DNB ASSET MANAGEMENT

Annual Report 2020

Responsible Investments

"Responsible and sustainable investment strategies have been fundamental in our work for many years and are integrated across all strategies and asset classes. As a long-term and responsible investor, the consideration for and integration of ESG risks and opportunities combined with our work with active ownership are essential. We strive to deliver excellent investment performance while at the same time contribute to a more sustainable world.

FACTS

DNB Asset Management

DNB Asset Management (DNB AM) is part of Wealth Management (WM), a business area in the DNB Group

DNB AM had 165 full-time employees across three locations in Europe at the end of 2020

DNB AM managed NOK 742 billion by year-end in fixed income, equities, hedge funds, and private equity – on behalf of institutional and retail clients

The DNB Group, Norway's largest bank, aims to promote sustainable value creation by integrating ESG (Environmental, Social, Governance) aspects into all business operations

Table of contents

1. Report from the CEO

Financial markets showed a mixed development in 2020, with the COVID-19 pandemic as a key issue. The economic uncertainty created by the pandemic hit both the fixed income and equity markets hard in February/March 2020. However, economic stimuli and the prospect of effective vaccines for COVID-19, caused financial markets to recover throughout the rest of the year. The US and Norwegian equity markets ended up for the year, while the overall stock market in Europe ended down (in local currency).

2020 was also the year that responsible and sustainable investments truly became mainstream. The focus on Environmental, Social and Governance (ESG) issues, and particularly "green" technology/new energy, was evident in both fund flow and equity performance. Furthermore, COVID-19 seems to have accelerated existing ESG trends, for example the increased focus on human rights as well as issues in emerging markets supply chains. Finally, DNB Asset Management (DNB AM) further strengthened the integration of ESG into all investment processes and product developments, and the range of thematic products was further expanded - both on the equity and fixed income side.

Climate change has remained high on our agenda and so has the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations. We have been active in UNEP FI's TCFD Investor Pilot Projects. During Phase I in 2019, we collaborated with international investors to develop a methodology and tool for scenario analysis. Phase II will commence in 2021, and new climate risk assessment methodologies and sector-specific risks and opportunities best practices will be explored.

DNB AM has worked with Responsible Investments (RI) for decades, and the RI-team has been strengthened over the last five years. The team continues the work within all our four pillars of responsible and sustainable investments: Standard setting, active ownership (through voting and dialogues), exclusions & risk management, and integrating material ESG risks and opportunities into investment processes and decisions.

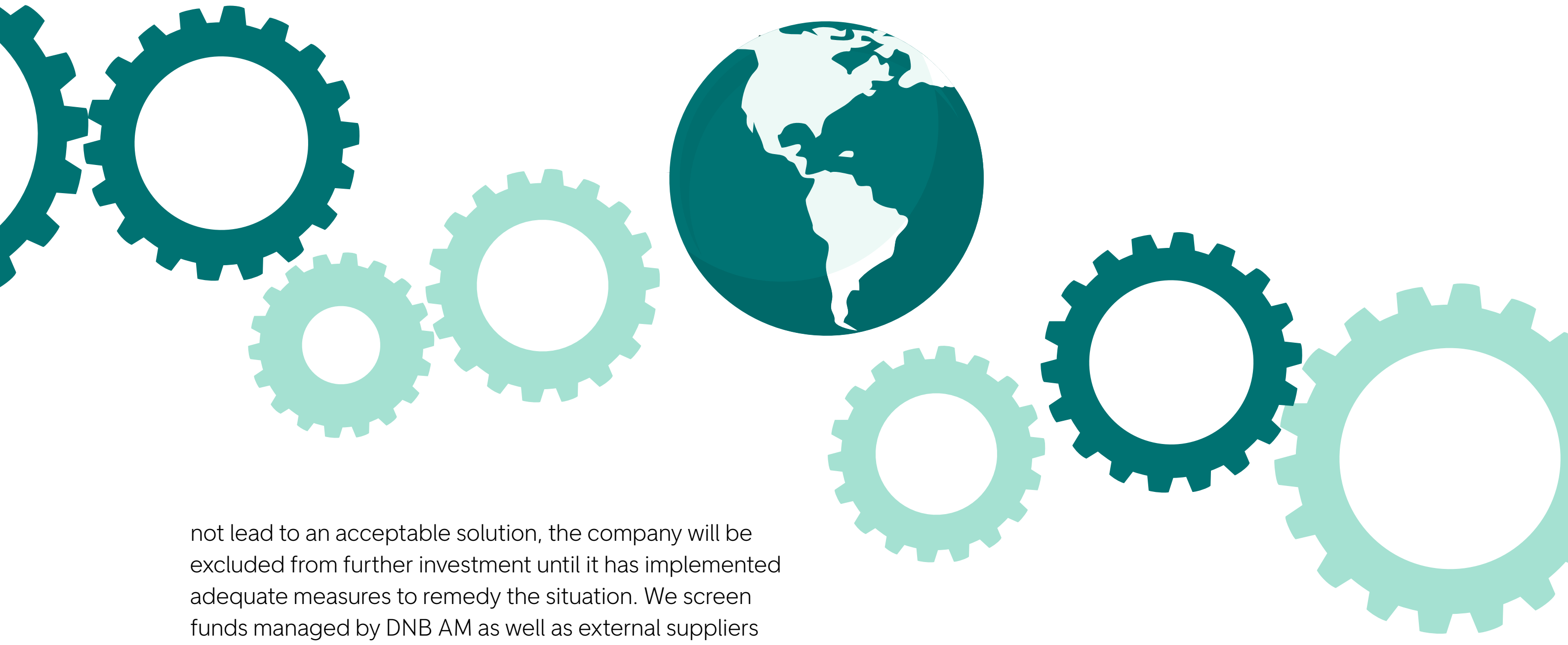
Our standard setting work is important for defining clear expectations for sustainable corporate strategy and behaviour, and our series of expectations documents are often the starting point for our dialogues with companies. In 2020, DNB AM developed and published two new expectations documents. "Sustainable Oceans" mainly relates to salt water and ocean issues, while "Water" focuses on fresh water and land-based issues.

Active ownership encompasses both dialogues and voting. To leverage our engagements DNB AM often collaborates with other investors. Examples are the working groups led by the Principles for Responsible Investments (PRI), company engagements through Climate Action 100+, collaboration through our engagement service provider, and joint TCFD-engagements with large Norwegian companies. In total, 229 reactive and proactive dialogues were conducted in 2020. We define goals and milestones for each engagement, and measure progress in terms of milestone development towards the final goal. In total, our engagements showed a progress of 168 milestones during 2020.

During 2020 we further increased our voting efforts, voting at 248 meetings on behalf of our clients. We also evaluate and vote on shareholder proposals related to ESG issues. Climate-related issues have remained at the centre of focus of these proposals, but the coronavirus pandemic has catalysed an increased focus on social issues. We voted at 30 meetings with shareholder resolutions on the agenda, and two notable examples which we supported, and which gained majority, were: Johnson & Johnson - Report on Governance Measures Implemented Related to Opioids, and The Procter & Gamble Company - Report on Efforts to Eliminate Deforestation.

Our long-term focus areas support the active ownership process. These are: Climate change, water, and human rights. In addition, five shorter term thematic areas of engagements were prioritised in 2020; Emerging markets supply chains, product safety & quality, deforestation & land-use, sustainable oceans, and biodiversity. Progress is evaluated and new goals are set in a yearly evaluation process.

Exclusions and screening of our investment universe and portfolios on ESG criteria are important tools in our risk management work. When active ownership does



not lead to an acceptable solution, the company will be excluded from further investment until it has implemented adequate measures to remedy the situation. We screen funds managed by DNB AM as well as external suppliers of investment products. Furthermore, we contributed to the appropriate labelling of over 400 external funds accessible on DNB's open platforms, such as share savings accounts (ASK).

The last pillar, ESG integration, centres on the systematic integration of ESG factors into the Portfolio Managers' financial models and investment decisions - independent of whether a fund is labelled an ESG product or not. Key Portfolio Management teams each have one dedicated ESG analyst, and ESG data is incorporated into DNB AM's proprietary portfolio management and information systems. One key achievement was the completion of our ESG integration project for Norwegian fixed income portfolios. This project has covered bond issuers within the Norwegian banking, utilities, and real estate sectors. Through this we seek to better understand material ESG risks and opportunities that may impact credit assessments and investment decisions.

Looking forward, DNB AM's broad ESG focus will continue. Environmental issues (such as climate change and loss of biodiversity) will remain at the forefront, but a range of social and governance issues also need to be tackled. A key priority will be to stay ahead of the extensive EU initiatives and regulations on sustainable finance, and important elements in 2021 will be the Sustainable Finance Disclosure Regulation (SFDR) and the EU Taxonomy.

Ola Melgård,
CEO DNB Asset Management

2. Highlights 2020

In 2020, our new thematic focus area of engagement was biodiversity.	January	DNB Renewable Energy received the LuxFLAG Environment Label
	February ☆	
	March	
New expectations document on sustainable oceans is developed and published.	April ☆	**Primary voting season.** In 2020 we voted at 248 general meetings and on 100 shareholder resolutions.
Published an assessment of DNB Renewable Energy fund's potential avoided emissions and exposure to the UN Sustainable Development Goals.	May	
	June ☆	
	July	DNB AM is awarded an A+ for its Strategy & Governance from the UN PRI.
	August	
	September ☆	
	October	
DNB Renewable Energy received the German FNG Label with the highest possible rating of three stars for the third year running.	November ☆	New expectations document on water is developed and published. Completed ESG integration project of bond issuers in the Norwegian banking, utilities, and real estate sectors.
In 2021, we will participate in the second phase of the UNEP FI TCFD investor pilot project.	December	In 2020 we had 229 dialogues with companies, both directly and in collaboration with other investors.

☆ Committee for responsible investments meets

3. How has COVID-19 impacted the ESG space?

By year-end 2020, COVID-19 was still at the forefront of most peoples' minds. From a responsible investment perspective, the pandemic has magnified several ESG trends. However, these ESG trends were already reflected in our ESG focus areas, so our engagement and active ownership strategy has remained robust throughout the year.

When the virus struck in 2020, it had substantial political, social, and economic impacts on society. Nevertheless, climate change and environmental issues remain at the top of the agenda for corporates, investors, and regulators. Regulations, and the EU Green Recovery Package, will lead the way for strategies and stimulus packages calling for a green recovery aligned with the transition to a low-carbon economy post-COVID-19.

As with most crises, the corona crisis has also led to deepened inequality throughout the world. The effects of COVID-19 may hinder global efforts to deliver on the UN Sustainable Development Goals – particularly regarding social issues. At the same time, the crisis has also pushed social factors to the front of ESG discussions. Hence, our long-term anticipation is that social issues will continue to receive an increased focus. On the back of this, key social issues, such as human rights, have been important for our engagement work in 2020.

In a society practicing social distancing and imposing travel restrictions, we have seen a dramatic drop in demand for certain goods and services. This has intensified discussions in the ESG space about health and safety in the workplace, labour rights, operational stability in times of uncertainty, and the vulnerability companies are exposed to through global supply chains. In emerging markets, coronavirus has disrupted supply chains, resulting in an unprecedented impact on millions of workers living in countries highly dependent on these industries and with weak social welfare systems.
In recent years companies have become increasingly dependent on Chinese supply chains. The pandemic has sparked a discussion around China's dominance and the need for companies to diversify their supply chains. Moreover, the crisis has spurred a demand for remote digital solutions. This has created new business opportunities but also room for exploitation, underlining the importance of data security and privacy. Therefore, our engagement work to determine whether companies implement best practice and ensure effective risk management related to our existing, and new, focus areas remains crucial.

We also saw COVID-19 impacting another key part of active ownership – proxy voting. Several companies postponed or cancelled Annual General Meetings (AGMs) and suspended or cut dividends (either voluntarily or as imposed by regulators). The number of Extraordinary General Meetings (EGMs) also increased as more companies were in demand of refinancing during the year. Although the pandemic led to increased focus on social issues during 2020, climate-related issues remained at the centre of environmental and social shareholder resolutions.

Going into 2021, we have begun to see the short-term political, social and economic consequences of the virus, but it is still too early to conclude what the consequences will be in the long-term. However, the aftermath of the virus, both domestically and internationally, will certainly be felt. The virus has uncovered that corporates are exposed to systematic risks and should be prepared to respond to such tail-risks. The crisis demonstrates that companies must assess how other potential external shocks such as climate change, wars and terrorism, water shortages, social- and political instability or new pandemics may affect their business in the future.
Our expectation is that companies continue to pursue best practice management of ESG risks and opportunities, and that the increased attention around responsible and sustainable investments will persist.

4. Our Responsible Investment Team

DNB AM's RI team has competency within broad ESG, finance, climate change, international relations, human rights, the environment, and has over 40 years of portfolio management experience. We believe a broad background combined with portfolio management experience and working closely with the portfolio management teams are important to succeed with proper ESG integration. Our work is backed by external providers, consultants and collaboration with other investors and the portfolio managers.

Janicke Scheele,
Head of Responsible Investments
Janicke has an MBA in Finance from The Norwegian School of Economics and has worked in Norwegian and global capital markets since 1989. She has experience with analysis, portfolio management, and strategic and tactical asset allocation. After ten years of advising institutional investors, she has led and built up the team since 2015. Her primary areas of responsibility are strategy, ESG integration and active ownership.

Henry Repard,
Analyst
Henry has an MSc in Environmental and Sustainable Development from the University College London and has previous experience as an Analyst at CDP (former Carbon Disclosure Project) and KLP Asset Management. He joined the RI team in 2018. His primary areas of responsibility are deforestation and land-use, climate change, water and data security and privacy.

Karl G. Høgtun,
Senior Analyst
Karl has an MBA and an MIM (Master of International Management) and has worked in Norwegian and global capital markets since 1990. He has experience as an Analyst, Portfolio Manager, Head of Equities and Head of Nordic Equities. He joined the RI team in 2016. His specialist areas are active ownership, through voting and dialogues, and governance including tax and anti-corruption

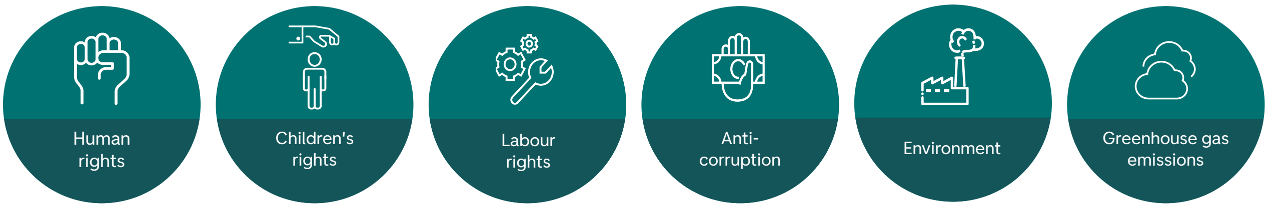
Hanne Rasch Rognmo,
Analyst
Hanne has an MA in International Environmental Policy from the Middlebury Institute of International Studies at Monterey, California. She has previous experience as an Environmental Consultant in Avinor and as a Group Trainee in DNB. She joined the RI team in 2016. Her primary area of responsibility is human rights, labour rights, children rights and emerging markets supply chains.

Sondre Menes,
Analyst
Sondre has an MSc in Finance from BI Norwegian Business School and has previous experience from equity research covering the aquaculture industry. He joined the RI team in 2020.

5. Our Responsible Investment Principles

The PRI initiative is an international network of investors working together to put the six principles into practice by incorporating responsible investments into investment decision making and ownership practices. DNB has been a signatory since 2006, the year of the launch of the principles.

DNB Group Standard for Responsible Investments seeks to ensure that companies safeguard:



As a responsible investor, DNB AM aims to provide high, long-term returns, at an acceptable level of risk, whilst managing ESG factors. The DNB Group's Standard for Responsible Investments seeks to ensure that DNB does not contribute to human or labour rights violations, corruption, serious environmental harm and other actions which may be perceived to be unethical and/or unsustainable. It shall also ensure that assessments of risks and opportunities related to ESG factors are integrated into investment decision-making processes. We exercise our ownership rights in line with international norms and standards, including the UN Global Compact, the UN Guiding Principles on Business and Human Rights, the G20/OECD Principles of Corporate Governance, and the OECD Guidelines for Multinational Enterprises. The Standard covers all asset classes and financial investments throughout the Group, including companies established under DNB AM.

Based on these conventions and norms, companies will be excluded from DNB AM's investment universe and portfolios if they themselves or through the entities they control:

- Produce weapons which through normal use violate basic humanitarian principles (controversial weapons)
- Produce tobacco
- Produce pornography

Companies which derive 30 per cent or more of their income from oil sands extraction, as well as mining companies and power producers which themselves or through entities they control derive 30 per cent or more of their income from thermal coal, or base 30 per cent or more of their operations on thermal coal, may be excluded from the investment universe. In addition, companies which either extract more than 20 million tonnes of thermal coal or with power generating capacity of more than 10000 MW from the combustion of thermal coal, may be excluded from the investment universe or placed under observation. In addition, emphasis shall be placed on forward-looking assessments of the

companies, including any plans which will change either the level of thermal coal extraction or the level of power generating capacity derived with thermal coal, and/or reduce the share of their income or operations derived from oil sands or thermal coal, and/or increase the share of their income or operations derived from renewable energy sources.

Further, companies may be excluded from the investment universe if there is an unacceptable risk that a company contributes to or is responsible for:

- Serious or systematic violations of human rights, such as murder, torture, deprivation of liberty, forced labour, the worst forms of child labour, and other forms of exploitation of children
- Grave violations of individual rights in wars or conflict situations
- Serious violations of basic labour rights
- Grave harm to the environment
- Acts or omissions that on an aggregate company level leading to unacceptable greenhouse gas emissions
- Serious corruption
- Other particularly critical violations of basic ethical norms

DNB will also not invest in government/sovereign bonds from countries subject to sanctions imposed by the UN Security Council. In addition, for all financial investments, DNB will respect sanctions regulations from the UN, EU, and the US (OFAC).

DNB's Committee for Responsible Investments implements and monitors the standard. The Committee met five times during 2020. The RI team gathers, processes, reviews and presents ESG research to the Committee for updates, discussion, and/or decision. If a company has been identified as being involved in any of the aforementioned businesses, all holdings will be sold out and the company will be excluded as a possible investment. If companies are considered violating other parts of the guidelines, we primarily try to influence companies by actively exercising ownership rights, but we also exclude companies on these grounds. In 2020, there have been no breaches of the standard. However, 169 companies are excluded from our investment universe. Excluded companies.

Initiatives and Standards

International norms and standards provide the basis for our work on responsible investment. We have signed and committed to several principles and initiatives. The purpose of these is to set a standard towards investors and companies on sustainable business practices.

The following principles and standards are applied to our work:

Organisation	Topic
OECD Guidelines for Multinational Enterprises	Promotes corporate social responsibility
The G20/OECD Principles of Corporate Governance	Corporate governance
The UN Guiding Principles on Business and Human Rights	Outline the corporate responsibility to respect human rights

In addition to those mentioned above, we have also signed the following principles and initiatives:

Organisation	Description
Principles for Responsible Investment (PRI)	International Principles
CDP	Environmental reporting initiatives
Montreal Carbon Pledge	A commitment to report carbon footprint
NORSIF	Norwegian sustainable investment forum
Task Force on Climate-related Financial Disclosures (TCFD)	International principles
UN Global Compact	International Principles
UN Global Compact Action Platform on Sustainable Ocean Business	Multi- stakeholder initiative for ocean sustainability
United Nations Environment Programme Finance Initiative (UNEP FI)	Multi-stakeholder initiative for sustainable finance
The Norwegian Corporate Governance Board (NUES)	Corporate Governance
The UN Sustainable Development Goals (SDG)	Global framework for sustainable development
The Global Reporting Initiative (GRI)	Reporting sustainability information

6. Regulations and Trends

EU Action Plan

The work towards the action points in EUs Action plan on Sustainable Finance continued in 2020. The changes will have impacts throughout the EU and European Economic Area (EEA), including in the Norwegian market, although the timeline for incorporation into Norwegian legislation is still uncertain. The EU Taxonomy, the classification system that intends to define environmentally sustainable economic activities, was published in the Official Journal of the EU, and entered into force in July 2020. The Taxonomy will form the basis for many of the other action points. Together with the taxonomy, action point 7 on clarifying institutional investors' and asset managers' duties (Sustainable Finance Disclosure Regulation) will be of great importance to DNB AM now and moving forward.

The EU Taxonomy

The Commission will now bring the Taxonomy into legal effect in two phases. The first technical screening criteria regarding environmental objectives linked to climate will enter into application by the end of 2021. The second set of technical screening criteria, related to the other four environmental objectives, is due to be adopted by the end of 2021 and enter into application by the end of 2022. The taxonomy will have implications for reporting, but more important it will have implications for corporate and investor behaviour.

The Sustainable Finance Disclosure Regulation

The Sustainable Finance Disclosure Regulation (SFDR) imposes new disclosure obligations that will require financial market participants and financial advisors to evaluate and disclose sustainability-related data and policies. The aim is to make it easier for end-investors to make informed investment decisions that account for sustainability factors.

This proposal seeks to harmonise rules for financial market participants and financial advisors on transparency in the integration of sustainability risks and the consideration of adverse sustainability impacts in the processes and provision of sustainability-related information concerning financial products. In 2020, the European Supervisory Authorities (ESAs) published a draft version of the required technical standards, which looked to provide further detail on how the various elements of the regulation would be in reality. This was released for consultation and a considerable volume of feedback from stakeholders led to a delay in the final report. There now looks to be delays in its implementation, with Level 1 regulations, SFDR, set to be implemented in EU as expected on March 10th 2021, whilst Level 2 looks likely to be delayed until later in 2021. The implementation of the regulations in Norway is not yet decided, but we prepare to be ready close to the implementation in EU.

The regulation will require DNB AM to publish information about how ESG risks are integrated into investment decisions making, provide information about how ESG risks may impact portfolio returns, and, describe how funds contribute to sustainability. Information must be reported on our website, in prospectuses, in marketing documents and annual reports – both at product and entity level.

The regulation will also split funds into three categories that reflect to which extent sustainability factors are integrated into the fund:

- Funds that do not purports to promote any kind of ESG objective.
- Funds that promote, among other characteristics, environmental or social characteristics, or a combination of those characteristics
- Funds that have sustainable investment as its objective

Taxonomy-alignment must be reported for products that promotes and has sustainability as its objective.

Climate Action

The EU's proposal for its first European Climate Law was announced in March 2020, providing the legal translation of the EU's political commitment (the European Green Deal) to make its economy sustainable and achieve net zero greenhouse gas (GHG) emissions by 2050. The European Green Deal proposed to increase the EU's 2030 target from 40% GHG emissions reductions compared to 1990 levels to 55%. Ambitious action will be required from all sectors of the EU economy to deliver

on this target. In particular, this will require increasing the renewable electricity production, investments in the renovation wave to support energy efficiency, and a strengthening of the EU Emissions Trading Scheme (EU ETS).

