



# ESG Quarterly Report

Fourth quarter 2018

## Nordea 1 – European Stars Equity Fund

The aim of this document is to describe some of the ESG (Environmental, Social and Governance) and engagement activities of the Responsible Investment (RI) and Fundamental Equities (FE) teams that work in collaboration on the European Stars fund. This is not meant to be fully comprehensive, but should allow investors to get insights into the main ESG and engagement activities that the integrated team has focused on.

### 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 follow certain ESG standards.
- **Active ownership:** proactively engaging with 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

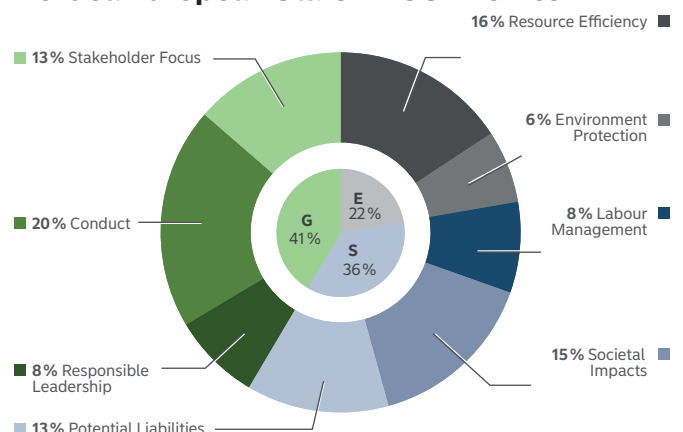
Like all Nordea funds, European Stars follows our responsible investment policy, which excludes companies involved in the production of nuclear weapons and cluster munitions as well as companies with large exposure to coal mining (>30% revenues). However, excluding a company from our portfolios is always a last resort: the STARS concept aims for positive selection with the objective to influence companies to improve their ESG profiles. Our engagement with companies does not only consist of the traditional forms (exercise of voting rights, dialogue with

companies to improve their management systems, their ESG performance or their reporting), but has a high focus on engaging on the most critical sustainability issues. When assessing a company's ESG profile we specifically focus on identifying the company's most critical ESG issues, as well as its alignment with the UN Sustainable Development Goals (SDGs).

### Engagement Roadmap

ESG engagement is a cornerstone of the European Stars fund. While positively selecting companies based on their ESG performance is important, we believe it is our responsibility as a shareholder to positively influence companies in the portfolio and lobby for the adoption of best ESG practices. Since the creation of the fund we have strived to define a rational, systematic way to prioritize our engagement agenda. For each investment candidate we have defined several potential engagement issues and objectives, prioritized according to their financial materiality (its impacts on short medium and long term shareholder value creation) and feasibility (can we achieve a meaningful change in the company's behaviour). We use this as guiding tool for our on-going engagement activities.

### Nordea European Stars – ESG Themes



<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.

## Top 4 ESG activities over the quarter

Holding	Current Rating	Proxy Voting <sup>2</sup>	Relevant SDGs	Risk Engagement	Activity
ING Group	A-	–	N/A	Business Ethics/AML	Research/Call
NMC Health	N/A	–	N/A	Remuneration/ ESG reporting	Research/Call
Saint Gobain	B+	–	N/A	Corp. Gov, Strategy	Research/Letter/Calls

2) 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 with companies, the processes might last several quarters, as such we might not necessarily report on the final decisions.

### Compagnie de Saint Gobain SA

The company manufactures glass products, high-performance materials and construction materials. We have initiated dialogue on the company's strategy and corporate governance, with good access at board level (lead independent director and board secretary). We think this is an interesting case because of the potential connections we see between corporate governance and stock performance. We have been a long-term shareholder in Saint Gobain, and we have increasingly started to question whether its corporate governance arrangements are a factor in the mediocre performance of the stock price. We are also exploring how corporate culture translates into decision making, in particular questioning whether shareholder concerns are handled with sufficient urgency. Regarding corporate culture, we are also seeking reassurance that the chair/CEO receives sufficient internal challenge. We have seen some encouraging signs of evolution. The company has facilitated dialogue at the necessary level and has recently changed its CFO and announced an overhaul of its portfolio. This shows awareness of the way the market perceives Saint Gobain and is a good foundation for further dialogue.

