DNB Asset Management

Annual Report 2021

Responsible Investments

Facts

DNB Asset Management

- Is a part of Wealth Management (WM), a business area in the DNB Group, Norway's largest bank
- Has 181 full-time employees across three locations in Europe at the end of 2021
- Managed NOK 865 billion by year-end in fixed income, equities, hedge funds, and private equity – on behalf of institutional and retail clients

The DNB Group aims to promote sustainable value creation by integrating Environmental, Social and Governance (ESG) aspects into all business operations.

"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 mitigate risks and contribute to a more sustainable world".

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1 Report from the CEO

Even greater transparency and improved reporting will be key to meeting customer needs and regulatory requirements regarding ESG. We have been working diligently to stay ahead of the requirements of the SFDR and the EU Taxonomy Regulation. In short, ESG considerations are here to stay and will be even more embedded in all the work of DNB AM.

The overall global equity market showed a strong development in 2021 despite the continued uncertainty surrounding the COVID-19 pandemic. However, it was a split development with double digits performance in developed markets and a negative return on aggregate for emerging markets. For instance, in China the stock market was hampered by the prospects of a slowing economy and a weakening real estate market. Furthermore, despite the continued interest for responsible and sustainable investments, these types of investments showed a more mixed development in 2021 than in 2020. While broader "ESG-indices" (MSCI SRI) largely outperformed the standard geographical indices in 2021, the narrower "Greentech" NEX-index fell over 20 per cent in 2021 (in USD). On the fixed income side, inflation fears caused higher interest rates – having a negative impact on returns for fixed income funds.

Nevertheless, the focus on Environmental, Social and Governance (ESG) issues has continued to increase rapidly. Flows into sustainability themed funds has broadened geographically from being very European focused, and there were more than 1000 "sustainable" funds launched globally in 2021 vs. approximately 600 in 2019. The issuance of sustainable debt also set new records, surpassing one trillion USD for the first time in 2021. Not only is the market for green bonds growing, but also for other types of ESG-debt including social bonds.

In addition, we see a large emphasis on ESG integration from most global portfolio managers. This is driven to a large extent by regulatory requirements, such as the EU Sustainable Finance Disclosure Regulation (SFDR) and the Taxonomy Regulation. While climate issues remain centre stage, the focus of an ESG approach is broadening with many placing considerable resources on Social and Governance topics – again having regulatory requirements as a backdrop. Within Environment, biodiversity is rapidly gaining attention as an issue that overlaps and interacts, with climate concerns.

The trends above are also evident in the Responsible Investments (RI) efforts of DNB Asset Management (DNB AM). In addition to having a dedicated RI-team of five, there is an increasing number of ESG specialists among our portfolio managers, supporting the ESG integration in portfolio management and contributing to the broadened offering of thematic funds. One example is DNB Future Waves, using the Sustainable Development Goals (SDG) as an investment framework. DNB Klima Indeks, a global index fund that follows the MSCI World Climate Paris Aligned Index, was also launched. Underpinning these efforts is DNB AM's long-term commitment to building up internal ESG-databases and ratings (labelled ESG Lab), to facilitate systematic in-house ESG evaluations. On the fixed income side, DNB AM has continued the extensive effort of collecting ESG data from Norwegian issuers on debt, contributing to increased attention on sustainability in the domestic market.

In terms of our thematic focus, climate change remains high on the DNB AM agenda. The DNB Group has, in 2021, committed to a net zero 2050 goal, and Paris-alignment/net zero goals have a central focus in DNB AM's engagement, voting, and portfolio management. In addition, the efforts on biodiversity were stepped up in 2021, with the publication of our expectations document and signing the Finance for Biodiversity Pledge. The Biodiversity Pledge is a multi-year commitment to undertake collaboration, engagement, target setting, and reporting.

As before, DNB AM's work on responsible (and sustainable) investments rests on four main pillars: Standard setting, active ownership (through voting and dialogues), exclusions & risk management, and integrating material ESG factors into investment processes. In standard setting, our series of expectations documents are often the starting point for engagement with companies. In addition to the mentioned expectations document for "Biodiversity", we have also updated the voting guidelines for Norwegian Companies in 2021.

> "On the fixed income side, DNB AM has continued the extensive effort of collecting ESG data from Norwegian issuers of debt, contributing to increased attention on sustainability in the domestic market.

> "Looking ahead, the focus on sustainability will become further embedded in all aspects of DNB AM work.

Active ownership encompasses both dialogues and voting, and DNB AM often leverages its engagements through collaborations with other investors. These may be UN PRI led working groups, FAIRR, Access to Medicine, Climate Action 100+ initiatives, collaboration through our engagement service provider, or joint TCFD-engagements with large Norwegian companies. In total, 241 reactive and proactive dialogues were conducted in 2021. We define goals and milestones for each engagement, and our engagements showed a total progress of 52 milestones last year.

We continue to increase our voting efforts, voting at 324 meetings in 2021 on behalf of our clients. DNB AM has also taken a more comprehensive approach to shareholder resolutions in 2021, voting on these at 94 general meetings (a total of 228 resolutions). Some central topics that we emphasized in the 2021 voting include climate change, social issues (including diversity & gender equality), lobbying, and executive compensation. A further large step-up in voting is planned for 2022.

Supporting the active ownership processes are our long-term focus areas (climate change, water, and human rights) and our shorter-term thematic focus areas. In 2021, the thematic focus of engagements was increased to six areas, adding "health and sustainable food systems". This area encompasses a range of topics from food-related issues to preparedness/prevention of disease outbreak, and one example of related collaborative engagement was through the Access to Medicine Foundation, aiming to advance access to medicines in low- and middle-income countries.

Exclusions and screening on ESG criteria are still important tools in our risk management work. DNB AM prefers to promote best practice and climate transition over exclusions, but when active ownership does not lead to an acceptable solution, a company may be excluded from further investments. If the company implements adequate measures to remedy the situation, it will be reincluded in the investment universe. We screen both funds managed by DNB AM as well as external suppliers of investment products, and we contributed to the ESG-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 – for all active funds and asset classes. Key Portfolio Management teams each have one dedicated ESG analyst from the RI-team, and DNB AM is ramping up ESG-expertise in the various portfolio management teams. DNB AM is also in the process of intensifying its efforts of providing a wide range of ESG-data available for portfolio managers, both from external vendors and through own data collection and scoring (see for example "ESG Lab" mentioned above).

Looking ahead, the focus on sustainability will become further embedded in all aspects of DNB AM work. Central themes will include sustainable transition, net zero 2050 and human rights. The blue economy is also important for the whole DNB Group, being a signatory to the UN Global Compact Sustainable Ocean Principles – committing to take action to secure a healthy and productive ocean. In 2022, DNB AM will also continue to work on ocean issues through the broader efforts on biodiversity and the Finance for Biodiversity Pledge (which again is involved in the Nature Action 100 initiative).

Even greater transparency and improved reporting will be key to meeting customer needs and regulatory requirements regarding ESG. We have been working diligently to stay ahead of the requirements of the SFDR and the EU Taxonomy Regulation. In short, ESG considerations are here to stay and will be even more embedded in all the work of DNB AM.

Ola Melgård
CEO DNB Asset Management

2 Highlights 2021

2021 has been another year of great progress for the work with responsible investments in DNB Asset Management – with new funds, focus areas, engagements, and partnerships.

Key Figures

AUM in sustainability themed funds:

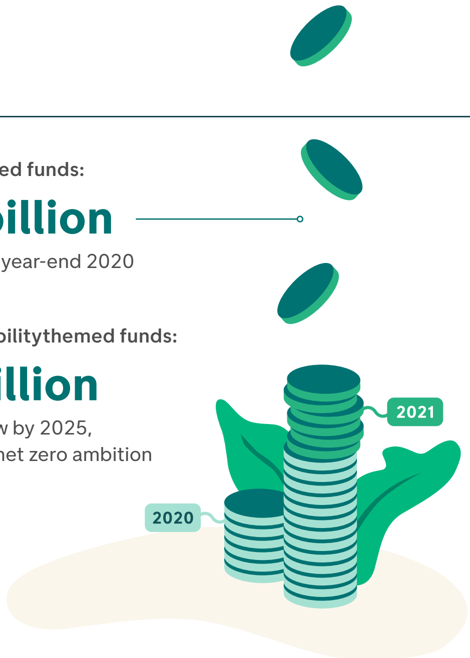
NOK 26.9 billion

a 46 per cent increase from year-end 2020

Target for AUM in sustainabilitythemed funds:

NOK 100 billion

and 50 per cent of net inflow by 2025,
as part of the DNB Group's net zero ambition



New Sustainability Themed Funds

DNB Klima Indeks was launched in May. The fund is a global index equity fund that follows the MSCI World Climate Paris Aligned Index.

DNB Future Waves was launched in June. The fund is a global equity fund that uses the UN Sustainable Development Goals as a framework.

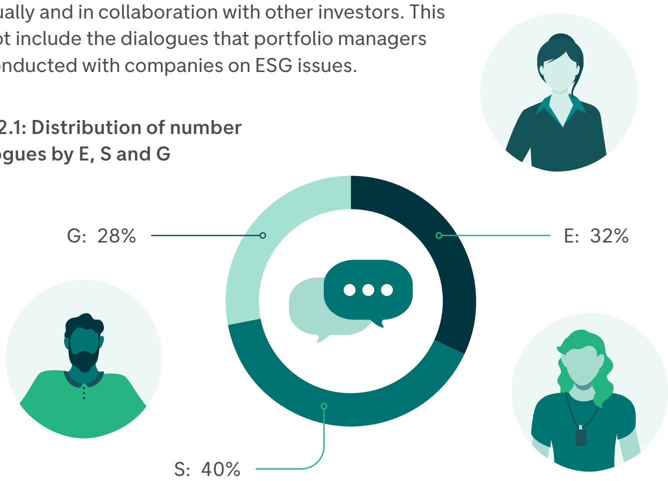
DNB Fund Emerging Markets Equities has introduced "fossil-free" criteria. This means that the fund avoids investments in fossil energy.

Active Ownership

324 In 2021, we voted at 324 annual general meetings (including 228 shareholder resolutions), up from 248 meetings in 2020.

We conducted 241 dialogues with 177 companies, both individually and in collaboration with other investors. This does not include the dialogues that portfolio managers have conducted with companies on ESG issues.

Figure 2.1: Distribution of number of dialogues by E, S and G



ESG professionals:

We have 5 dedicated ESG analysts and strong ESG competency among portfolio managers.

The Committee for Responsible Investments met five times during the year.

Thematic Focus Areas

Our new thematic focus area, Health and Sustainable Food Systems, was introduced.

A new expectations document on Biodiversity, including deforestation, was developed and published.

Data and Ratings

- We gathered data and rated 103 bond issuers within the banking, utilities, real estate, logistics and transportation, food and food production and diversified chemicals sectors.
- We developed our internal database and analysis tool, ESG Lab, to improve availability and analysis of sustainability data.
- DNB Renewable Energy published, for the second time, an assessment of the fund's potential avoided emissions, developed in collaboration with ISS. Read more about Renewable Energy in section 11.

Initiatives and Partnerships

Participated in the UNEP FI TCFD project, this is the follow-on project from the 2018/19 investor pilot which led to the development of a scenario analysis tool. DNB AM contributed to a case-study which will be part of a report published in 2022.

In collaboration with 146 international investors representing AUM of USD 14 trillion, we **signed an investor statement coordinated by the Access to Medicine Foundation** supporting an effective, fair, and equitable global response to the COVID-19 pandemic. The letter encourages world leaders to distribute sufficient financing to ensure righteous access to vaccines and medical oxygen where needed.

access to medicine FOUNDATION

In June, together with 80 international investors, we **signed an investor statement on human rights and business activities in Myanmar**.

As part of our efforts on biodiversity we **signed the Finance for Biodiversity Pledge in September**. The Pledge now stands at 75 signatories with more than €12trn in assets under management. By signing the Finance for Biodiversity Pledge, we commit to collaborate, engage, set targets and report on biodiversity.

Finance for Biodiversity Pledge

Our work through the investor initiative Climate Action 100+ continued in 2021 and has proven to be an effective investor collaboration. We are a supporting investor on engagements with Equinor and Maersk.

Following the success of our participation in Climate Action 100+, we **signed an Investor Expectations Statement on Climate Change for Airlines and Aerospace Companies**. This statement is an investor collaboration coordinated by the PRI via Climate Action 100+.