The UK's Ten Point Plan for a Green Industrial Revolution was announced in 2020. The Ten Point Plan is the UK's plan to deliver net zero emissions by 2050 and create up to 250,000 British jobs. The plan covers clean energy, transport, nature, and innovative technologies.

With Biden as President, we expect to see greater climate leadership from the US. President Biden has already committed the US to re-enter the Paris Agreement. He has also pledged to set the US on the path to net-zero greenhouse gas emissions by 2050, reverse some of the Trump administration's environmental regulations and focus strongly on domestic decarbonisation. The US re-commitment to combat climate change will require a transition from fossil fuels to sources of low or zero-carbon energy.

China announced its ambition to achieve peak emissions by 2030 and carbon neutrality before 2060 to the UN General Assembly at the end of September. According to Bloomberg, this move could lower projects of global average warming by 2100 by between 0.2 to 0.3C. As the largest global GHG emitter, China's announced climate targets will be crucial for the world to reach the goal in the Paris Agreement. However, China's coal activities remain a large concern and are inconsistent with its announced climate change targets, so questions persist as to how China will address its heavy reliance on fossil fuels as an energy source.

Climate Action Within the Responsible Investment Space

In 2020, we saw continued growth in the "Net Zero" movement, requesting companies to pledge net zero carbon emissions by 2050, and demonstrate a plan to do so. In connection to this, we have seen further increase in companies setting Science Based Targets for Decarbonisation and we are part of an investor collaboration, organised by the CDP, engaging with companies to do this.

In terms of products, as outlined by our CEO in the introduction, 2020 was the year that responsible and sustainable investments truly became mainstream – with increasing interest in ESG and "green" technology/ new energy evident in both funds flow and equity performance. This looks set to increase with the incoming EU Sustainable Finance Regulations. We expect to see considerable changes within the market over the coming years, as investors make use of the range of standardised data intended to be disclosed by companies.

Global Moves

There has been exponential growth in capital flows into ESG funds since 2016. In 2020, accelerated by COVID-19, we have seen net capital flows into ESG funds outpacing net capital flows into non-ESG funds.

According to Morningstar, global sustainable fund assets reached new heights having now surpassed USD 1.26trn by the end of Q3. These strong inflows demonstrate increasing investor interest in ESG, particularly following the COVID-19 crisis.

The following broad trends can be observed:

- Greater growth in passive ESG strategies than active ESG strategies, though active ESG strategies continue to dominate the market.
- Equity funds represent the largest share of ESG funds. Fixed income is the second largest asset class.
- There has been significant growth in inflows in the US, but Europe still leads the market for ESG funds (over USD 1trn of sustainable assets are in European products).
- Product development hit an all-time high in Q3, with 166 new offerings coming into the market. There is also a continuation of the trend of "repurposing and rebranding" existing products into sustainable products.

We expect to see these trends continue during 2021. At the same time, we believe that ESG integration, SDG and impact investments and growth in ESG in fixed income will also be highly relevant.

7. Responsible Investment Approach: Four Pillars

We have several tools at our disposal as a responsible and sustainable investor with a long-term view. These include:

Standard Setting	Active Ownership	Exclusions	ESG Integration

Standard Setting

Developing and publishing expectations documents is an important part of our standard setting work. These documents are the basis for communicating our expectations to companies regarding best practice in terms of sustainability. In addition, the expectations documents are often the starting point for our dialogues with companies about relevant topics - both proactively and reactively.

In 2020, we developed and published two new expectations documents. The first document, "Sustainable Oceans", focuses on the eight most relevant sectors/activities in terms of managing threats and opportunities for keeping global oceans and seas healthy. While this document mainly relates to salt water and ocean issues, we also published "Water", an expectations document that focuses on fresh water and land-based issues. Fresh water is a much scarcer resource than salt water, and water stress is becoming more common in all parts of the world. However, both salt water and freshwater challenges are amplified by climate change. Therefore, both documents are highly relevant in our engagement efforts.

These documents follow the expectations documents published in previous years:

1. 2017: Human Rights (updated 2020), Serious Environmental Harm (updated 2020), and Guidelines for Voting in Norway (updated 2019).
2. 2018: Climate Change (updated 2020), Anti-corruption, and Responsible Tax Practices.
3. 2019: Gender Equality and Diversity, and Guidelines for Voting Globally.

We will continue to develop and publish new expectations documents when needed going forward – and update our existing ones as necessary in accordance with best practices.

Regulations

DNB AM supports efforts to improve the quality and increase standardisation within sustainability reporting. We are supporters of the TCFD and have continued working to promote disclosure from Norwegian companies in line with these standards. For more information, please refer to the TCFD section.
We also support the continued work of CDP in promoting disclosure on climate change, water security and deforestation. We are also a part of the CDP Science Based target Initiative.

We have also continued to provide input to the proposed items during consultation processes regarding upcoming EU regulations coordinated by the Norwegian Fund and Asset Management Association (Verdipapirfondenes Forening) and Finance Norway (Finans Norge). Another important task is being a part of a working group suggesting guidelines for the implementation of SFDR in Norway.

Active Ownership

We practice active ownership through voting and regular engagement with companies we invest in. Proactive engagements are conducted with the aim of encouraging companies to mitigate ESG risks before they materialise, or to take advantage of ESG opportunities that are not being sufficiently addressed at present. Reactive engagements take place in cases where companies are reported (both alleged and/or confirmed) to be in breach of our Standard. Our overarching aim is to influence companies to improve their practices, thereby securing long-term shareholder value and mitigating ESG risks in the best interest of our clients, as required as part of our fiduciary duty. This is consistent with the concept of double materiality, which speaks to the fact that "issues or information that are material to environmental and social objectives may develop to have financial consequences over time"[1].

Topic	Number of dialogues
Climate change/greenhouse gas emissions	29
Water	8
Other environmental issues	28
Human rights, child labour, labour rights, local communities/ indigenous rights	81
Other social issues	19
Board structure and independence	12
Remuneration	10
Other governance issues (incl. tax and corruption)	42
TOTAL	229

Company dialogues

We engage with companies on specific ESG incidents, or to improve companies' general sustainability-related practices, which may otherwise lead to underperformance. Engagements may either take place directly with companies, through our external service provider for engagements, or in collaboration with other investors. See section 8 on engangement strategy for more information about our engagement strategy and progress on thematic focus areas.

During 2020, we had 229 dialogues with companies, both directly and in collaboration with our external service provider to address various ESG and sustainability issues.

We measure progress and outcomes of our engagement work using milestones. At milestone 5 the concern is considered solved.

1 Double and Dynamic: Understanding the Changing Perspectives on Materiality - SASB

Figure 1. Number of milestones progressed during 2020

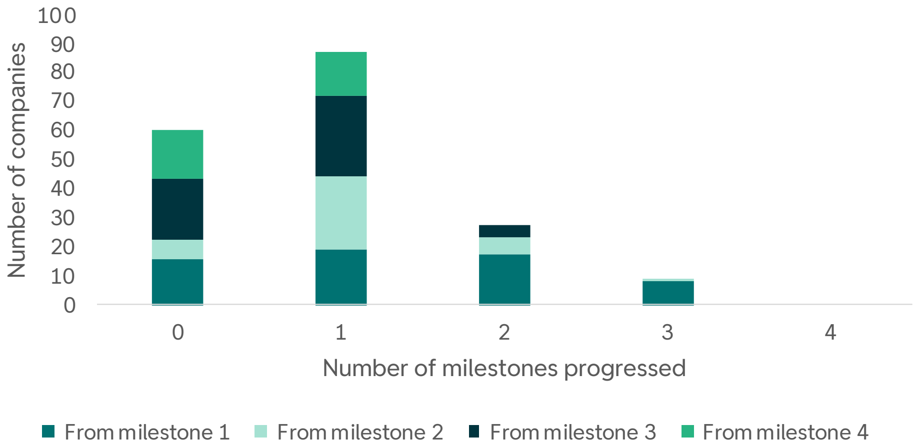
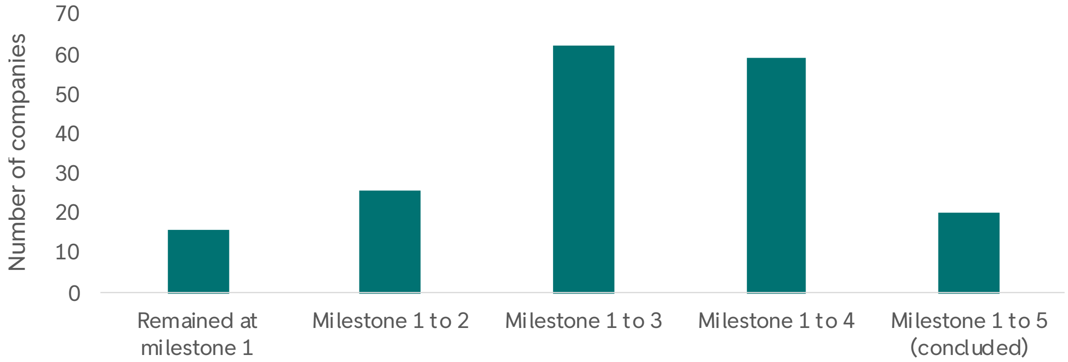


Figure 2. Milestone progression since beginning of engagement



In addition, we also sent individual letters, or in collaboration with other investors, calling for companies to improve their ESG practices.

Conducting dialogues with companies is resource intensive, but in our experience, and, according to academic research, it is effective and will therefore continue to be a priority for DNB AM.

Voting

Our voting policy is to vote at all Norwegian general meetings for companies our funds are shareholders in, and we have adopted a systematic approach to determine which global companies' general meetings we will vote at[2 3]. We engage with boards, management and nomination committees prior to such meetings, and we will explain our voting decisions to companies when we have voted against the company's recommendation. The results of our proxy voting are also made publicly available. Through informed proxy voting we endeavour to secure long-term shareholder value and ensure that companies act sustainably. It is also important to evaluate voting decisions together with what we achieve in company meetings and investor collaborations.

COVID-19 had some impact on proxy voting in 2020, especially causing delays and practical challenges in executing voting. These challenges were largely

2 [Responible investments. Guidelines for voting in Norway]
3 [Responible investments. Guidelines for voting globally]

overcome later in the year. In 2020, we voted at 153 general meetings in Norway and 95 internationally. Of these, we voted against management's recommendations for 37 Norwegian companies and 38 global companies. The justifications for our decision to vote against a company's recommendations are published on our website[4].

As an increasingly important tool for investors, we are also continuing to see credible shareholder proposals related to ESG. Climate-related issues remained at the centre of environmental and social shareholder resolutions, but the coronavirus pandemic catalysed an increased focus on social issues during 2020. Developments regarding social issues include increased support for diversity and human capital proposals, as well as increasing breadth of social proposals. Lobby spending related to diversity is also facing increasing scrutiny.

We voted at 30 meetings with shareholder resolutions on the agenda. The total number of shareholder resolutions at these meetings was 100. There were 27 social related proposals and 14 climate/biodiversity related proposals. Two notable examples which we supported, and which gained majority, were:

- Johnson & Johnson, item 6. Report on Governance Measures Implemented Related to Opioids. The opioid crises in the US has affected millions of Americans. In April 2020 the shareholders of Johnson & Johnson approved the proposal, and in October the company released the "Board Report on Oversight of Risk Related to Opioids" [5]. This opioid issue has also been a focus of our ESG screening and ESG integration in DNB AM's portfolio management.

- The Procter & Gamble Company, item 5. Report on Efforts to Eliminate Deforestation. After years of protests, the majority vote in October 2020 sent a clear signal to the company that they need to take action to prevent deforestation globally. Deforestation and land-use have also been a priority in our engagement efforts, including participation in the PRI-Ceres Investor Initiative for Sustainable Forests and the PRI working groups on soft commodities (palm oil, soy, and cattle).

Exclusions

Companies may be excluded from the DNB investment universe if they are found to be in breach of product-based criteria or of international norms and standards. When it comes to international norms and standards this action is reserved for severe issues and we will always evaluate whether we are able to influence the company's behaviour through engagement. In cases where company are unwilling to change, exclusion remains an important tool to ensure DNB does not contribute to the infringement of human or labour rights, corruption, serious environmental harm, or other actions that could be regarded as unethical. Companies that are in breach with the DNB Group Standard for Responsible Investments will be presented to the DNB Committee for Responsible Investments and exclusion from the investment universe will be recommended alongside reasoning for this recommendation. Exclusions apply to all DNB funds and mandates.

We regularly screen the entire investment universe, benchmarks, new companies when there are benchmark changes and portfolios for companies in potential breach of our guidelines.

As of 31 December 2020, we had excluded 193 companies from our investment universe.

Criterion	Number of companies
Product-based exclusions	
Tobacco (production)	27
Cluster weapons	4
Nuclear weapons	19
Pornography (production)	1
Thermal coal	89
Oil sands	7
Conduct-based exclusions	
Human rights / labour rights	15
Corruption	3
Environment	22
Environment / human rights	6
TOTAL	**193**

4 Aktivt eierskap gjennom stemmegivning
5 Board report on oversight of risk related to opioids

Re-inclusions 2020

Company name	Exclusion rationale	Exclusion year
Drax Group Plc. (and Drax Finco)	Coal	2016
AECOM	Nuclear Weapons	2018
Texwinca Holdings Ltd.	Labour rights	2019

It is important to note that companies may be reintroduced into DNB's investment universe, provided they have ceased the activity which led to the original exclusion, and have sufficiently improved their practices. Screening of excluded companies is done regularly. In 2020, following long-term engagements, we have revoked the exclusions of the companies seen above.

ESG Integration

All active funds managed by DNB AM utilise integration of ESG risks and opportunities, although the process may differ between teams with different mandates. The responsible investment team works closely with the portfolio managers and key management teams have their own dedicated ESG analyst.

We screen companies prior to inclusion into our investment universe, quarterly for benchmark rebalancing, and on a weekly and daily basis for changes to ESG-ratings/factors or alerts on potential and/or realised breaches in international norms and standards. The purpose is to uncover potential product violations, breaches of international norms and standards and/or material ESG risks and opportunities. Based on the screening, and in-house research (based on additional sources of information), we highlight potential ESG risks and opportunities to the portfolio managers in addition to alerts on controversial issues. Furthermore, the responsible investment team will also provide input/recommendations about divesting or investing in securities.

ESG data is incorporated into DNB AM's portfolio management and information systems and is available to all of our investment professionals. Portfolio managers use this data in their company risk assessments, financial modelling, and investment decision making. The availability of this data in the front office system also often acts a flag for the portfolio managers, triggering further investigation and discussion with the DNB AM responsible investment team regarding potential risks and opportunities and the financial effect from this. These discussions may trigger actions such as further investigation, engagement in dialogue with the company, or impact on the investment decision.

Figure 3. ESG integration: Fixed income

Background
- Increased focus on ESG in fixed income portfolios
- Client expectations
- Influential power as a large player on the fixed income side in the Norwegian market
- Low coverage of ESG data for the Nordic region
- Increased reporting requirements for investors (need data from companies to deliver on this)

Process
- Identify focus sectors
- Identify material ESG risks and opportunities
- Utilise questionnaires to gather data
- Score companies based on their responses

Next steps
- Analyse results
- Engage with issuers

Goals

- Increased dialogue with issuers on materials ESG risks and opportunities
- Encourage increased transparency
- Measure progress over time
- Influence companies in a positive direction
- Improve information base for investment decision making (supplementing existing ESG and carbon data)

We also have a database where ratings and company meeting information is shared between the PMs and RI Analysts, and we undertake frequent informal discussion between the RI team and PMs on ESG issues. This process is assisted by the RI team's portfolio management experience

In 2019, we started our work to improve the relatively low ESG data coverage of fixed income issuers in Norway and in the Nordics. We have developed an ESG framework to assess companies and have undertaken engagements to collect data directly from issuers. The final phase of this ESG integration project was completed in 2020. This project has covered bond issuers within the Norwegian banking, utilities, and real estate sectors. Through this we seek to understand material ESG risks and opportunities that may impact credit assessments and investment decision making in a more systematic way than before.

Other screening

Externally managed funds are also subject to ESG-screening. In 2020, we screened externally managed funds regularly and engaged with several fund management companies to discuss their practices within responsible investments and certain portfolio holdings. Since the introduction of share savings accounts (ASK), we regularly screen more than 400 internal and external funds accessible on the open platform in DNB and label them based on the findings of the screening to show their level of alignment with the DNB Exclusion List.

Our External Resources

As part of the DNB AM responsible investment approach, we utilise external ESG research and data providers as inputs to our own company assessments.

- MSCI ESG Research for ESG reports, scores, data, business involvement screening research, carbon metrics and controversies, climate value at risk, SDG alignment amongst other data points
- Sustainalytics for norms-based screening and engagement services
- ISS for proxy voting based on DNB AM's own guidelines
- Bloomberg
- Sell-side research
- Media
- Industry reports
- Non-Governmental Organisation (NGO) reports and meetings
- CDP for data on climate, water and forestry

8. Engagement Strategy

Active ownership through engagement seeks to influence companies to improve their practices, or to take advantage of ESG opportunities. Our engagement strategy is based on incident-based (reactive) and proactive engagements, as well as informed proxy voting.

Incident-based (reactive) engagements are DNB AM's priority to ensure that the companies we invest in adhere to our Group Standard. Reactive engagement takes place when a company is reported (where allegedly or confirmed) to be in breach of the DNB Group Standard for Responsible Investments. The incident in question should be deemed systematic in nature and/ or as leading to severe, negative consequences. To prioritise which reactive incidents to engage on, we assess the severity of the suspected breach, our ownership status in the company, and the probability that our engagement will have a positive impact on the situation.

Proactive engagements are conducted with the aim of encouraging companies to mitigate ESG risks before they materialise, or to take advantage of ESG opportunities that are not being sufficiently addressed at present. Proactive engagement may also be conducted as part of a fact-finding exercise where the team may, for example, double check research/data with the engagement company. This means that companies we proactively engage with are not suspected to be in breach of our Standard. Companies that DNB AM has a large holding in, or which DNB AM may have a large holding in in the future, are typically targeted for this type of engagement. The dialogues may revolve around a specific issue or to raise the company's general level of awareness around sustainability issues. These are important inputs to the investment decision-making process.

DNB AM does not always necessarily have to be a current holder of the companies addressed in our engagements. All companies in key benchmarks are potential holdings of DNB AM, and active portfolio managers often buy in and out of these companies. We measure progress and outcomes of our engagement work using milestones. The engagement process is considered successful if the following criteria are met:

- The violation has ceased
- The company has taken a responsible course of action
- The company has taken a proactive and precautionary approach to improve its policies, routines, and practices in order to prevent future violations
- The company's action is verifiable (where relevant)

Progress is measured using the following milestones:

Milestone 1:

Concern raised and initial communication sent to company (email, call, letter, etc)

Milestone 2:

Dialogue is initiated, with the company acknowledging the importance of the concern

Milestone 3:

Company commits to address concern(s)

Milestone 4:

Company creates and implements a strategy to address concern(s)

Milestone 5:

Concern(s) are considered to be resolved, with sufficient management of ESG risks and opportunities as the result of an effective strategy

In general, incident-based engagement processes should aim to not exceed two years. If the desired outcome is not achieved, the engagement process will be evaluated and could be terminated if significant progress has not been made. Several points of action will be considered at such a point; amongst which is the renewal of the objectives for engagement or the exclusion of the relevant company/companies from our portfolios. For proactive engagements, the aim of our dialogue is continuous improvement, and the engagement periods may therefore be more flexible and long-term.

Our engagement strategy centres on long-term and shorter-term, thematic engagements. Our long-term engagements do not change year-to-year. Thematic engagement, on the other hand, involves engagement with companies within defined areas of concern, identified mainly by way of relevant ESG risks and opportunities. Inputs to determining such focus areas include:

- **UN Sustainable Development Goals (SDGs):** The SDGs were launched in 2015 and call on the private sector, amongst other players, to solve some of the most urgent problems the world is facing. As an asset manager, DNB AM must consider how we can align to the SDGs through our investment decisions and through active ownership towards companies, both from a risk and an opportunity perspective. We believe that considering these in a collective manner will help to increase the resilience of our portfolios. The SDGs are therefore a critical input to our standard setting and active ownership activities.

- **International initiatives:** We follow investor initiatives (new and ongoing) where we can have an impact – these may inform how we select our thematic engagements.

- **Media/NGOs:** We follow which sustainability topics are receiving attention from media and NGOs and assess the relevance of these to us as investors.

- **Clients' interests:** Client interest in certain topics guides how we develop our engagement strategy. For example, in 2020, we observed client demand for quantifying the outcome or impact of ESG work, or documenting progress through milestones with company engagements. These inputs have been considered and inform our work and processes.

- **Regulation (upcoming or existing):** Important regulation includes the EU Action Plan for Sustainable Finance and the European Green Deal. The European Green Deal is Europe's new growth strategy, which considers sustainability and competitiveness together.

9. Integrating the UN Sustainable Developments Goals

The United Nations (UN) SDGs were adopted by all UN Member States in 2015. The goals provide a shared blueprint for peace and prosperity for people and the planet, now and into the future. The SDGs consist of 17 goals and 169 targets which aim to address the greatest challenges faced by global communities by 2030. Along with governments, the SDGs call on private sector participation to solve some of the world's most urgent problems this decade.

The SDGs are a Part of our Strategy

ESG risks and opportunities are already integrated in our investment decision processes both in equities and fixed income. The UN SDGs, together with the Paris Agreement on combating climate change, set an ambitious policy agenda to achieve sustainable economic, social and, environmental development by 2030. As an asset manager, DNB AM must consider how we can contribute to achieving the SDGs through our investments, both from a risk and an opportunity perspective. We believe that considering these in a collective manner will help to increase the resilience of our portfolios. The SDGs are therefore a critical input to our standard setting and active ownership activities, and we strive to identify companies with business models aligned with the SDGs.

In addition, we are in the process of developing an investment framework based on the SDGs to take part in important megatrends and will use this both for screening purposes and also identifying companies aligned with the SDGs. Funds with additional selection criteria in line with the SDGs and the SDGs as an investment framework are under development.

Measuring Exposure to the SDGs

In May 2020 we published a report where we have assessed the DNB Renewable Energy fund's potential avoided emissions and revenue exposure to the UN Sustainable Development Goals. Our analysis shows that the fund has potential avoided emissions of 2,838 tCO_2 per million Euros invested – this corresponds to avoided emissions five times greater than the fund's carbon footprint measured in scope 1, 2 and 3 emissions.

SUSTAINABLE DEVELOPMENT GOALS

The assessment also shows potential revenue exposure primarily to SDG 7 (affordable and clean energy), SDG 9 (industry, innovation, and infrastructure) and SDG 11 (sustainable cities and communities), thereby reflecting the fund's climate and environmental objectives.