### ING Group

ING paid a one-billion-dollar settlement to the Dutch market authority to conclude an investigation of anti-money laundering charges and is about to complete an extensive remediation program. We got in touch with the bank to better understand

the root causes, consequences, and implications of this controversy. One of the major aspects is that the company represents a systemic risk for the banking industry. Algorithms that monitor sensitive transactions tend to create a false sense of safety. ING was understaffed and not well equipped to properly follow up on false positives and distinguish genuinely suspicious transactions from false alarms. Our impression was that ING felt to some extent that they, as an institution, are asked to police more than they can feasibly shoulder. There are some industry initiatives trying to address the issue, and compliance officers are trying to develop machine learning tools to simplify supervision. The broader implications are that transaction monitoring algorithms are at present barely fit for purpose. It feels right that European banks should seek for an industry wide solution, and we expect ING to play an active part in this.

ING addressed most of our concerns credibly; improvements to corporate culture are to be addressed in an awareness campaign. ING will not make any more changes to the top leadership in response to the allegations, after letting, somewhat reluctantly, the CFO go. We will follow up in 2019 to test the implementation of the remedial measures and to inquire after any further developments that might lead closer to an industry-wide solution. After undertaking the remediation program, ING's risk of money laundering offences should have scaled back to be in line with peers, but we will keep an eye on further developments to fully ascertain that this is the case. At this stage, we see no need to downgrade our rating further than its current A-.

### NMC Health Plc

NMC Health is a diversified health care company which has a wide network of hospitals, medical centers, and pharmacies all over the world, with a focus on the Middle East. We spoke with NMC Health to address changes to their remuneration system and their nascent ESG reporting. We wanted to better understand the change in metric the company used to incentivise its executives, transparency around related party transactions, and the apparent effort to provide more information on material ESG issues. As NMC Health is a controlled company, it is important to understand what protections are

in place to protect minority shareholder interests. We sought reassurance that the remuneration system is not incentivising M&A over organic growth, and additional clarity regarding the numerous transactions with related parties. While we will seek further discussions on a broader range of ESG topics, the company appears to be refining its governance practices through investor feedback. It has managed to substantially reduce the

amount of negative votes the remuneration policy received over two years and works with an external big 4 remuneration consultant. This level of responsiveness is not a given among controlled companies, and while there is visible scope for improvement, we also feel that further engagement is likely to be productive.

