



# ESG Quarterly Report

Third quarter 2018

## 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.<sup>1</sup>
- **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 A<sup>2</sup>) or companies with a sufficient rising ESG profile (e.g. rated B<sup>-2</sup> 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.

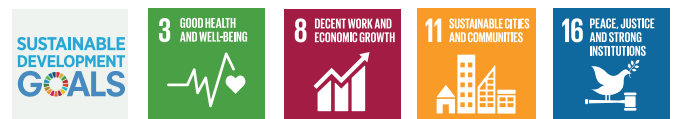
### Engagement is key for active ownership

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 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 4 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 2.

<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. <sup>2</sup>) ESG rating scale

## Top ESG activities over the quarter

Holding	Current Rating	Proxy Voting <sup>3</sup>	SDG Engagement	Risk Engagement	Activity
Verizon	B	✓	N/A	Business Ethics	Research
Veoneer	B+	–	3 11	Product safety, human capital	Meeting
Taiwan Semiconductor Manufacturing	A+	✓	8	Talent retention	Meeting
Pandora A/S	A	✓	8 16	Supply Chain	Meeting

<sup>3</sup>) 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. We maintained the previous ratings for the updated companies.

## 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.

### Verizon

Verizon is an integrated telecommunications company. As such it provides a range of services that are specifically sensitive to data security aspects. Apart from data security, emphasis has been on anti-corruption practices within the scope of our ESG assessment of the company.

We rated the company with a B rating and it was subsequently included into the Global Stars portfolio.

Although we see progress in terms of the company's overall management capabilities concerning data security and privacy – demonstrated by a more centralized risk management approach which we see across industries – we have chosen to take a cautionary stance until we have more clarity on data related regulations and best practices. This significantly weighed down on the company's overall rating.

Historically, we've seen some high-profile corruption cases involving telecommunications companies. In this context we have assessed the policies and processes of Verizon to safeguard long-term investors' interests. We are comfortable with the level of commitment that the company has in place to mitigate these risks evidenced by ownership at the senior management level of the company, targeted training as well as whistleblower functions.

We believe Verizon is an interesting case which is exposed to a number of structural issues such as data security. We currently deem the mitigation of ESG risks appropriate but there is room for improvement, especially in terms of general transparency.

### Veoneer

Veoneer is the recent spin-off of Autoliv's Electronics business segment and as an independent company it is focusing on active safety solutions, such as automotive radars, cameras with driver assist systems, night vision systems and positioning systems as well as software solutions enabling autonomous driving.

In September, Nordea's Responsible Investment team together with portfolio managers and analysts visited Veoneer's production unit in Vårgårda, Sweden and Zenuity offices in Gothenburg, Sweden – Zenuity is a joint venture between Veoneer and Volvo Cars.

The most important contribution of Veoneer to the overall society pertains to their products and technologies that help to prevent car accidents. Road safety targets are included in the SDGs Goal #3 entitled "Good health and wellbeing" (and more precisely to Target 3.6: "By 2020, halve the number of global deaths and injuries from road traffic accidents"). In addition, technologies for autonomous driving and driver assistance systems also contribute to reduce emissions and are a part of the solutions required for smart cities.

From the operation management perspective, Veoneer inherited systems and standards from Autoliv, where quality of products in the electronics division was well managed. One of the key challenges for Veoneer and Zenuity is to attract and retain human capital and knowledge internally. Zenuity hired around 600 employees and operates as a modern technology company with flat organization, agile way of working and young workforce.

As the company was recently listed the sustainability governance structure and policies are still being developed, which is an opportunity for us to engage early with Veoneer on identifying material issues and on ESG data transparency.

## Taiwan Semiconductor Manufacturing

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

## 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.

Complete list of SDGs:



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