We signed a business call for **a legally binding UN Treaty on plastic pollution** to foster collaboration for addressing global plastic pollution and developing a systemic solution to contribute to the transition towards a circular economy.

3 **We have participated in three thematic collaborative engagements organised by FAIRR:**

- Sustainable Proteins
- Sustainable Aquaculture
- Meat Sourcing

RI Credentials

PRI: Early signatory of the principles

2006

Signatory of: PRI Principles for Responsible Investment

DNB AM is awarded an A+ for its Strategy and Governance from the PRI in 2020. The PRI launched its new reporting framework in 2021. After experiencing some issues with the pilot reporting, the next reporting cycle is delayed until early 2023. Final Transparency and Assessment Report for the 2021 reporting is expected to be released by June 2022.

European ESG Labels

DNB Renewable Energy received the Eurosif Transparency Code for the fourth year running

DNB Renewable Energy received the LuxFLAG Environment Label for the third year running

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

DNB Nordic Equities received the Towards Sustainability label for the first time

3 Regulations and Trends

2021 was another busy year for ESG related regulation Regulatory movements are also becoming apparent in the human rights area. For the year ahead, we expect to see increasing development of the climate theme, particularly around Net Zero and emission reduction target setting.

REGULATORY MOVEMENTS IN THE EU

2021 was another busy year for ESG related regulation – most notably regarding the **EU taxonomy**. The purpose of the taxonomy is to align financing and investment in the financial market with the Paris Agreement, UN's Sustainable Development Goals (SDGs) and EU's climate and environmental goals. The EU Taxonomy must be considered in the same context as EU's **Sustainable Finance Disclosure Regulation (SFDR)** – which came into force 10 March 2021. The regulation requires financial institutions offering financial products and services to disclose how they integrate ESG in their risk management. For financial market participants and financial advisors, this meant increased requirements of disclosure on website, and in pre-contractual documents and reporting.

The EU taxonomy became law in July 2020, but legislators left important details to be resolved through so-called delegated acts – secondary legislation meant for technical issues that is not subject to the same degree of ministerial and parliamentary oversight. **The Delegated Act on climate mitigation and climate adaptation arising from the Taxonomy Regulation** passed through the final stages of the political negotiations in December. The act lays out the technical screening criteria – the benchmarks that define if an economic activity delivers a substantial contribution to the objective of climate mitigation or adaptation. Major financial actors and businesses in the EU will be required to report on their alignment with the criteria of the Taxonomy Delegated Act under disclosure regulations. A second delegated act for the remaining four objectives will be published in 2022.

An ongoing debate connected to the EU Taxonomy is whether natural gas and nuclear activities should be recognised as "green" activities. On the last day of 2021, **The European Commission proposed plans to label some natural gas and nuclear power as green**. The Platform on Sustainable Finance group of advisors to the EU on the Taxonomy responded to the draft delegated act. However, a final decision remains outstanding with a difference in opinions regarding classification of these activities from a number of member states.

In 2021, revisions and initiatives linked to the European Green Deal were presented under the **Fit for 55 package**. The package contains legislative proposals to revise the EU 2030 climate and energy framework, including the legislation on land use and forestry, renewable energy, energy efficiency, emission standards for new cars and vans, effort sharing and the Energy Taxation Directive. The Commission proposes to strengthen the Emissions Trading System (ETS), extend it to the maritime sector, and reduce the free allowances allocated to airlines. A proposed new emissions trading system for road transport and buildings should start in 2025, complemented by a new social climate fund with a financial envelope of €72.2 billion to address its social impacts. New legislation is proposed on clean maritime and aviation fuels. To ensure fair pricing of Greenhouse Gas (GHG) emissions associated with imported goods, the Commission proposes a new carbon border adjustment mechanism.

In France, there has been a change to the **2015 Law on Energy Transition for Green Growth**. Under new biodiversity reporting rules, French investors are required to publish alignment to long-term biodiversity protection goals based on the Convention on Biological Diversity signed at the 1992 Rio Earth Summit. This must align with a 2030 time-horizon followed by updates every five years after that. Further, investors must analyse their investments' contribution to reduce biodiversity impacts, as outlined by the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPSES) and demonstrate indicators of their biodiversity footprint based on international guidelines. The changes are said to align French investors with SFDR. The clarification of the climate law tightens the requirements by French policy makers and highlights expectations of significant contributions from French investors to the EU Green Deal, with the target of becoming carbon neutral by 2050.

Regulatory movements are also becoming apparent in the human rights area. This area has been characterised by voluntary principles and initiatives. Going forward, the voluntary principles will increasingly be accompanied by hard law, particularly in Europe. EU's proposed sustainable corporate governance directive is set to have its final proposal released in March after being continuously delayed throughout 2021. Further, the Commission is expected to receive the final recommendations for an EU 'Social Taxonomy', an extension of its high-profile green framework. Meanwhile, national governments are beginning to take action on developing national mandatory human rights and environmental due diligence legislation.

OTHER IMPORTANT GLOBAL MOVEMENTS

In mid-May 2021, the International Energy Agency (IEA), released the report net zero by 2050 – A Roadmap **for the Global Energy Sector**. The report included the call for energy groups to stop all new oil and gas exploration projects and new field developments from 2021 if global warming is to be kept in check. While there has been opposition to the findings, the IEA have certainly elevated the debate, which is now being considered across politics, business, and investments.

At the G7 summit in June, the official memo **included a climate change commitment to a "green revolution"** that would keep the 1.5 Celsius global warming threshold within reach. Further, this would be carried out by halving carbon emissions by 2030, reaching net-zero by 2050, and conserve or protect at least 30 per cent of land and oceans by 2030. The G7 also promised to raise climate finance contributions to meeting the overdue annual spending pledge of USD 100 billion to help emerging economies cut carbon emissions and cope with global warming. However, the pledges have faced criticism for lacking detailed actions on how to manage the cut in emissions.

In June, the Norwegian government presented a white paper called **Energy for Work**. The paper describes how Norway can use its energy resources to create new jobs through added growth and ensure long-term value creation. The report builds on the government's climate plan and shows how Norway can further develop its position as an energy nation through investments in renewable energy and the electricity grid to lay the foundation for electrification and phasing out of fossil energy.

The Intergovernmental Panel on Climate Change (IPCC) launched part one of its sixth report on climate change, **the IPCC Sixth Assessment Report** (IPCC AR6). The report is important for financial market participants because it establishes the basis for political and regulatory direction. Since the previous report in 2014, the concentration of greenhouse gases in the atmosphere has continued to increase and is now the highest it has been in the last two million years. The consequences, according to the report,

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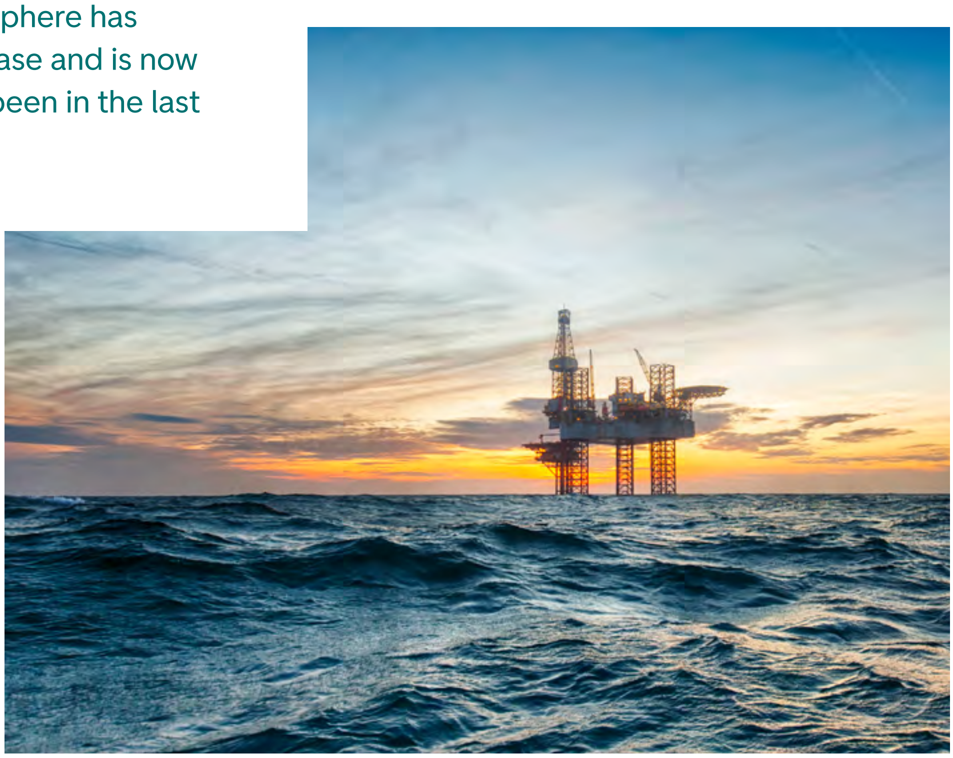


are that extreme weather becomes more frequent and more severe. Heat waves will become more common and warmer, and droughts will affect more people. For the first time, the IPCC states that to stabilise global warming, carbon dioxide (CO_2) emissions must be reduced to net zero.

The UN's 26th climate summit COP26, resulted in a new climate agreement, the Glasgow Climate Pact – with almost 200 countries joining the agreement. The final agreement gives reason for optimism by maintaining the goal of keeping global warming below 1.5°C. It also stressed medium-term 2030 goals, as opposed to previous emphasis on more long-term goals. In addition, fossil fuels are mentioned in the text for the first time, as the pact calls for a "phase down" of coal and a "phase out" of inefficient fossil fuel subsidies. Furthermore, important sector promises related to methane, coal, deforestation, and sustainable transport were made. However, most of these are voluntary commitments.

Another important outcome of the summit was that agreement was reached on Article 6 of the Paris Agreement rulebook. Thus, the last part of this rulebook is clarified. The new framework addresses issues around double counting of emission cuts and entails requirements that transferred carbon credits (carbon offsets) be marked. In total, the IEA estimates that the climate commitments reached at COP26 may limit global warming to 1.8°C, which is significantly lower than the forecasts of 2.7°C from before the climate summit. It is emphasized that these forecasts can only become a reality if all the commitments are delivered in full, and quickly. We believe the next 6–12 months will be crucial in assessing whether COP26 was a success.

We expect that the "phasing down" of coal will lead to faster development of renewable energy. However, an accelerated phasing out will probably also raise concerns about energy security and volatility. The phasing out of inefficient government subsidies for fossil fuels may affect the demand for oil in the medium term, but it will probably depend on how the word "inefficient" is interpreted.

In the US, the Securities and Exchange Commission (SEC) welcomed public input from investors, issuers, and other market participants, as part of an **evaluation of existing climate change disclosure regulations**. SEC's 15 detailed questions for considerations were published online and included questions such as: "*How can the Commission best regulate, monitor, review, and guide climate change disclosures in order to provide more consistent, comparable, and reliable information for investors while also providing greater clarity to registrants as to what is expected of them?*". Norges Bank Investment Management were among the respondents who supported the Commission's ambition to enhance climate-related disclosures. They also highlighted the need for better corporate reporting on sustainability issues in general, beyond climate change.

INVESTOR TRENDS

Following the significant growth in AUM in ESG funds in the previous year, 2021 saw continued flows into ESG funds. With the SFDR coming into force in March 2021, there was a significant increase in the number of funds in the market classified either as 'Article 8 – funds promoting environment and social characteristics' and 'Article 9 – funds with sustainable investments as an objective'.

