

# Sustainability & Engagement Report

## Nordea 1 – European Stars Equity Fund

Fourth quarter 2020



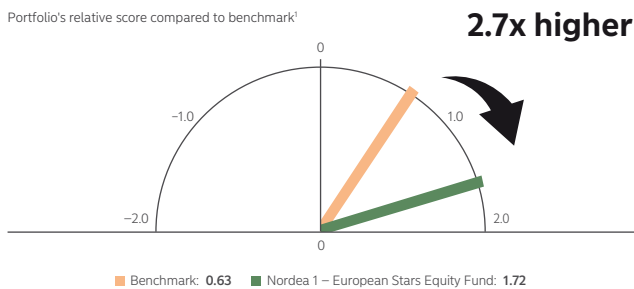
# Nordea 1 – European Stars Equity Fund

This report highlights how portfolio companies - through their products and services - have positive and negative impact on 15 objectives closely aligned with the UN Sustainable Development Goals. While engagement is always a preferred approach, we have made a corporate-level decision to exclude certain stocks, sectors, and practices across our entire active funds range. We don't invest in companies involved in production of illegal or nuclear weapons, cluster munitions, anti-personnel mines, nor maintenance of nuclear weapons. We also exclude companies deriving more than 30% of their revenues from coal (incl. 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](#). Furthermore, companies deriving more than 5% of their revenues from fossil fuels must demonstrate a transition strategy aligned with a 2°C target to be part of our Paris-Aligned Fossil Fuel List or will be excluded. Further information on our fossil fuel policy is available [here](#).

## 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.

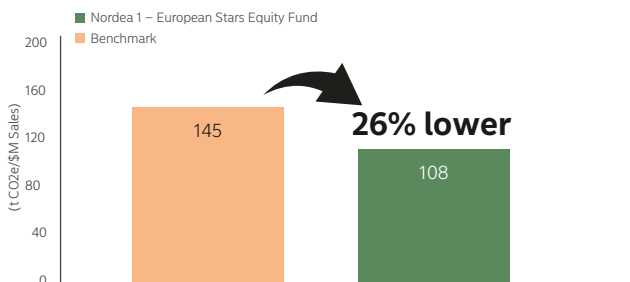
The contribution of the portfolio to the 15 objectives (social and environmental) is 2.7x higher than the benchmark.



<sup>1</sup>) 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 26% lower than the benchmark.



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

## Top contributors

**1. Sanofi** (FR, Pharmaceuticals & Biotechnology). The company contributes to the social objective 'Ensuring health' through the provision of prescription pharmaceuticals and over the counter pharmaceuticals.

**2. 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.

**3. Vestas** (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

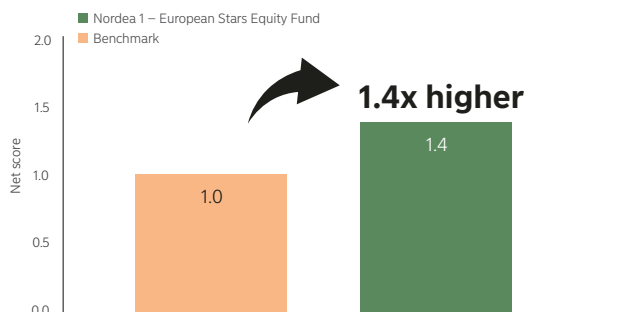
Benchmark	MSCI Europe - Net Return Index
Portfolio coverage	97%
Benchmark coverage	100%
Portfolio holdings	43

Note: Scope 1 & 2. Preliminary data as at 31.12.2020. 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](https://www.nordea.lu/documents/responsible-investments---carbon-footprint-disclosure/RI-CFD_eng_INT.pdf). Source: Nordea Investment Funds S.A., MSCI Inc.

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## Exposure to the 7 social objectives<sup>2</sup>

The contribution of the portfolio to the 7 social objectives is 1.4x higher than the benchmark.



