

Sustainability & Engagement Report

Nordea 1 – European Stars Equity Fund

Second quarter 2020



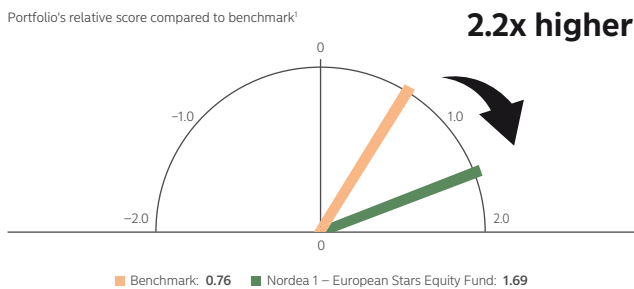
Nordea 1 – European Stars Equity Fund

This section highlights how portfolio companies - through their products and services - have positive and negative impact on a total of 15 sustainability objectives which are closely aligned with the United Nation Sustainable Development Goals. The results are then compared with the benchmark. While engagement is always Nordea Asset Management preferred approach, we have made a corporate-level decision to exclude certain stocks, sectors, and practices across our entire active fund range. We have therefore banned investment in companies active in the production of illegal or nuclear weapons, including cluster munitions and anti-personnel mines, as well as companies involved in the maintenance of nuclear weapons. In a similar fashion, none of our funds invest in companies deriving more than 30% of their revenues from coal (including metallurgical coal), more than 10% from thermal coal, or more than 10% from oil sand. Our detailed RI policy and our corporate exclusion list are publicly available at [nordea.com](https://www.nordea.com/en/sustainability/sustainable-business/investments/exclusion-list/). (<https://www.nordea.com/en/sustainability/sustainable-business/investments/exclusion-list/>)

Total sustainability score (vs benchmark)

The chart below shows the contribution of the portfolio holdings products and services to both environment and social considerations compared to companies held in the benchmark.

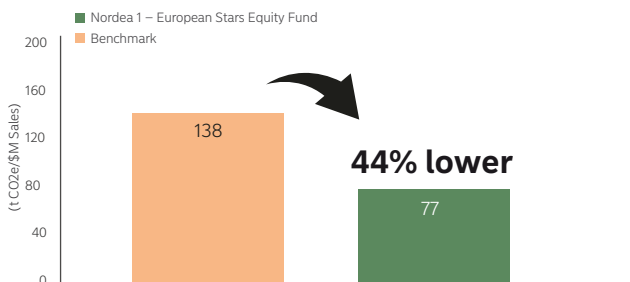
The contribution of the portfolio to the 15 objectives (social and environmental) is 2.2x higher than the benchmark.



¹) The relative score is calculated as follows: (Portfolio net score) / (Benchmark net score). Should the score of the benchmark be close to nil the relative score multiple might be distorted. Comparison with other financial products or benchmarks is only meant for indicative purposes.

Carbon intensity

The fund has a carbon footprint 44% lower than the benchmark.



Comparison with other financial products or benchmarks is only meant for indicative purposes.

Top contributors

- Fresenius** (DE, Health Care Facilities & Services). The company mainly contributes to the social objectives 'Ensuring health' and 'Providing basic services' as the company provides dialysis services and products, prescription drugs, care coordination and laboratory services, and hospital management services.
- Sanofi** (FR, Pharmaceuticals & Biotechnology). The company contributes to the social objective 'Ensuring health' through the provision of prescription pharmaceuticals and over the counter pharmaceuticals.
- Vestas Wind Systems** (DK, Pharmaceuticals & Biotechnology). The company mainly contributes to the environmental objectives 'Contributing to sustainable energy use' and 'Mitigating climate change' as the company is a leader in wind turbine solutions.