Mapping our Focus Areas to the SDGs

Many companies already measure and disclose on topics covered by the SDGs such as climate change, sustainable water management or working conditions which are indicators related to the SDGs. We strive to identify how companies are minimising negative impacts and maximising positive impacts in their products and services in line with the SDGs.

We recognise that measuring and reporting contribution or impact towards the SDGs is challenging, with no widespread approach currently available, although there is ongoing work. We have assessed the relevance of our focus areas to the SDGs, as outlined in the table on the next page.

Table 1. Mapping our focus areas to SDGs[6].

Our focus areas	Human Rights	Water	Climate Change	Oceans	Emerg-ing Markets Supply Chain	Bio-diversity	Defor-estation and Land Use	Product Safety and Quality	Health and Sustain-able Food Systems
1	✓								
2			✓					✓	✓
3			✓					✓	✓
4	✓								
5	✓								
6		✓							
7									
8	✓				✓				
9					✓				
10									
11			✓	✓					
12				✓				✓	✓
13			✓	✓			✓		
14				✓		✓			✓
15						✓	✓		✓
16					✓				
17					✓				

6 The SDGs are based on human rights and all SDGS are strongly correlated to international human rights instruments. www.ochchr.org SDG HR Table.pdf

10. Long-term Focus Areas

We have engaged with companies within our long-term focus areas for many years with the aim of encouraging companies to mitigate ESG risks before they materialise or take advantage of ESG opportunities. These focus areas have been identified as areas of concern within responsible investments in the coming years and are inherently connected to various other key ESG challenges.

Focus Area	Achievements in 2020	Goals for 2021
	✓ Initiated a comprehensive engagement with textiles companies covering key topics including labour rights, living wages and modern slavery. This engagement has, amongst other issues, covered supply chain risks in China (including Uighurs). ✓ Continued our proactive engagement on data security and privacy with telecommunications companies. This engagement has, amongst other issues, covered supply chain risks in China. ✓ Updated and published our expectations document on human rights. ✓ Continued engagement on the topic of gender equality and diversity, which overlaps with human rights considerations, on both equities and fixed income ✓ Continued our proactive engagement on unethical marketing of formula milk together with other Norwegian investors.	• Continue engagement with companies on human rights, labour rights and children's rights directly with companies and in collaboration with other investors. • Continue working through proactive engagement in high-risk countries. • Continue proactive engagement towards sectors and companies within textile, information and technology sector and marketing of formula milk.

Focus Area	Achievements in 2020	Goals for 2021
Climate change	✓ Continued working through relevant investor collaborations, including CA100+, proactive TCFD engagement with Norwegian investors, and sustainable proteins engagement with FAIRR. ✓ Published a report together with the DNB Renewable Energy portfolio management team which assessed potential avoided emissions and exposure to the UN SDGs. ✓ Reporting: UNPRI on climate change and carbon footprints in line with Montreal Carbon Pledge. Worked for continuous improvement of our TCFD reporting. ✓ Received FNG label with three stars for the third time and Lux Flag Environment Label for the second time for DNB Renewable Energy. ✓ Voted on topics related to climate change at company general meetings. ✓ Updated our expectations document on climate change, adding new expectations and strengthening the language. ✓ Signed letter through UNPRI on the construction of the new coal plant (Vung Ang 2).	• Continue TCFD work through UNEPFI TCFD investor pilot project and through TCFD working group with Norwegian investors. • Continue working through other relevant investor collaborations (CA 100+, FAIRR, UNPRI, etc). • Join phase five of the Sustainable Proteins Engagement with FAIRR.
Water	✓ Developed and published an expectations document on water. ✓ Engaged in Mining and Tailings Safety Investor Initiative. ✓ Engaged in the Meat Sourcing engagement through FAIRR/Ceres. ✓ Continued engagement with companies on water directly with companies and in collaboration with other investors. ✓ Updated expectations document on serious environmental harm. Clarifies some aspects around water management and on Free, Prior and Informed Consent (FPIC). ✓ Signed letter on water management in the mining sector through the UNPRI. ✓ Joined the investor collaboration on water use and management in the mining sector. ✓ Continued participating in UNPRI working group on Plastic.	• Continue engagement with companies on water directly and in collaboration with other investors towards sectors like mining, aquaculture, textile, and meat production.

Human Rights

Business enterprises have a responsibility to respect human rights in their businesses, including in their supply chain. International norms and standards including the UN Global Compact, the OECD Guidelines for Multinational Enterprises, and the UN Guiding Principles for Business and Human Rights provide a basis for what is expected from business enterprises when it comes to human rights. These responsibilities extend beyond companies' own employees to include stakeholders such as contract workers, workers in supply chains, families, communities, customers. We expect companies to understand their responsibility and risks in connection with the social consequences of their business operations by carrying out human rights due diligence processes and integrating human rights considerations into business strategies, policies, procurement, and risk management. Lastly, companies are expected to disclose material information to investors. Without adequately accounting for the potential operational, legal, regulatory, and reputational risks posed by human rights issues, the long-term credibility of sectors, markets and companies, and their supply chains, may be at risk.

Relevance to the SDGs

1 NO POVERTY	We expect companies to ensure compliance with human rights and labour rights in accordance with international labour standards through their operations, including supply chain.
4 QUALITY EDUCATION	Children are entitled to the same human rights and fundamental freedoms as all individuals but have been given special status and protection within the UN framework which recognizes their special needs and vulnerabilities. Companies should demonstrate their responsibility in their strategies, policies, procurement, risk management and reporting in regard to children's rights in their operations and supply chain.
5 GENDER EQUALITY	Companies with good diversity across their business may benefit from more varied perspectives and skills, resulting in deeper consideration when making decisions, better anticipation of challenges and obstacles, and heightened innovation.
8 DECENT WORK AND ECONOMIC GROWTH	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. Companies should be compliant with human rights and labour rights in accordance with international labour standards through their operations.

Activities in 2020

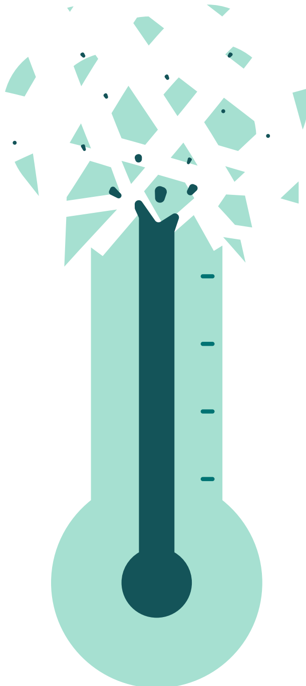
We updated our previously published expectations document on human rights during 2020. We also had 81 dialogues on issues related to human rights, child labour, labour rights and indigenous peoples' rights.
As of December 2020, 15 companies were excluded from our investment universe due to breaches of human rights and labour rights, three of which were new exclusions in 2020.

Selected company dialogues on human rights related topics in 2020:

Expectations	Company	Details	Start
Children's rights	Danone SA	Unethical marketing of breast milk substitutes	2019
Human rights	Nokia Oyj	Modern slavery in supply chain	2020
Human rights	Epiroc AB	Western Sahara	2019
Indigenous people rights	BW Offshore Ltd.	Land use including local communities	2020

Focus in 2021

We have experienced a general increase in concerns regarding modern slavery in supply chains. Combined with the modern slavery legislation emerging in several European countries, we expect to see a continued focus on this topic. We encourage companies to have a code of conduct on modern slavery and management systems that reveal potential risks of slavery in their supply chain in place. Further, we expect companies to have a policy commitment to meet the responsibility to respect human rights as described in the UN Guiding Principles' Reporting Framework. This should include a due diligence process to identify, prevent, mitigate, and account for how they address impacts on human rights. We will follow up with proactive engagement focusing on surveillance and tracing in high-risk countries such as China, Russia, and Saudi Arabia. Often the focus is on these risks within the supply chain. Relevant sectors we will continue our proactive engagements with in 2021 are textiles, technology, commodities, and aquaculture/ fisheries. The SDGs are built on fundamental principles in existing human rights instruments and are therefore important in the integration of ESG into our investment strategies.



Climate Change

Climate change has been one of DNB AM's long-term focus areas for many years as we recognise that climate change can materially impact company values, both negatively and positively. DNB AM therefore strives to make a meaningful contribution towards the goals of the Paris Agreement and the SDGs by taking a long-term view and effectively managing the risks and opportunities associated with the transition towards a low-carbon economy. An important aspect of achieving this involves taking an integrated ESG approach to addressing climate change.

Improving the availability and quality of data used in our investment decision-making processes is central to delivering on our climate goals. We continue to utilise the TCFD recommendations as a framework for increasing the transparency and quality of climate-reporting which benefits investors' ability to accurately assess companies' exposure to climate-related risks and opportunities. Increased climate disclosure in company reporting will be the foundation for the effective transition towards a low-carbon economy and for minimising the impact of climate-related risks. The recommendations also provide a framework that we can use to frame, describe, and communicate our own climate change efforts.

Relevance to the SDGs

2 ZERO HUNGER	Strengthened capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters that progressively improve land and soil quality" are necessary to ensure sustainable food production systems and resilient agricultural practices that increase productivity and production by 2030.
3 GOOD HEALTH AND WELL-BEING	Aims to substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination, all of which are can be associated with climate change.
11 SUSTAINABLE CITIES AND COMMUNITIES	Includes a target to reduce per capita adverse environmental impact of cities by 2030. It also states that the growth of cities and human settlements must consider mitigation and adaptation to climate change.
13 CLIMATE ACTION	Climate change is directly addressed by this SDG, which focuses on mitigation, adaptation, and integration into policies and impact reduction.

Figure 1. Our TCFD journey

2017
- TCFD recommendations published

2018
- Joined UNEP FI TCFD Investor Pilot Project (Phase 1)

2019
- Reported on PRI climate change questions for the first time (voluntary, not scored
- Included scenario analysis in TCFD reporting for first time

2020
- PRI climate change questions mandatory, but not scored
- More granular scenario analysis included

2021
- UNEP FI TCFD project phase 2
- PRI climate change questions will be scored

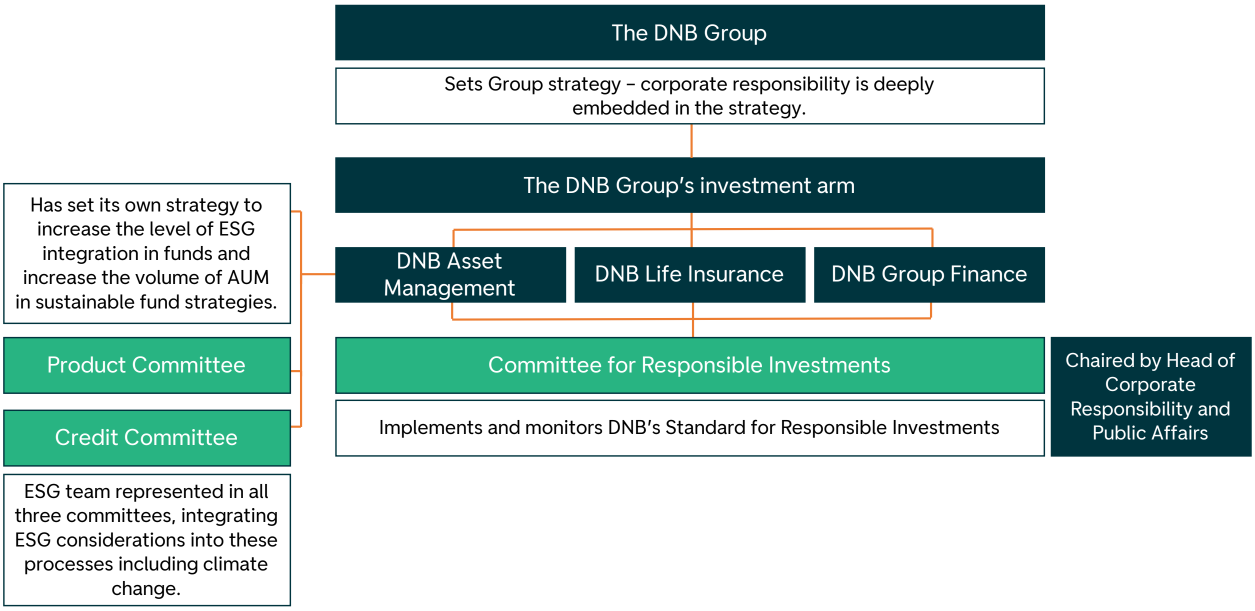
Figure 2. Overview of how we work with climate-related risks and opportunities

Governance:
- Climate change is high on the agenda and is integrated into the DNB Group's strategy
- Climate change is also integrated into DNB AM's strategy, with increased ambitions on growing the volume of ESG funds and level of ESG integration
- Representation in DNB Group's Committee for Responsible Investments, DNB AM's Product Committee and DNB AM's Credit Committee
- The Head of Responsible Investments is in DNB AM's management group

Strategy:
- Working in several ways:
- Integrating ESG across all asset classes
- Practicing active ownership (CA 100+, TCFD engagement with Norwegian investors, climate-related voting activity)
- Excluding where necessary
- Working towards a just transition
- Offering diverse product range
- Raising social awareness on climate change
- Utilising positive selection

Risk Management / Metrics and Targets:
- Climate-related ESG data for companies available to RI team and PMs at all times in core systems
- Portfolio carbon footprinting
- Scenario analysis at company and portfolio level

Figure 3. Governance



The DNB Group has a well-established governance structure that is led by the Board. After three years of the "4 the Future" strategy, where corporate responsibility was one of four strategic priorities, the DNB Group unveiled its new strategy, "Race 4 the Future" during 2020. Corporate responsibility is no longer a named strategic priority as this is now considered to be deeply integrated through the DNB Group.

DNB AM, a separate legal entity under the DNB ASA umbrella, has also revisited its strategy during 2020, defining increased ambitions regarding ESG funds moving forward. Ambitions include increasing volume of Asset Under Management (AUM) in sustainable fund strategies and increasing the level of ESG integration.

Through this strategy and DNB's governance structure, the Board, relevant Committees and senior management integrate climate-related risks and opportunities into decision making and business processes.

Moreover, as a signatory to the PRI, implementing the TCFD recommendations is also a high priority for DNB AM. DNB AM understands that integrating ESG issues and opportunities into our investment decision-making process is strategically important from a sustainability perspective and for long-term financial value creation. TCFD-alignment at DNB AM is addressed at senior management level through Ola Melgård (CEO), Janicke Scheele (Head of Responsible Investments), Knut Johan Hellandsvik (CIO Equity) and Svein Aage Aanes (CIO Fixed Income).

Climate-related risks and opportunities are also addressed through participation in several Committees:

- **DNB's Committee for Responsible Investments[7]** meets several times a year and reports to DNB's Executive Vice President of Communications. The Committee is chaired by the Head of Corporate Responsibility and Public Affairs and representatives from DNB AM, Group Investments and DNB Life Insurance AS are also represented in the Committee. The Committee is responsible for implementing and monitoring DNB's Standard for Responsible Investments[8].

- **DNB Asset Management's Product Committee:** The RI team have been represented in Committee meetings since fall 2018 to provide input on ESG considerations into fund product development.

- **DNB Asset Management's Credit Committee.** The RI team have been represented in Committee meetings since October 2019 to secure the approach to integrating ESG risks and opportunities into fixed income strategies.

7 Mandate – Responsible Investment Committee
8 Group standard for responsible investments

Strategy

Climate-related risks and opportunities, both transitional and physical, have already begun to affect companies globally and will likely have growing significance in the long-term. Climate-related risks may have a financial impact for DNB AM if our investments are not adequately prepared to meet changing climate policies, technology, and consumer demand preferences, in addition to physical impacts. On the other hand, DNB AM could also benefit from investment opportunities that contribute to a low-carbon economy, such as renewable energy and energy efficiency. Climate risks are therefore assessed in the same way as other financial risks. This is particularly true for investments with long-term investment horizons.

We work in several ways to address these risks and opportunities:

Integrating ESG across all asset classes

Our Group Standard for Responsible Investments states that ESG factors shall be integrated into investment management. Thus, company and sector-specific material ESG risks and opportunities are assessed in our company analyses. Climate change is a crucial component of this analysis and may inform investment decision-making, portfolio construction and bet size calibration. Where climate-related risks are assessed to be high, or where opportunities are not sufficiently managed, we engage with companies to learn more. We often have meetings with companies' senior management, and such dialogues are often conducted in collaboration with portfolio managers.

In 2020 we updated our expectations document on climate change. We introduced expectations around net zero emissions by 2050, strengthened the language around climate-related lobbying activities, and included an expectation that companies utilising voluntary carbon offsets should certify these.

Over the past year, we have worked closely with the fixed income team to further improve processes and work towards integrating ESG factors into credit analysis and investment decision making in a more systematic way. We have created a framework for assessing material ESG risks and opportunities per sector. Based on this framework, we have developed and sent out sector-specific questionnaires that account for distinct conditions within the Norwegian market. We have scored bond issuers on the quality and transparency of their ESG work within the bank, utilities and real estate sectors based on the responses we have received. We have now had follow-up dialogues with some issuers where we have outlined our findings and encouraged increased transparency. Our goal is to influence the companies in a positive direction.

Practicing active ownership, through engagements and voting, with companies on climate-related risks and opportunities

Our active ownership approach is vital to understanding and mitigating climate-related risks and opportunities. In 2020, we had 29 dialogues with companies on the topic of climate change. Our involvement in investor collaborations focusing on climate change is an important part of our work, our activity includes the following:

Climate Action 100+

Our work through the investor initiative CA 100+ continues. This five-year initiative led by investors targets the world's largest 100 plus greenhouse gas emitters and other global companies and aims to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures.

The CA 100+ has proven to be an effective investor collaboration, achieving several good results. We are supporting investors on engagements with Equinor and Maersk. 2020 marked a number of achievements regarding our engagement with Equinor. Our engagement goals on this topic centre on promoting full alignment with the Paris agreement, including clear communication regarding related measures and targets. A key question is whether the company will successfully implement a forceful energy transition whilst making profitable investments, thereby creating strong shareholder value. Two noteworthy milestones were reached in 2020:

- **February: The company strengthened its ambitions and announced new scope 3 targets. It seeks to:**
  - Grow renewable energy capacity tenfold by 2026, developing as a global offshore wind major.
  - Strengthen its industry-leading position on carbon efficient production, aiming to reach carbon neutral global operations by 2030 and to reduce absolute GHG emissions in Norway to near zero by 2050.
  - Reduce the net carbon intensity, from initial production to final consumption, of energy produced by at least 50% by 2050.

- **November: Announced its ambition to reach net-zero emissions by 2050.**
  - The ambition covers scope 1 and 2 GHG emissions (operated basis 100%) and scope 3 GHG emissions covering use of products (equity share).
  - The company will establish renewables as a separate reporting segment starting Q1 2021.
  - Will present an updated strategy at its Capital Markets Day in June 2021.

Our extensive engagement with the company will continue during 2021, both directly, in collaboration with other Norwegian investors, and through CA 100+.

TCFD Engagement with Norwegian Investors

As part of a proactive engagement, we are conducting together with other Norwegian investors on the implementation of the TCFD recommendations, we have met with and will be meeting Norwegian companies within sectors that are highly exposed to climate-related risks and opportunities: energy, materials, transport, food and beverages, real estate, construction, and seafood. During 2020, Nordic banks and insurance were introduced as a new sectoral focus for this engagement.

Through this work we seek to understand how companies are performing regarding climate-related governance, strategy and reporting (TCFD). In addition, we collectively strive to set a 'Norwegian standard' for TCFD disclosure by raising awareness of the significance of TCFD reporting and communicating the value of good disclosure for us as investors. Through better company disclosure we believe that we can conduct more reliable scenario analysis at company and portfolio level and, ultimately, support our portfolio managers to integrate this information into their investment decisions in a more systematic and structured way.

The companies we have engaged with have been responsible and have all considered the TCFD framework in connection with climate-related strategy and reporting. Moving forward, we will continue to support companies in this process. Our first engagements with banks and insurance were with DNB ASA and Gjensidige Forsikring ASA in Q3 2020. The DNB Group is advanced in its work with integrating climate-related risks and opportunities into governance, strategy and risk management processes, and reports on metrics and targets. It also reports to the CDP and has achieved a high score (A) over the past few years. Conclusions from an ongoing climate risk project will be discussed by the company's Board towards the end of 2020. This work is likely to lead to further clarification around the Group's climate strategy and related metrics and targets. Gjensidige Forsikring is also advanced in its TCFD-aligned reporting and CDP reporting. It's work with climate-related risks and opportunities is particularly advanced in the insurance side of the business, where it has focused on physical risk. It has conducted scenario analysis and aims to publish the results of this work in early 2021.

Direct company engagements
Selected company dialogues on climate-related topics in 2020:

Expectations	Company	Details	Start
Managing climate-related risks and opportunities	BW Offshore Ltd	TCFD alignment	2019
	TGS-NOPEC Geophysical Co ASA		2018
	Mowi ASA		2018
	Gjensidige Forsikring ASA		2020

Climate-related voting activity
Despite the coronavirus pandemic having catalysed an increased focus on social issues during 2020, climate-related issues have remained at the centre of environmental and social shareholder resolutions. During 2020 we have seen many shareholder proposals calling for Paris-aligned targets, with successes in Europe and Australia. Interestingly, the success of climate-related shareholder resolutions has reignited debate around the power of proxy voting advisors who advised support of important climate-related resolutions. In the US, however, the Securities and Exchange Commission (SEC) has continued to most block climate-related proposals. This has resulted in the growth of the trend related to targeting directors at climate laggards. It is anticipated that this trend will continue during 2021. Proposals related to the management of indirect emissions of banks and companies' climate-related lobbying activities are also set to continue to appear high on investors' voting agendas during 2021.

During 2019, in line with increasing numbers of credible environmental and social shareholders resolutions, our voting strategy prioritised resolutions related to our focus areas climate change and gender equality for the first time. Climate-related voting activity continued during 2020, and we voted at 14 shareholder resolutions on environmental issues (including climate change and biodiversity) by year end.

Excluding where necessary
The DNB Group Standard for Responsible Investments has criteria regarding oil sands and thermal coal which are important in our effort to reduce our exposure to unsustainable and carbon intensive businesses. At the end of 2020 seven companies are excluded from our investment universe due to the oil sands criterion and 89 companies on the back of the thermal coal criterion.

Working towards a just transition
The Paris Agreement recognises that a successful transition to the low-carbon economy must be fast and fair to achieve a well-functioning economy that delivers broad social value. This is because a partial or sub-optimal transition will likely come at a high social cost, resulting in deepened inequality and harming the sustainability of economic growth. Thus, the just transition perspective, which considers both climate action and social inclusion, is integrated into our climate change strategy and our expectations towards companies on climate change. Companies are expected to consider the social impact of their climate change strategy.