## 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)

The sub-funds mentioned are part of Nordea 1, SICAV, an open-ended Luxembourg-based investment company (Société d'Investissement à Capital Variable), validly formed and existing in accordance with the laws of Luxembourg and with European Council Directive 2009/65/EC of 13 July 2009. **This document is advertising material** and does not disclose all relevant information concerning the presented sub-funds. Any investment decision in the sub-funds should be made on the basis of the current prospectus and the Key Investor Information Document (KIID), which are available, along with the current annual and semi-annual reports, electronically in English and in the local language of the market where the mentioned SICAV is authorised for distribution, without charge upon request from Nordea Investment Funds S.A., 562, rue de Neudorf, P.O. Box 782, L-2017 Luxembourg, from the local representatives or information agents, or from our distributors. Investments in derivative and foreign exchange transactions may be subject to significant fluctuations which may affect the value of an investment. **Investments in Emerging Markets involve a higher element of risk. The value of shares can greatly fluctuate as a result of the sub-fund's investment policy and cannot be ensured. Investments in equity and debt instruments issued by banks could bear the risk of being subject to the bail-in mechanism (meaning that equity and debt instruments could be written down in order to ensure that most unsecured creditors of an institution bear appropriate losses) as foreseen in EU Directive 2014/59/EU. For further details of investment risks associated with these sub-funds, please refer to the relevant Key Investor Information Document (KIID), available as described above.** Nordea Investment Funds S.A. has decided to bear the cost for research, i.e. such cost is covered by existing fee arrangements (Management-/Administration-Fee). Nordea Investment Funds S.A. only publishes product-related information and does not make any investment recommendations. Published by Nordea Investment Funds S.A., 562, rue de Neudorf, P.O. Box 782, L-2017 Luxembourg, which is authorized by the Commission de Surveillance du Secteur Financier in Luxembourg. Further information can be obtained from your financial advisor. He/she can advise you independently of Nordea Investment Funds S.A. **Please note that all sub funds and share classes might not be available in your country of jurisdiction. Additional information for investors in Switzerland:** The Swiss Representative and Paying Agent is BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, CH-8002 Zurich, Switzerland. **Additional information for investors in Germany:** The Information Agent in Germany is Société Générale S.A. Frankfurt Branch, Neue Mainzer Straße 46-50, D-60311 Frankfurt am Main. A hard copy of the above-mentioned fund documentation is also available from here. **Additional information for investors in Austria:** Sub-paying Agent and Representative in Austria is Erste Bank der Österreichischen Sparkassen AG, Am Belvedere 1, A-1100 Vienna. **Additional information for investors in the Netherlands:** Nordea 1, SICAV is a Luxembourg Undertaking for Collective Investment in Transferable Securities (UCITS) registered in the Netherlands in the register kept by the AFM, and as such is allowed to offer its shares in the Netherlands. The AFM register can be consulted via [www.afm.nl/register](http://www.afm.nl/register). **Additional information for investors in France:** With the authorisation of the AMF the shares of the sub-funds of Nordea 1, SICAV may be distributed in France. Centralising Correspondent in France is CACEIS Bank, located at 1-3, place Valhubert, 75013 Paris. **Investors are advised to conduct thorough research before making any investment decision. Additional information for investors in Belgium:** The Representative Agent in Belgium is BNP Paribas Securities Services S.C.A., Brussels branch, 25 Rue de Loxum, Brussels, B-1000-Belgium. A hard copy of the above-mentioned fund documentation is available upon demand free of charge. **Additional information for investors in Spain:** Nordea 1, SICAV is duly registered in the CNMV official registry of foreign collective investment institutions (entry no. 340) as authorised to be marketed to the public in Spain. The Depository of the SICAV's assets is, J.P. Morgan Bank Luxembourg S.A. In Spain, any investment must be made through the authorised distributors and on the basis of the information contained in the mandatory documentation that must be received from the SICAV's authorised distributor prior to any subscription. **The Representative Agent is Allfunds Bank S.A., Paseo de la Castellana 9, ES-28046 Madrid, Spain.