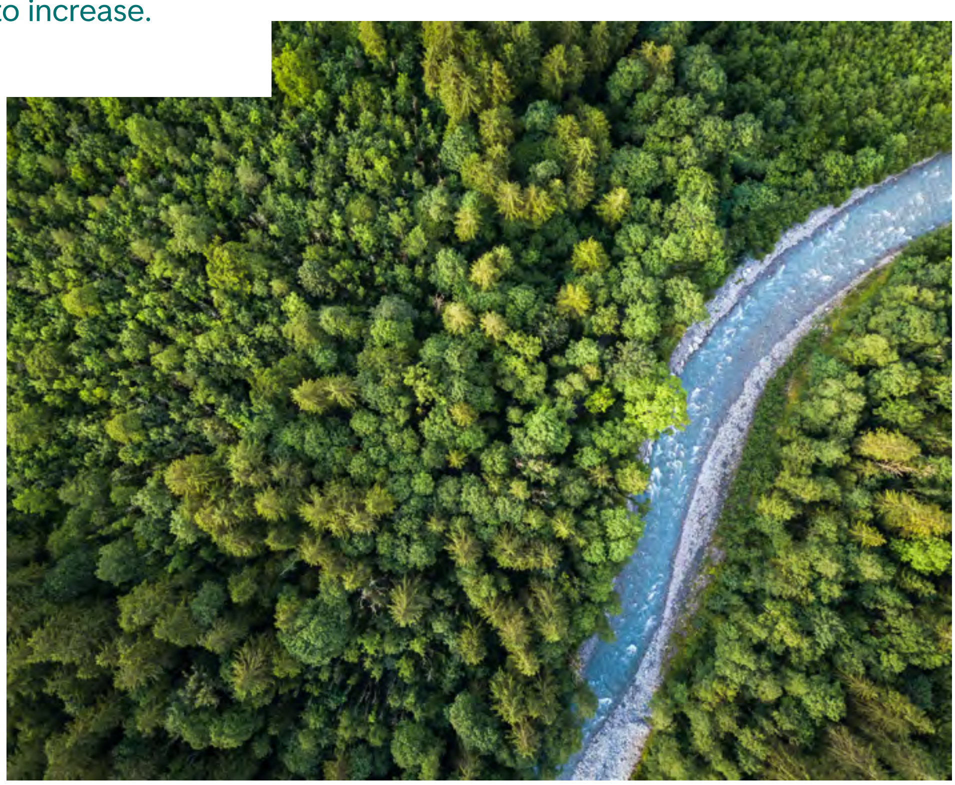
Perhaps unsurprisingly given the growth in ESG funds, the UN-backed Principles for Responsible Investments (PRI) has seen the signatory base grow by nearly 800 to 3,800 in 2021. This saw the AUM supporting the PRI grow to $121 trillion, an increase of 26 per cent from 2020[1]. This growth has continued the year-on-year signatory growth for the PRI and is reflective of changing customer preferences for ESG and new EU regulations.

At the same time, global investments in low carbon energy technology have seen significant investment. Bloomberg New Energy Finance (BNEF) reported global investments in 2021 were equal to $755 billion, up from $595 billion in 2021 – in an increase of 27 per cent. However, while significant the scale of annual investments required to achieve net zero by 2050 need to triple from current levels for 2022 to 2025, before doubling again for 2026 to 2030.

In terms of the year ahead, we expect to see increasing development of the climate theme, particularly around net zero and emission reduction target setting, as the investment community look to contribute towards the challenges associated with climate change and the low carbon transition. Read more about this trend in the next section.

The importance of biodiversity will only continue to increase, particularly given the expected finalisation of details for the environmental objective by the EU, expected in 2022. Additionally, we see an increased awareness on the topic following the upcoming "second half" of the COP15 conference due to happen in spring 2022 (Read more under section 10 about Biodiversity). We are also expecting to see continued emphasis on social issues within investments, particularly on issues regarding labour rights within supply chains and human rights in high-risk areas.

> "The importance of biodiversity will only continue to increase.



1) Principle for Responsible Investment, 'About us', Accessed 1 February 2022

4 Net Zero 2050

The financial industry, both lending and asset management, has a key role to play if society are to limit global warming. In 2021, the DNB Group announced the ambition to have net zero emissions from financing and investment activities by 2050. DNB AM is working to contribute to the achievement of the DNB objectives.

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For global temperatures to stabilise, global anthropogenic Greenhouse Gas (GHG) emissions (those produced as a result of human activity) – most prominently those in the form of carbon dioxide – must move to become net zero. In practice, this means that human produced GHG emissions, must balance with those removed from the atmosphere as part of the global carbon cycle.

The United Nations Environment Programme Finance Initiative (UNEP FI)'s 2021 Emission Gap report calculates that in 2020, 51.5 GtCO_2e of CO_2e greenhouse gases were released into the atmosphere. As part of the Intergovernmental Panel on Climate Change (IPCC) Sixth Assessment Report (AR6), it was presented that to limit global warming to 1.5°C the remaining global carbon budget, with 67 per cent certainty, was 400 GtCO_2 at the beginning of 2020. Using these current rates and the remaining carbon budget sees the remaining budget consumed in 8 years i.e. 2028. The emission gap report is less optimistic, and likely accounts for growing emissions, anticipating this could be exhausted in 7 years[1]. In the report, the UNEP FI signals that even to limit warming to 2°C, "urgent and deep emissions reductions over the next decade are required to stay within the remaining budgets". The rapidly shrinking carbon budget highlights that action cannot wait.

IMPACT ON BUSINESS

The IEA produced a "Roadmap to net zero 2050" report in 2021, outlining one scenario for what is required to achieve net zero 2050 – while also keeping the world to 1.5 degrees of warming relative to preindustrial levels. The report indicated that the current commitments and current efforts from governments were not enough to keep the world within 1.5 degrees – and to do so, would require a complete transformation of the global energy system. According to the IEA's report, this would require a relatively rapid shift from fossil fuels (coal, oil, gas) and the technologies reliant on these energy sources. The report emphasises that there are significant opportunities in the transition to a low carbon world, due to the required investments in non-fossil energy sources and the electrification of the energy systems. There is also a requirement for significant growth in the industries supporting these new industries, representing considerable opportunities for jobs and growth.

Figure 4.1 Remaining carbon budget under IPCC 1.5°C scenario with 67 per cent likelihood. IPCC AR6 WG1, 2021

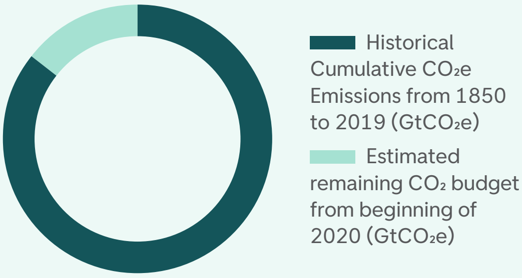
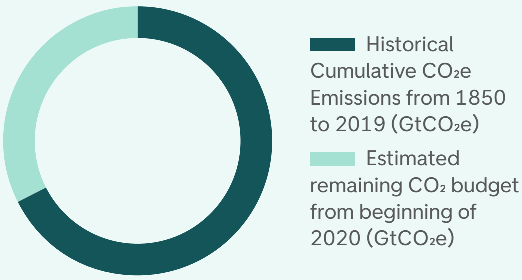


Figure 4.2 Remaining carbon budget under IPCC 2C scenario with 67% likelihood. IPCC AR6 WG1, 2021



1) UNEP 2021, Emission Gap Report 2021

We are already seeing action from companies, many of which are part of The Climate Action 100+ (CA100+) target companies, an investor-led initiative we are participating in to ensure the world's largest corporate greenhouse gas (GHG) emitters take necessary action on climate change. Bloomberg New Energy Finance (BNEF) reported that 2/3 of companies from the initiative's Net-Zero Benchmark have set net zero targets for 2050 or before – an increase from five in 2018. BNEF estimates that these will lead to global reductions in GHG emissions by 9.8Gt/year by 2050 – equivalent to around ¼ of annual global anthropogenic GHG emissions. Positively, by 2050, over one third of these emission reductions will come from the Oil and Gas Sector, indicating that one of the sectors responsible for a considerable portion of global emissions is taking action[2].

FUTURE ROLE FOR FINANCE

The financial industry, both lending and asset management, has a key role to play if society are to limit global warming. Investors have an important role to play in the solution, both in driving capital in a positive direction and in working with companies, to transition their businesses towards low carbon. The scale of the opportunities in the form of required investments to fund the transition is evident in a report from BNEF. BNEF reported global investments in the low-carbon energy transition increased in 2021 to $755 billion, up from $595 billion in 2020 – in an increase of 27 per cent. However, while significant the scale of annual investments required to achieve net zero by 2050 need to triple from current levels for 2022 to 2025, before doubling again for 2026 to 2030[3].

While the concept has been discussed in the responsible investment space for several years, net zero has gained significant traction in 2021 and is now a key discussion point. At the same time, we are continuing to see significant proposals and changes in regulations regarding sustainability which are amplifying the momentum. Financial sector actors are quickly mobilising to ensure the climate risks are managed, and to take advantage of opportunities associated with the low carbon transition. At the same time, regulatory changes will strengthen and support this direction of travel. We have seen the development of the Net Zero Asset Owner Alliance and Net Zero Asset Managers Initiative coalition of asset owners and asset managers – creating a platform for knowledge sharing – signalling an increasing desire to work together and find a solution.

2) BNEF, https://about.bnef.com/blog/two-thirds-of-the-worlds-heaviest-emitters-have-set-a-net-zero-target. Accessed 1 February 2022
3) BNEF, Energy Transition Investment Trends, 2022. Accessed 1 February 2022

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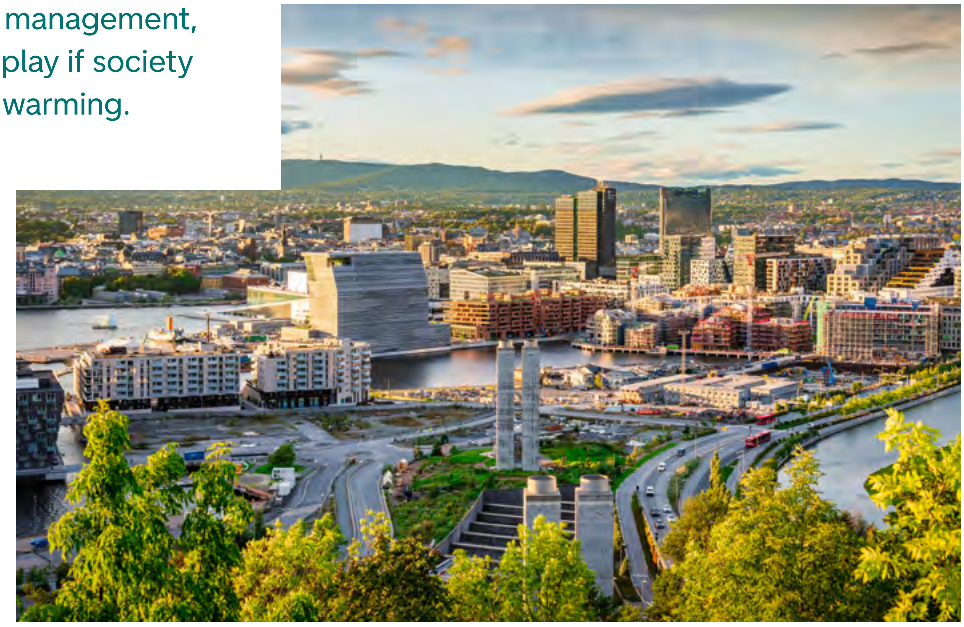
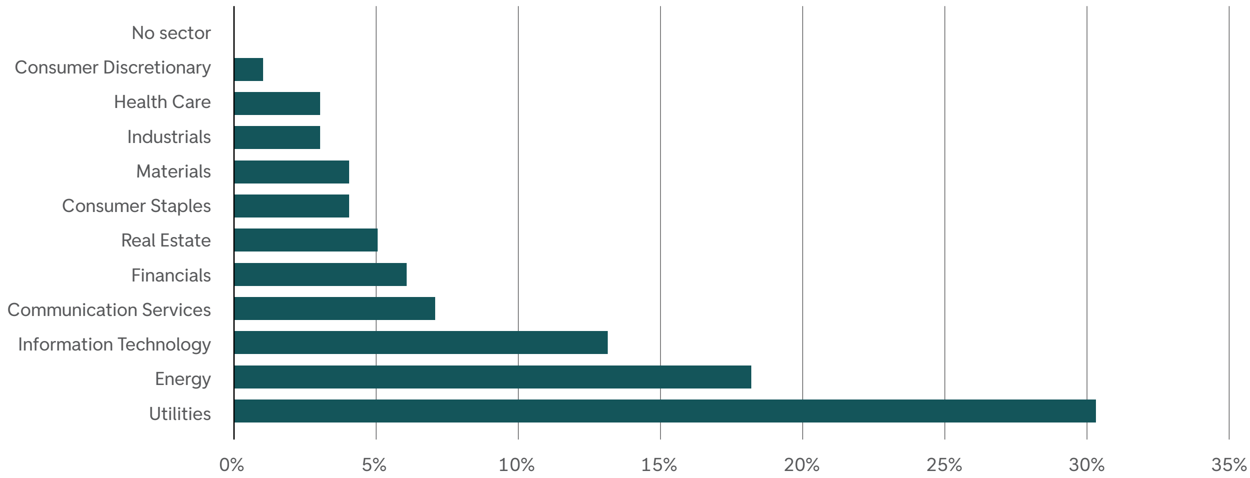


Figure 4.3 Percentage of sector emissions covered by public net zero 2050 targets. DNB holdings as at 31.12.21



DNB GROUP TARGET NET ZERO

In 2021, the DNB Group announced the ambition to have net zero emissions from financing and investment activities by 2050. To achieve this, sub-targets have been set for reducing financed emissions by 2030, as well as financing targets for sustainable activities. These targets are intended to reduce the level of climate risk for DNB and are dynamic and will follow developments in society and the market. DNB AM have also set shorter term (2025) targets, which include:

- Increasing total assets under management in sustainability themed funds to NOK 100 billion by 2025
- In 2025, 50 per cent of net flows aim to go into sustainability themed funds

DNB ASSET MANAGEMENT

To achieve the DNB objectives and achieve real impact, it will require utilising active ownership and working with companies to reduce their emissions and target net zero by 2050 within a recognised, scientifically developed carbon budget. At the same time, decisions regarding investability by the fund managers are made on an ongoing basis through selection decision, while formal exclusion may also be utilised where necessary.