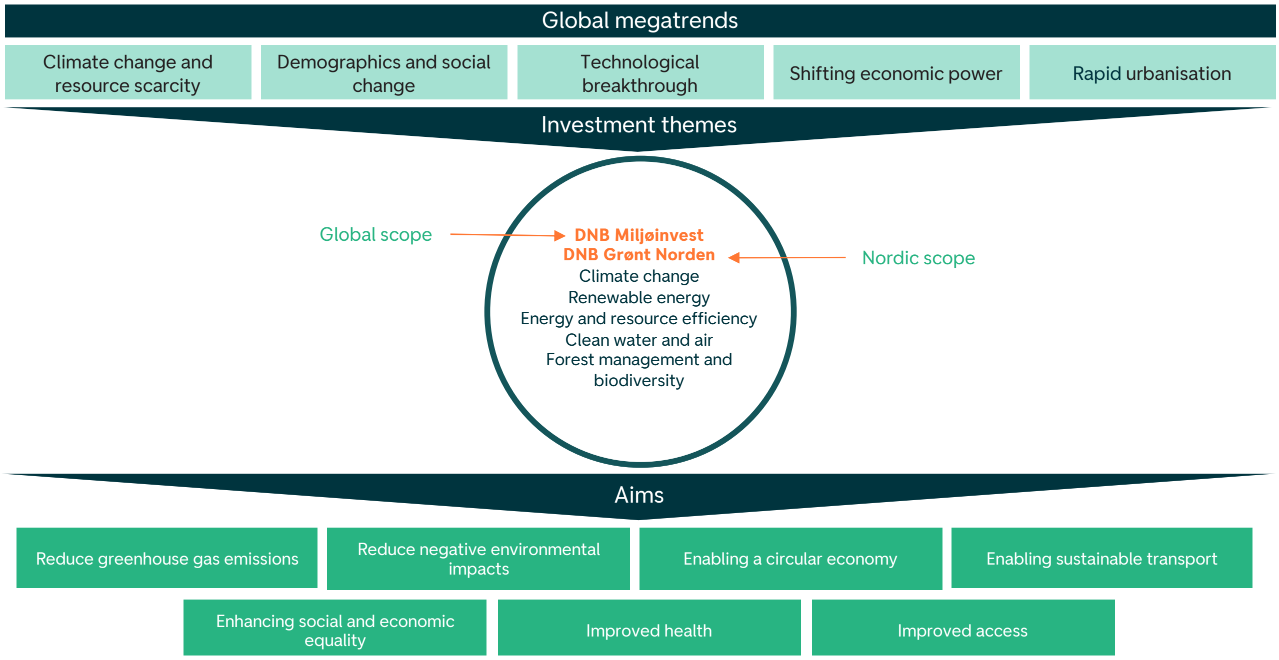
Offering a diverse product range
We offer a diverse range of fund products, including a group of funds focusing on the climate change and environment themes. These funds exclude companies based on "fossil fuel free" criteria, which includes the energy sector (except for 'clean' companies) and companies with high carbon footprints. The funds' ESG scores are also higher than their benchmarks'. Moreover, we offer a fund that utilises positive selection to select companies that have a positive environmental or climate effect. Finally, our "impact" fund invests specifically in solutions companies providing renewable energy or energy efficiency.

During 2020, there has also been some product development where we have enhanced several fund strategies such that they now strongly emphasises sustainability and climate-related risks and opportunities. A climate change index product is also due to launch during 2021.

Raising social awareness on climate change
Throughout the year, we also engaged in various activities that helped to raise awareness of climate change issues:

- Through the offering of thematic funds focusing on climate change and the environment
- By presenting and guest lecturing at events (seminars and conferences and universities)
- Through engaging with companies, putting climate change on their agendas

Figure 4. More on positive screening



Utilising positive selection

Some funds are specifically mandated to invest in companies with a positive environmental profile. This means that companies are included in the fund because the products and services they provide are assessed as contributing positively to climate change and environmental problems.

Risk management, metrics and targets

With the impacts of climate change already being felt, we recognise the urgency to act on climate change. We utilise several metrics and tools to measure, monitor and manage climate-related risks and opportunities and their financial impact. Our approach includes:

- **Climate-related ESG data for companies available to RI team and PMs at all times**, see section on ESG integration for more information about data.
- **Portfolio carbon foot printing**, to understand our exposure to carbon intensive sectors.
- **Scenario analysis**, at company and portfolio level, to understand climate-related physical and transition risks and opportunities under different climate change scenarios.

Though other tools are available today, such as portfolio warming potential, we have not used this actively in our risk management approach to date. Portfolio warming potential assesses portfolio alignment to the goals of the Paris Agreement. Such analysis is offered by 2 Degrees Investing Initiative's Paris Agreement Capital Transition Assessment (PACTA) tool and by Carbon Delta/MSCI ESG. The sophistication of these tools is expected to develop over time.

Carbon footprinting

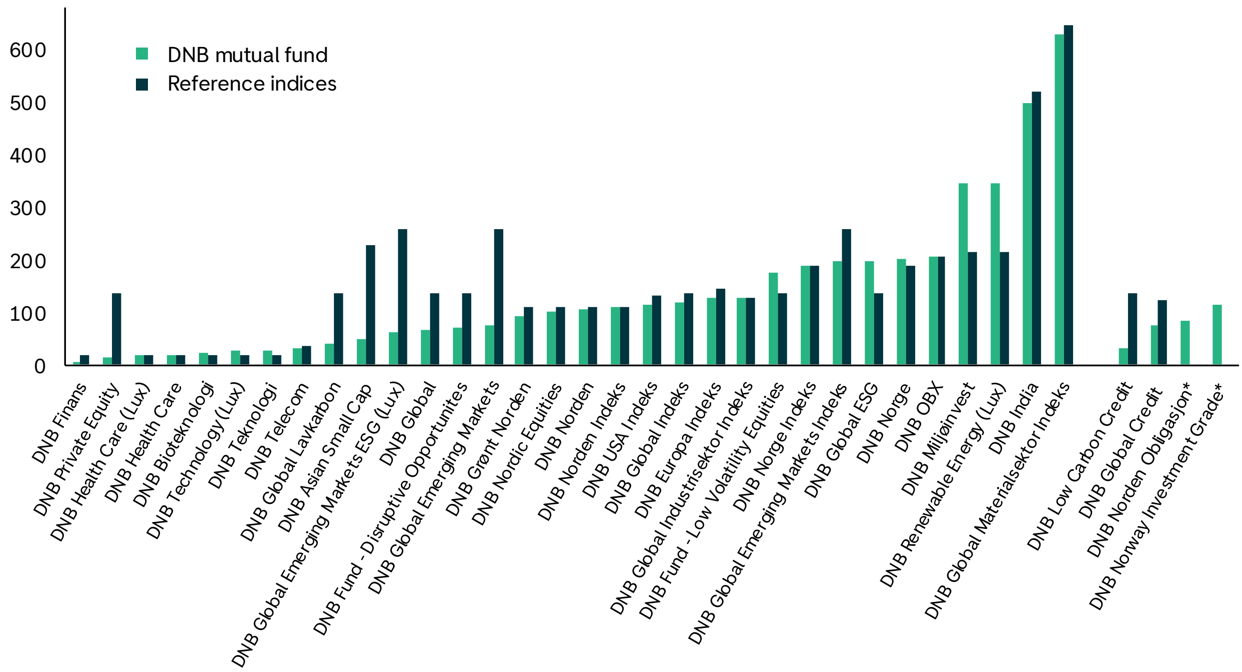
As part of efforts to measure and reduce exposure to companies with high climate risk DNB started to measure the carbon footprint of all equity funds in 2016. In 2019, we also begun disclosing the carbon footprint on fixed income funds where there is sufficient carbon data available. Carbon footprint, also called carbon intensity, is the measurement of a company's greenhouse gas emissions relative to a company's turnover and is one of several factors that says something about a company's climate risk and impact. Once carbon risk in the portfolios has been identified, there are several ways of reducing the risk.

DNB uses information from MSCI ESG Research about companies' greenhouse gas emissions. The carbon emissions data coverage for the Nordic fixed income universe is, however, low. Hence, we have worked actively to gather data from issuers within the banking, real estate, and utilities sectors to increase the coverage in our Nordic fixed income portfolios. The companies' carbon footprint is weighted by the respective holding in the portfolios and the same is done for the index. In the calculations, any cash in the portfolios is distributed proportionally between the other companies. For companies without reported emission data, an estimated figure for the company produced by MSCI ESG has been used in the calculation. In addition, some companies do not have either reported or estimated data. DNB reports the carbon footprint in CO2 equivalents, as defined by the Greenhouse Gas Protocol. Scope 1 includes direct emissions from sources that are owned or controlled by the organisation and Scope 2 includes indirect emissions associated with purchased energy. Indirect emissions associated with purchased goods and services, the use and disposal of products, that fall under Scope 3 are not included due to lack of reported data from companies. For avoided emissions, which refer to emission reductions resulting from a specific product, methodological and data gaps have prevented the widespread inclusion as part of the carbon footprint process. The method for reporting greenhouse gas emissions is under development and may be subject to change.

The graph below shows 32 equity funds and their respective indices where data on greenhouse gas emissions was available for more than 75 per cent of the funds' investments. These funds represent about 96 per cent of the total market value of DNB's equity funds. We are also publicly reporting the carbon footprint for four fixed income products where sufficient carbon data is available. There is low coverage of the companies in the reference indices for the Nordic fixed income funds, which is the reason why we are not disclosing these. The low coverage is due to a significant share of treasury, municipal, and structured bonds in the benchmark. Carbon footprinting of the fixed income funds utilises the same approach as that implemented for the equity funds (namely the Weighted Average Carbon Intensity approach), as endorsed by the TCFD. However, there are some key differences notably that any holdings determined to be in 'green bonds' are not included in the calculation of footprint. While we believe that green bonds can have considerable emission reduction potential, potentially even avoiding emissions, these were not included for lack of a standardised methodology regarding avoided emissions. This approach is in line with current best practice in the market. For the issuers in the Norwegian banking, real estate and utilities sectors where we have gathered CO2 data, we provide the companies' self-disclosed data where available. For companies not disclosing with the banking and real estate sectors, we have used a developed market sector average. For the utilities sector the approach was slightly different, using an average of the collective data from Norwegian utilities issuers instead. The reason for this is that the Norwegian utilities are considered not comparable to the industry in other developed markets due to the large share of renewables, hydropower in particular.

The graph is a snapshot of the portfolio as of 31 December 2020 and shows that compared with the respective benchmarks, the majority of the funds had a lower or equal carbon footprint.

Figure 5. Greenhouse gas emissions from DNB's mutual funds relative to reference indices. Tonnes of CO2 equivalent for every USD 1 million of revenue.



 *Benchmark excluded due to low data coverage.

Figure 6. Climate-related risks and opportunities have a financial impact (TCFD, 2017)

There is significant uncertainty surrounding data on greenhouse gas emissions. This is driven not only by the regional variations in practices for reporting emissions, which have been shown to vary considerably between markets and companies of different size, but also from the use of estimated figures when companies do not report emissions. Despite these uncertainties, DNB is of the opinion that greenhouse gas emissions are an important factor to include in the analyses of companies' climate risk and impact.

As an effort to increase the quality and coverage of reported emissions, DNB is a supporter of the TCFD and CDP. As part of our work with the TCFD, we have utilised scenario analysis to assess the performance of our funds under different warming scenarios; please see below for more information.

Scenario analysis

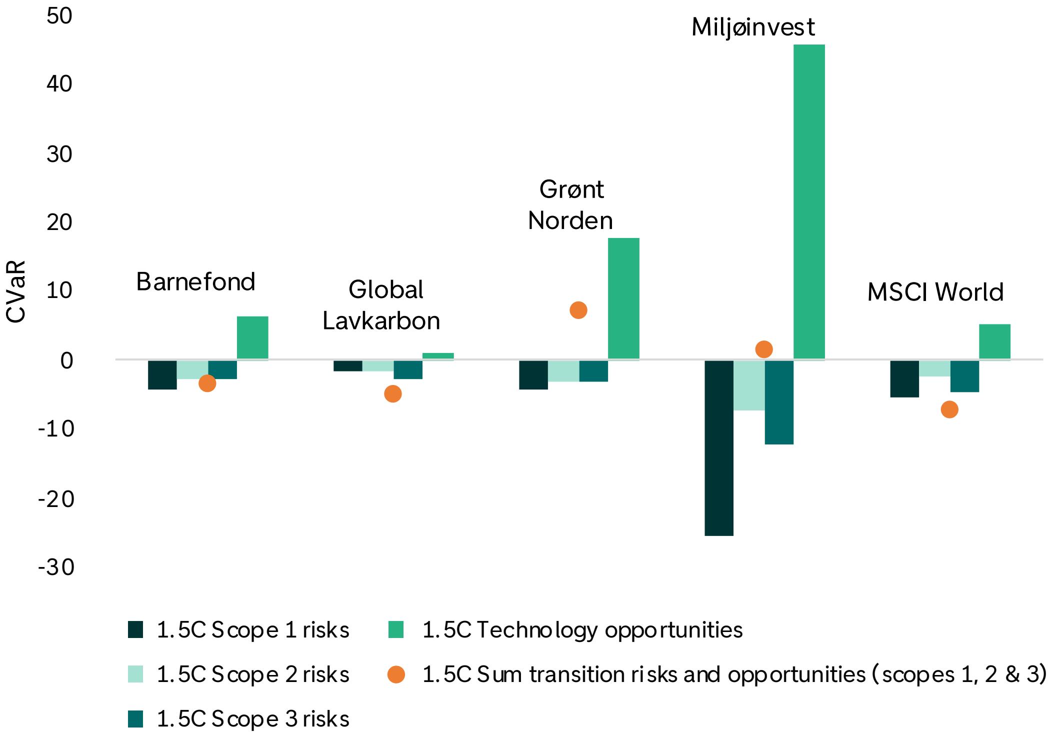
We began our work on scenario analysis in 2018 through participating in the UN Environment Programme Finance Initiative (UNEP FI) TCFD Investor Pilot Project. The pilot developed scenarios, models and metrics to enable scenario-based, forward-looking assessments of climate-related physical and transition risks and opportunities for equities, corporate bonds and real estate[9]. The methodology, an assessment of existing methodologies and case studies from investors were included in the pilot project report, Changing Course, which was published in May 2019. We contributed with a case study focusing on the possibility to use scenario analysis results as an engagement tool.

During 2021, we will continue our TCFD work through Phase II of the UNEP FI project. This work will be organised in a two-fold approach. First, the project's roadmap stream will be a competency-building opportunity through a series of webinars held by industry experts. The second stream will entail working through modules (up to three modules can be selected) focusing on more specific topics. These will involve smaller groups of banks and investors and will be led by industry experts in partnership with UNEP FI. The modules' deliverables will include frameworks and thought papers.

We have conducted a scenario analysis assessment of our thematic funds (climate and environment). The funds were evaluated under 1.5°C, 2°C (late action), and 3°C of warming, for an average physical risk scenario, using the AIM-CGE integrated assessment model. The AIM-CGE model is a "computable general equilibrium model, which covers all economic goods while considering production factor interactions in a closed economy. The trade of goods and services is also considered"[10]. The model analyses climate change mitigation and potential impacts of this at both global and country-specific levels. Policy risk is highest under 1.5°C and 2°C (late action) scenarios, resulting in higher associated costs. The 3°C scenario is a Business-as-Usual (BAU) scenario. MSCI ESG calculates both average and aggressive physical risk scenarios. We utilise the average scenario, which considers the expected value of the cost distribution. The aggressive scenario, on the other hand, is derived from the 95th percentile of the cost distribution of estimated extreme weather costs. MSCI ESG's does not consider different Relative Concentration Pathways (RCP) scenarios, but instead focuses on a BAU approach in its modelling of physical impacts. This is due to lag within the climate system, meaning that the spread climate estimations within the next 15 years (as this data models) are considered small compared to the overall uncertainty of projection. A positive Climate Value-at-Risk (CVaR) implies that the overall portfolio-level impact will result in profits under the scenario, whereas a negative CVaR implies that there will be portfolio-level costs associated with the scenario.

9 DNB AM did not participate in the real estate sub-group
10 From: MSCI Report, "Introduction to Climate Scenarios", August 2020.

Figure 7. CVaR Transition Risks and Opportunities under 1.5C AIM-CGE



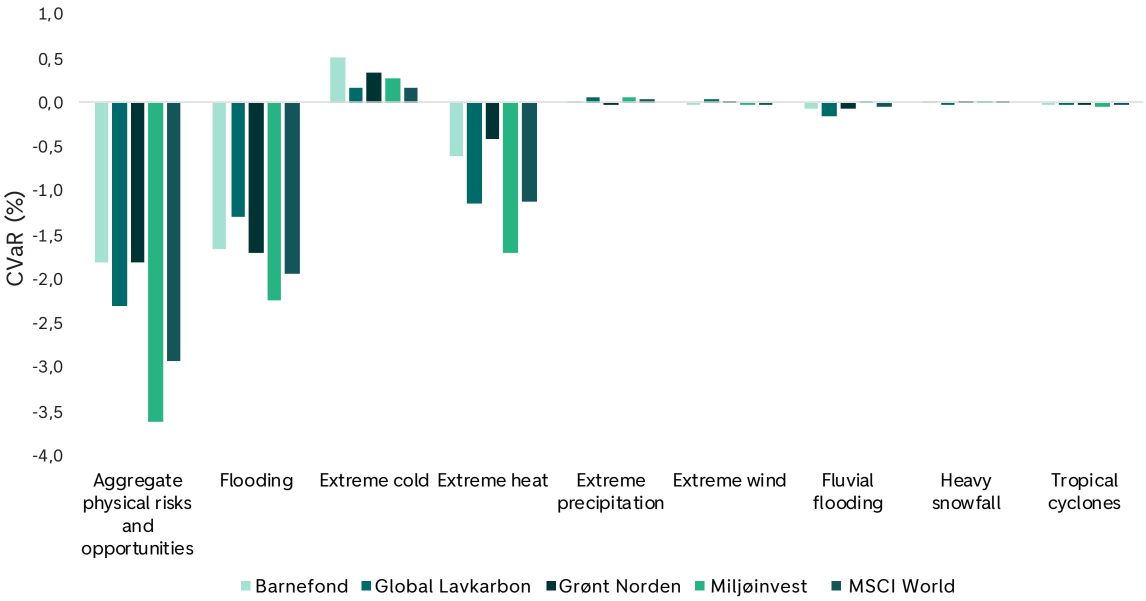
Transition risks and opportunities
The graph above shows the results of the CVaR analysis focusing on transition risks and opportunities only. These risks and opportunities contribute more to the overall CVaR than the physical risks and opportunities (as reflected in figure 8).

The results are broadly aligned with our expectations. Funds that utilise additional exclusion criteria based on our low-carbon platform (DNB Grønt Norden, DNB Global Lavkarbon and DNB Barnefond), show reduced transition risks compared to the MSCI World. At the same time, this approach also limits the potential upside, as demonstrated by positive CVaR associated with technological opportunities being lower or similar compared to the MSCI World. This does not, however, mean that these funds are "less sustainable", but is rather a reflection of their broader sustainability approaches that these utilise compared to DNB Grønt Norden and DNB Miljøinvest.

DNB Grønt Norden's positive CVaR from technological opportunities can be explained by the fund's utilisation of positive selection in its approach. This is reflected by its higher share of technological opportunities compared to DNB Global Lavkarbon, DNB Barnefond and the MSCI World. However, its share of technological opportunities is lower compared to DNB Miljøinvest, which employs positive selection to 100% of the portfolio and has a specific mandate to invest in sustainable solution providers for a better environment. At the same time, we note that DNB Miljøinvest's relatively higher policy risk (negative CVaR) is driven by the fund's overweighting of certain carbon-intensive sectors compared to MSCI World – utilities, materials, energy and industrials. See the section on avoided emissions in chapter 12 for more information about why this is the case for our most "impact aware" fund.

Nonetheless, when summing transition risks with transition opportunities, both DNB Grønt Norden and DNB Miljøinvest have positive CVaRs. DNB Barnefond, DNB Global Lavkarbon and MSCI World show negative CVaRs for aggregated transition risks and opportunities.

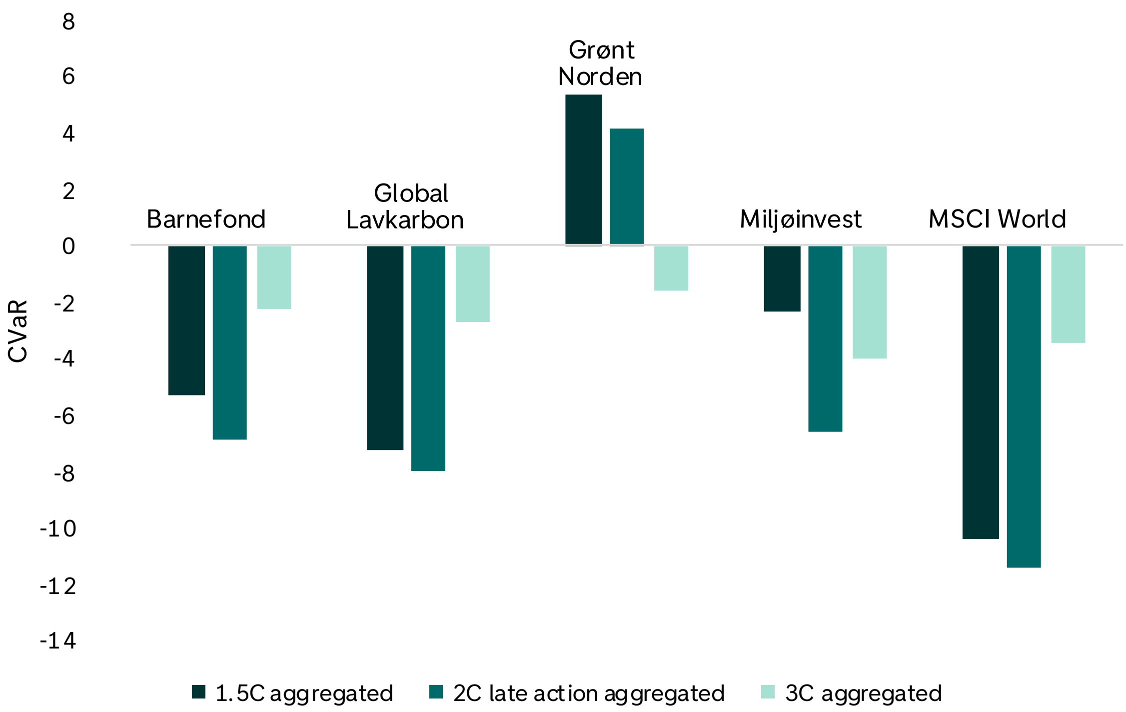
Figure 8. CVaR Physical Risks and Opportunities (average scenario)



Physical risks and opportunities
Physical risks and opportunities impacts are similar amongst the groups of funds, as the groups contain companies diversified across geographies. Coastal flooding, followed by extreme heat, have the greatest negative impact, whereas extreme cold and extreme precipitation show a slightly positive potential impact.