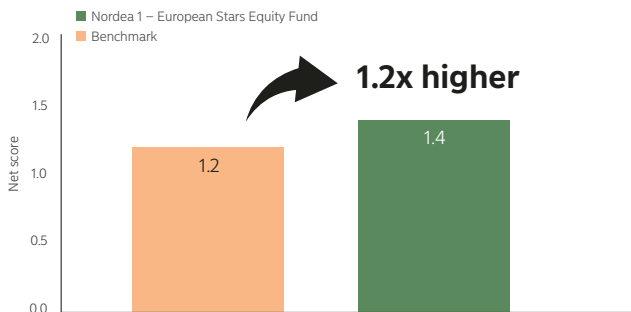
Notes

Benchmark	MSCI Europe - Net Return Index
Portfolio coverage	97%
Benchmark coverage	100%
Portfolio holdings	46

Note: Scope 1 & 2. Preliminary data as at 30.06.2020. The carbon footprint metric relies on carbon data gathered by Nordea Investment Funds S.A., MSCI Inc. and is based on the Swedish Fund Association's recommendation. Further information on the calculation approach is available at: https://www.nordea.lu/documents/responsible-investments---carbon-footprint-disclosure/RI-CFD_eng_INT.pdf. Source: Nordea Investment Funds S.A., MSCI Inc. ©2020 MSCI ESG Research LLC. Reproduced by permission. Although Nordea Investment Funds S.A. information providers, including without limitation, MSCI ESG Research LLC. and its affiliates (the 'ESG Parties'), obtain information from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness of any data herein. None of the ESG Parties makes any express or implied warranties of any kind, and the ESG Parties hereby expressly disclaim all warranties of merchantability and fitness for a particular purpose, with respect to any data herein. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein. Further, without limiting any of the foregoing, in no event shall any of the ESG Parties have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Exposure to the 7 social objectives²

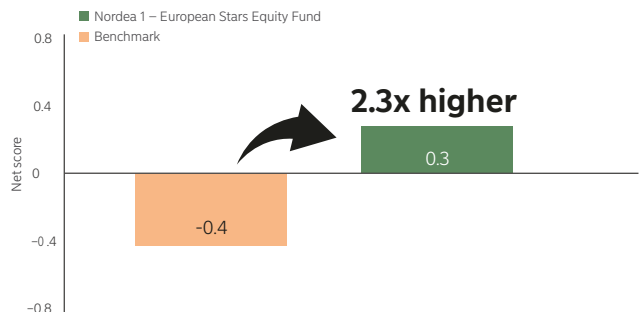
The contribution of the portfolio to the 7 social objectives is 1.2x higher than the benchmark.



Comparison with other financial products or benchmarks is only meant for indicative purposes.

Exposure to the 8 environmental objectives²

The contribution of the portfolio to the 8 environmental objectives is 2.3x higher than the benchmark.



Comparison with other financial products or benchmarks is only meant for indicative purposes.

Top 3 social objectives

1. Ensuring health
2. Providing basic services
3. Attaining gender equality

Main SDGs exposure



Top 3 environmental objectives

1. Contributing to sustainable energy use
2. Mitigating climate change
3. Promoting sustainable buildings

Main SDGs exposure



Portfolio Company highlight: Kerry Group

Kerry Group PLC is a provider of taste and nutrition solutions. The Company serves the food, beverage and pharmaceutical industries, and is a supplier of branded and customer branded foods to the Irish, the United Kingdom and selected international markets. The Company operates through two segments: Taste & Nutrition, and Consumer Foods. The Taste & Nutrition operating segment manufactures and distributes application specific ingredients and flavors spanning various technology platforms. The Consumer Foods segment manufactures and supplies added value brands and customer branded foods primarily to the Irish and the United Kingdom markets. Its brands include LowLow, Cheestings, Dairygold, Charleville, Denny, Richmond, Wall's, Mattessons, Fire & Smoke, and Yollies. The Company supplies private label products in dairy, meat, pastry, meal solutions and frozen ready meal categories. The Company is a supplier of private label dairy spreads, low-fat spreads and processed cheese slices.

² Please note that the total sustainability score is the sum of the social and environmental scores and may slightly differ due to rounding differences. Should the benchmark score be negative the multiplier is calculated as follow: (Portfolio score + 1) / (Benchmark score + 1). Further information on SDGs is available at <https://www.un.org/development/desa/en/news/sustainable/sustainable-development-goals.html>. Sources: Nordea Investment Funds S.A., ISS-ESG, United Nations Sustainable Development Goals.