In an assessment of DNB Asset Management (DNB AM) holding as of 31 December 2021, we assessed the percentage of each sector's overall weighted average carbon intensity which was covered by a net zero 2050 target. For DNB's holdings, the Utilities sector had the largest commitment to net zero with commitments covering more than 30 per cent of the sectors' emissions. The Materials and Energy sectors, the largest contributors to DNB AM's total weighted average carbon intensity (scope 1 and 2), had commitments covering 4 and 18 per cent of the sectors' emissions, respectively. In total, 10 per cent of DNB AM's total emissions are currently covered with net zero targets.

The implementation of a net zero carbon approach presents several challenges – including shortcomings in emissions data quality and coverage. There remain considerable coverage gaps in reporting of carbon data. While there have been significant improvements in the last years, not least with the significant increase in disclosure via the CDP – gaps remain, particularly in some markets and for small and medium-sized enterprises (SMEs). The accompanying challenge for emissions data is data quality. a recent study has shown misalignment in reported data by companies (Read more in section 10 on Climate Change) and many companies do not audit their carbon data.

> " To achieve the DNB objectives and achieve real impact, it will require utilising active ownership and working with companies to reduce their emissions and target net zero by 2050 within a recognised, scientifically developed carbon budget.

Estimates produced by data vendors, while helping to fill gaps also vary between providers, potentially leading to further uncertainty. A further challenge is that there appear to be significant differences in the quality of companies' own net zero targets. A recent report by the New Climate Institute highlighted shortcomings in the net zero targets set by companies, relative to best practice. These issues centre on the treatment of value chain emissions and the purchasing of offsets[4)]. While we are witnessing increased standard setting within the net zero target space, including from the Science Based Targets initiative (SBTi), and the ambition is that this will raise the standard within the market – widespread adoption may take time.

DNB AM is continuing our work with climate change and net zero 2050 targets. This will include:

- Continued active ownership with special emphasis on the largest holdings in the most carbon intense sectors, regarding emission reduction and target setting, both in direct operations and in supply chains
- Continued collaborations with investors groups for greater impact
- Increased reporting of emissions, and utilization of forward-looking metrics in assessment of companies' trajectories
- Discussions with our customers (both large institutions and retail customers) to provide product solutions which suit their preferences and ambitions for carbon emissions

Our approach to monitoring and managing climate risk is constantly evolving. We are increasingly looking beyond backwards-looking data such as carbon emissions, towards forward-looking metrics (including scenario analysis, target setting and capital allocation), which allow us to have greater insight into the future transition of companies (See section on risk metrics).

We continually work to strengthen our approach to this area, and it will remain a key topic in 2022.

4) New Climate Institute, 2022, assessing the transparency and integrity of companies' emission reduction and net-zero targets

5 Our Responsible Investment Team

DNB AM's RI team has strong competency within ESG, finance, climate change, international relations, and human rights, in addition to more than 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 ESG integration. Our work is backed by external providers, consultants, and collaboration with other investors as well as portfolio managers across all asset classes.

→

Responsible investment team

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.

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. In 2021, Karl has been key in developing our approach to the biodiversity focus area.

Henry Repard
Senior Analyst

Henry has an MSc in Environmental and Sustainable Development from the University College London and has previous experience as an analyst at CDP (formerly Carbon Disclosure Project) and KLP Asset Management. He joined the RI team in 2018. His primary areas of responsibility are climate change (including TCFD and net zero 2050) and water.

Lise Børresen
Analyst

Lise has an MSc in Finance from The Norwegian School of Economics. She previously worked as an Investment Analyst at Gjensidigestiftelsen and joined the ESG Team in 2021. Her primary areas of responsibility are oceans and biodiversity in addition to climate change and our work on the Task Force on Climate Related Financial Disclosure. Lise is also supporting the integration of ESG in our fixed income portfolio.

Ingrid Aashildrød
Analyst

Ingrid has an MSc and a CEMS MIM from The Norwegian School of Economics and The University of Sydney Business school. She previously worked as an ESG analyst at Nordea before joining the ESG team in 2021. Her primary areas of responsibility are human rights, labour rights, children's rights, emerging markets supply chains, and health and sustainable food systems.

6 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. The PRI is considered best practice and has been fundamental in the development of our approach.

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

As a responsible investor, DNB Asset Management (DNB AM) aims to provide high long-term returns, at an acceptable level of risk, whilst managing ESG factors. The DNB Group Standard for Responsible Investments seeks to ensure that DNB does not contribute to human or labour rights violations, corruption, serious environmental harm or 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.

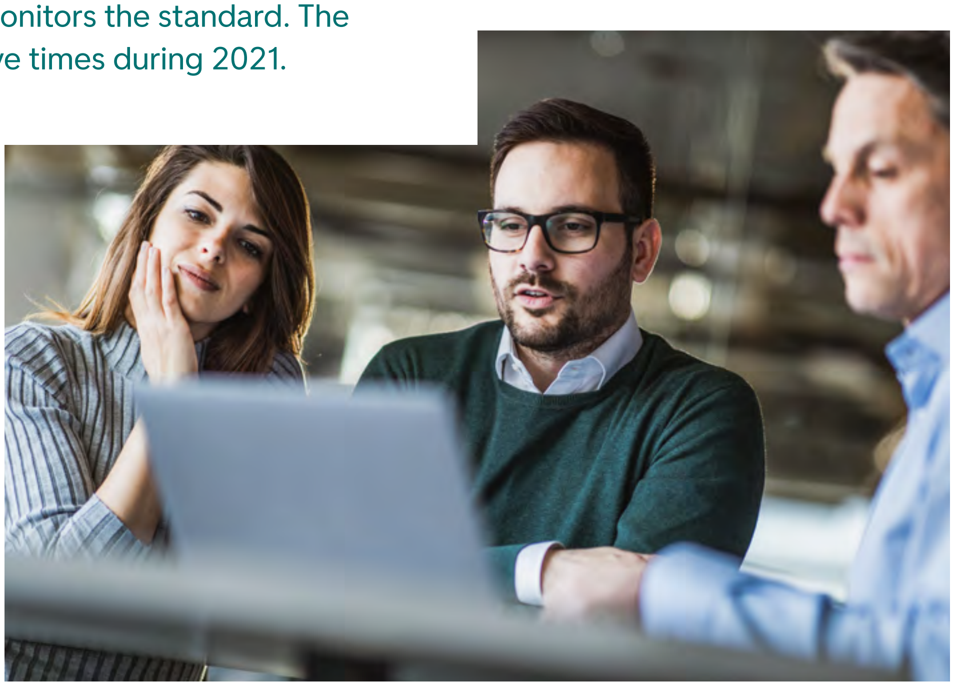
Further, companies may be excluded from the investment universe if there is an unacceptable risk that a company contributes to or is responsible for:

- 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 AM 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 AM will respect sanctions regulations from the UN, EU, and the US (OFAC), as well as other local sanctions when relevant.

DNB's Committee for Responsible Investments implements and monitors the standard. The Committee met five times during 2021. The Responsible Investment (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 2021, there have been no breaches in the implementation of the standard. However, by year-end 2021 198 companies are excluded from our investment universe. Excluded companies.

> "DNB's Committee for Responsible Investments implements and monitors the standard. The Committee met five times during 2021.



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 responsible and sustainable business practices.

Table 6.1

The following principles and standards are applied to our work:

Organisation	Topic
OECD Guidelines for Multinational Enterprises	Promotes corporate social responsibility
The G20/OCED Principles of Corporate Governance	Corporate Governance
The UN Guiding Principles on Business and Human Rights	Outline the corporate responsibility to respect human rights
UN Global Compact	International principles
The Norwegian Corporate Governance Boards (NUES) recommendation on corporate governance	Recommendation on corporate governance for companies listed in Norway

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 (formerly Carbon Disclosure Project)	Environmental reporting initiative
Montreal Carbon Pledge	A commitment to report carbon footprint
NORSIF	Norwegian responsible and sustainable investment forum
Task Force on Climate-Related Financial Disclosure (TCFD)	International principles and recommendations
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 UN Sustainable Development Goals (SDG)	Global Framework for sustainable development
The Global Reporting Initiative (GRI)	Reporting sustainability information
Finance for Biodiversity Pledge	Multi-stakeholder initiative for reversing nature loss

7 Our Responsible Investment Approach

Our work with responsible and sustainable investments rests on four main pillars: standard setting, active ownership through voting and dialogue, exclusions, and ESG-integration.

Our work with responsible and sustainable investments rests on four main pillars.

Standard Setting

Developing and publishing expectations documents is an important part of our standard setting work.[1] 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 2021, we developed and published the expectations document "Biodiversity Including Deforestation", a broad topic that is complementary to many of our long-term and thematic focus areas. Our expectations are relevant for all companies within our investment universe. However, companies highly dependent on biodiversity, or those impacting biodiversity noticeably, are the most important target group. We have also highlighted the need for a separate deforestation policy for some companies (especially related to palm oil, soy, cattle/leather, and timber/pulp & paper).

Our voting guidelines are also part of DNB Asset Management (DNB AM's) standard setting. Following the release of the new code for the Norwegian stock market ("NUES")[2] in the fall of 2021, we updated our guidelines for the Norwegian market. We have also published global voting guidelines (in 2019).

Summary of the expectations documents published in the last years:

2017: Human Rights (updated 2020), Serious Environmental Harm (updated 2020), and Guidelines for Voting in Norway (updated 2019 and 2021).
2018: Climate Change (updated 2020), Anti-corruption, and Responsible Tax Practices.
2019: Gender Equality and Diversity, and Guidelines for Voting Globally.
2020: Sustainable Oceans and Water.
2021: Biodiversity including Deforestation.

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.

1) https://dnbam.com/en/responsible-investments/guidelines-and-exclusions
2) https://nues.no/wp-content/uploads/2021/10/2021-10-14-The-Norwegian-Code-of-Practice-for-Corporate-Governance.pdf

REGULATIONS

DNB AM supports efforts to improve the quality and increase standardisation within sustainability reporting. We are supporters of the Task Force on Climate Related Financial Disclosure (TCFD) and have continued working to promote disclosure from Norwegian companies in line with these standards. For more information, please see the section on Climate Change. Furthermore, we support the continued work of CDP in promoting disclosure on climate change, water security and deforestation. We are also a part of the CDP's Science Based Targets (SBTs) Campaign, requesting companies set Science-based emission reduction targets.

The upcoming EU regulations have also been a key focus area. Previously, we have contributed to consultation processes coordinated by the Norwegian Fund and Asset Management Association (Verdipapirfondenes Forening – VFF) and Finance Norway (Finans Norge). In 2021, we have worked on suggesting guidelines for the implementation of the EU Sustainable Finance Disclosure Regulations (SFDR) and the EU taxonomy in Norway, through VFF, Finance Norway and Norsif. We have also joined a collaborative effort to create a Norwegian standard for the reporting of carbon emissions.

" The expectations documents are often the starting point for our dialogues with companies about relevant topics – both proactively and reactively.

Active Ownership

We practice active ownership through voting and engagement with companies our funds 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 Group 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".[3)]

ENGAGEMENT (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.