DNB Grønt Norden and DNB Barnefond are associated with slightly lower physical risks compared to the other funds. This is likely driven these funds' Nordic mandate (DNB Barnefond is composed of 20% DNB Global Lavkarbon, so it has some global exposure).

Figure 9. CVaR under 1.5C, 2C late action and 3C scenarios using AIM-CGE (average scenario)



High-level results

The aggregated results (summing CVaR of transition and physical risks and opportunities) are demonstrated in the figure above. Note that there is 100% data coverage for DNB Barnefond, DNB Global Lavkarbon and the MSCI World. DNB Grønt Norden and DNB Miljøinvest have 84% and 88% coverage, respectively.

The results show that all funds receive a better CVaR compared to the MSCI world under all scenarios. One exception to this is DNB Miljøinvest under the 3C scenario, where the fund receives a slightly more negative CVaR. This is driven by the fund's significantly high exposure to technology opportunities in the 1.5C and 2C late action scenarios. Under the 3C scenario, these opportunities are reduced from 46%/42% down to 4%, reflecting that the emissions-reducing opportunities offered by these products and services are less relevant in a 3C world.

DNB Grønt Norden receives a positive CVaR in the 1.5C and 2C late action scenarios. This is driven by the fund's net impacts from transition risks and opportunities, which limit downside risk and capture more technology opportunities than the MSCI World, and slightly lower physical risks compared to DNB Global Lavkarbon, DNB Miljøinvest and the MSCI World.

A 2C (late action) world poses slightly higher risks than the 1.5C world. This results in the most negative CVaRs for each fund across the board. This can be explained by the carbon prices utilised in the model reflecting a world where action is not taken until very late (2050). In this scenario, carbon prices start to increase only after 2040. This means that until this point, no action will happen, and companies providing solutions to climate-related challenges will not benefit in the same way as in the 1.5C scenario.

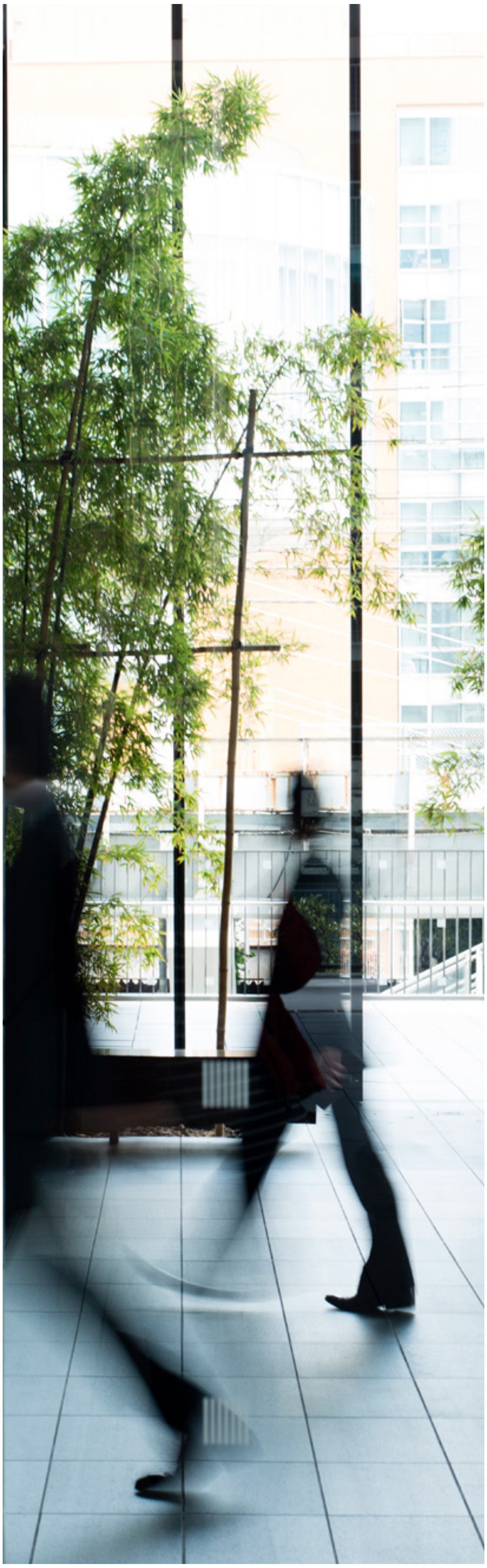
CVaR in the 3C BAU scenario is lowest. As transition risks and opportunities represent a greater share of the total impact, a lack of "need" to transition is what explains why the CVaR is least negative in this scenario. However, we would expect that physical risks and opportunities are understated in this scenario, and that the real impact would be greater.

We will continue to explore other means by which to assess the impacts on funds under different climate scenarios moving forward.

Limitations

There are a number of factors that may have influenced the findings observed above:

- Company weights within portfolios
- Physical risks and opportunities have a much lower contribution to overall CVaR
- Sector weighting within funds (and associated GHG emissions)
- Estimation of scope 3 emissions



Water

The World Resources Institute (WRI) estimate as many as 3.5 billion people could experience water scarcity by 2025. The World Economic Forum and the UN's 2030 SDGs highlight access to clean water and sanitation as one of the top global challenges for this decade[11]. Global freshwater use is six times higher than it was 100 years ago and continues to grow by 1% per year[12]. When considered alongside the increasing impacts on water availability linked to the effects of climate change, this looks set to only place further stress on water sources for individuals, communities, and companies, using these water resources. It is not a stretch to consider that water issues, and a failure to manage these issues appropriately, may lead to violent disputes and other negative social impacts in the future. A failure by companies to carefully manage the use of these resources and what is discharged, may also lead to negative financial implications.

Relevance to the SDGs

6 CLEAN WATER AND SANITATION

Water management integrated into business strategies, risk management and measuring are essential in order to meet the SDG goal on water. Water is an essential input factor for many businesses. Therefore, we expect companies in high-risk sectors to manage these risks, while we look for business models with opportunities related to SDG 6. Working towards companies to encourage conservation, restoration and sustainable use of terrestrial and freshwater ecosystem is crucial for a sustainable development.

Water is an essential input factor in countless processes and operations globally, and industry has a direct role in the management of the Earth's water systems.

The impact of water on different sectors varies depending on the sector and industry, with some sector and geographic regions particularly vulnerable to changes in the water availability and water quality. What makes water management by companies especially challenging is that it is a local and/or regional issue, often requiring site-specific approaches for the management of the resources. This is further complicated when considering that company sites may be impacted by other companies from the same river basin and requires a collective approach to the management of the resource from all parties involved. These issues increase complexity for the companies when considering water management, particularly for multinational companies when considering across direct operations and supply chains, in a range of international geographies. Additionally, when considering the multitude of factors impacting the quantity and quality of water available, including human, industry, and policy factors – the complexity of the issues is evident.

Adding to the challenge, the IPCC report 'Climate change and water' highlights that "Observational records and climate projections provide abundant evidence that freshwater resources are vulnerable and have the potential to be strongly impacted by climate change, with wide-ranging consequences for human societies and ecosystems." This demonstrates the challenges and risks related to climate and water and tightly linked, and therefore companies assessing and managing water-related risks, should also be assessing and managing climate change-related risks.

We work strategically to make a positive impact on the management of water, and are involved in investor collaborations and information sharing, to address this topic. DNB AM is a supporter of CDP's Water Programme and seek to motivate companies to disclose material water data, while pushing for standardisation and harmonisation of reporting on this information in the market.

11 https://sustainabledevelopment.un.org
Development Goal 6, Synthesis Report on Water and Sanitation, Synthesis Report on Water and Sanitation
12 UN (2020), The United Nations World Water Development Report 2020

Activities in 2020

In 2020, we released our expectations document on sustainable water management, which called for companies to identify, assess, and manage their exposure to water-related risks and opportunities, and to ensure a high level of transparency around this data. Our expectations are intended to provide guidance for companies on the topic of water and are directed at all companies in our investment universe with a reliance or impact on water, either directly or through their supply chains. These expectations also inform how we engage with companies and how we assess companies once an issue has occurred. These expectations refer primarily to issues associated with freshwater and are intended to complement the other DNB expectation documents, with particularly close links to human rights, sustainable oceans, and serious environmental harm.

We have undertaken eight meetings directly with companies regarding water, and we saw some progress with all companies at least committing to address the water-related issues following our engagements. We have also been part of a collaborative engagement with a group of investors, co-ordinated by the Association of Investors for Sustainable Development, VBDO, on responsible water management as part of responsible mining policies. Through this group, four global mining companies are identified target companies and dialogues started early January 2021 with scope for further including additional companies to the target list in 2021.

We continued to engage with mining companies in 2020 in connection with the Global Investor Mining and Tailings Safety Initiative. In addition, we continued to engage non-disclosing companies in 2020 as part of a PRI collaborative effort and established dialogue with Gerdau, who provided details regarding their tailings dam assets in line with the disclosure requirements.

Selected company dialogues on water related topics in 2020:

Focus for 2021

We will continue our collaborative engagements through the VBDO and Global Investor Mining and Tailings Safety Initiative. These engagements provide the opportunity to collaborate on key water-related topics in companies where we do not hold a considerable position, but where the issues may present material risks for companies. We will also look to utilise our company expectations on sustainable water management directly in engagements with companies.

Expectations	Company	Details	Start
Water	Chemours Co	Water management	2019
Water	Darling Ingredients Inc	Water management	2020
Water	Veolia Environment Sa	Water disclosure	2020

11. Thematic Focus Areas

In addition to the long-term focus areas, our engagement strategy prioritised certain shorter-term thematic engagements in 2020: emerging markets supply chains, product safety and quality, biodiversity, deforestation and land-use and oceans. In 2021, health and sustainable food systems has been introduced as a new thematic focus area. These focus areas are determined based on their significance, possibility to engage with companies on these topics, and potential to make a difference in terms of sustainability and returns.

Table 1. Achievements in 2020 and Goals for 2021 for Thematic Focus Areas

Focus Area	Achievements in 2020	Goals for 2021
Emerging markets supply chains	✓ Continued working through PRI working groups on palm oil, soy and cattle. ✓ Continued engagement with companies on supply chain topics such as living wages, recruitment practices, modern slavery and child labour. ✓ Engagements on product safety and quality, deforestation and land-use and human rights that overlap with this theme. ✓ Initiated a comprehensive engagement with textiles companies covering key topics including labour rights, living wages and modern slavery. ✓ Continued proactive engagement on data security and privacy with telecommunications companies. ✓ Joined the investor collaboration with KnowTheChain on supply chain issues covering apparel and footwear, food and beverage and ICT. ✓ Continued engagement with companies on cocoa supply chains on the topics of living wages and child labour.	• Continue engagement with companies directly and in collaboration with other investors towards companies within soft commodities and companies within complex supply chains in high-risk regions. • Continue engaging with companies through UNPRI working groups
Product safety and quality	✓ We have defined data privacy and security, cannabis, healthcare, and gambling as relevant sub-topics under this theme. ✓ We have had a proactive engagement focusing on tech companies on the topic of data privacy and security.	• Continue using a systematic approach for engaging with companies on this topic. • Continue working through proactive engagement on data security and privacy with telecommunications companies.
Deforestation and land-use	✓ Continued working through PRI working groups on palm oil, soy, and cattle. ✓ The palm oil engagement now focuses on all elements of the value chain, including buy-ers, processers, growers and lenders (banks). ✓ PRI are yet to initiate the working group on timber, so we have not been able to start this work yet.	• Join PRI working group on timber, thereby covering all four soft commodities. • Continue engaging with companies on sustainable palm oil, soya and cattle. • Join phase two of the meat sourcing engagement through FAIRR/Ceres. • Join phase five of the Sustainable Proteins Engagement with FAIRR. • Develop expectations document on deforestation.

Focus Area	Achievements in 2020	Goals for 2021
Oceans	✓ Developed and published an expectations document on oceans. ✓ Developed a systematic approach for identifying target companies for engagement and created a framework for engagement. ✓ Have engaged with companies on this topic (focus on aquaculture/seafood). ✓ Continued participating in UNPRI working group on Plastic.	• Continue the proactive engagement on sustainable oceans, focusing on the following sectors/themes: • Aquaculture/fisheries. • Offshore oil and gas. • Renewable marine energy. • Marine transport. • Deep sea mining. • Marine/coastal tourism • Land-based activities with significant influence on the oceans.
Biodiversity	✓ Continued engaging with companies on sustainable palm oil, soya and cattle through UNPRI. ✓ Continued engaging with companies through the meat sourcing engagement through FAIRR/Ceres. ✓ Continued engaging with companies through the sustainable proteins engagement through FAIRR. ✓ Initiated a proactive engagement on sustainable oceans. ✓ We developed and published an expectations document on oceans.	• Develop expectations document and framework on deforestation for engaging with companies on biodiversity in a more systematic way. • Continue engaging with companies in collaboration with other investors through UNPRI working groups and FAIRR.
Health and sustainable food systems	✓ New thematic focus area introduced in 2021.	• Continue engaging with companies through UNPRI working groups and FAIRR – in collaboration with other investors.

Emerging Markets Supply Chains

Within many sectors global supply chains can be highly complex. They may cross several countries and include multiple tiers. Supply chains fall outside companies' core operations and expose them to hidden and uncontrollable ESG risks. In 2020, the COVID-19 pandemic has accelerated the focus on ESG factors in supply chains, and particularly on social issues such as labour rights and human rights. The expectations and pressure towards global companies with production facilities in emerging markets have increased. We expect companies to have resilient supply chains that are in aligned with best practice following the UN Guiding Principles on Business and Human Rights, and the OECD Guidelines for Multinational Enterprises. These expectations have increased from various stakeholders. An example from 2020 is the impact on the garment industry in the Asia-Pacific region COVID-19 has had. The fall in demand in the textile sector has led to a tremendous impact on workers in the supply chain. Collapsing consumer demand, government lockdown measure and disruptions to raw material imports have led to worker layoff, dismissals and declines in earnings and delays in wage payments. This demonstrates the need for strengthening of social protection for workers. We have continued our engagement with companies in sectors such as textiles, agriculture, and technology industries on global supply chains. This thematic topic was among our strategic engagement priorities for 2020 and will continue as a thematic topic in 2021.

Relevance to the SDGs

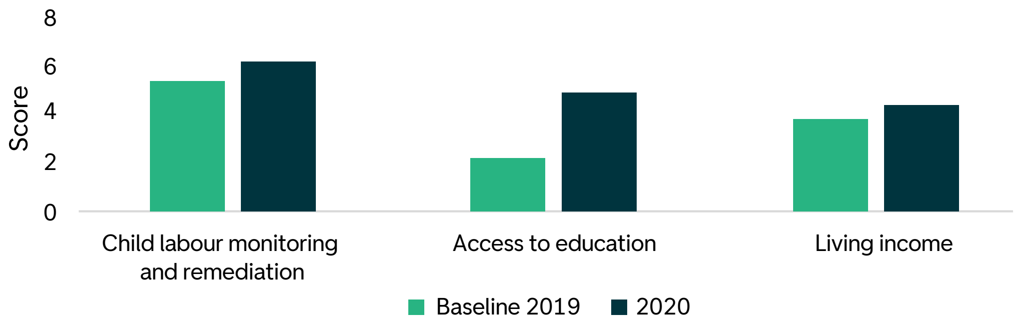
8 DECENT WORK AND ECONOMIC GROWTH	The SDG aims to promote "sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all".
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	The SDG seeks to build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.
16 PEACE, JUSTICE AND STRONG INSTITUTIONS	The SDG seeks to promote just, peaceful and inclusive societies. With aim to promote the rule of law at the national and international levels and ensure equal access to justice for all.
17 PARTNERSHIPS FOR THE GOALS	The SDG seeks to strengthen the means of implementation and revitalize the global partnership for sustainable development. Increase significantly the exports of developing countries.

Activities in 2020

We initiated a comprehensive engagement with textiles companies covering key topics such as living wages, labour rights, modern slavery and, child labour in supply chains in 2020. Through the Interfaith Center on Corporate Responsibility (ICCR) we participate in investor collaborations on forced and modern slavery in the Xinjiang Uyghur Autonomous Region. Upon joining the investor collaboration with KnowTheChain we signed a letter of commitment.

Combatting child labour in cocoa supply chains in collaboration with other investors through company dialogues has been a priority for several years. In 2019, we started a three-year stewardship and risk engagement on combatting child labour in cocoa supply chain. Through this investor collaboration led by Sustainalytics we have had dialogues with major cocoa and chocolate companies on child labour monitoring and remediation (CLMRS), access to education and living income for cocoa-growing farmers during 2020. Most companies currently apply CLMRS, or similar. In spring 2020, several cocoa companies announced their support to two new programmes by the Jacobs Foundation aiming to support, among other things, access to quality primary education in Ivory Coast for five million children. Hazardous child labour has been reduced by one-third in communities where company programs are in place. School attendance among children in agricultural households increased in both the Ivory Coast and in Ghana. In the spring of 2020, we signed an investor statement on living income and living wages and sent letters to the CEOs and chairmen of more than 40 food and beverage companies and food retailers globally, among them cocoa and chocolate companies. The letters were followed up with company dialogues. The companies engaged with are the trading, processing and chocolate brand companies Barry Callebaut AG, Cargill, Hershey's, Lindt & Sprüngli, Mondelēz International Inc, Nestlé and Olam

Figure 1. Company performance (average score per KPI)



Source: Sustainalytics, Child Labour in Cocoa Thematic Engagement

International.

Focus for 2021

In 2021, we will through our engagement service provider continue engaging the seven cocoa companies for further roll-out of CLMRS, and more effort from the industry to enable access to education for children in cocoa-growing communities and living income for cocoa- growing farmers. Due to the complexity and scope of ongoing dialogues with other companies within the textiles sector and cocoa industry, it is natural to continue this work in 2021 as well. We will also continue our work with companies through the collaborative engagement on sustainable palm oil production, soy, and cattle through the PRI. Finally, we are experiencing an increasing awareness around issues related to modern slavery in supply chains, which we will continue to focus on during dialogues with textiles, telecommunications, and technology companies. Through dialogues we will promote best-practice management of risks and opportunities in tiers 1, 2 and 3 in supply chains.

Selected company dialogues on supply chain risks in emerging markets in 2020:

Expectations	Company	Details	Start
Children's rights	Nestle SA	Child labour in cocoa production	2019
Modern slavery	Hennes & Mauritz AB	Modern slavery in supply chain	2020
Children's rights	Mondelez International Inc	Child labour in cocoa production	2019

Product Safety and Quality

The effect that companies' products have on society is an important element of product stewardship. Companies must ensure that their products are safe, or risk legal action. DNB AM's interpretation of product safety and liability is that this encompasses a range of issues including cyber security and data protection, and gambling, amongst others. Such issues have been widely discussed in the media and have, in some cases, led to extreme stock market reactions, harming returns, damaging company reputations, and attracting the attention of regulators globally. In determining a company's ability to ensure long-term value creation, we must therefore consider how companies manage the risk of such issues occurring, and how they respond to such issues if they occur.

Relevance to the SDGs

2 ZERO HUNGER	End hunger, achieve food security and improved nutrition and promote sustainable agriculture
3 GOOD HEALTH AND WELL-BEING	Ensure healthy lives and promote well-being for all at all ages
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Ensure sustainable consumptions and production patterns

Activities in 2020

One of the areas of largest concern we identified in 2020 was related to privacy and data security – specifically breaches in the protection of personal information and information security. Our increased online presence in 2020, linked to requirements for social distancing to slow the spread of COVID-19, meant that we have increasingly utilised our personal devices to connect with one another across a range of applications and services. While we are requiring more from telecom and social media companies to ensure we can connect, we are at the same time putting more of our personal information into these systems, increasing the power these organisations have in their ability to utilise these data. It is for this reason, that companies that capture or manage personal data, must have strong systems and policies to ensure they are well protected.

Our work with companies, to ensure they effectively manage the risks associated with personal data and security, couldn't be more pressing - and was the focus of a proactive thematic engagement in 2020. We sought to engage 12 telecom companies, all part of our investment universe, on their policies and practices regarding data privacy and security. Our ambition was that the companies' approaches to privacy and data security would not only achieve minimum standards but would be best in class. We covered topics such as data policies, data security practices, the use of consumer data including location-based data and targeted advertising. From those identified, we had dialogue with 9 companies in 2020, and will engage the remaining in 2021.

We expect companies to have responsible marketing practices, particularly important regarding children's rights. In 2019 we developed an approach to engaging with companies on the unethical marketing of formula milk. Unethical marketing of breast-milk formula can pose a risk to fundamental children's rights. In 2020, we began an engagement on the topic in collaboration with other financial institutions.

Selected company dialogues related to product safety and quality in 2020:

Expectations	Company	Details	Start
Data privacy	Zalando SE	Data privacy	2020
Product safety and quality	Bayer AG	Improper marketing practices	2018
Children's rights	The Kraft Heinz Company	Unethical marketing practices of breastmilk substitutes	2020
Data privacy & quality	Kindred Group Plc	Responsible gambling and privacy & data security	2019

Focus for 2021
In 2021, we will continue working through proactive engagement on data security and privacy with telecommunications companies. The focus will expand to also include surveillance (this may also entail targeting additional sectors). Further, we will continue engagement on unethical marketing of formula milk in collaboration with other Norwegian institutions. In addition, we will link our new focus area for 2021, health and sustainable food systems, to product safety and quality.

Deforestation and Land Use

Our work on deforestation is centred on the forest risk commodities - cattle products, palm oil, soy, and timber products – whose production are collectively responsible for 80% of global deforestation. The Intergovernmental Panel on Climate Change (IPCC) estimates that 23% of total net anthropogenic GHG emissions are due to agriculture, deforestation and land-use change[13]. The recent special report from the IPCC on Climate Change and Land highlights the links between unsustainable land-use practices and climate change, and notes that most modelled climate mitigation scenarios require considerable changes to current land-use practices[14]. The importance of the widespread adoption of sustainable land use practices is paramount if the world is to achieve the Paris targets and limit impacts from climate change.

Relevance to the SDGs

13 CLIMATE ACTION	This SDG focuses on mitigation, adaptation, and integration into policies and impact reduction. Our work focuses on working with companies regarding their production, use, or funding of deforestation risk commodities.
15 LIFE ON LAND	Our work with companies addresses a number of the underlying targets, including promoting the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally.

13 Summary for Policymakers
14 Land–climate interactions

Activities in 2020

In 2020, we continued to use our collaborative engagements as our primary apparatus by which to address the topic with companies. These collaborative engagements help to ensure the best chance for success, particularly when we have a small holding in a company, or when the company is not Norwegian listed. Our involvement with these engagements is important, given our exposure to the region through our emerging markets funds.

We have continued to engage companies as part of the PRI working group on Palm oil. These collaborative engagements regarding palm oil have been extended beyond Palm oil producers and Banks (new in 2019), to include Fast Moving Consumer Goods companies. These engagements with companies in all groups within the palm oil value chain remain ongoing, and we continue to see varying levels of action and improvement from the different companies across the different initiatives.