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

### Top 3 social objectives

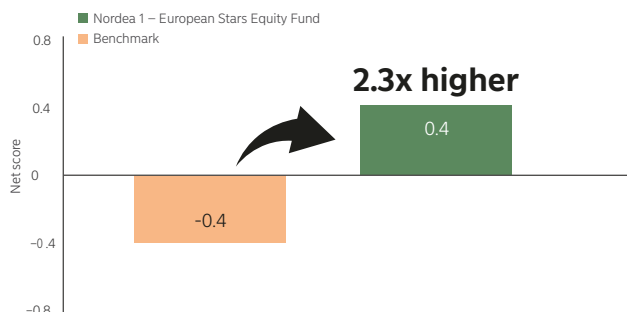
1. Ensuring health
2. Providing basic services
3. Safeguarding peace

### Main SDGs exposure



## Exposure to the 8 environmental objectives<sup>2</sup>

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 environmental objectives

1. Contributing to sustainable energy use
2. Mitigating climate change
3. Achieving sustainable agriculture and forestry

### Main SDGs exposure



## Portfolio Company highlight: Symrise AG

Symrise AG is a German-based supplier of fragrances, flavorings, cosmetic active ingredients, raw materials and functional ingredients, as well as sensorial and nutritional solutions. The Company operates through three segments: Flavor, Nutrition, as well as Scent and Care. The Flavor segment develops, produces and sells flavors and functional ingredients that are used in foods, beverages and health products. The Nutrition segment provides tailor-made solutions from natural raw materials for the food and beverages, pet food, aquaculture and cosmetics industries. The Scent and Care segment produces fragrances, cosmetic ingredients, aroma molecules and mint aromas for manufacturing perfumes, personal care and cosmetic products, cleaning products and detergents, home fragrances and oral care products. The Company operates in Europe, Middle East and Africa (EMEA), North America, Asia-Pacific region and Latin America.

<sup>2</sup> 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 <sup>3</sup>	Proxy Voting <sup>4</sup>	SDG Engagement	Risk Engagement	Activity
Zalando	B+	✓	<ul style="list-style-type: none"> <li>1 Affordable and clean energy</li> <li>8 Decent work and economic growth</li> <li>9 Climate action</li> <li>10 Affordable and clean energy</li> <li>13 Climate action</li> </ul>	Supply chain, carbon reduction	Virtual Meeting, emails
Infineon	A	✓	<ul style="list-style-type: none"> <li>5 Quality education</li> <li>7 Decent work and economic growth</li> <li>9 Industry, innovation and infrastructure</li> <li>13 Peace, justice and strong institutions</li> </ul>	Carbon savings, TCFD, diversity	Virtual Meeting, emails
Saint-Gobain	C	✓	<ul style="list-style-type: none"> <li>8 Decent work and economic growth</li> <li>12 Responsible consumption and production</li> <li>13 Climate action</li> <li>15 Life on land</li> </ul>	Health and safety, business ethics	Call

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](https://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

There was one scoring change during the quarter: Compagnie de Saint-Gobain decreased from B+ to C and hence removed from the portfolio.

## ENGAGEMENT CASES

### Zalando

#### OVERVIEW

Zalando is an online retail platform selling predominantly fashion. Its business model has proved extremely resilient in the pandemic, and the company is strongly positioned for the future.

#### CHALLENGE

Social – Human Rights

#### PROCESS

We are interested in the role Zalando could play in pushing companies selling on its platform to improve their sustainability profile. The way Zalando approaches this could provide a blueprint for the entire fashion retail industry, which is currently undergoing significant transformation. Due to its business model and compelling positioning, Zalando is a key part of our investment-led engagement program.

Although in a unique position to affect change, Zalando needs to get more sophisticated in handling systemic controversial issues. We are particularly interested in the controversy related to the treatment of the Uighur minority in China. According to a number of credible sources, many Uighurs (some estimates go up to a million people) are confined in “re-education camps” in the Xinjiang region. Once there, they have been essentially used as forced labour in the production of various goods. Many supply chains are implicated. Company responses have varied from outright denial to the severing of all supply ties with the region. We were interested to see how Zalando is approaching a very complex and potentially systemic issue.