During 2021, we had 241 dialogues with companies, both directly and in collaboration with our external service provider, to address various ESG and sustainability issues.*

Table 7.1 Dialogues per topic in 2021

Topic	**Number of dialogues**
Climate change/greenhouse gas emissions	26
Water and oceans	10
Biodiversity and deforestation	23
Other environmental issues	19
Human rights, child labour, labour rights, local communities/indigenous rights	83
Other social issues	14
Board structure and independence	14
Remuneration	15
Other governance issues (Incl. tax and corruption)	37
Total	**241**

*In addition, the fund management teams also have dialogues with companies regarding ESG topics, often as part of calls with companies. These are not included in these statistics but are recorded within our company meeting database.

We measure progress and outcomes of our engagement work using milestones. At milestone 5 the concern is considered solved. Read more about the use of milestones in the section on engagement strategy. Note that in the following figures, only dialogues where the members of the responsible investment (RI) team have participated are counted. Also note that the graphs do not count the total number of dialogues, but the progress per engagement topic. Hence, an engagement topic which has involved three meetings to progress is only counted as one progression, and one milestone at the end of year status.

3) https://www.sasb.org/blog/double-and-dynamic-understanding-the-changing-perspectives-on-materiality/

Figure 7.1 Number of milestones progressed during 2021

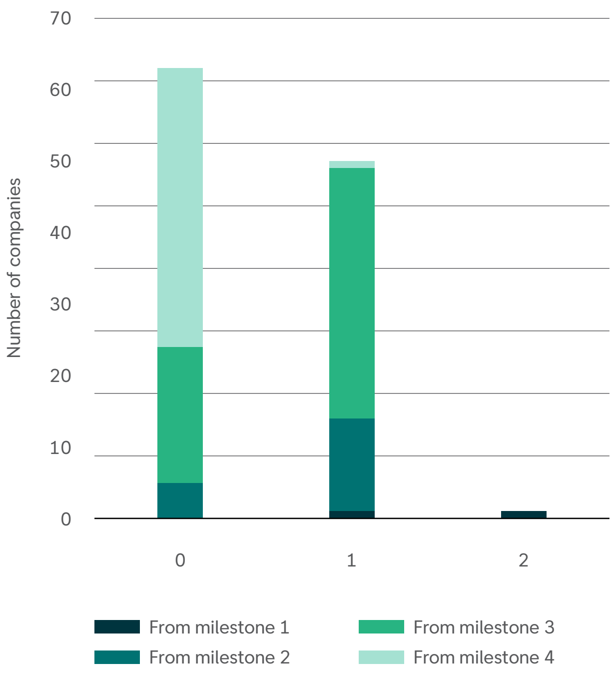
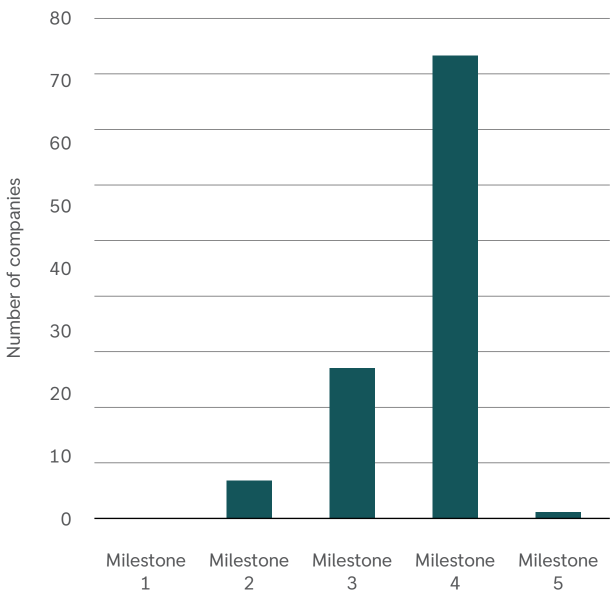


Figure 7.2 Milestone status at last meeting for engagements in 2021



The graph above counts progress in milestones for the companies we have engaged with during the year. It shows that many engagements have not seen progress during 2021, although they may have had progress over a longer time span. We set strict targets for each engagement that must be met to conclude with progress. Therefore, we often need to meet with a company several times to be confident that the milestone can be updated. Many of the engagements have reached milestone 4, but we are quite conservative in our approach to declaring the engagement to be resolved (reach milestone 5).

In addition to company dialogues, we send letters, both individually and in collaboration with other investors, calling for companies to improve their ESG practices.

In conclusion, dialogues with companies are resource intensive, but in our experience, and according to academic research, it is effective. Therefore, engagement continues to be a priority for DNB AM.

VOTING

Our voting policy is to vote at all Norwegian general meetings for listed companies our funds are shareholders in, and we have adopted a systematic approach to determine which global companies' general meetings we vote at. We engage with boards, management, and nomination committees prior to such meetings, or follow up the meetings – to create changes over time. 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 through engagements and other investor initiatives.

In 2021, we increased our voting activity, voting at 324 general meetings. We have voted against companies' recommendations at 132 meetings (on at least one item) on issues such as board composition, remuneration (executive management/board), capital structure, and shareholder resolutions. We intend to increase our voting activity further in 2022.

DNB AM has also taken a more comprehensive approach to shareholder resolutions in 2021, seeing many credible proposals related to ESG. We have voted on shareholder resolutions at 94 general meetings (a total of 228 resolutions). Across all the voting, some central topics that were emphasized in 2021 were climate change, social issues, lobbying/political contributions, and executive compensation. 25 meetings had shareholder resolutions on climate issues, and 48 meetings had shareholder resolutions on social issues, including 22 meeting with resolution on diversity and/or gender equality. In addition, executive compensation was a hot topic in many of the meetings voting on ordinary items (not shareholder resolutions).

Also, worth highlighting is the considerable importance of lobbying and political contributions in shareholder resolutions, with topics cutting across climate and social issues. These resolutions are typically asking for more transparency on the company's policies and activities, and we voted on shareholder resolutions related to lobbying and political contributions at 32 meetings. Examples of these types of shareholder resolutions which we supported, and which gained majority, were:

> " DNB AM has taken a more comprehensive approach to shareholder resolutions in 2021, seeing many credible proposals related to ESG.

Table 7.2 Examples of shareholder resolutions that we supported, and gained majority

Norfolk Southern Corporation (AGM)	Item 5. Report on Corporate Climate Lobbying Aligned with Paris Agreement	• 76 per cent in favour. • Describing if, and how, Norfolk Southern Corporation's lobbying activities align with the goal of limiting average global warming to well below 2 degrees Celsius (the Paris Climate Agreement's goal) and how the company plans to mitigate risks presented by any misalignment.
FedEx Corporation (AGM)	Item 6. Report on Lobbying Payments and Policy.	• 62 per cent in favour. • Preparation of a report, updated annually, disclosing: > Company policy and procedures governing lobbying and grassroots lobbying communications. Related payments by FedEx. > FedEx's membership in and payments to any tax-exempt organization that writes and endorses model legislation. > Description of management's and the Board's decision-making process and oversight for making payments described above.
Exxon Mobil Corporation (AGM)	Item 9. Report on Lobbying Payments and Policy	• 56 per cent in favour. • Similar wording as in the case of FedEx Corporation.
	Item 10. Report on Corporate Climate Lobbying Aligned with Paris Agreement	• 64 per cent in favour. • The Board of Directors conduct an evaluation and issue a report describing if, and how, ExxonMobil's lobbying activities align with the goal of limiting average global warming to well below 2 degrees Celsius (the Paris Climate Agreement's goal). The report should also address the risks presented by any misaligned lobbying and the company's plans, if any, to mitigate these risks.
Royal Caribbean Cruises Ltd (AGM)	Item 5. Report on Political Contributions Disclosure	• 53 per cent in favour. • The Company provide a public report, updated semi-annually, disclosing the Company's policies and procedures for participating or intervening in any campaign on behalf of any candidate for public office, or influence the general public with respect to an election or referendum. The related monetary and non-monetary contributions and expenditures.
Netflix, Inc (AGM)	Item 4. Report on Political Contributions	• 80 per cent in favour. • Similar wording as in the case of Royal Caribbean Cruises Ltd.
Omnicom Group Inc (AGM)	Item 5. Report on Political Contributions and Expenditures	• 51 per cent in favour. • Similar wording as in the case of Royal Caribbean Cruises Ltd.

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 a company's behaviour through engagement. In cases where a company is unwilling to change, exclusion remains an important tool to ensure that 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 of the DNB Group Standard for Responsible Investments will be presented to the DNB Committee for Responsible Investments. Exclusion from the investment universe will be recommended alongside reasoning for this recommendation. Following a recommendation for exclusion by the DNB Committee for Responsible Investments, and approval from the CEO of DNB AM, is a notice that DNB AM portfolio managers should sell the excluded position(s) as soon as possible and at least within 14 days of the decision if the position is too large to avoid a noticeable market impact. Exclusions apply to all DNB funds and mandates.

Table 7.3 Exclusions per 31.12.2021

Criterion	Number of companies
Product-based exclusions	
Tobacco (production)	27
Cluster weapons	3
Nuclear weapons	18
Pornography (production)	1
Thermal coal	88
Oil sands	6
Conduct-based exclusions	
Human rights / labour rights	21
Corruption	3
Environment	26
Environment / human rights	5
Total	**198**

As of 31 December 2021, we had excluded 198 companies from our investment universe. Link to excluded companies.

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. 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. Screening of excluded companies is done regularly. In 2021, we have revoked the exclusions of the following companies:

Table 7.4 Re-inclusions 2021

Company name	Exclusion rationale	Exclusion year
Anglo American PLC	Coal	2020
Atal S.A.	Human rights and labour rights	2018
Empire District Electric Company	Coal	2017
Hanwa Corp	Controversial weapons	2008
Precious Shipping PCL	Beaching	2018

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 RI team works clos with the portfolio managers and key management teams have their own dedicated ESG analyst. In 2021, the ESG competency among portfolio managers have increased with new ESG specialists and training.

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, we highlight potential ESG risks and opportunities to the portfolio managers in addition to alerts on controversial issues. Furthermore, the RI team will also provide input/recommendations about divesting or investing in securities. The RI team's portfolio management experience is a valuable asset in this work.

ESG data is incorporated into DNB AM's portfolio management and information systems and is available to all 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 RI 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.

In addition to the data available in DNB AM's portfolio management and information systems, DNB AM has over the past year developed an internal database and analysis tool, ESG Lab, to improve availability and analysis of sustainability data. ESG Lab defines, develops, collects, categorizes, analyses, and presents secondary and primary data. This includes the alignment of industries and companies with the 17 SDGs. In the tool, ratings and

" DNB AM has over the past year developed an internal database and analysis tool, ESG Lab, to improve availability and analysis of sustainability data.

company meeting information are shared between the portfolio managers and RI analysts. See the fact box on ESG Lab below.

In 2021, we also continued our work to improve the relatively low ESG data coverage of fixed income issuers in Norway and in the Nordics. Through this project we have aimed to understand material ESG risks and opportunities that may impact credit assessments and investment decision making in a more systematic way than before. We developed an ESG framework to assess companies and undertook engagements to collect data directly from issuers in 2020. In 2021 we have further developed the ESG framework to include additional aspects of materiality. We have scored additional companies and updated scoring for companies previously scored. We have scored companies in the banking, utilities, real estate, logistics and transportation, food and food production, and the diversified chemical sector. We are working to continuously increase the number of dialogues with issuers, score more companies across additional sectors and influence companies in a positive direction.

DNB AM ESG Lab – an interdisciplinary collaboration to reach a house view on ESG (in addition to external ESG data)

During 2021 an internal initiative was launched called ESG Lab. The initiative consists of several ESG workstreams that aim to use a proprietary framework, collate different datasets, collect primary data, and provide enhanced flexibility to deliver an in-house view on a range of ESG topics including:

- ESG scores (all companies)
- Questionnaire and assessment framework for Small and Medium-size Enterprises (SMEs)
- Questionnaire and assessment framework for water
- Assessment framework for oceans
- Assessment framework for evaluating alignment to the Sustainable Development Goals (SDGs)
- Climate dashboard

Example output from the ESG Lab is shown below. This is subject to change.

