



ESG Quarterly Report

Third 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.¹
- **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

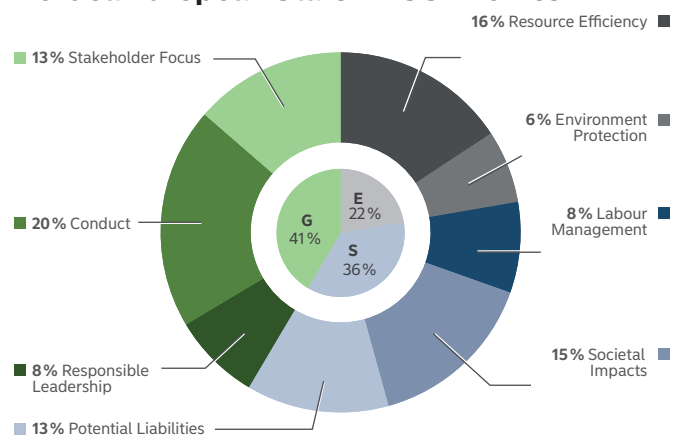
Like all Nordea funds, European Stars follows our responsible investment policy, which excludes companies involved in the production of nuclear weapons and cluster munitions as well as companies with large exposure to coal mining (>30% revenues). However, excluding a company from our portfolios is always 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



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.

Top 4 ESG activities over the quarter

Holding	Current Rating	Proxy Voting ²	Relevant SDGs	Nordea ESG Area	Activity
Pandora A/S	A	✓	8 16	Supply Chain	Meeting
Pirelli & C. S.p.A.	B+	–	N/A	Supply Chain	Meeting
MunichRe	A	✓	N/A	Climate Action	Meeting
Merlin Entertainments	B+	✓	N/A	Labor rights	Research

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 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.

Pandora

Pandora A/S is a Danish company that designs, manufactures, markets, and distributes affordable hand finished and modern jewellery made from primarily silver and gold. We had a meeting with the company in late August to assess whether the group was holding up to its strong ESG fundamentals as it was navigating troubled water – the group had just issued a profit warning and lost its CEO. We wanted to make sure that no unmanaged ESG risks could further destabilize the company and focused our dialogue on key risks areas including political risks in Thailand and supply chain excellence. We found that Pandora is maintaining (and further developing) best in class ESG management systems. Crisis management procedures are in place in case of a political or natural disaster crisis in Thailand (production has historically always been very resilient in the past). The company successfully handled the transfer of a large portion of its workforce to the north of the country, maintaining a very low turnover. It is involved in the expansion of an ESG certification scheme to cover silver products, which we see as best practice.

Pirelli

Pirelli & C. S.p.A. designs, produces and sells tires for cars, motorcycles and bicycles, primarily for the high-end consumer segment. We have a positive overall opinion on the ESG profile

of Pirelli that was confirmed through a direct dialogue with the company. We find, in particular, a strong alignment between sustainability, innovation and performance. Pirelli's Green performance revenues in 2017 are 42% on total tyre revenues (vs 40% in 2016 and vs 5% in 2009) and the group wants to reach 60% in 2020. A key risk for the group relates to the sourcing of rubber products, which is currently not substitutable and prone to human rights violations, but Pirelli has been very active on this front in the past few years and introduced proper rubber sourcing policies. The group is also investing to reduce the environmental impact of its products over the whole lifecycle of its products and has already reduced average rolling resistance of car tyres by –15% vs 2009. Pirelli appears well prepared to a shift towards efficient, green products.

MunichRe

Muenchener Rueckversicherungs-Gesellschaft AG (Munich Re) provides reinsurance, insurance, and asset management services. It is among the ESG leaders in its sector according to our research and engagement with the company. Munich Re has committed to sustainability through their publicly communicated strategy and has integrated ESG criteria in the business fields of primary insurance and reinsurance, as well as in their investment business. We think it is interesting to have the company in a portfolio as the business model of Munich Re has a positive impact from the sustainability point of view: insurance protection offers a cushion to the effects of natural disasters and health problems by providing prompt financial relief as well as promoting preventive measures with lower premiums. Climate change is a key known risk factor for Munich Re and it's been addressed through the assessment of its impact on business activities, risk transfer solutions and investment decisions. With a risk management competence built up over many years and highly developed risk models the company should be in a superior position to assess climate change risks and to develop new solutions for their clients. Munich Re also demonstrates a clear commitment to mitigating ESG risk in asset management activities as seen through their ESG integration strategy.

Merlin

Merlin Entertainments PLC operates branded and location-based family entertainment attractions. The Company owns and operates a global portfolio of assets including city center and resort-based indoor attractions and national-branded resort theme parks. Merlin used to be excluded from Nordea's stars products for engaging in activities that contravenes its workers' freedom of association and right to collective bargaining, wilfully not entering in collective bargaining

agreements unless required to do so under national law. In a recent meeting with the company's management, Merlin claimed that this issue has been resolved and that the unions are no longer demanding a collective bargaining anymore, which was confirmed by another source. Merlin has a relatively low risk exposure and decent ESG practices overall. We concluded that the company was investible, but that we would maintain discussions with Merlin with regards to ESG transparency, safety and conservation performance.

Complete list of SDGs:



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