Engagement is key for active ownership

The aim of this section 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.

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.

Top ESG activities over the quarter

Holding	Nordea ESG scoring ³	Proxy Voting ⁴	SDG Engagement	Risk Engagement	Activity
Linde Plc	B+	✓	<div style="display: flex; flex-direction: column; gap: 5px;"> <div style="background-color: #ffc107; padding: 2px;">7 Affordable and clean energy</div> <div style="background-color: #dc3545; padding: 2px;">8 Decent work and economic growth</div> <div style="background-color: #20a98e; padding: 2px;">13 Climate action</div> </div>		Emails, research, team discussion
Compagnie de Saint-Gobain	B+	✓	<div style="background-color: #17a2b8; padding: 2px;">16 Peace, justice and strong institutions</div>		Conference call, emails, team discussion

3) Current scoring, based on Nordea proprietary ESG model. 4) 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 scoring distribution (from best to worst) applicable to this fund:



Sustainable Development Goals (SDG) related to the main ESG activities over the quarter:



Scoring changes

We decreased the scoring of ING Groep from A to B+ and increased the scoring of St James' Place from B+ to A.

ENGAGEMENT CASES

Linde Plc

OVERVIEW

Linde notified us of its commitment to TCFD reporting and of its A scoring upgrade in MSCI. We see the first outcome as a significant success of our TCFD engagement, and are extremely pleased at Linde's swift and positive response to our previous discussions. The upgrade to an A scoring by MSCI reflects the strong focus on sustainability which has even increased since the Praxair merger. Our aim this quarter was to review our current B+ scoring in the context of these new developments.

CHALLENGE

Linde tends to score rather negatively in terms of carbon footprint, and its status as a heavy emitter tends to also penalise it with research providers. This is a long-standing source of frustration for both the company and its investors; many research providers fail to grasp Linde's place in the value chain, and therefore to rate its business model accurately.

Prior to the Praxair merger, Linde appeared to manage this predominantly on communications level, which was also where the Head of Sustainability role was placed. After the merger, this has even improved as the company puts significant effort into explaining its contribution. In a nutshell, Linde is a heavy emitter as it produces specialised chemicals which do save emissions downstream, at the level of businesses which use them. In addition, the toxicity decrease of certain formulations has also a carbon cost, which is often not fully understood by analysts.

PROCESS

We have previously reported on our very in-depth discussion with Linde as a part of our TCFD engagement. We are now pleased to note that Linde has delivered more than it indicated in the call: not only improved post-merger sustainability reporting, but also a commitment to TCFD. The company contacted us to inform us of this development and to seek our feedback, which we will very happily provide after the summer holidays.

OUTCOME

We are very happy to see Linde deliver on the promising start of our dialogue. In our view, its strengthened its profile with research providers and its take-up of TCFD could prove a catalyst for a scoring upgrade. We will now start the review process for our current scoring to test this assumption.

Compagnie de Saint-Gobain

OVERVIEW

We have been engaging with Saint-Gobain since 2018. The company granted us good access (lead independent director level) to raise our issues. These were partly related to strategy, in particular regarding the composition of its portfolio of businesses, and partly to corporate governance. We have consistently voted against the reappointment of the CEO/chair, as we object to this combination of positions.

CHALLENGE

There is a lead independent director on the board, but we have had occasion to doubt whether genuine differences of opinion get enough air time. The lead independent director is very well regarded in France, and is an impressive executive in his own right, but the likelihood that he would take the side of outside investors against the chair/CEO in a company that is essentially a French institution remains slim. For this reason, we are continuing to push for the separation of the chair and CEO roles. So far, the company has appeared markedly more receptive to our remarks on strategy than to our demand in regard to governance.

PROCESS

We had a call with investor relations, where we noted the lack of progress on governance issues and reiterated our wish to separate the chair and CEO roles. We received strong backing from several fund managers. In my view this definitely lent more weight to the argument, and the IR offered to share our views with the board. We pointed out that the board is informed of our views (via letter, call, and voting behaviour), and sought more clarity on next steps. The company then offered to review the role combination during the succession process for the next CEO, and to consider separate positions at this stage. This would of course be a positive, but clearly does not solve the immediate problem.