In this instance, we met with the Head of Investor Relations (IR). Zalando has a strong story on sustainability, and has collected granular information on how it affects purchasing decisions. Sustainability information is now a factor in 60% of all purchases. The company is also using these insights in a very strategic way, and offering good visibility for this sort of data.

The bad news is that their expertise and response on systemic issues, such as the Uighur controversy, still needs developing. We did not get any specific answers on this topic, and indeed it seemed to be news to the IR. This is disappointing as it is a high profile, potentially high impact topic.

#### OUTCOME

While Zalando is very strong on the commercial implications of sustainability, work is needed on the reputational/ compliance side. This case is likely to remain an engagement priority in 2021, as we develop our dialogue.

### Infineon

#### OVERVIEW

Infineon is a German microchip maker with very strong exposure to end markets such as wind and electromobility.

#### CHALLENGE

Environmental – TCFD; Social – Gender diversity

#### PROCESS

Infineon is one of our long-standing bets on energy efficiency. A key part of our due diligence with the company is to ensure the robustness of that premise.

The mainstay of the attraction of Infineon’s business model from a sustainability point of view is a high net contribution to carbon-saving technologies. However, as the company does not report to the TCFD, a full assessment is difficult. In addition, as it is mostly the case within the IT sector, Infineon is particularly exposed to diversity challenges.

We had a virtual meeting with the Head of Sustainability and Head of IR for a granular overview of Infineon’s carbon savings measurement technology, a catch up on TCFD, and an update on their diversity strategy.

We discussed in detail the approach they use to estimate the net carbon footprint of their products. According to Infineon’s reporting, their components save approx. 40 times more CO<sub>2</sub> than they cost to produce. As the overall numbers have been relatively stable during the last two years, we wanted to ensure this calculation is regularly reviewed.

Their methodology does have some issues, possibly over-attributing in cases where the microchip is the most expensive part of the equipment. While this approach is nevertheless relatively sound and regularly reviewed, we would prefer to see Infineon move towards a certified cradle-to-cradle assessment of its technology, or else TCFD reporting.

Regarding diversity, we were somewhat perplexed that the set target was already fulfilled in 2018, and questioned the group’s ambition. Infineon tends to set five-year sustainability targets, in line with the vesting period of its long-term incentive scheme. While this is a positive from the point of view that it aligns executive remuneration with sustainability, it also carries the risk that targets quickly become obsolete. Infineon performs well on recruiting women, but less well when it comes to promoting them to upper- and middle management. We urged more ambition on that point.

#### OUTCOME

This is another investment-led engagement which will remain a priority in 2021. The company has many strong points, but delivering incremental improvements on the carbon

measurement and diversity topics could unlock much additional value. A cradle-to-cradle assessment of its carbon footprint could increase the proportion of its revenue eligible for the EU Taxonomy, with potentially very positive consequences for investment flows. Moreover, increased diversity at top management level has also been documented for its benefits for long-term returns.

## Compagnie de Saint-Gobain

### OVERVIEW

Compagnie de Saint-Gobain is a French multi-line building materials producer.

### CHALLENGE

Business ethics; Social – Product quality & safety

### PROCESS

Compagnie de Saint-Gobain's product lines generally have very positive alignment with sustainability macro trends. Indeed, as a large proportion of them cover building materials such as insulation, that enable more energy efficient and more environmentally friendly constructions. However, the company is exposed to very significant, and poorly-managed reputational risk, due to the role a subsidiary may have played in the Grenfell Tower fire disaster.

The subsidiary whose insulation was used in Grenfell Tower, Celotex, is a relatively small part of Saint-Gobain's portfolio. There is an ongoing inquiry into the Grenfell Tower fire disaster, where 72 people died in 2017. What is starting to emerge as a contributing factor, next to the relatively better known use of inappropriate cladding, is that the insulation made by Celotex, might not have been appropriately safety-tested for use at height. Moreover, the company has very likely used misleading marketing literature.