Figure 7.3 Aggregated proprietary ESG scores for example portfolio

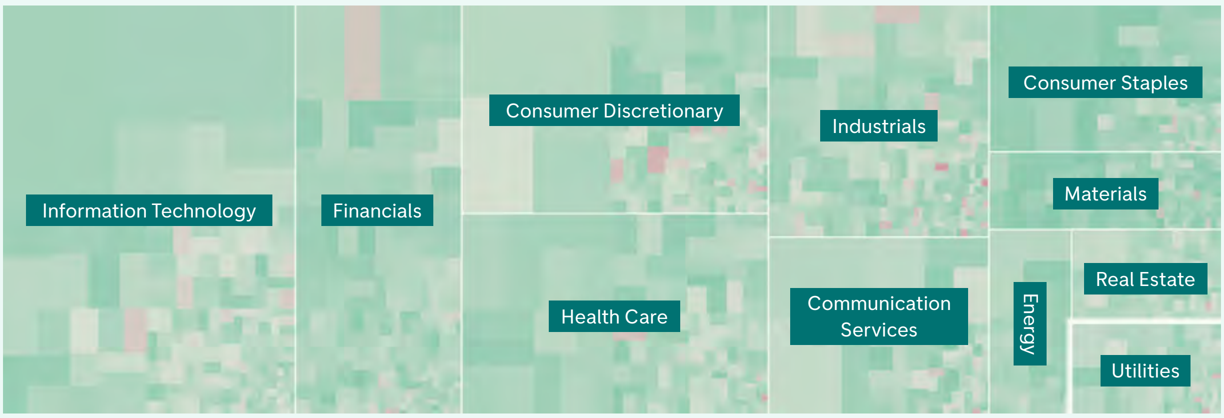


Figure 7.3 ESG integration: Fixed income

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)

OTHER SCREENING

Externally managed funds are also subject to ESG-screening. In 2021, we 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 and voting statistics (based on DNB AM's own guidelines)
- Bloomberg
- SASB Framework and database
- Sell-side research
- Media
- Industry reports
- Non-Governmental Organisation (NGO) reports and meetings
- CDP for data on climate, water and forestry, in addition to initiatives to enhance company disclosures including Science Based Targets

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, coordinated with our voting activities.

TWO MAIN TYPES OF ENGAGEMENTS

It is DNB Asset Management's (DNB AM) priority to ensure that the companies we invest in adhere to our Group Standard. Incident based (reactive) engagements 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.

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 Group Standard. The dialogues may revolve around a specific issue or aim to raise the company's general level of awareness around sustainability issues. These are also important inputs to the investment decision-making process.

PRIORITISATION OF ENGAGEMENTS

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. In general, incident-based engagement processes should aim to not exceed two years.

Companies where DNB AM has a large holding, or where DNB AM may have a large holding in the future, are typically targeted for proactive engagement. Some funds, like funds classified as article 9, have specific targets for number of dialogues. One example is DNB Renewable Energy, where we aim to engage with 80 per cent of the companies in the fund on science-based net zero targets yearly. For both passively and actively managed funds, incident-based engagements are conducted when necessary, for example in connection to controversies.

DNB AM does not 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.

> "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.

Progress is measured using milestones

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 to prevent future violations
- The company's action is verifiable (where relevant)

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, intensification of the engagement or the exclusion of the relevant company 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.

LONG-TERM AND SHORT-TERM THEMATIC ENGAGEMENTS

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, over last years we have 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 Sustainable Development Goals

The Sustainable Development Goals (SDGs) were adopted by all United Nations 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.

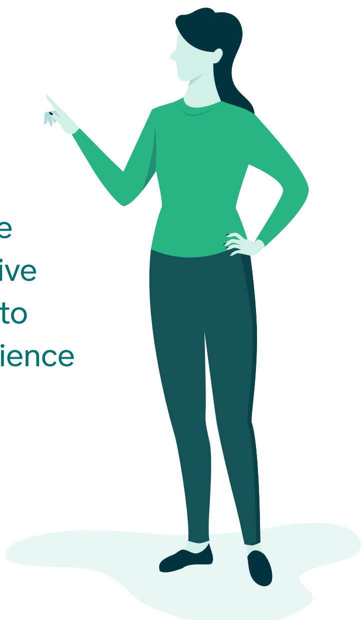
THE SDGs ARE A PART OF OUR STRATEGY

The 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 goals in a collective manner will help to increase the resilience of our portfolios. The SDGs are therefore critical input to our standard setting and active ownership activities, and we strive to identify how companies' business models align 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 for identifying companies' alignment with the SDGs. The SDGs are also increasingly important in fund strategies. In 2021, we launched DNB Future Waves, a fund that uses the SDGs as an investment framework, with focus on four investment themes. (read more about Future Waves in section 11). Moreover, we are in the process of developing more fund strategies that incorporate the SDGs as an additional tool in the investment process.

SUSTAINABLE DEVELOPMENT GOALS

> We believe that considering these goals in a collective manner will help to increase the resilience of our portfolios.



MEASURING EXPOSURE TO THE SDGs

Our work on developing a methodology for measuring our funds' exposure and contribution to the SDGs is ongoing. One challenge is that alignment looks different depending on which data provider that is used. The choice of data provider is not yet concluded. Over the past year, we have been working to establish an in-house view on SDG alignment as part of our newly developed internal database and analysis tool, ESG Lab. The methodological approach and framework are currently under development, and we expect to publish results using this approach in next year's report.

For DNB Renewable Energy, the assessment of revenue exposure to the SDGs was conducted for the second year running and presented in a fund report launched at the end of 2021. Company revenues were mapped to the SDGs by using Bloomberg's SDG model. The result provides a high-level signal of the portfolio's potential revenue exposure to the SDGs. The findings broadly align with our expectations and the intended climate and environmental aims of the portfolio at an aggregated level. Potential revenue exposure to the SDGs is found for companies responsible for approximately 76 per cent of the weight of the portfolio, with SDG 7 and 9 constituting the goals with the highest level of alignment. It is important to note that this methodology does not reflect the new methodology and results will likely change for next year's report.

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 and 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.

Figure 9.1 Mapping our focus areas to the SDGs

SDGs	Human Rights	Water	Climate Change	Oceans	Emerging Markets Supply Chain	Bio-diversity	Deforest-ation and Land Use	Product Safety and Quality	Health and Sustain-able Food Systems
1 NO POVERTY	✓								
2 ZERO HUNGER			✓					✓	✓
3 GOOD HEALTH AND WELL-BEING			✓					✓	✓
4 QUALITY EDUCATION	✓								
5 GENDER EQUALITY	✓								
6 CLEAN WATER AND SANITATION		✓							
7 AFFORDABLE AND CLEAN ENERGY			✓						
8 DECENT WORK AND ECONOMIC GROWTH	✓				✓				
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE					✓				
10 REDUCED INEQUALITIES									
11 SUSTAINABLE CITIES AND COMMUNITIES			✓	✓					
12 RESPONSIBLE CONSUMPTION AND PRODUCTION				✓				✓	✓
13 CLIMATE ACTION			✓	✓		✓	✓		
14 LIFE BELOW WATER				✓		✓			✓
15 LIFE ON LAND						✓	✓		✓
16 PEACE, JUSTICE AND STRONG INSTITUTIONS					✓				
17 PARTNERSHIPS FOR THE GOALS					✓				

10 Focus Areas

Supporting the active ownership process are our long-term and thematic focus areas. These are the backdrop of our engagement activities, and we set goals and measure achievements for each of the areas.

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.

HUMAN RIGHTS

Achievements in 2021

- Continued our engagement with companies operating in high-risk areas, including China, Belarus, Sudan and Western Sahara.
- Engaged with companies in the IT and energy sector on Uyghur forced labour.
- Engaged with companies in the semiconductor supply chain on the issue of conflict mineral content, in collaboration with other investors.
- Continued engagement with textile companies to improve working conditions, end forced labour practices and ensure appropriate health and safety measures.
- Engaged on human rights issues at social media platforms in collaboration with other investors, addressing misuse of platforms.
- Continued the thematic engagement on child labour in cocoa in collaboration with our engagement services provider.
- Joined the Mining Companies & Indigenous community rights and social licence engagement with Church of England.

Goals for 2022

- Continue engaging with companies on human rights, labour rights and children's right, with special emphasis on sectors impacted by the pandemics.
- Continue working through proactive engagements with companies operating in high-risk areas, and within complex supply chains in high-risk areas.
- Collaborate with other investors on human rights issues in solar sector supply chains.

CLIMATE CHANGE

Achievements in 2021

- Continued engagements through TCFD working group with a broadened scope to also include biodiversity. Differing levels of progression from companies – with all moving ahead positively.
- Increasing transparency regarding our climate approach has been a continued focus for DNB AM. This has led to changes to our customer reporting and further changes can be seen as part of this annual report.
- Participated in second phase of the UNEP FI TCFD Investor Pilot project (ongoing). The project aims to provide financial institutions with industry leading approaches for assessing climate risks and opportunities. We have contributed with a case study which will be released in 2022.
- Continued utilising collaborative engagements as part of our active ownership approach. This has included collaborative Climate Action 100+, FAIRR, and UNPRI engagements in 2021.
- Utilised our systematic approach to voting on topics related to climate change at company general meetings voted at such shareholder resolutions.
- Continued to publish portfolio carbon footprints for portfolios, including fixed income portfolios for the third time in 2021. We will continue to report in line with industry best practice.

Goals for 2022

- Continue engaging with companies using climate change expectations document as a starting point for engagement. Focus on target setting, net zero, both within business operations and within supply chains.
- Continue work through TCFD working group with Norwegian investors, engaging Norwegian companies. In 2022, continue to broaden the work to include Biodiversity.
- Continue to work with other Norwegian financial institutions around a common market practice for Carbon reporting.
- Continue to utilise collaborative engagements for climate, where approach is likely to elicit the best result.

WATER

Achievements in 2021

- Continued engagement with companies on tailings under the Investor Mining & Tailings Safety Initiative.
- Engaged in meat sourcing engagement through FAIRR.
- Continued proactive engagement on sustainable oceans both through FAIRR Sustainable Aquaculture and individually.
- As part of ESG LAB, DNB AM, have collaborated with researchers at the Columbia Water Center (CWC) at Columbia University to improve datasets and water risk modelling.

Goals for 2022

- Combine engagement on water with the ongoing human rights engagements with the textile industry.
- Continue to support 2030 Investor Agenda for Mining Sector, in addition to the work completed on the Mining and Tailings Safety Initiative.
- Continue to support collaborative engagements on water, including FAIRR.

Human rights

Long Term Focus Areas

Human Rights

Relevance to the SDGs

SDG 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

SDG 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.

SDG 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.

SDG 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.

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, and customers.

DNB Asset Management's (DNB AM) expectations to companies on human rights are outlined in our expectations document on human rights. We expect companies to understand their responsibility and risks regarding the social consequences of their business operations by carrying out human rights due diligence processes. Furthermore, we expect companies to integrate human rights considerations into business strategies, policies, procurement, and risk management. Specific criteria are outlined for children's rights, labour rights and indigenous people's rights. 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.

We see an increased awareness of the risks posed by human rights issues in the financial sector. Over the past years there have been fundamental changes in how climate and environmental risks and opportunities are taken into account by the financial sector. Going forward, we expect to see a similar development when it comes to human rights considerations. One example is the Principles for Responsible Investments (PRI) kick-starting its collaborative human rights stewardship initiative, a human rights equivalent to Climate Action 100+ (CA100+). The initiative is aiming to maximise investor contributions towards business respect for human rights and investor efforts to address social challenges.

In addition to investor efforts, the momentum on human rights is driven by regulatory movements, particularly in Europe. In 2022 we expect to see the UN Guiding Principles on Business and Human Rights (UNGP) increasingly accompanied by hard law. The European Commission's Sustainable Corporate Governance legislative proposal is expected to cover mandatory human right due diligence as well as investor duties. It is set to have its final proposal released in March after being continuously delayed throughout 2021. Further, the Commission is expected to receive the final recommendations for an EU "Social Taxonomy", an extension of its high-profile green framework.

While waiting on the EU, national governments are beginning to take action on developing national mandatory human rights and environmental due diligence legislation. Some countries, including Germany and France, have already passed national legislation. Initiatives in Luxembourg, Finland and the Netherlands are expected to progress this year. Also in Norway, a new Supply Chain Transparency Act will enter into force in 2022. The purpose of the Act is to strengthen respect for fundamental human rights and decent working conditions in connection with the production of goods and services. The law shall ensure transparency about supply chains and requires companies to carry out and account for due diligence assessments.

Both the Norwegian Act and the other international upcoming regulations build on requirements for responsible business conduct that DNB AM already expect from companies in our portfolios, such as the UN Guiding Principles on Business and Human Rights (UNGPs) and the OECD Guidelines for Multinational Enterprises. Consequently, the initiatives and regulations enforce DNB AM's existing expectations towards companies to understand their responsibility and risks regarding the social consequences of their business operations.