We have also continued to engage companies as part of the PRI-Ceres Investor Initiative for Sustainable Forests, which focuses on companies operating in the cattle and soy industries. As with 2019, in 2020 we continued to witness illegal deforestation in the Brazilian Cerrado and Amazon, linked to the Soy and Cattle industries. A study published in scientific journal, Science, found that at least 20% of soy exported and 17% of cattle exported from Brazil to the EU, was linked to illegal deforestation in these two regions in Brazil[15].

This highlights the role European consumers are having on the continued illegal deforestation occurring in the region. We believe the global companies operating in these industries are best positioned to make a considerable impact and address these issues. We see a continued effort to set no deforestation commitments, increase supply chain traceability and obtain external certification, and working to improve industry standards, as key components to eliminating deforestation.

Focus for 2021

The topic will remain of key importance for us in 2021. We will continue to engage companies as part of our collaborative engagements, and where necessary, directly, across the different forest risk commodities to reduce the level of deforestation occurring. In 2021 we will develop an expectations document on deforestation.

Selected company dialogues related to deforestation and land use in 2020:

Expectations	Company	Details	Start
Deforestation	Maybank	Deforestation related to financing palm oil plantations	2018
Deforestation	AAK AB	Deforestation related to palm oil in supply chain	2018
Deforestation	ADM, Cargill, Louis Dreyfus and Bunge Ltd.	Deforestation in Cerrado	2020

15 www.science.sciencemag.org

Oceans

Global oceans cover 71% of the planet's surface and are an essential part of the biosphere, regulating the global climate by mediating temperature and driving weather changes[16]. Ocean issues are also of importance for many other major global challenges including biodiversity, food security, human rights, pollution, urban development, and energy supply. In addition, an important issue to consider is how the oceans theme fits into the broader focus on promoting a circular economy (including how to handle marine plastics waste). Finally, threats and opportunities related to global oceans are a key focus for the whole DNB Group.

Relevance to the SDGs

11 SUSTAINABLE CITIES AND COMMUNITIES	Includes a target to reduce to reduce environmental impact of cities – including paying attention to waste management, and a target to protect natural heritage.
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Includes targets to achieve the sustainable management and efficient use of natural resources, and substantially reduce waste generation through prevention, reduction, recycling, and reuse.
13 CLIMATE ACTION	Climate change is directly addressed by this SDG, which focuses on mitigation, adaptation, and integration into policies and impact reduction.
14 LIFE BELOW WATER	This is the most central SDG, focusing on conservation and sustainably use of the oceans, seas, and marine resources.

Our engagements are aimed both at companies with activities directly linked to the ocean, and at those with land-based activities that are materially dependent on the ocean or which affect oceans significantly. The following sectors/activities are therefore especially relevant:

- Aquaculture and fisheries (seafood).
- Offshore oil and gas.
- Renewable marine energy (wind, etc.)
- Marine transport, ship building, ship recycling, and marine operations (including port activities).
- Deep sea mining.
- Biotechnology (marine based).
- Marine/coastal tourism.
- Land-based activities with significant influence on (and/or polluting) the oceans (mining, agricultural, chemicals, waste management, urban development, etc.)

Activities in 2020

DNB AM published a new expectations document regarding sustainable oceans in May 2020[17]. Thereafter, an engagement framework was developed, and we initiated proactive engagements directly with prioritised companies.

We first reached out to companies within aquaculture/seafood, a sector where there is considerable external scrutiny. The three major aquaculture companies engaged are based in Norway or the Faroe Islands, and they are the three largest listed seafood companies on the Oslo Stock Exchange (Mowi ASA, P/F Bakkafrost, SalMar ASA). They all rank well in the Coller FAIRR Protein Producer Index, a sign of a high level of overall sustainability (SalMar somewhat behind the other two)[18]. We have engaged the companies before on several of the issues discussed (including TCFD-alignment), and we now conclude that all the companies have reached milestone 4 in our engagement.

16 Goal 14: Conserve and sustainably use the oceans, seas and marine resources
17 Sustainable Oceans. Expectations towards companies
18 https://www.fairr.org

However, further improvements can be made for the three companies regarding ocean sustainability. We will follow up the companies concerning:

- Climate-related issues: Full TCFD alignment including scenarios analysis and better metrics are a focus for all the companies.
- Sustainable feed is a continuous challenge for the aquaculture industry. There is a need for clearer and stronger ambitions regarding the development of more sustainable feed ingredients/novel feed[19].
- Fish welfare/mortality is an issue that is receiving increasing attention. Better metrics (for fish stress) and increased scope (including "feeder fish") are on the radar, although there is a way to go to achieve this.

Note that there is a large R&D focus in the aquaculture industry on increasing land-based farming or farming further out in the sea (offshore). These developments may prove to be more sustainable for the environment, and it will be exciting to follow these efforts in the coming years.

Focus for 2021

DNB AM will continue the proactive engagement regarding sustainable oceans, focusing on the eight sectors/activities listed above. In our engagement, we will naturally focus both on threats and opportunities. One relevant recent report is "Ocean Solutions that Benefit People, Nature and the Economy (from the High Level Panel for a Sustainable Ocean Economy)[20]. Some interesting examples of possible solutions that might have a very high benefit-cost ratio are:

- Conservation and restoration of mangroves.
- Decarbonisation of international shipping.
- Ocean-based food production.
- Offshore wind energy production.

As noted above, one important sector is renewable marine energy where wind power is a key focus area. The trend in installations is shifting from offshore wind in shallow waters to deeper waters/floating offshore wind. Note that offshore wind is already a topic in our broad engagement with Equinor, and we will also reach out to some other key players in the sector.

In summary, we believe the focus on sustainable "blue" solutions and the "blue" economy is gaining traction.

Selected company dialogues related to oceans in 2020:

Expectations	Company	Details	Start
Sustainable oceans	Mowi ASA	Sustainable oceans, promote best practice (see expectation doc.)	2019
	Bakkafrost P/F		2019
	SalMar ASA		2019

19 However, progress relevant for these companies is being made, for example the Brazilian soy suppliers to the salmon industry, CJ Selecta, Caramuru and Imcopa/Cervejaria Petrópolis, will implement a 100 percent deforestation and conversion free soybean value chain with 2020 as their cut-off date
Soy vendors to the salmon industry end trade of deforestation linked soy in Brazil

20 The Ocean Provides Solutions to Global Challenges

Biodiversity

Biodiversity describes the variety of all life on Earth, including plants, bacteria, animals and humans and their interaction within ecosystems. With biodiversity loss happening at unprecedented rates, biodiversity is in crisis. The UN estimates that around one million plant and animal species are at risk of extinction due to human consumption and activities that disturb and destroy ecosystems[21]. In addition to being a tragedy of nature, biodiversity loss is also a major problem for humanity. The knock-on effects will threaten food security, livelihoods, and the economy. Companies may impact biodiversity through their business activities. Moreover, companies' dependencies on biodiversity may incur "ecological risks to operations, liability risks, regulatory, reputational, market and financial risks"[22]. By recognising and measuring these dependencies and impacts on biodiversity, companies may manage and prevent biodiversity-related risks and take advantage of new business opportunities. Biodiversity also goes hand in hand with climate change, and the COVID-19 pandemic has demonstrated the vital role of biodiversity has for human life, as it is a key driver of emerging infectious diseases. The integration of biodiversity into the recovery from the corona pandemic will be important to ensure a green and resilient recovery. COVID-19 also disrupted the major year for biodiversity policy and planning. Numerous large and important scheduled meetings in 2020 to finalise a global biodiversity policy (to replace the 2010 Aichi Biodiversity Targets) have been postponed to 2021.

An initiative to establish a Taskforce on Nature-related Financial Disclosure (TNFD) was announced in 2020. The initiative aims to develop a framework to guide nature-related financial disclosure by the end of 2022. This initiative highlights the data and reporting challenges associated with this theme. With increased regulations and disclosure, we expect to see the introduction of a framework for assessing biodiversity risks in 2021.

Relevance to the SDGs

Marine biodiversity unpins all economic activities that depend on the sea, from aquaculture and fisheries, to tourism. Working to encourage companies to protecting and conserve marine biodiversity is essential to achieving sustainable use of oceans, seas and marine resources.

Working towards companies to encourage conservation, restoration and sustainable use of terrestrial and freshwater ecosystem is crucial for sustainable development.

21 UN Report: Nature's Dangerous Decline 'Unprecedented'; Species Extinction Rates 'Accelerating
22 Biodiversity: Finance and the Economic and Business Case for Action

Activities in 2020
Biodiversity caught increased attention from investors in 2020, and we have continued engaging with companies on sustainable palm oil, soy and cattle through the PRI. We also engage with companies through the Meat sourcing and Sustainable Proteins Engagements (led by FAIRR/Ceres and FAIRR respectively). Furthermore, we developed an expectations document on sustainable oceans. Based on this, we initiated a broad proactive engagement, targeting companies in several sectors, including aquaculture and marine renewable energy.

Focus in 2021
The need for sound metrics and targets covering biodiversity and drivers of loss will still be important in 2021. We will aim to use a framework for engaging with companies on biodiversity in a more systematic way. Further, we will begin targeting companies that WWF has defined to have significant exposure to UNESCO World Heritage Sites (CITE tool). In addition, we will continue engaging with companies on sustainable palm oil, soy and cattle through the PRI, the Meat Sourcing Engagement through FAIRR/Ceres and FAIRR's Sustainable Proteins Engagement. Finally, we will develop expectations document on deforestation.

Selected company dialogues related to biodiversity in 2020:

Expectations	Company	Details	Start
Biodiversity	Hennes & Mauritz AB	Implementing biodiversity metrics	2020
	Suzano Papel e Celulose SA	Disclosure on biodiversity	2020
	Darling Ingredients Inc	Disclosure of biodiversity related metrics like water	2020

Health and Sustainable Food Systems

Health and sustainable food systems is a new focus area from 2021. We aim to cover a range of topics from food-related issues to preparedness/prevention of disease outbreak. The coronavirus pandemic has put health and wellness higher on the global agenda by making the links between global health and the environment more visible. As a result of global warming, a number of animals may be forced to adapt and move from their historic habitats. This will likely draw them closer to humans, which may lead to increased chances of diseases transferring from animals to humans. Moreover, given the predicted large population growth in the coming decades, it will be necessary for the global food system to reinvent itself over the next 30 years in order to provide sufficient, low-carbon, healthy and sustainable food. There is also global regulatory support from the European Farm to Fork strategy, Biden's plans to invest in precision agriculture and Xi Jinping's vision for green development potentially including agriculture. Also, the UN's Food Systems Summit in 2021 "has the potential to mobilise both the public and private sector in the same way that COP26 did for climate change".

Focus for 2021

Our work on this thematic focus area will be relevant to sectors such as food production, agricultural chemicals, consumer staples and health care. We will continue engaging with companies through FAIRR on sustainable protein, meat sourcing, and on antibiotics overuse.
In our investor collaboration through Access to Medicine Foundation, we will work towards fair distribution and increased production of COVID-19 vaccines. We will also continue engagement with Norwegian investors on formula milk. Moreover, we will consider the PRI's expectations statement on nutrition, diets, and health.

Relevance to the SDGs

2 ZERO HUNGER	End hunger, achieve food security and improved nutrition and promote sustainable agriculture
3 GOOD HEALTH AND WELL-BEING	Ensure healthy lives and promote well-being for all at all ages
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Includes targets to achieve the sustainable management and efficient use of natural resources, and substantially reduce waste generation through prevention, reduction, recycling, and reuse.
14 LIFE BELOW WATER	Marine biodiversity unpins all economic activities that depend on the sea, from aquaculture and fisheries, to tourism. Working to encourage companies to protecting and conserve marine biodiversity is essential to achieving sustainable use of oceans, seas and marine resources.
15 LIFE ON LAND	Working towards companies to encourage conservation, restoration and sustainable use of terrestrial and freshwater ecosystem is crucial for sustainable development.

12. Sustainability-themed Funds in Focus

All our funds and investments follow our Standard for Responsible Investments. However, clients seeking funds with an enhanced ESG or sustainability profile can opt for funds that exclude companies that are involved in the production of alcohol, conventional weapons and/or gambling or direct exposure to fossil energy. For clients interested in dedicated sustainability-themed funds were additional exclusions criteria and/or positive selection criteria are utilised, we offer funds that exclude companies that are either exposed to fossil energy, have high carbon footprints (intensity) and/or large fossil fuel reserves. Further, we offer funds that also utilises positive selection focusing on Nordic companies with a positive environmental profile. Lastly, we offer a fund which invest in companies that provide solutions to the challenges of climate change, such as renewable energy and energy efficiency.

DNB Miljøinvest and DNB Renewable Energy

> The companies within the fund contribute to potentially avoiding four tonnes of emissions per tonne of emissions released.
>
> **Christian Rom, Portfolio Manager**

About the funds (31.12.2020)

NOKm 7,250 (combined) Fund AUM	**Global** Regional focus	**64** Portfolio holdings
347 tCO2e/USDm Weighted average carbon intensity of fund	**6.7/10** Fund's weighted average ESG score	**22** Relevant ESG company dialogues

DNB Miljøinvest and DNB Renewable Energy[23] are actively managed equity funds that invest in companies whose services and technologies aid the reduction of global emissions, predominantly energy related emission. Before conducting any financial fundamental evaluation of the equities, the environmental angle of the company is investigated, and the Portfolio Manager seeks to understand if the business is significantly driven by enabling a better environment or not. The investment universe therefore includes sectors like solar and wind energy, enabling materials, biofuel, energy saving, power storage, fuel cells, grid. Agriculture is also a sector with significant emissions so alternative protein sources and sustainable farming (which contributes to lowering emissions) would also be part of our investment universe although this has not been a significant part of our investments in the past.

23 DNB Renewable Energy is the Luxembourg-domiciled equivalent of DNB Miljøinvest, which is domiciled in Norway

Positive selection

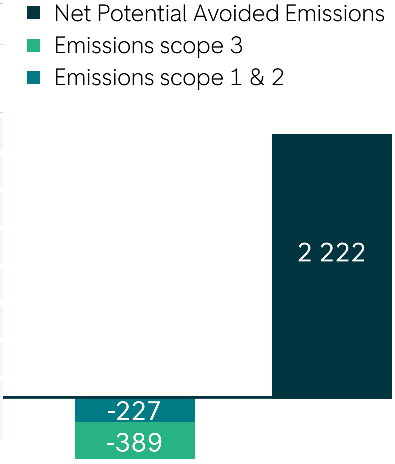
An example of how companies provide solutions to climate and environmental challenges are described below:

Company	Challenges	Solutions	Potential SDG exposure
Renewi Plc	**Climate change** • Shifting from a linear economy to a circular economy is crucial for delivering on the goals of Paris Agreement. According to Circle Economy "62% of global greenhouse gas emissions (excluding those from land-use and forestry) are released during the extraction, processing and manufacturing of goods to serve society's needs; only 38% are emitted in the delivery and use of products and services"[24]. Moreover, global use of materials is accelerating.	**Enabling emissions reductions** • Contributes to carbon avoidance by recycling waste (instead of sending waste to incineration or landfill) and producing avoiding the use of new primary raw materials. • Uses renewable energy and sell green energy produced on site.	 • Carbon avoidance during 2020 was 257kgCO2/tonne waste handled. Target is 266 by 2023 and 275 by 2025. • Has also set targets for: reducing carbon intensity of sites, increasing the share of renewable energy on-site, increasing the share of hybrid, electric, clean and zero emission trucks and cars. • Processes contaminated soil into gravel, filler and sand for use by the construction industry and road building. Target is 1m tonnes processed soil each year.
	Linear economy • The unsustainable "take, make, waste" approach of linear economies contributes to high levels of GHG emissions, waste and pollution[25]. The move towards a circular economy is also necessary to meet the world's growing population's demand for raw materials[26] .	**Enabling a circular economy** • Collects and processes waste and sells recyclates and energy produced. Plans to deliver more high-quality secondary raw materials and biofuels moving forward.	 • Treats wastewater to make it clean again. • Target to increase recycling rate from 65% of total waste handled in 2020 to 75% in 2025.
			• Target to increase from 200,000 tonnes of innovative secondary materials produced in 2020 to 1m tonnes in 2025.

24 Circular Economy Crucial for Paris Climate Goals
25 Cities and the circular economy (ellenmacarthurfoundation.org)
26 Circular economy: definition, importance and benefits | News | European Parliament (europa.eu)

Figure 2. Net potential avoided emissions for the fund

Significant Net Potential Avoided Emissions for the fund ton Co2 / EURm invested				
Sector	Scope 1 & 2	Scope 3	PAE	Net PAE
Wind	-1	-1	913	911
Materials	-25	-35	658	597
Biofuels	-26	-3	454	426
Solar	-4	-10	211	197
Power generation	-164	-302	519	52
Energy saving	-7	-37	84	40
Fund total*	**-227**	**-389**	**2 838**	**2 222**
Ton Net Potential Avoided Emission per ton emitted				4x



* The estimates covers 82% of portfolio holdings as of 31.12.19 and have been prepared together with ISS ESG

Potential avoided emissions

Carbon footprinting typically focuses on scope 1 and 2 emissions – these cover direct emissions from company facilities and company-owned vehicles, as well as indirect emissions from consumption of purchased electricity, heat or steam. However, companies' scope 3 emissions should not be neglected. These are the emissions related to up- and downstream activities in the value chain of companies' products and/or services. Due to the complex nature of estimating such emissions, these are typically not reported, or are reported, but not in their entirety. Though some ESG data providers estimate these emissions, it is still not common for these to be included in investors' carbon footprinting. It is also important to note that these underreported scope 3 emissions represent the greatest source of emissions for some sectors, such as oil and gas.

As a result of these challenges, investments have been directed into sectors that are carbon efficient in terms of their scope 1 and 2 emissions. What is not considered in such investments is that investment opportunities lay within emissions reducing "solution provider companies". These are companies with products and services that offer reduced emissions compared to traditional sources (i.e. renewable energy) or which enable emissions reductions for their customers. These benefits are often not captured by traditional scope 1 and 2 carbon footprinting, and additional analysis is required to understand the emissions that such technologies may help to avoid. DNB Miljøinvest and DNB Renewable Energy are dedicated to investing in such solution providers.

On the back of these challenges and growing demand to quantify and measure positive contributions to climate and the environment, we engaged ISS-ESG as a consultant to help us measure potential avoided emissions of DNB Renewable Energy.

The Potential Avoided Emissions (PAE) calculated for the fund are 2,838 tCO2 per EURm invested and compares to a carbon footprint of 616 tCO2 per EURm. This only considers 82% of the fund holdings, but in our opinion gives a fair estimate on how figures also would look for the total portfolio (assuming equal figures for the rest of the portfolio would imply PAE of 3,476 and carbon footprint of 754).

In addition to the PAE work, a high-level assessment of the portfolio's potential revenue exposure to the United Nations (UN) Sustainable Development Goals (SDGs) was also conducted. The Bloomberg SDG tool was used to conduct this work and reveals that revenues are primarily exposed to SDG 7 (affordable and clean energy), SDG 9 (industry, innovation and infrastructure) and SDG 11 (sustainable cities and communities). Nonetheless, we recognise the need for more granular research to better understand direct and indirect exposure to the SDGs. We therefore provide two company-level examples showing more detailed analysis. The results of this exercise are largely consistent with our view. However, the approach to understanding and mapping SDG exposure will develop and increase in sophistication over time. Understanding how companies work towards the SDGs is also an important aspect of our active ownership activity.

The report in full can be accessed here, [DNB Renewable Energy Avoided Emissions report.]

Labelling

DNB Renewable Energy received the German FNG Label with the highest possible rating of three stars for the third year running.

The fund is awarded the label for its thematic investment in renewable, sustainable transportation and energy efficiency. Furthermore, established voting and formal engagement policies show active involvement with respect to ESG aspects. Extensive internal research and reporting were also positive contributors to the labelling.

In addition to adhering to DNB's Standard for Responsible Investments, the portfolio managers also commit to apply additional exclusion criteria, based on revenues, to ensure compliance with the label. The threshold for all of the below, unless otherwise specified, is less than 5% of company revenues:

- Manufacturers that mine uranium
- Companies that base their electricity generation on nuclear energy
- Operators of nuclear power plants and manufacturers of essential components for nuclear power plants
- Companies which use and/or produce hydraulic fracking technologies
- Manufacturers of conventional weapons
- Coal mining companies*
- Companies with base their power production on coal energy (less than 30% of revenues)
- Companies which exploit and/or concentrate oil sands*

* Stricter threshold than that defined in the DNB Group Standard for Responsible Investments.

The criteria for achieving the label are reassessed yearly and may become stricter. In this way, being awarded this label for a third year reflects the continuous improvement in the management of material ESG risks and opportunities.

DNB Renewable Energy also received the LuxFLAG Environment Label for the second time in December 2020. The label is valid from the 1st of January until the 31st of December 2021. The primary objective of this label is to reassure investors that the fund primarily aims to generate environmental performance and asset/sector growth with environmental practices. Some of the eligibility criteria for this label include incorporating ESG considerations into investment decision making and regular reporting of information for investors.

European SRI Transparency Code

The European SRI Transparency logo signifies that DNB Asset Management commits to provide accurate, adequate and timely information to enable stakeholders, in particular consumers, to understand the Socially Responsible Investment (SRI) policies and practices relating to the fund. Detailed information about the European SRI Transparency Guidelines can be found on www.eurosif.org, and information of the SRI policies and practices of the DNB Asset Management can be found at: Sustainability library

Active ownership and ESG integration

Our engagement strategy outlines how we prioritise topics for engagement and track progress against milestones over

Company	Engagement theme	Result(s)	Milestone progression
Renewable Energy Group	Sustainability reporting Target setting	• Increased transparency and reporting • First sustainability report published in 2019 • Improved ESG rating • Increased focus on gender equality and diversity • Measures and reports GHG emissions	 Gaps to reaching milestone 5: • See that improved processes/programmes around diversity have an impact • Set target for GHG emissions reductions

time. Some examples from our engagement activity are described in detail below:

Milestone progression

In 2020, we engaged with 22 companies[27] on behalf of the fund where 29% of dialogues covered governance topics, 42% covered environmental topics and 29% covered social topics. Most dialogues have reached milestone 4, where the company has created and implemented a strategy to address our concerns.

Further details of milestone progression are shown in the graphs below.

