



ESG Engagement Report

Third quarter 2019

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.¹
- **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 A²) or companies with a sufficient rising ESG profile (e.g. rated B+² 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 6 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 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. The value of your investment can go up and down, and you could lose some or all of your invested money. 2) ESG rating scale

Top ESG activities over the quarter

| Holding | Current Rating | Proxy Voting ³ | SDG Engagement | Risk Engagement | Activity |
|---------------|----------------|---------------------------|----------------|--------------------------------------|----------|
| Bakkafrost | B+ | ✓ | 12 13 14 | TCFD reporting, fish feed, packaging | Meeting |
| Fenix Outdoor | A+ | ✓ | 8 | Labour rights | Meeting |
| Adapteo | B+ | – | 11 16 | Sustainable products, corruption | 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 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.

Bakkafrost

Bakkafrost is a Faroese salmon farming company based and is the largest fish farming company in the Faroe Islands; eighth-largest fish farming company in the world. During the quarter together with Nordic Stars PM we had a meeting with Bakkafrost CFO and sustainability head.

Geographical position of operations in Faroe Islands is still a strong positive factor for Bakkafrost's lower ESG risk exposure. Faroe Islands are the middle of the Gulf Stream, which is an ideal location for farming salmon due to superior availability of raw material, cool steady sea temperature reducing disease risk and low risk of misbehaving neighbours since Bakkafrost controls around 75% of Faroe Island production. However, with increasing public attention to sustainability of the aquaculture sector, e.g. recent FAIRR report "Shallow returns? ESG risks and opportunities in aquaculture" (June 2019), Bakkafrost and the industry will be expected to do more on sustainability risk management.

We view very positively the creation of position of Sustainability head and recent initiatives taken such as planning TCFD reporting, Sustainable fish feed policy development and packaging review. We expect that these initiatives will result into specific commitments, goals and transparency on progress. We are also planning to follow-up to make sure that the commitments are well embedded with the management and business strategy.

The recent acquisition of Scottish Salmon (69% of shares) will increase Bakkafrost's ESG risk exposure, but when done properly and given Bakkafrost's track record and plans, there is a considerable improvement/impact opportunity. We have asked for separate reporting so that we can follow the progress.

Fenix Outdoor

Fenix Outdoor designs and sells products for outdoor activities. The Company sells Fjallraven and Tierra band products such as backpacks, sleeping bags, tents, and outdoor clothing, as well as Primus camp stoves and lanterns. Fenix Outdoor also owns and operates the retail chains Naturkompaniet and Skandinavisk Hoyfjellsutstyr.

We had a call with Fenix Outdoor to discuss their material sourcing and living wages. For example, in China they have been working for many years with a supplier of down & feather filling for their sleeping bags and down jackets. The supplier went through a transformation journey to comply with stricter regulatory requirements, including biological and chemical treatment and the highest animal welfare standards.

Compared to fast fashion companies, outdoor clothing companies have much more complex products that require higher skills and as result higher salaries. Therefore, according to the company, they have lower exposure to the living wage gap. Nevertheless, the company is committed to fair labor conditions and they support the concept of living wage. Fenix Outdoor is not a member of ACT (Action, Collaboration, Transformation), but instead work with the issue via Fair Labour Association (FLA). During 2018 FLA assessed the labor compliance program of Fenix Outdoor with a recommendation to the FLA Board of Directors on accreditation of the company's program. The report is publicly available. https://www.fairlabor.org/sites/default/files/documents/reports/fenix_accreditation_assessment_february_2018.pdf

Adapteo

Adapteo is a Finnish company specialized in modular space and is a recent spin-off of Cramo. Adapteo develops, manufactures, sells, and rents relocatable buildings for professional customers

in the Nordic countries with a primary focus on offices, schools, and preschools. Since the company is now a new listed company, they have initiated building sustainability strategy and invited us to provide our input into the sustainability materiality assessment from the investor perspective. We communicated that the most important key ESG issue for us is sustainable products that through improved energy efficiency provide the clients both environmental and financial

benefits. Since most of Adapteo's clients are in the public sector, we have communicated that we expect strong anti-corruption management. Finally, since modular space involves construction, we have highlighted employee injury risks and the importance of health & safety trainings especially for sub-contractors. In terms of transparency and metrics, we have also suggested the company to use SASB (Sustainability Accounting Standards Board) materiality mapping.

Complete list of SDGs:



Source: un.org/development/desa/en/news/sustainable/sustainable-development-goals.html

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