OUTCOME

While Saint-Gobain says it is prepared to consider separating the roles for the next chief executive, it also has not firmly committed to do so. Regarding the current one, we believe the company does not seem to be willing to review their position. We will continue to raise the topic both in voting and in our engagement, and we will seek a public commitment that a combined CEO/chair position will no longer be on the table after the term of the current CEO runs out.

Description of ISS-ESG methodology

This report highlights how portfolio companies - through their products and services - have positive and negative impact on a total of 15 sustainability objectives covering both Social and Environmental aspects. These objectives have been developed by ISS-ESG and closely aligned with the United Nation Sustainable Development Goals. The objectives include 7 Social and 8 Environmental objectives with scores ranging from -10 to +10. The results are then compared with the benchmark.

Please note that this report does not comment on the Governance aspect as we already report on such considerations in separate reports.

As the UN SDGs primarily target states and the public sector, not all of the goals are relevant for companies. For this reason, ISS-ESG defined a total of 15 sustainability objectives which are closely aligned with the SDGs. They are used to assess companies' product portfolios in terms of their contribution towards sustainable development based on their revenue weight. For each individual objective, a qualitative analysis is conducted to determine whether a product or service category contributes to or refrain from attaining the objective. As a result, the positive and negative effects of different product groups may partly cancel each other out within a given objective.

Further information on the company and the methodology is available at: <https://www.issgovernance.com/esg/impact-un-sdg/>

List of the 15 overarching sustainable objectives

7 social objectives

- Alleviating poverty
- Combating hunger and malnutrition
- Ensuring health
- Delivering education
- Attaining gender equality
- Providing basic services
- Safeguarding peace

8 environmental objectives

- Achieving sustainable agriculture & forestry
- Conserving water
- Contributing to sustainable energy use
- Promoting sustainable buildings
- Optimising material use
- Mitigating climate change
- Preserving marine ecosystems
- Preserving terrestrial ecosystems

Please note that each portfolio and benchmark are assigned a score ranging from -10 to +10 based on the above 15 sustainable objectives. For the approach to be meaningful and sound we have assumed that the minimum coverage at the fund level should at least be 60%. This means that for a fund score to be meaningful at least 60% of its holdings need to have a score.


















Complete list of SDGs:



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

UN Sustainable Development Goals

Corresponding ISS-ESG Sustainability Objectives

	No poverty	<ul style="list-style-type: none"> - Alleviating poverty - Providing basic services (access aspect)
	Zero hunger	<ul style="list-style-type: none"> - Combating hunger and malnutrition - Achieving sustainable agriculture and forestry
	Good health and well-being	<ul style="list-style-type: none"> - Ensuring health - Providing basic services (access aspect)
	Quality education	<ul style="list-style-type: none"> - Delivering education - Providing basic services (access aspect)
	Gender equality	<ul style="list-style-type: none"> - Attaining gender equality
	Clean water and sanitation	<ul style="list-style-type: none"> - Conserving water (quality and quantity aspect) - Ensuring health (sanitary aspect) - Providing basic services (access aspect)
	Affordable and clean energy	<ul style="list-style-type: none"> - Contributing to sustainable energy use (clean aspect) - Providing basic services (access aspect)
	Decent work and economic growth	—
	Industry, innovation and infrastructure	—
	Reduced inequalities	<ul style="list-style-type: none"> - Attaining gender equality - Providing basic services
	Sustainable cities and communities	<ul style="list-style-type: none"> - Promoting sustainable buildings - Providing basic services (access aspect regarding housing, transportation)
	Responsible consumption and production	<ul style="list-style-type: none"> - Optimising material use
	Climate action	<ul style="list-style-type: none"> - Mitigating climate change - Contributing to sustainable energy use
	Life below water	<ul style="list-style-type: none"> - Preserving marine ecosystems
	Life on land	<ul style="list-style-type: none"> - Preserving terrestrial ecosystems - Achieving sustainable agriculture and forestry
	Peace, justice and strong institutions	<ul style="list-style-type: none"> - Safeguarding peace
	Partnerships for the goals	—

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