As the news flow from the Grenfell inquiry increasingly focused on Celotex, we revisited our engagement with Saint-Gobain. The company had previously downplayed the potential scale of the risk, as there are many parties involved in the construction of the high-rise, and much other alleged wrongdoing along the way. However, employee testimonies emerging from the inquiry has implied falsifying or misrepresenting fire testing results almost as a matter of course. We followed up with the Head of IR and sadly received very limited reassurance on our concerns. At first the reply was that the allegations come from a single former employee (incorrect, testimony came from several former employees). The next line of argumentation was that the misleading fire testing was due to the behaviour of a single, rogue employee, who has since been fired. We asked whether Saint-Gobain had taken any further action against that employee, such as litigation, and got a negative answer.

We also asked if there were any measures taken to address what appears to have been a very hard-selling culture at Celotex. The company denied there had even been such a culture, but then offered no explanation as to what could have motivated the "rogue employee" to break the rules. Lastly, there does not seem to have been much accountability at executive level either: the person who was CEO at Celotex at the time the misconduct occurred, was later promoted to CEO of the entire Saint-Gobain UK and Ireland business (after, it should be noted, the Grenfell fire itself). The overall picture that emerged from this conversation is that the company is either underestimating or downplaying both the reputational and the legal risk from the Grenfell inquiry, and has made minimal provisions to manage it.

### OUTCOME

In the light of this conversation, we no longer felt comfortable with the company's current strategy to manage what, from our point of view, is a significant business risk. We downgraded the shares to C and sold the position we had in the fund. The share price subsequently dipped more than 4% as the market absorbed the latest revelations of the Grenfell inquiry.

## 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](https://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"> <li>- Alleviating poverty</li> <li>- Providing basic services (access aspect)</li> </ul>
	Zero hunger	<ul style="list-style-type: none"> <li>- Combating hunger and malnutrition</li> <li>- Achieving sustainable agriculture and forestry</li> </ul>
	Good health and well-being	<ul style="list-style-type: none"> <li>- Ensuring health</li> <li>- Providing basic services (access aspect)</li> </ul>
	Quality education	<ul style="list-style-type: none"> <li>- Delivering education</li> <li>- Providing basic services (access aspect)</li> </ul>
	Gender equality	<ul style="list-style-type: none"> <li>- Attaining gender equality</li> </ul>
	Clean water and sanitation	<ul style="list-style-type: none"> <li>- Conserving water (quality and quantity aspect)</li> <li>- Ensuring health (sanitary aspect)</li> <li>- Providing basic services (access aspect)</li> </ul>
	Affordable and clean energy	<ul style="list-style-type: none"> <li>- Contributing to sustainable energy use (clean aspect)</li> <li>- Providing basic services (access aspect)</li> </ul>
	Decent work and economic growth	—
	Industry, innovation and infrastructure	—
	Reduced inequalities	<ul style="list-style-type: none"> <li>- Attaining gender equality</li> <li>- Providing basic services</li> </ul>
	Sustainable cities and communities	<ul style="list-style-type: none"> <li>- Promoting sustainable buildings</li> <li>- Providing basic services (access aspect regarding housing, transportation)</li> </ul>
	Responsible consumption and production	<ul style="list-style-type: none"> <li>- Optimising material use</li> </ul>
	Climate action	<ul style="list-style-type: none"> <li>- Mitigating climate change</li> <li>- Contributing to sustainable energy use</li> </ul>
	Life below water	<ul style="list-style-type: none"> <li>- Preserving marine ecosystems</li> </ul>
	Life on land	<ul style="list-style-type: none"> <li>- Preserving terrestrial ecosystems</li> <li>- Achieving sustainable agriculture and forestry</li> </ul>
	Peace, justice and strong institutions	<ul style="list-style-type: none"> <li>- Safeguarding peace</li> </ul>
	Partnerships for the goals	—



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