Figure 3. Number of milestones progressed during 2020

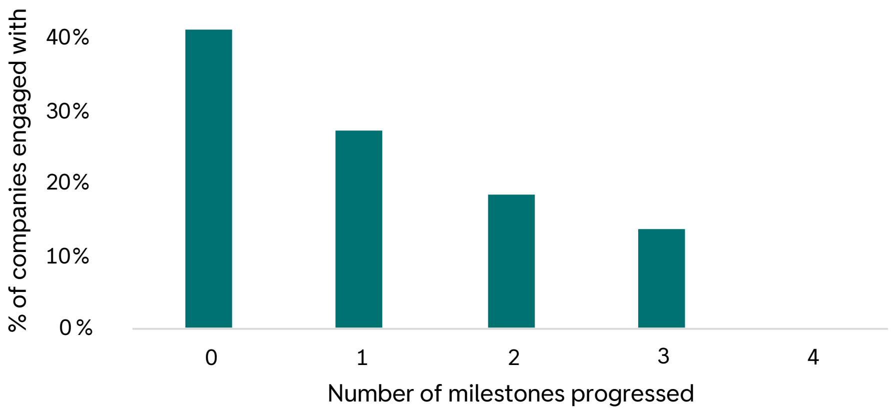
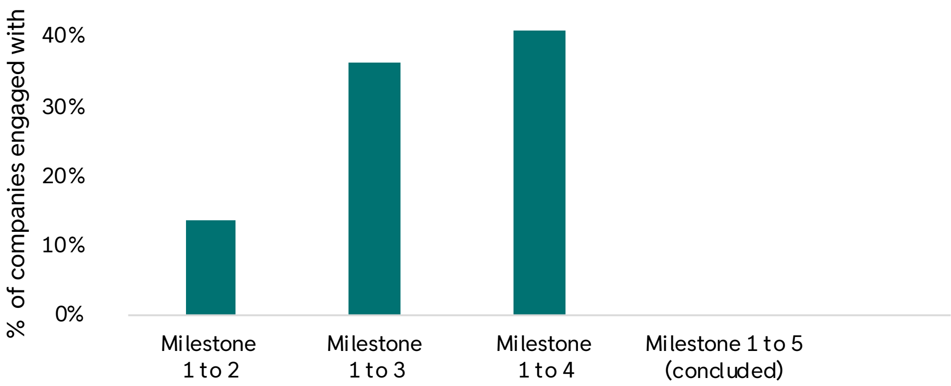


Figure 4. Milestone progression since beginning of engagement



27 Where the ESG team has participated in the engagement. Additional relevant engagements have been held by our external engagement consultant.

DNB Grønt Norden

Øyvind Fjell, Portfolio Manager

Highlight for 2020

2020 saw a further strengthening of the green investment case; both regulators, companies, investors, and consumers are now clearly aligned in their fight for the environment.

The fund achieved again strong financial performance.

About the funds (31.12.2020)

NOKm 5,407 Fund AUM	**Nordic[28]** Regional focus	**47** Portfolio holdings
94 tCO2e/USDm Weighted average carbon intensity of fund	**8.4/10** Fund's weighted average ESG score	**21** Companies engaged with[29]

DNB Grønt Norden is an actively managed equity fund that invests in listed companies in the Nordic region. The fund has an environmental mandate and focus on companies with low carbon intensity, whilst maintaining an average industry-adjusted ESG score higher than its benchmark. The fund utilizes positive screening to include companies that have a potential positive environmental contribution across the following themes:

- Climate change
- Water management
- Energy efficiency
- Waste management
- Water and air pollution
- Deforestation
- Biodiversity

Companies are also screened out of the portfolio based on the following criteria:

- DNB's Standard for Responsible Investments.
- The fund has additional criteria beyond DNB's Standard for Responsible Investments, and the fund does not invest in companies with direct exposure to fossil fuels or with a high level of carbon emissions. In addition, the fund does not invest in companies with a significant portion of revenues coming from fossil fuels, conventional weapons, gambling, or alcohol production.

ESG integration is a key part of the investment process, and the RI team maintains a close dialogue with the portfolio manager to support the process. In addition, The RI team and the portfolio manager work collaboratively to screen companies for possible inclusion in the fund in line with the green themes listed above.

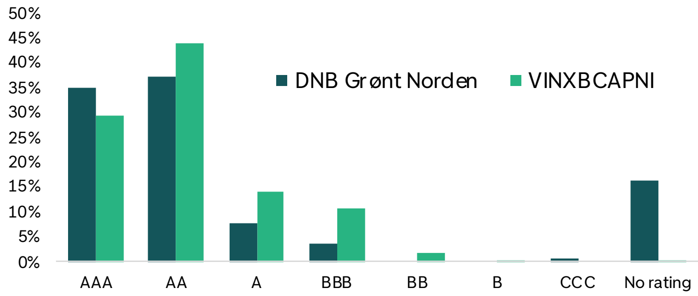
28 Reference index: VINXBCAPNI
29 ESG, where the RI-team has participated in the engagement on behalf of the fund

ESG-rating
The fund's mandate is to have an average ESG-rating (MSCI ESG) higher than its benchmark, and the graph below shows that the ESG score (industry-adjusted) for the fund was 8.4 versus the benchmark's 7.9 at the end of 2020.

Figure 5. ESG-score

Note: 84% of the total portfolio was covered by MSCI's ESG-ratings 31.12.2020.

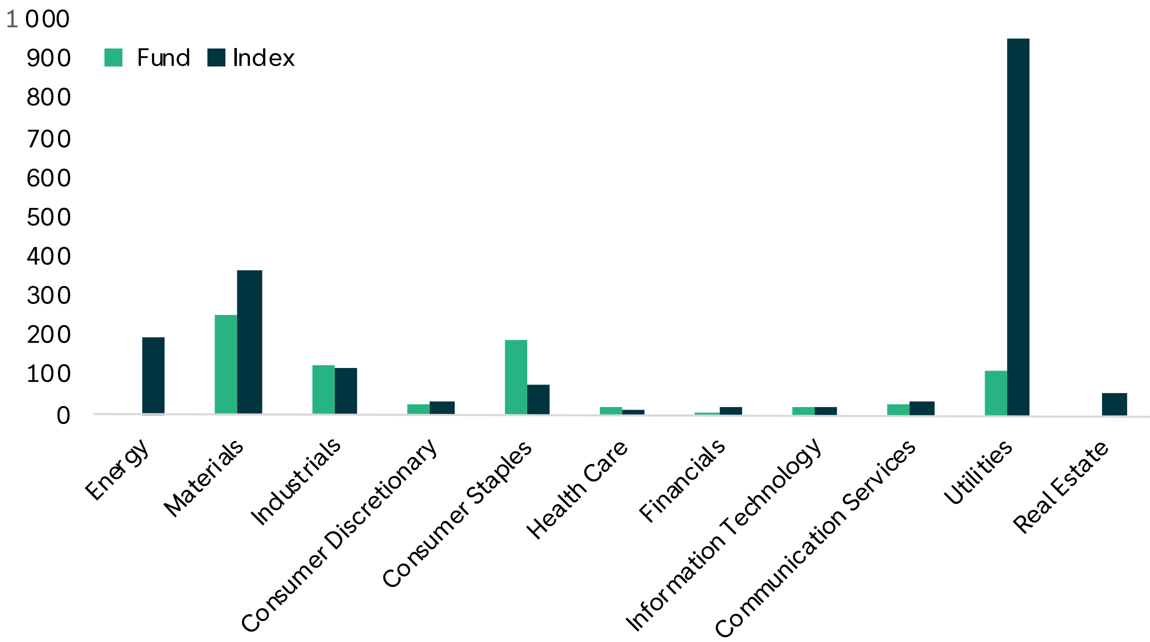
Figure 6. ESG-rating distribution



Carbon footprint
The fund has an environmental mandate and focus on companies with low carbon intensity. It has a specific mandate to achieve a portfolio carbon footprint (intensity) under 100 metric tonnes CO2e/USDm sales.
At the end of the year, the carbon intensity of the fund was 94 tonnes CO2e/USDm sales (benchmark: 112).

In the graph below, there are further details of carbon intensity per sector. Notice that especially in the sector utilities, the fund invests in companies with much lower average carbon intensity than the sector average.

Figure 7. Carbon intensity per sector (CO2e/USDm revenue)



Positive selection

DNB Grønt Norden is a thematic, environmental fund and utilises positive screening to include companies that have a positive environmental profile across seven green themes. Some examples of how companies provide solutions to climate and environmental challenges are described in the table below.

Examples of positive selection

Company	Investment theme	Potential contribution	Key SDG alignment
Ørsted A/S	**Climate change** • World's largest developer of offshore wind farms.	• The company avoided 11.3 million tonnes CO2 in 2019, and served 15 million people with green energy in 2020. • This is the result of Ørsted's wind-based and biomass-converted energy generation.	7 AFFORDABLE AND CLEAN ENERGY 13 CLIMATE ACTION
Scatec Solar ASA	**Climate change** • Develops, builds, operates, and owns solar power plants – focus on developing countries. • Expanding into energy from hydro and wind.	• The company avoided 0,9 million tonnes CO2 in 2019. Reached 1.4 mill tonnes avoided annually at the end of 2020. • Contributes to clean, affordable, and renewable electricity generation in developing countries.	7 AFFORDABLE AND CLEAN ENERGY 13 CLIMATE ACTION
NEL ASA	**Climate change** • Water & air pollution. • World's largest hydrogen electrolyser manufacturer. • Leading manufacturer of hydrogen fuelling stations for vehicles.	• Enabler of an emerging hydrogen market. • Solutions to produce, store and distribute hydrogen from renewable energy (for mobility, industry, energy, and industrial gases).	7 AFFORDABLE AND CLEAN ENERGY 13 CLIMATE ACTION

Active ownership

We also engage in dialogues with companies to influence them in a positive direction. For example, DNB AM has collaborated with three other large Norwegian institutions targeting larger listed Norwegian companies (in 2018, 2019, and 2020) regarding climate related governance, strategy, and reporting (TCFD). Climate related issues (TCFD) is also now part of our own broader engagement on sustainable oceans. Below are some examples from this engagement in 2020 targeting aquaculture/seafood.

Oceans sustainability (including TCFD-alignment)

Company	Engagement theme	Result	Milestone progression
P/F Bakkafrost **Mowi ASA** **SalMar ASA**	**Oceans sustainability (including TCFD-alignment)** • Assess how the companies address oceans and sustainability in their governance structure, strategy, and reporting. • Identify possible significant gaps to best practice - and promote measures to close the gaps.	• The three major aquaculture companies all rank well in Coller FAIRR Protein Producer Index, a sign of a high level of overall sustainability. • Bakkafrost has generally strengthened its governance structure/resources for ocean sustainability. Committed to the Sustainable Ocean Principles and TCFD-alignment. • Mowi has introduced new ambitions on the climate side. Approved Science Based Target – including scope 3 targets. • SalMar is working hard on developing better climate related targets and metrics (TCFD alignment) – concluding in 2021?	 **Next step,** achieve further improvements in: • Climate related issues: Full TCFD alignment. • Sustainable feed - a need for clearer and stronger ambitions regarding the development of more sustainable feed. • Fish welfare/mortality - Better metrics and increased scope (including "feeder fish").

Milestone progression engagements

In 2020, we engaged with 21 companies on behalf of the fund[30]. Most dialogues have reached milestone 4, where the company has created and implemented a strategy to address our concerns.

Further details of milestone progression are shown in the graphs below.

Figure 8. Number of milestones progressed during 2020

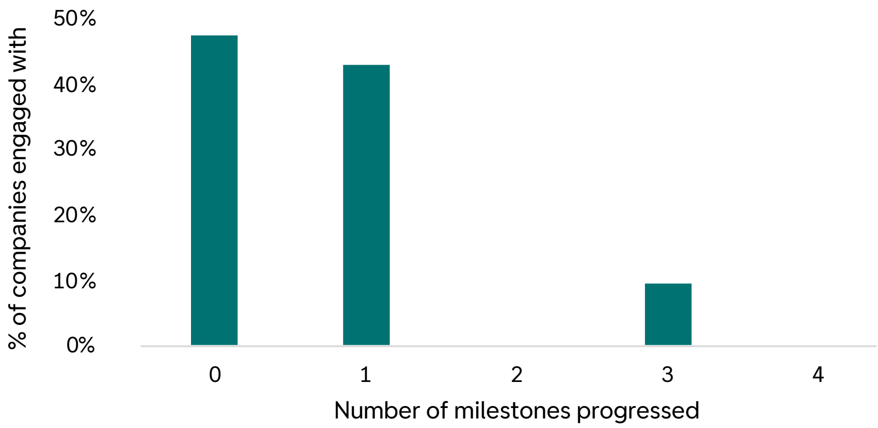
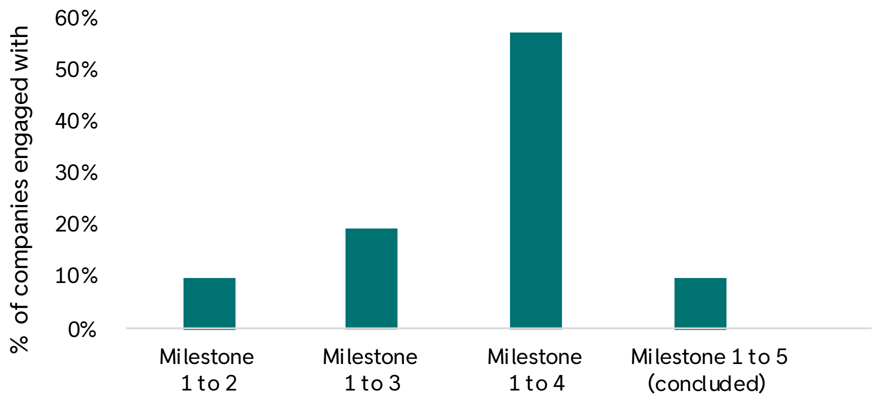


Figure 9. Milestone progression since beginning of engagement



30 Where the RI-team has participated in the engagement. Additional relevant engagement has been held by our engagement consultant.

DNB Global Lavkarbon

Highlight for 2020

Fully integrated the ESG and CO2 factors in the fund's proprietary factor model.

Achieving top ranked financial return for the customers.

Ole Jakob Wold, Portfolio Manager

About the funds (31.12.2020)

NOKm 1,064 Fund AUM	**Global**[31] Regional focus	**90** Portfolio holdings
44 tCO2e/USDm Weighted average carbon intensity of fund	**6.3/10** Fund's weighted average ESG score	**37** Companies engaged with[32]

DNB Global Lavkarbon DNB Global Lavkarbon is an actively managed dynamic multi-factor fund that invests in listed companies in developed countries. The fund has an environmental profile and invests in companies with low carbon intensity, whilst maintaining an average industry-adjusted ESG score higher than its benchmark. The fund utilizes an advanced multi-factor model to optimize the portfolio.

Companies are also screened out of the portfolio based on the following criteria:

- DNB's Standard for Responsible Investments.
- The fund has additional criteria beyond DNB's Standard for Responsible Investments, and does not invest in companies with direct exposure to fossil fuels or with a high level of carbon emissions. In addition, the fund does not invest in companies with a significant portion of revenues coming from fossil fuels, conventional weapons, gambling, or alcohol production.

ESG risks and opportunities are inherently accounted for in this fund which applies specific ESG screening and optimisation requirements. In addition, the fund is rebalanced monthly and all new companies are screened by the RI-team before they can be included in the fund. The RI-team also screens all new companies when the benchmark is rebalanced. ESG issues raised by the RI-team that are not in breach with the screening criteria may impact the final investment decision and could lead to initiating a dialogue with the company.

31 Reference index: MSCI World
32 ESG, where the RI-team has participated in the engagement on behalf of the fund

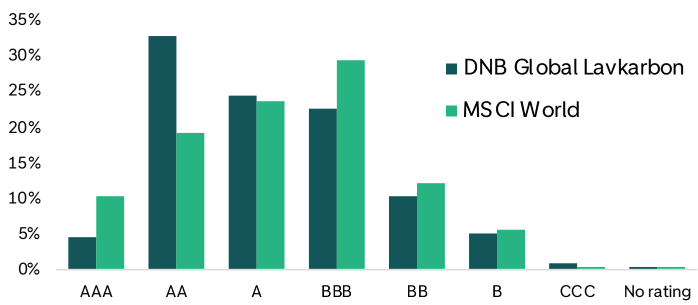
ESG-rating

The fund's mandate is to have an average ESG-rating (MSCI) higher than its benchmark, and the graph below shows that the ESG score (industry-adjusted) for the fund was 6.3 versus the benchmark's 6.1 at the end of 2020.

Figure 10. ESG-score

99% of the total portfolio was covered by MSCI's ESG ratings 31.12.2020.

Figure 11. ESG-rating distribution

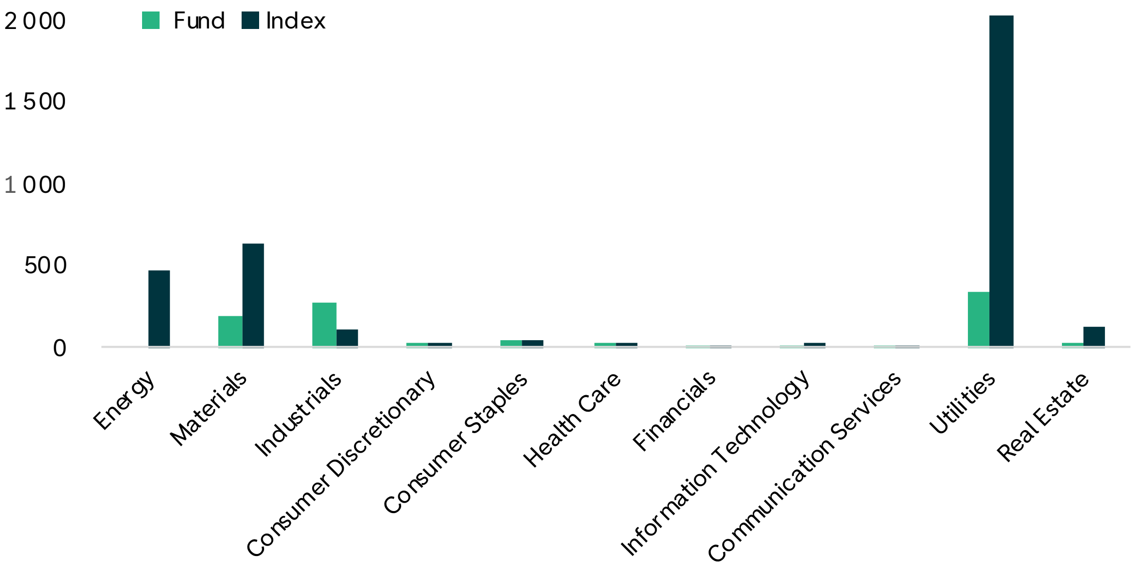


Carbon footprint

The fund has a specific mandate to achieve a portfolio carbon footprint (intensity) under half of its benchmark. At the end of the year, the carbon intensity of the fund was 44 tonnes CO2e/USDm sales (benchmark: 139).

In the graph below, there are further details of carbon intensity per sector. Notice that for several sectors, the fund invests in companies with much lower average carbon intensity than the sector average.

Figure 12. Carbon intensity per sector (CO2e / USDm revenue)



Positive selection
DNB Global Lavkarbon is a thematic, environmental fund. In the positive selection, it uses a sophisticated multi-factor model. In the model optimisation, ESG and carbon data is incorporated (see the illustrations below).

Figure 13.

Our alpha source is the proprietary DNB Multi-factor model

Why dynamic multi-factor

✓ **As the economy changes, investment opportunities change**
- Macro-economic environments evolve, and stock markets react to the changes in the economy by re-pricing fundamental characteristics
- Change happens gradually, usually over months or years. Our stock rankings change as the rewards to stock fundamentals are re-priced.
- We believe factor weights should adapt as market style changes.
- **This product is made to change.**

✓ **Traditional Quant products do not change**
- Working with a limited and stale number of factors is similar to selecting an investment style bias for your analysis and sticking to it forever. Alpha will be driven by the selected factors going in- and out of favor.

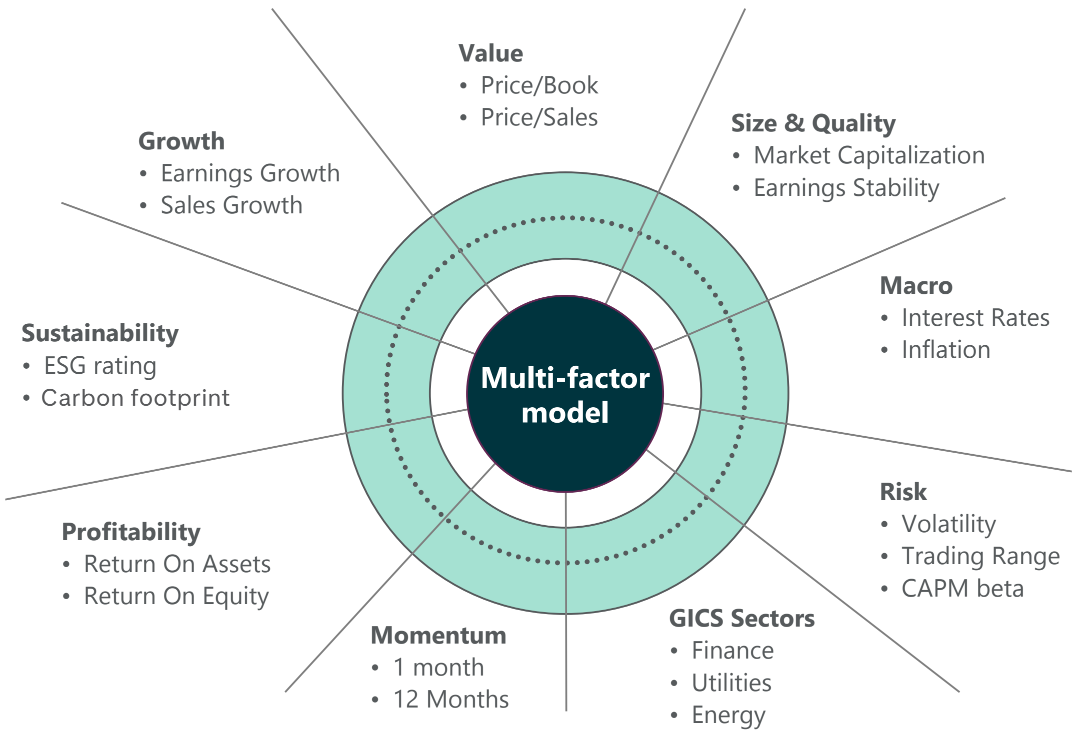
Dynamic multi-factor

✓ **A systematic model; Consistent results**
- Dynamic factor weights allow model to adapt to changing markets

✓ **A complex world; A complex model**
- A broad model that considers 60 fundamental stock characteristics
- An adaptive rather than static process means it will change with changing market preferences
- The same model is applied across all developed stock markets

Figure 14.

Example of fundamental factors used in our multi-factor model



Active ownership

We also engage in dialogues with companies to influence them in a positive direction. Below are some examples from two of our thematic engagements. The collaborative engagement on the cocoa supply chain is now in phase II, while we initiated the engagement on the textile industry in 2020.

