



# ESG Quarterly Report

Fourth 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 1 UN goal which has 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
Facebook	B-	✓	N/A	Business Ethics/Data Security	Research/Meeting
Google	B+	✓	N/A	Data Security/Antitrust	Research/Meeting
Wells Fargo	C+	–	N/A	Corp. Gov, Business Ethics	Research/Meeting
Activision	B	✓	N/A	Business Ethics	Research/Meeting
Samsung Electronics	B	✓	16	Governance	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](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

During the quarter we visited a number of companies in the US and below texts are primarily based on our findings there. Not all companies are holdings of the fund as we aim to showcase other due diligence activities apart from the ones we carry out with some of the holdings of the fund.

### Facebook

We were quite early to note a couple of aspects working against Facebook in the middle of 2017. Throughout the year a lot of this has played out, mostly impacting the company on the cost side; compliance with EU GDPR and building up an infrastructure resilient enough to ensure that the platform was not exploited in an unintended manner. However, there are still some question marks outstanding in regards to the full regulatory response to the turbulence surrounding the company in recent times. From the meeting we acknowledged that the company is trying to steer the ship in the right direction and whether or not this will be enough is precisely what we believe is up to the broader public and the regulators to make a judgement call on. In that context we are still reluctant to change our ESG-view on the company which is below the threshold for the Nordea 1 – Global Stars Equity Fund. We will be following this closely going forward and react accordingly.

### Google

Google is one of the companies that has made, and continues to have, profound impact on society. Starting with Google Search and the ease at which information can be obtained and expanding into other interesting areas represented by, for example, Waymo, we believe that Google is an interesting fit from an ESG-perspective in the fund. We also engaged in discussions around EU GDPR, recent EU Antitrust rulings and

competition in general. We believe that there are risks associated with all of these aspects out of which some are more adequately addressed than others at this particular point. However, going forward, we expect the company and other stakeholders to provide more clarity in terms of risks.

We still like the company and believe, from an ESG point of view, that despite some of the challenges the company is facing, it remains an interesting building block in a sustainability fund.

### Wells Fargo

Wells Fargo is a bank in transition. We met with the company, not to question whether or not it was on its way to transform, but rather to understand where on that pathway it was. The story around Wells Fargo, as we understand it, is best summed up in terms of corporate governance and sales culture within its retail segment. While we got quite comfortable on the progress of the latter aspect as well as the intent on the former, we are quite not in a position just yet to understand where the company is in terms of corporate governance, and specifically with its restructuring of the risk management framework. We choose to uphold a non-investable rating within the fund until we get some external verification of the bank's efforts to ramp up the risk management efforts from relevant institutions.

### Activision Blizzard

Activision Blizzard is involved across the spectrum of the e-games industry, including action sports, first person-action and strategy. The emergence of these types of business models mirrors the overall digitalization of the society and the future probably holds very interesting things as the development of augmented and virtual reality start to compete against mobile devices, PCs and game consoles.

We are generally of the opinion that Activision Blizzard is a low risk company from an ESG point of view. However, we've seen regulatory attention towards some parts of the gaming industry in China as well as in the US – addressing concerns relating to addiction predominantly. We believe that the company is on good ground when it comes to China, as the focus targets more "socially harmful" games such as online social casinos. We are monitoring the situation in the US and will act upon it should we find it relevant by way of raising risks of the company.

## Samsung Electronics

Samsung Electronics is a South Korean based company principally engaged in the manufacturing and distribution of electronic products. The company faces ESG risks in its supply chain, both in terms of product health and safety, human rights (specifically about child labour), and corruption.

The RI team visited the company during the quarter and focused on corporate governance and labour unions. The company confirmed that it would continue its work on making improvements to its corporate governance structure. The vice-chairman of the board who was convicted of corruption, is

still in the process of appealing his verdict at the lower courts. The supreme court has taken longer than expected to review the case – the company originally expected the case to have been concluded by the end of 2018. The vice-chairman is up for re-election during 2019.

We continue to see positive steps on corporate governance from the company. The current environment in South Korea is changing toward more openness. The RI team communicated to the company that it would view it problematic to re-elect the vice-chairman if his legal case has not been resolved before the AGM. The overall rating of the company is B.

## 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)

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