



# ESG Quarterly Report

Fourth quarter 2018

## Nordea 1 – Nordic 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 – Nordic 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 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
H&M	B+	✓	8	Labour rights	Meeting
MTG	B+	✓	5 8	Gender diversity	Meeting
NENT	B+	–	5 8	Gender diversity	Meeting
Rejlers	B+	✓	8 9	Humann capital	Research

<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.

## 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.

### H&M

#### India

Nordea met H&M in India during November 2018. The purpose of the trip was to discuss the allegation of sexual and physical abuse at some of its suppliers in Bangalore, India, that occurred during the summer of 2018. The company met the PoSH committee (Prevention of Sexual Harassment), which is a legal requirement for Indian companies with more than 10 employees. The suppliers and the local union (KOOGU) signed a Memorandum of Understanding while the union communicated to H&M that suppliers were progressing in the right direction.

#### Cambodia

In December 2018 Nordea was invited to the H&M's Fair Living Wage Summit in Phnom Penh, Cambodia and visited one of their suppliers. In 2013 H&M set an ambitious 5-year roadmap with the aim of achieving fair living wages for workers in its global supply chain and the purpose of the summit was to share and review H&M's progress. During the summit Nordea interacted with H&M staff from different functions and markets, trade unions, suppliers and NGOs. Deep dive sessions were mainly focusing on how H&M was implementing work place dialogues and wage management systems with their suppliers as well as how the company was engaging with ACT (Action, Collaboration, Transformation) – an agreement between

brands, trade unions and the garment sector to achieve living wages through collective bargaining at industry level.

During the factory visit outside of Phnom Penh, we had a tour at the site and the opportunity to meet the workers' representatives and members of the labour union. H&M has a long-standing relationship with the supplier and has been engaging with them on ESG. The supplier has implemented several productivity measures including equipment and trainings and has been able to achieve better efficiency. On the human capital side, absenteeism and employee turnover rates have improved as well. Overall, the company has been able to increase salaries for their employees and implement a transparent wage and benefit system.

We conclude that H&M is progressing and leading the industry in the living wage approach from the holistic perspective. There is still room for improvement, especially in continuously increasing transparency on the progress and explaining the approach to consumers and other stakeholders.

### MTG

In mid-2018 the Board of Directors of Modern Times Group MTG (MTG) decided to initiate a process to split MTG into two companies by distributing all shares in Nordic Entertainment Group (NENT) to MTG's shareholders, and listing these shares on the Stockholm stock exchange. Both companies have approached us to get our views on their sustainability strategy. Our Responsible Investment team along with the fund portfolio managers met in person to discuss the most material topics and potential emerging sustainability issues.

The new MTG company comprises MTG's current e-sports, online gaming and digital video content operations. One of the key topics is human capital management and specifically increasing gender diversity, e.g. promoting female players, and preventing sexual harassment. Equally important is the prevention of gaming addiction, which is becoming an increasing area of focus as gaming addiction has recently been classified as a mental health disorder – e.g. WHO included gaming disorder into its revised International Classification of Diseases in September 2018. It is important to not only provide technical tools such as parental

control, but also more educational tools. We highlighted that due to the fast-changing nature of digital entertainment, MTG's sustainability strategy should be flexible in order to quickly address new emerging issues. However, we asked for more quantitative data on sustainability performance.

## NENT

Nordic Entertainment Group comprises MTG's current Nordic Entertainment and MTG Studios business segments, as well as Splay Networks. The main topics discussed covered human capital and contractors during content production, diversity & inclusion as well as media pluralism and content responsibility.

## Rejlers

Rejlers is a new addition to the Nordic Stars fund. Rejlers is a Nordic group offering technical consultancy services in the fields of electrical engineering, energy, mechanical engineering, automation, electronics, IT and telecommunications. Overall Rejlers has a low ESG risk profile based on the industry and countries it operates in. This low risk together with proactive management of key ESG risks and opportunities led us to keep our ESG rating at B+.

Rejlers business model and expertise of its consultants are well aligned with global sustainability trends. The largest customer groups of Rejlers are in the energy sector (renewables), industry and telecom and these are also the key growth markets. The company's strategy is focusing on sustainable and digital solutions: energy efficient solutions, renewable energy production and the development of sustainable infrastructure. In the future, there will be more growth in distribution of renewable energy and in the security.

Nordea is the second largest owner with almost 12% of shares after Lannebo Fonder (13.8%) and Mats Andersson is representing Nordea in the Nomination committee.

Human capital management is the most challenging area for Rejlers and its peers. They recognize that there is a shortage of engineers in the markets where Rejlers operates, and to mitigate the risk they encourage more students to choose the engineering path. This shortage is putting pressure on the competition for talent, employee turnover costs and wages. The company is currently falling short of a number of KPIs for human capital, however, we expect that with the new head of Human Resources the trend should turn positive.

## Complete list of SDGs:



Source: [un.org/development/desa/en/news/sustainable/sustainable-development-goals.html](https://un.org/development/desa/en/news/sustainable/sustainable-development-goals.html)

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