Cocoa supply chains (human rights)

Company	Engagement theme	Result	Milestone progression
The Hershey Co **Chocolade-fabriken Lindt & Sprungli AG** **Mondelez International Inc** **Nestlé SA** **Barry Callebaut AG**	**Cocoa supply chains (human rights)** • Assess how the companies address issues relating to human rights (child labour, living wages). • Sustainability in the cocoa supply chain - promote best practice (UN Guiding Principles on Business and Human Rights).	• The companies have continuously improved their work on child labour in their supply chains, but still have some way to go. • Several measures introduced to promote living wages. Example: **Nestlé** - extra bonus for farmers adhering to good practices, such as pruning of cocoa trees.	 **Next step:** • Continue the collaborative engagement – phase II. • Achieve improved policies and measures regarding human rights (especially child labour and living wages).

Textile industry (human rights and environmental issues)

Company	Engagement theme	Result	Milestone progression
Hennes & Mauritz AB **Nike Inc** **Zalando SE**	**Textile industry (human rights and environmental issues)** • Assess how the companies address issues relating to human rights (child labour, modern slavery) and serious environmental harm. • Sustainability in the textile industry – promote best practice.	• **Hennes & Mauritz** is now one of the front runners pushing for a more sustainable textile industry. But we continue to challenge the company on best practice (human rights, biodiversity, climate related issues). • **Nike** is now also quite advanced in terms of sustainability. But we encourage the company to set more concrete targets and to work through sector collaborations to leverage their influence. • **Zalando SE** has published extensive sustainability related policies. We continue to challenge the company to document the outcome of their work.	 **Next step:** • Continue the collaborative engagement – phase II. • Achieve improved policies and measures regarding human rights (especially child labour and living wages).

Milestone progression

In 2020, we engaged with 37 companies on behalf of the fund[33]. Most dialogues have reached milestone 4, where the company has created and implemented a strategy to address our concerns.

Further details of milestone progression are shown in the graphs below.

Figure 15. Number of milestones progressed during 2020

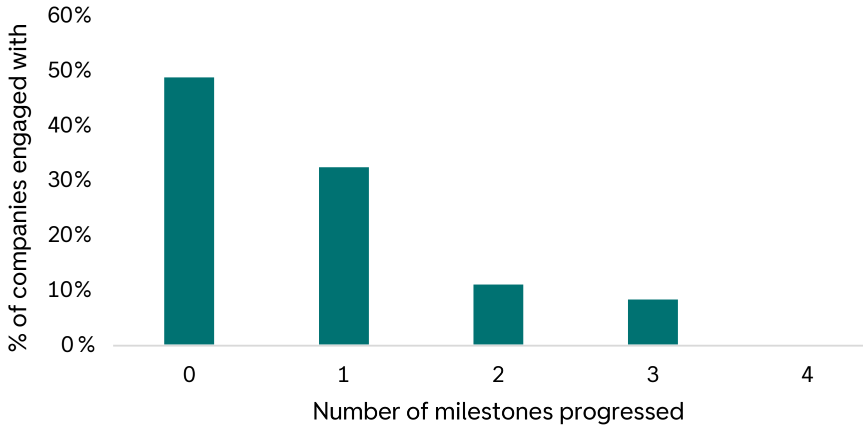
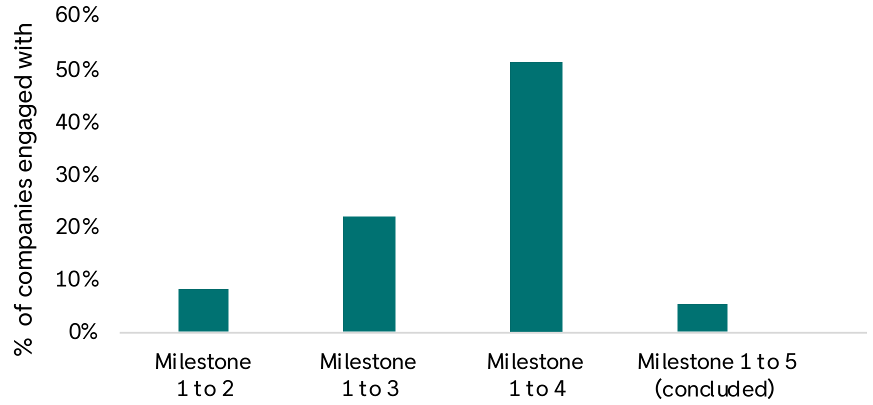


Figure 16. Milestone progression since beginning of engagement



33 Where the RI-team has participated in the engagement. Additional relevant engagement has been held by our engagement consultant.

DNB Low Carbon Credit

DNB Low Carbon Credit will maintain a higher industry-adjusted ESG score than the market index and we are enhancing the relative value for firms with strong ESG-ratings in our systematic investment approach. We believe this will boost returns first and foremost by reducing downside risks associated with ESG controversies.

Daniel Berg, Portfolio Manager

About the funds (31.12.2020)

NOKm 3,409
Fund AUM

Global
Regional focus

326
Portfolio holdings

34 tCO2e/USDm
Weighted average carbon intensity of fund (vs. benchmark's 138 tCO2e/USDm)

6.3/10
Fund's weighted average ESG score (vs. benchmark's 5.9/10)

37
Number of relevant ESG company dialogues

DNB Low Carbon Credit is an actively managed bond fund investing in fixed or floating rate debt securities and other debt instruments denominated in EUR, USD, CAD, GBP, AUD, CHF, JPY and SEK. The fund has an environmental profile and does not invest in companies with direct exposure to fossil fuels or in companies with high levels of climate gas emissions. The fund has additional criteria beyond DNB's Standard for Responsible Investments and does not invest in companies with more than 5% of their revenue from business related to conventional weapons, commercial gambling, or alcohol production.

Active ownership and ESG integration
Some highlights from our engagement activity are described in detail below:

Company	Engagement theme	Result(s)	Milestone progression and next steps
Volkswagen AG	Emissions scandal Climate change Company culture Remuneration	• Significant progress demonstrated in the company's testing in the US. • Has rolled out its "Together for Integrity" strategy to address its corporate culture (covered about half of employees to date). • Board independence continues to pose a challenge, though the company has been open by sharing this concern with the Executive Committee. • Allegations of collusion to delay clean technology are still under investigation by the European Commission and an increasing number of people are being charged by the Braunschweig prosecutor.	 **To reach milestone 5:** • Adequate risk management systems and internal controls. • Sufficient oversight, independence and competency from the Supervisory Board necessary to prevent future violations. • Demonstrate an improvement in corporate culture.
Danske Bank A/S	Money laundering	• Board has oversight over Anti Money Laundering (AML) and has established a Conduct and Compliance Committee. • AML issues are discussed at almost all Board meetings (covers events, processes and significant transactions). • Has an AML initiative that aims to move from a manual process to an automated process. • On creating cultural change: addressing transparency, improving whistleblower processes, training for all employees, additional tailor training towards high-risk employees, integrating aspects of corporate culture into remuneration schemes.	 **To reach milestone 5:** • Significant improvements in AML practices stemming from the AML initiative and cultural improvement processes. • Have highlighted that best practices includes achieving external verification of risk management and compliance processes.

Green bonds

Green bonds have been created to raise finance for green projects that deliver climate and/or environmental benefits. Issuers can self-label bonds as green as there is no legal requirement to issue green bonds. However, international standards such as the Green Bonds Principles of Climate Bond Standards can be recognised or adopted by national financial authorities, issuers and certifying bodies. Two categories of bonds have emerged: green labelled bonds (certified as green) and unlabelled green bonds (issuances linked to projects that produce environmental benefits). At a minimum, issuers will by themselves provide detail to investors on the green eligibility criteria for the use of proceeds, for example disclosed in a green bond framework. For increased transparency, issuers can commission an external review on the green credentials of the use of proceeds. The global green bond market has seen rapid growth since it started taking off in 2014, with USD37bn was issued. By 2020, the Climate Bonds Initiative estimated USD 222.8bn in issuance, with USD 350bn estimated by the end of 2021[34].

As at 31.12.2020, 3% of the portfolio comprised green bonds, versus the benchmark's 2%. An example of a green bond that DNB Low Carbon Credit is invested in is one offered by Vattenfall. The bond has received a dark green second opinion from Cicero. This opinion provides assurance that the green bond corresponds to the long-term vision of a low-carbon and climate-resilient future.

Milestone progression

In 2020, we engaged with 37 companies[35] on behalf of the fund where 25% of dialogues covered governance topics, 17% covered environmental topics and 58% covered social topics. Most dialogues have reached milestone 4, where the company has created and implemented a strategy to address our concerns.

Further details of milestone progression are shown in the graphs below.

Figure 17. Number of milestones progressed during 2020

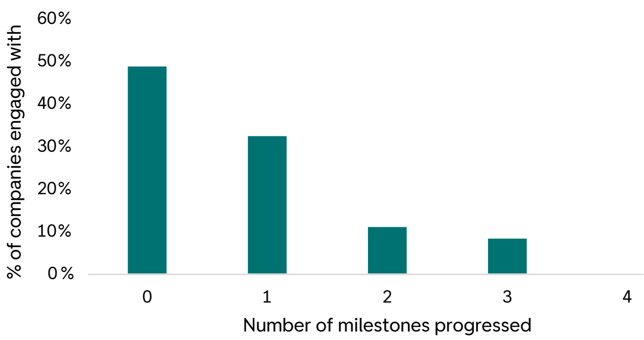


Figure 19. ESG-rating distribution

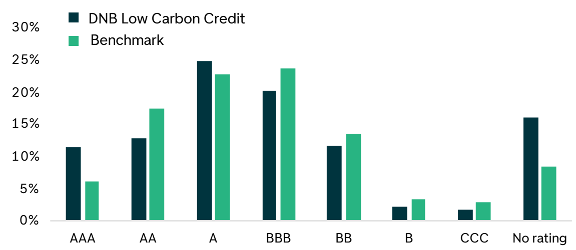
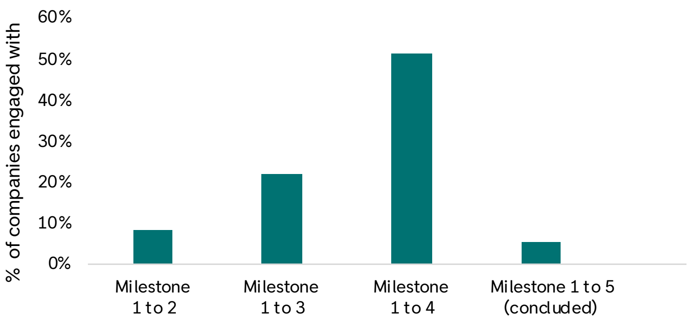


Figure 18. Milestone progression since beginning of engagement



34 Climate Bonds Initiative | Mobilizing debt capital markets for climate change solutions
35 Where the ESG team has participated in the engagement. Additional relevant engagements have been held by our external engagement consultant.

13. Appendix

Climate-related Risk Management

This table on the next page provides examples of risks that companies are to take into account and manage in their operations and investment analyses, and how the risks can be conceived to affect an investment in companies/sectors/geographic markets. ESG factors are an integral part of the investment decision-making process and important to determining which companies are potentially at risk from the transition to the low-carbon economy and/or the physical impacts of climate change. An important part of our work to understand these impacts is our participation in UNEP FI's TCFD Projects (phase 1 in 2019 and phase 2 starting in 2021).

Table 1. Adapted TCFD Table A1[36] with examples of climate-related risks

	Risk	Time horizon	Description	Potential financial impact	Potential financial impact for DNB AM
Transition risks	Policy and legal	Medium-term (3-10 years)	• Increased pricing of GHG emissions. • Enhanced emissions-reporting obligations. • Mandates on and regulation of existing products and services. • Exposure to litigation.	• Increased operating costs (e.g. higher compliance costs, increased insurance premiums). • Write-offs, asset impairment and early retirement of existing assets due to policy changes. • Increased costs and/or reduced demand for products and services resulting from fines and judgements.	We recognise that climate-related regulation is likely to be higher/more demanding in the future. We are i nvolved in several engagements (both directly with companies and in collaboration with other investors) to understand how companies are managing regulatory risks. If we are not satisfied that a company is adequately addressing this risk within a reasonable timeframe, the company be subject to exclusion from our investment universe. We also offer low-carbon funds that exclude companies with high GHG emissions and reduce exposure to stranded assets (see section 12 to learn more about our low-carbon product offerings).
	Technology	Medium-term (3-10 years)	• Substitution of existing products and services with lower emissions options. • Unsuccessful investment in new technologies. • Costs for transition to lower emissions technology.	• Write-offs and early retirement of existing assets. • Reduced demand for products and services. • Research and development expenditures in new and alternative technologies. • Capital investments in technology development. • Costs to adopt/deploy new practices and processes.	Technological change may impact consumption patterns. Thus, companies whose products are not in line with consumer preferences may be negatively impacted. Technological change may impact all asset classes, sectors, companies and securities.

36 Recommendations of the Task Force on Climate-related Financial Disclosures

Table 1. Adapted TCFD Table A1[36] with examples of climate-related risks

	Risk	Time horizon	Description	Potential financial impact	Potential financial impact for DNB AM
	Markets	Medium-term (3-10 years)	• Changing consumer behaviour. • Uncertainty in market signals. • Increased cost of raw materials.	• Reduced demand for goods and services due to shifts in consumer preferences. • Increased production costs due to changing input prices (e.g. energy, water) and output requirements (e.g. waste treatment). • Abrupt and unexpected shifts in energy costs. • Changes in revenue mix and sources, resulting in decreased revenue. • Re-pricing of assets (e.g. fossil fuel reserves, land valuations, securities valuations).	The transition to a low-carbon economy may impact consumption and production patterns. Technological and market risks can be considered to be linked, as technological development is likely to play a role in driving these patterns.
	Reputation	Medium-term (3-10 years)	• Shifts in consumer preferences. • Stigmatisation of sector. • Increased stakeholder concern or negative stakeholder feedback. • Increased exposure to litigation.	• Reduced revenue from decreased demand for goods/ services. • Reduced revenue from decreased production capacity (e.g. delaying planning approvals, supply chain interruptions). • Reduced revenue from negative impacts on workforce management and planning (e.g. employee attraction and retention). • Reduction in capital availability.	We believe that no company can be successful and deliver high and stable returns without considering sustainability aspects at Board and Management level. Also, as stakeholders' expectations and attitudes develop, this may exasperate the potential reputational risks.

36 Recommendations of the Task Force on Climate-related Financial Disclosures

Table 1. Adapted TCFD Table A1[36] with examples of climate-related risks

	Risk	Time horizon	Description	Potential financial impact	Potential financial impact for DNB AM
Physical risks	Acute	Long-term (>10 years)	• Increased severity of extreme weather events such as cyclones and floods.	• Reduced revenue from decreased production capacity (e.g. transport difficulties, supply chain interruptions). • Reduced revenue and higher costs from negative impacts on work-force (e.g. health, safety and absenteeism). • Write-offs and early retirement of existing assets (e.g. damage to property and assets in high-risk locations). • Increased operat-ing costs (e.g. inadequate water supply for hydro-electric plants or to cool nuclear and fossil fuel plants). • Increased capital costs (e.g. damage to facilities). • Reduced revenues from lower sales/output. • Increased insurance premiums and potential for reduced availability of insurance on assets in 'high-risk locations'.	Physical climate risks pertain to all asset classes and invest-ments. Through our work on scenario analysis through participation in the UNEP FI TCFD Investor Pilot Project, we have sought to under-stand how physical climate risks may impact our holdings in the long-term.
	Chronic	Long-term (>10 years)	• Changes in precipitation patterns and extreme variability in weather patterns. • Rising mean temperatures. • Rising sea level.		

36 Recommendations of the Task Force on Climate-related Financial Disclosures

This table provides examples of opportunities that companies are to take into account in their operations. In our investment analyses, DNB AM takes into account how such opportunities are managed and how they can be conceived to affect an investment in companies/sectors/geographic markets. ESG factors are an integral part of the investment decision-making process and important to determining which companies are potentially set to gain from the transition to the low-carbon economy and/or the physical impacts of climate change, which may increase shareholder value. An important part of our work to understand these impacts is our participation in UNEP FI's TCFD Projects (phase 1 in 2019 and phase 2 starting in 2021).

Table 2. Adapted TCFD Table A2[37] with climate-related opportunities

Opportunities	Description	Potential financial impact	Potential financial impact for DNB AM
Resource efficiency	• Use of more efficient modes of transport. • Use of more efficient production and distribution processes. • Use of recycling. • Move to more efficient buildings. • Reduced water usage and consumption.	• Reduced operating costs (e.g. through efficiency gains and cost reduction). • Increased production capacity, resulting in increased revenues. • Increased value of fixed assets (e.g. highly rated energy-efficient build-ings). • Benefits for workforce management and planning (e.g. improved health and safety, employee satisfaction) resulting in lower costs.	We consider climate-related opportunities alongside risks and believe that companies taking advantage of these can increase shareholder value. ESG factors are an integral part of the investment decision-making process and important to determining which companies will contribute positively to transition towards a low-carbon economy. See section 12 to learn more about our low-carbon product offerings.
Energy source	• Use of lower-emission sources of energy. • Use of supportive policy incentives. • Use of new technologies. • Participation in carbon markets. • Shift toward decentral-ised energy generation.	• Reduced operational costs (e.g., through use of lowest cost abatement). • Reduced exposure to future fossil fuel price increases. • Reduced exposure to GHG emissions and therefore less sensitivity to changes in cost of carbon. • Return on investments in low-emission technologies. • Increased capital availability (e.g., as more investors favour lower-emissions producers). • Reputational benefits resulting in increased wdemand for goods and services.	

37 Recommendations of the Task Force on Climate-related Financial Disclosures

Table 2. Adapted TCFD Table A2[37] with climate-related opportunities

Opportunities	Description	Potential financial impact	Potential financial impact for DNB AM
Products and services	• Develop and/or expand low emission goods and services. • Development of climate adaptation and risk insurance solutions . • Development of new products or services through R&D and innovation. • Ability to diversify business activities. • Shift in consumer preferences.	• Increased revenue through demand for lower emissions products and services. • Increased revenue through new solutions to adaptation needs (e.g., insurance risk transfer products and services). • Better competitive position to reflect shifting consumer, resulting in increased revenues .	We consider climate-related opportunities alongside risks and believe that companies taking advantage of these can increase shareholder value. ESG factors are an integral part of the investment decision-making process and important to determining which companies will contribute positively to transition towards a low-carbon economy. See section 12 to learn more about our low-carbon product offerings.
Markets	• Access to new markets. • Use of public-sector incentives • Access to new assets and locations needing insurance coverage.	• Increased revenues through access to new and emerging markets (e.g., partnerships with governments and development banks). • Increased diversification of financial assets (e.g., green bonds and infrastructure).	
Resilience and ability to recover	• Participation in renewable energy programmes and adoption of energy efficiency measures. • Resource substitutes/ diversification.	• Increased market valuation through resilience planning (e.g., infrastructure, land, buildings). • Increased reliability of supply chain and ability to operate under various conditions. • Increased revenue through new products and services related to ensuring resiliency.	

37 Recommendations of the Task Force on Climate-related Financial Disclosures

Disclaimers

Fund Performance

Historic performance is no guarantee of future returns. Future returns depend on a number of factors such as market developments, the skills of the asset manager(s), the fund's risk profile and costs associated with purchasing and redeeming fund units and managing the fund. In periods the return may be negative due to declines in the prices of the fund's holdings.

MSCI ESG

Although DNB Asset Management's information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the "ESG Parties"), obtain information (the "Information") from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness, of any data herein and expressly disclaim all express or implied warranties, including those of merchantability and fitness for a particular purpose. The Information may only be used for your internal use, may not be reproduced or redisseminated in any form and may not be used as a basis for, or a component of, any financial instruments or products or indices. Further, none of the Information can in and of itself be used to determine which securities to buy or sell or when to buy or sell them. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein, or 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.

European SRI Transparency Logo

The European SRI Transparency logo signifies that DNB Asset Management commits to provide accurate, adequate and timely information to enable stakeholders, in particular consumers, to understand the Socially Responsible Investment (SRI) policies and practices relating to the fund. Detailed information about the European SRI Transparency Guidelines can be found on www.eurosif.org, and information of the SRI policies and practices of the DNB Asset Management can be found at: DNB Sustainability library. The Transparency Guidelines are managed by Eurosif, an independent organisation. The European SRI Transparency Logo reflects the fund manager's commitment as detailed above and should not be taken as an endorsement of any particular company, organisation or individual. Eurosif is not responsible for the completeness or the accuracy of the disclosure in this documentation.

FNG Label

The FNG-Label is the quality standard for sustainable investments on the German-speaking financial market. It was launched in 2015 after a three-year development process involving key stakeholders. The sustainability certification must be renewed annually.

The FNG-Label gives the German-speaking countries a quality standard for sustainable mutual funds. The holistic methodology of the FNG-Label is based on a minimum standard. This includes transparency criteria and the consideration of labour & human rights, environmental protection and anti-corruption as summarized in the globally recognized UN Global Compact. In addition, all companies in the respective fund must be explicitly analysed in terms of sustainability criteria. Investments in nuclear power, coal mining, significant coal-fired power generation, fracking, oil sands, weapons and armaments are taboo.

High-quality sustainability funds that excel in the areas of "institutional credibility", "product standards" and "impact" (title selection, engagement and KPIs) are awarded up to three stars. The FNG-Label goes far beyond a mere portfolio assessment and is holistic and meaningful. With more than 80 questions, the Label analyses and evaluates, for example, the sustainable investment style, the associated investment process, the associated ESG research capacities and a possibly accompanying engagement process. In addition, elements such as reporting, the investment company as such, an external sustainability advisory board and issues of good corporate governance play an important role.

The auditor of the FNG-Label is the University of Hamburg. The Qualitätssicherungsgesellschaft Nachhaltiger Geldanlagen (QNG) bears overall responsibility, especially for coordination, awarding and marketing. An independent committee with interdisciplinary expertise also accompanies the audit process. The FNG-Label has been awarded the title "highly recommended" by the consumer portal www.label-online.de and has been added to the shopping basket of the German Council for Sustainable Development. The EU, together with the other national, governmental label systems, has also invited it to join a working group within the framework of the EU Action Plan for financing sustainable growth.

Detailed information on the methodology can be found in the rules of procedure.

Further information on the FNG-Label: www.fng-siegel.org.

Sustainable Development Goals icons

- The use of the SDG Logo, including the colour wheel, and icons by an entity does not imply the endorsement of the United Nations of such entity, its products or services, or of its planned activities.
- The SDG Logo, including the colour wheel, and icons may not be reproduced for the purpose of self-promotion, or for obtaining any personal financial gain. Any fundraising and commercial use must only be undertaken with the explicit prior written permission of the United Nations as per section II above and subject to the conclusion of an appropriate licensing agreement.
- The United Nations will not assume any responsibility or liability arising from the translation of the text of the SDG icons into non-UN official languages.

DNB Asset Management AS

Mailing address:
P.O.Box 1600 Sentrum
N-0021 Oslo

Visiting address:
Dronning Eufemias gate 30
Bjørvika, Oslo

dnb.no