2018. TSMC is an industry leader in water efficiency and reduction as it has constantly achieved a water recycling rate higher than 85% since 2012. The company is also well on track to meet its 30% reduction goal by 2020. The company did not progress with its conflict minerals sourcing compliance mechanisms, and notably all its smelters and refiners have been validated as conflict free by third party programs for the second year. The company has excelled in low power technologies and established itself as the most comprehensive ultra-low power platform in the foundry industry.

The meeting was focused on talent retention and potential risks influencing the company from the US-China trade dispute. The company has a lower employee turnover than its peers through strong compensation programs, professional development programs and engagement initiatives. The overall rating of the company is A+.

Hans Laser

Hans Laser Technology Industry Group Co., Ltd. engages in the research and development, production, and sale of laser processing equipment in China and worldwide. The company offers laser engraving/marking/etching, laser welding, laser cutting, sub-surface engraving, and related activities. Its products are primarily used in the production of electronic appliances, integrated circuits, telecommunication equipment, computers, auto parts, glass and optical units.

Laser cutting has the potential to be environmentally more efficient and clean than traditional methods. It can be more precise and thereby reduce waste of material and not require cooling by water. The technology can also be used for metal cleaning which is normally done with high power water pressure, which is a highly polluting and energy demanding process.

The RI team engaged with the company during the quarter with the focus being on getting insight into the company ESG risks and performance. The team encourages the company to increase its environmental and social disclosure. Hans Laser is exposed to risk of high costs related to toxic discharge and waste. However the company does not certify all operations with ISO 14001 standards and lacks public commitments on emission and waste reduction targets. The company is also missing proper incentives for talent retention which is important for such technology heavy businesses - 1/3 of its employees are working in R&D. The overall rating of the company is B.

Kingdee International Software Group

Kingdee International Software Group Company Limited (Kingdee), through its subsidiaries, develops and sells enterprise management software, e-commerce application software and middleware software. The company also provides internet-based services and sets up e-commerce platforms

for enterprises. In addition, Kingdee provides consulting and technical support services.

The company's business model is focused on management of inventory, sales, and client relations. The business model warrants an A rating as it promotes transparency and efficiency. This enables its clients to minimize fraud and corruption. It also enables companies to manage their stores and warehouses in remote locations as well as their supply chain. Therefore clients better manage their inventories and this reduces waste and supports better time management for its employees.

The RI team mainly engaged with the company on topics related to privacy and data security. Kingdee is striving to establish a prevention-oriented cloud service security assurance system integrating technologies and management with layered defence. The overall rating of the company is A.

Complete list of SDGs:



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