** A complete list of the authorised distributors is available in the CNMV's webpage ([www.cnmv.es](http://www.cnmv.es)). **Additional information for investors in Portugal:** The Management Company of the SICAV, Nordea Investment Funds, S.A., and the Depository of the SICAV's assets, J.P. Morgan Bank Luxembourg S.A., are validly formed and existing in accordance with the laws of Luxembourg and authorized by the Commission de Surveillance du Secteur Financier in Luxembourg. Our distributor in Portugal is BEST - Banco Electrónico de Serviço Total, S.A., duly incorporated under the laws of Portugal and registered with the CMVM as a financial intermediary. **Additional information for investors in Italy:** Fund documentation as listed above is also available in Italy from the distributors and on the website [www.nordea.it](http://www.nordea.it). The updated list of distribution agents in Italy, grouped by homogenous category, is available from the distributors themselves, at State Street Bank International GmbH - Succursale Italia, branches (located in the main towns of each region), BNP Paribas Securities Services - Succursale di Milano, Banca Sella Holding S.p.A, Banca Monte dei Paschi di Siena S.p.A., Allfunds Bank S.A. Succursale di Milano, Société Générale Securities Services S.p.A. and on the website [www.nordea.it](http://www.nordea.it). Any requests for additional information should be sent to the distributors. **Before investing, please read the prospectus and the KIID carefully.** We recommend that you read the most recent annual financial statement in order to be better informed about the fund's investment policy. **The prospectus and KIID for the sub-funds have been published with Consob. Additional information for investors in the United Kingdom:** Approved by Nordea Bank Abp, 5 Aldermanbury Square, London EC2V 7AZ, which is regulated by the FCA in the United Kingdom. **Additional information for investors in Sweden:** The Paying Agent is Nordea Bank Abp, filial i Sverige, Smålandsgatan 17, Stockholm SE-105 71. The Representative Agent is Nordea Funds Ltd, Swedish Branch, Mäster Samuelsgatan 21, Stockholm, SE-105 71. **Additional information for investors in Denmark:** The Information and Paying Agent is Nordea Danmark, filial af Nordea Bank Abp, Finland, Strandgade 3, Christiansbro, DK-1401 Copenhagen K. A hard copy of the above-mentioned fund documentation is available here. **Additional information for investors in Norway:** The Paying Agent is Nordea Bank Abp, filial i Norge, Essendrops gate 7, Postboks 1166 Sentrum, NO-0107 Oslo. The Representative Agent is Nordea Funds Ltd., Norwegian Branch, Essendrops gate 7, Postboks 1166 Sentrum, NO-0107 Oslo. **Additional information for investors in Finland:** The Paying Agent is Nordea Bank Abp, Satamaradankatu 5, FI-00020 NORDEA, Helsinki. The Representative Agent is Nordea Funds Ltd, Satamaradankatu 5, FI-00020 NORDEA, Helsinki. **Additional information for investors in Latvia:** The Representative and Paying Agent is Luminor Bank AS, Skanstes iela 12, Riga, LV-1013. **Additional information for investors in Estonia:** The Representative and Paying Agent in Estonia is Luminor Bank AS, Liivalaia 45, 10145 Tallinn. **Additional information for investors in Lithuania:** The Representative and Paying Agent in Lithuania is Luminor Bank AB, Konstitucijos pr. 21A, 03601 Vilnius. Shareholders must evaluate possible investment risks and take this into consideration when making investment decisions. **Information for investors in Brazil:** This is a strictly privileged and confidential document for the purposes of a potential investment in foreign securities on a one-on-one basis with potential investors with a pre-existing relationship with Nordea Investment Funds S.A. This document contains information addressed only to a specific individual and is not intended for distribution to, or use by, any other person. This document (i) is provided for informational purposes only, (ii) should not be construed in any manner as any solicitation or offer to buy or sell any securities or any related financial instruments, (iii) should not be construed in any manner as a public offer of any securities or any related financial instruments, and (iv) will be addressed to a potential investor with restrict access of information. Nordea 1, SICAV have not been, and will not be, registered with the Brazilian Securities Commission (Comissão de Valores Mobiliários - CVM), and must not be offered or sold in Brazil except in circumstances which do not constitute a public offering or distribution under Brazilian laws and regulations. Any public offering, placement or distribution, as defined under Brazilian laws and regulations, of securities in Brazil, is not legal without prior registration under Law No. 6,385 of December 7, 1976, as amended. Documents relating to the offering of the Nordea 1, SICAV, as well as information contained therein, must not be supplied to the general public in Brazil (as the offering of the Nordea 1, SICAV is not a public offering of securities in Brazil) or used in connection with any offer for subscription or sale of the Nordea 1, SICAV to the general public in Brazil. Investors within Brazil should consult with their own counsel as to the applicability of these laws and regulations or any exemption there from. Source (unless otherwise stated): Nordea Investment Funds S.A. Unless otherwise stated, all views expressed are those of Nordea Investment Funds S.A. This document may not be reproduced or circulated without prior permission and must not be passed to private investors. This document contains information only intended for professional investors and financial advisers and is not intended for general publication. Reference to companies or other investments mentioned within this document should not be construed as a recommendation to the investor to buy or sell the same, but is included for the purpose of illustration.