ACTIVITIES IN 2021

In 2021, we had 83 dialogues on issues related to human rights, child labour, labour rights and indigenous peoples' rights. Especially in this area, we aim to take a holistic value chain perspective in our engagements. During the year, we have engaged with companies in the semiconductor supply chain on the issue of conflict mineral content, in collaboration with other investors. Furthermore, we have continued to engage with textile companies to improve working conditions, end forced labour practices and ensure appropriate health and safety measures. Our engagement on child labour in cocoa has also been continued and is further elaborated on under the section on Emerging Markets Supply Chains. During the year, we have engaged on human rights issues at social media platforms with Meta in collaboration with other investors, addressing misuse of platforms. We have also joined the Mining Companies & Indigenous community rights and social licence engagement with the Church of England.

Addressing human rights risks in our portfolios is an important part of our responsible investment work in general, and specifically in the case of conflict-affected areas. In 2021 we prioritised high risk geographies including among others Myanmar, China, Western-Sahara, and Belarus. Engagements in these areas represent a broad range of issues we have been working on.

Myanmar

In June, together with 80 international investors, we signed an investor statement on human rights and business activities in Myanmar. We expect companies to uphold their corporate responsibility to respect human rights by undertaking enhanced due diligence to address and prevent human rights harms. We have engaged with several companies after the coup d'état by the military in Myanmar on the risks of the companies being implicated in human rights issues. Due to the worsening situation into 2022, we will continue to engage with companies operating in the country.

China

Our work with human rights often overlaps with the thematic focus area "Emerging markets supply chains". Ensuring respect for human rights in global supply chains is at the core of many of our engagements. As an example, we have engaged with several companies regarding the alleged use of forced labour of Uyghur and other Muslim minority workers within supply chains in the energy and information technology sector. In such engagements, we encourage the company to develop strong and comprehensive policies and practices regarding human rights, covering both own operations and the supply chain. We further encourage public disclosure of policies and practices regarding human rights, according to best practice. China will continue to be a prioritised area for our active ownership in 2022.

Western-Sahara

The situation in Western-Sahara has been central in our work on human rights. In addition to engagement with companies present in the area, we have been in dialogue with non-governmental organisations (NGOs) and consulted legal resources. The meetings were initiated based on the recent ruling from the EU Court of Justice and a report from Western Sahara Resource Watch (WSRW) questioning the legality of projects in Western Sahara, specifically related to questions on consent and people of the territory. In our engagements, we have encouraged the companies to be more transparent on how human rights due diligence and risk assessments are conducted. Furthermore, we request transparency on how free, prior, and informed consent from the people of the territory is achieved. We urge the companies to withdraw from the area if clarification and satisfactory resolution cannot be achieved. The engagements will be followed up in 2022.

Belarus

During 2021, we have had a good dialogue with Yara International ASA to understand how they manage the risk of human rights and labour rights violations in Belarus. Yara has been an important customer of state-owned Belaruskali, one of the world's largest producers of the crop nutrient potash. Yara has previously demanded that Belaruskali stop punishing workers for taking part in strikes and anti-government protest. Based on our meetings we got a solid impression of how Yara is managing a challenging situation. In January 2022, Yara announced that they will end sourcing of potash from Belarus. We will follow up how Yara continue to support the workers.

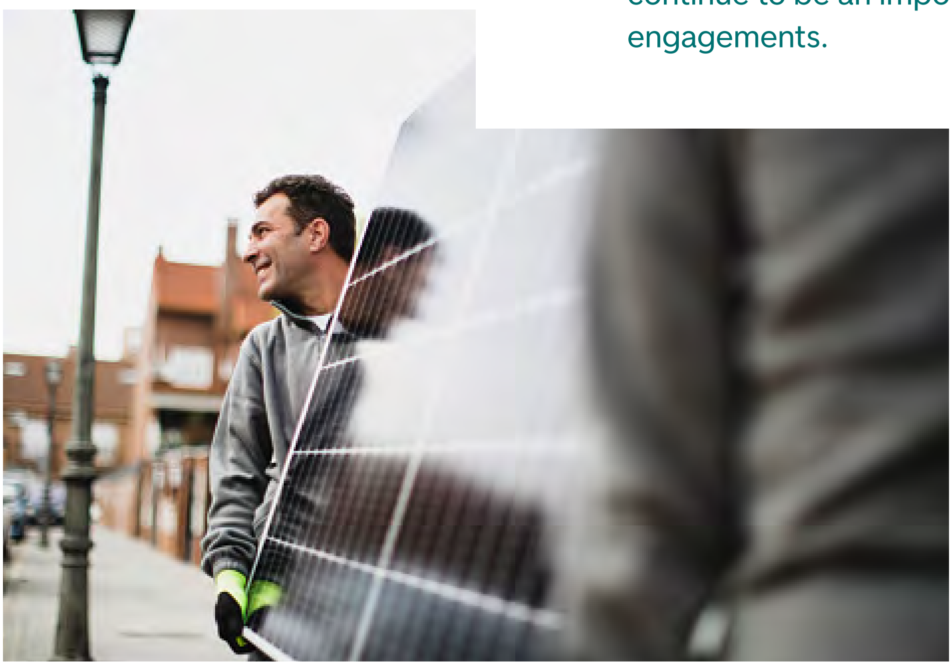
As of 31 December 2021, 26 companies were excluded from our investment universe due to breaches of human rights and labour rights, seven of which were new exclusions in 2021. Of the 26 excluded companies, five companies were excluded also due to environmental concerns, for example by disposing of decommissioned vessels by sending them to be broken up for scrap on the beaches of Bangladesh.

Selected company dialogues on human rights related topics in 2021:

Expectations	Company	Details	Start
Human rights	Meta Platforms CLA Ord. (formerly Facebook Inc.)	Human rights abuses at social media platforms	2021
Labour rights	Daqo New Energy Corp.	Modern slavery/forced Labour in supply chain	2021
Human Rights	Enel SpA and Siemens Gamesa Renewable Energy S.A.	Western Sahara	2020
Indigenous people's rights	Energy Transfer LP	Dakota Access Pipeline	2018

FOCUS FOR 2022
Ensuring respect for human rights, children's rights and labour rights in supply chains will continue to be an important topic in our engagements. We see a potential for improvement within the energy sector supply chain and will prioritise the solar energy sector in 2022, where there is a significant risk of Uyghur forced labour in global supply chains. Further, we will follow up with proactive engagement in high-risk areas including Myanmar, China, Western-Sahara and Saudi Arabia. In 2022, we will also continue proactive engagement towards companies within soft commodities, textile, marketing of formula milk and information and technology. Regulatory movements within the human rights area will influence our work in 2022. For example, we will continue to engage with Norwegian companies regarding the implementation of the new Supply Chain Transparency Act.

" Ensuring respect for human rights, children's rights and labour rights in supply chains will continue to be an important topic in our engagements.



Climate change

Long Term Focus Areas

Climate Change

Relevance to the SDGs

SDG 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.

SDG 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 can be associated with climate change.

SDG 7: Affordable and Clean Energy
Dependence on fossil fuels is a key driver of climate change. Renewable energy can reduce carbon emissions and have a lower impact on the environment. It is a natural point of connection with national climate plans.

SDG 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.

SDG 13: Climate action
Climate change is directly addressed by this SDG, which focuses on mitigation, adaptation, and integration into policies and impact reduction.

There is a broad scientific consensus that to get 'on track' to limit global temperature rise to 1.5°C, global annual greenhouse gas (GHG) emissions must drop rapidly to 25 gigatons by 2030. This is increasingly challenging when global emissions are expected to double from current levels over the same period.[1] On the current emissions trajectory, the world will exhaust the 1.5°C carbon budget within the next 7–10 years. The United Nations Environment Programme Finance Initiative (UNEP FI) estimates that a global 7.6 per cent annual emissions reduction is required to close the emissions gap.[2] The scale of the required annual reduction emphasises the enormous challenge facing society, a challenge in which investors have a key role not only in the management of climate-related risks but also in the opportunities to contribute to and take advantage of the transition to the low carbon economy.

Climate change has been one of DNB AM's long-term focus areas for many years as we recognize 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.

1) https://www.unep.org/interactive/emissions-gap-report/2019
2) https://www.mcc-berlin.net/en/research/co2-budget.html

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 Task Force on Climate Related Financial Disclosure (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.

An overview of our approach is outlined in figure 10.1. 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 TCFD recommendations also provide a framework that we can use to frame, describe, and communicate our own climate change efforts.

Figure 10.1 Overview of how we work with climate-related risks and opportunities

- 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 sustainability themed 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

- **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

- 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
- Overview and following up on companies target setting work

GOVERNANCE

The DNB Group has a well-established governance structure that is led by the Board, see figure 10.2. Since 2020, and the unveiling of the new DNB Group Strategy, Corporate responsibility is no longer a named strategic priority as this is now considered to be deeply integrated through the DNB Group.

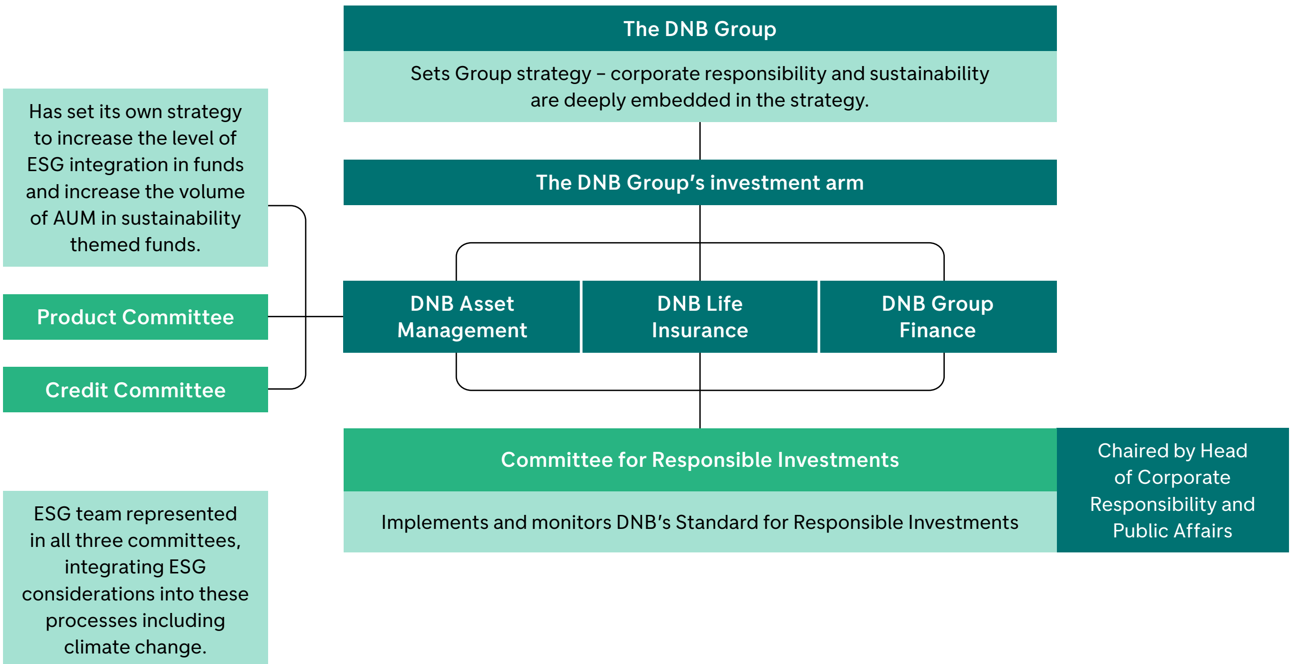
DNB AM, a separate legal entity under the DNB ASA umbrella, has also revisited its strategy during 2021 defining increased ambitions regarding sustainability themed funds moving forward. Ambitions include increasing volume of assets under management (AUM) in sustainability themed fund and increasing 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.

As a signatory to the Principles for Responsible Investments (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** meets five 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. 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.
- **DNB Asset Management's Product Committee**: The Responsible Investment (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.

Figure 10.2 Governance



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 considerations across all asset classes

The DNB 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 these analyses 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. Where opportunities are not sufficiently managed, we engage with companies.

We have again over the past year 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 banking, utilities, real estate, logistics and transportation, food and food production, and diversified chemicals sectors. This involved engagement and analysis of more than 100 companies. We have 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

Our active ownership approach is vital to understanding and mitigating climate-related risks and opportunities. In 2021, we had 26 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+ continued in 2021. This five-year initiative led by investors targets the world's largest 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. Notably in 2021, a report from Bloomberg New Energy Finance (BNEF) highlighted that two thirds of companies from the initiative's Net-Zero Benchmark have set net zero targets for 2050 or before. The engagements from investors have undoubtedly played a significant role in the setting of these targets, alongside pressure from customers. BNEF estimates that these will lead to global reductions in GHG emissions by 9.8Gt/year by 2050 – equivalent to around a quarter of annual global anthropogenic GHG emissions.[3)]

We are supporting investors on engagements with Equinor and Maersk. Our engagements with the CA100+ will continue during 2022, as we look to join engagements with other companies within the initiative.

TCFD Engagement with Norwegian Investors

As part of a proactive engagement, we are conducting dialogues 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,

3) https://about.bnef.com/blog/two-thirds-of-the-worlds-heaviest-emitters-have-set-a-net-zero-target

food and beverages, real estate, construction, seafood, Nordic banks and insurance. As part of the work, we have also encouraged companies to set net zero 2050 targets according to best available framework, which we consider to be the one provided by the Science Based Target initiative (SBTi).

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 all considered the TCFD framework in connection with climate-related strategy and reporting. Moving forward, we will continue to support companies in this process.

Direct company engagements

Selected company dialogues on climate-related topics in 2021:

Expectations	Company	Details	Start
Climate change	Nokia Oyj	Net zero committments and supply chain emission	2021
Climate change	LM Ericsson	Net zero committments and supply chain emission	2021
Climate change	Equinor	Carbon emission reduction plan directly and with Climate Action 100+	2018
Climate change	Yara International ASA	TCFD reporting	2018

Climate-related voting activity

DNB AM took a more comprehensive approach to shareholder resolutions in 2021, seeing many credible proposals related to ESG. We voted on shareholder resolutions at 94 general meetings (a total of 228 resolutions). Across all the voting, some central topics that were emphasized in 2021 were climate change, social issues, lobbying/political contributions, and executive compensation. 25 meetings had shareholder resolutions on climate issues.

Also, worth highlighting is the considerable importance of lobbying and political contributions in shareholder resolutions, with topics cutting across climate and social issues. These resolutions are typically asking for more transparency on the company's policies and activities, and we voted on shareholder resolutions related to lobbying and political contributions at 32 meetings.

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.

As a result of changing consumer sentiment, increasing investor pressure, changes by companies as they seek to take advantage of the global low carbon transition and commit to decarbonisation, exclusion decisions regarding climate have become increasingly challenging. On the surface, a decarbonisation commitment can appear well grounded and substantial, however shortcomings may appear when investigating further. The task of assessing the forward-looking element of a company's strategy regarding climate has therefore become central in decisions. With this in mind, we are increasingly relying on recognised groups and providers for their assessments of this when considering exclusion decisions for companies.

At the end of 2021, 6 companies are excluded from our investment universe due to the oil sands criterion and 88 companies on the back of the thermal coal criterion. This is a decrease in the number of excluded companies compared with 2020, following the re-inclusion of two companies.

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 in our expectations towards companies. 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 centred around the climate change and environment themes. 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.

Changes in our fund product range have included the launch of our index near DNB Klima Indeks fund in 2021, which is built on a Paris aligned benchmark. The fund is constructed to reduce exposure to various climate risks. For more information, please refer to the section on sustainability themed funds.

Raising social awareness on climate change

Throughout the year, we 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, conferences and universities).
- Through engaging with clients, companies, putting climate change on their agendas.

RISK MANAGEMENT, METRICS AND TARGETS

With the impacts of climate change being felt, we recognise the urgency to act. We do this to assure there is awareness of the risks companies face, while also looking to identify opportunities where companies are well positioned to take advantage of the low carbon transition. 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 the section on ESG Integration for more information about data.
- **Portfolio carbon footprinting**, 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.

There are a range of other tools available on the market intended to assist investors in the assessment of the companies for climate risks, as well as alignment with the Paris Agreement. There has historically been challenges in communicating the results of several tools, as many lack the relative simplicity of a carbon footprint. However, there are well acknowledged weaknesses associated with the carbon footprint, not least that the assessment is based on backwards-looking data. For this reason, we are increasingly looking for means by which to assess companies based on forward-looking metrics. To do this, we are continually exploring different tools and products that allow us to do so. With many providing innovative outputs for use in analysis and investment decision making.

Carbon footprinting

As part of our efforts to measure and reduce exposure to companies with high climate risk DNB AM started to measure the carbon footprint of all equity funds in 2016, and in 2019 we also begun disclosing the carbon footprint on fixed income funds where sufficient carbon data is available.

A carbon footprint is a measurement of the carbon dioxide (CO_2) and equivalents, released which can be attributed to a particular activity, company, country, or in this case, to our investment funds. The term can be used to describe a range of approaches where the carbon emissions are reported either in absolute terms or by normalizing using some other factor. The carbon footprint is one of several factors that can provide insight into a company's climate risk and impact. The measurement of carbon footprint and reporting is the first step, after which there are several ways of managing this associated risk. In 2022, DNB AM are part of a Finance Norway led initiative along with other financial participants, looking to develop a Norwegian standard regarding carbon emissions and financed emission reporting.

DNB AM uses information from MSCI ESG Research about companies' greenhouse gas emissions. Unfortunately, the carbon emissions data coverage for the Nordic fixed income universe is low. This has led to our efforts with Nordic fixed income, under which we have worked actively to gather data from issuers 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, MSCI ESG Research produce modelled estimates which have been used in the calculation. In addition, some companies do not have either reported or estimated data, in such instances the calculation will pro-rate the calculation based on companies with available data. DNB AM reports the carbon footprint in CO_2 equivalents, as defined by the Greenhouse Gas Protocol (see figure 10.3 for details on emission Scopes). Scope 3 data is something we are tracking for internal use, and often forms discussions with companies about their supply chain. For avoided emissions, 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.

Figure 10.3 Categories of greenhouse gas emissions

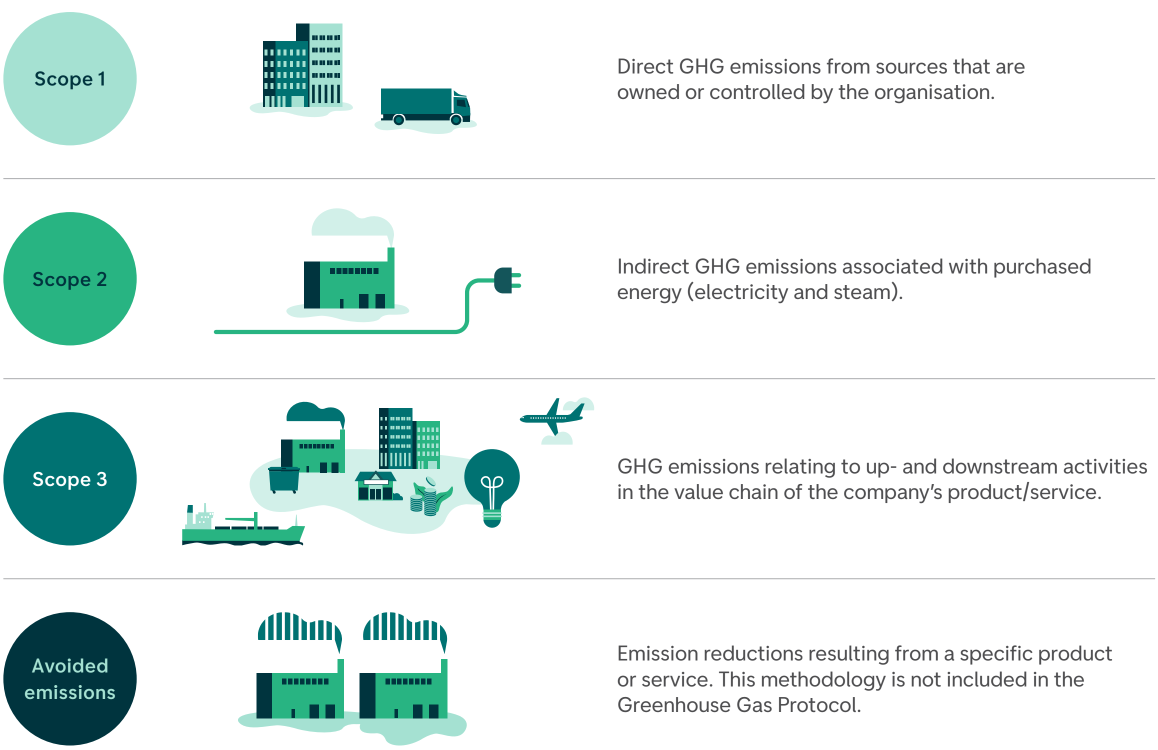


Figure 10.4 Greenhouse gas emissions from DNB's mutual funds relative to reference indices
Tonnes of CO_2 equivalent for every USD 1 million of revenue

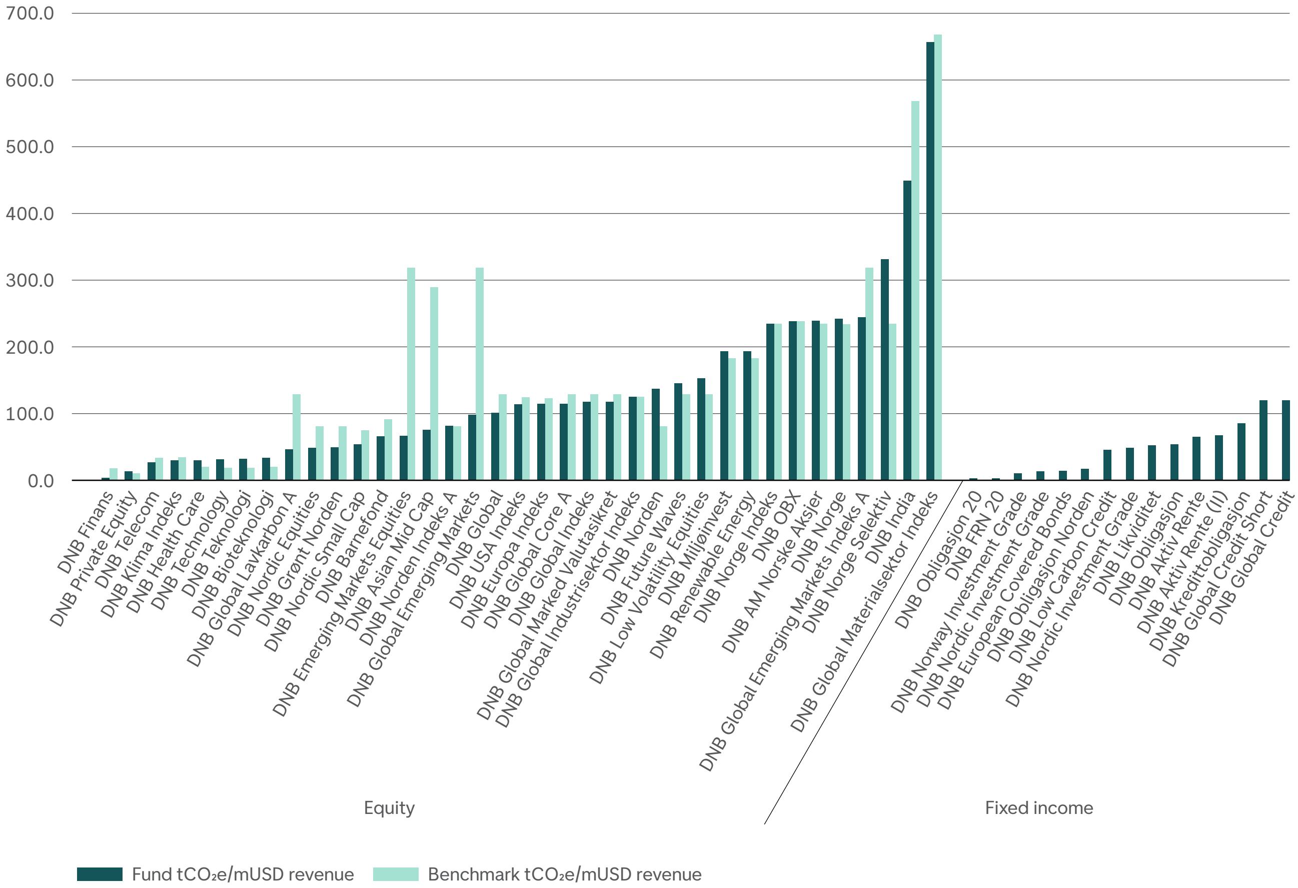


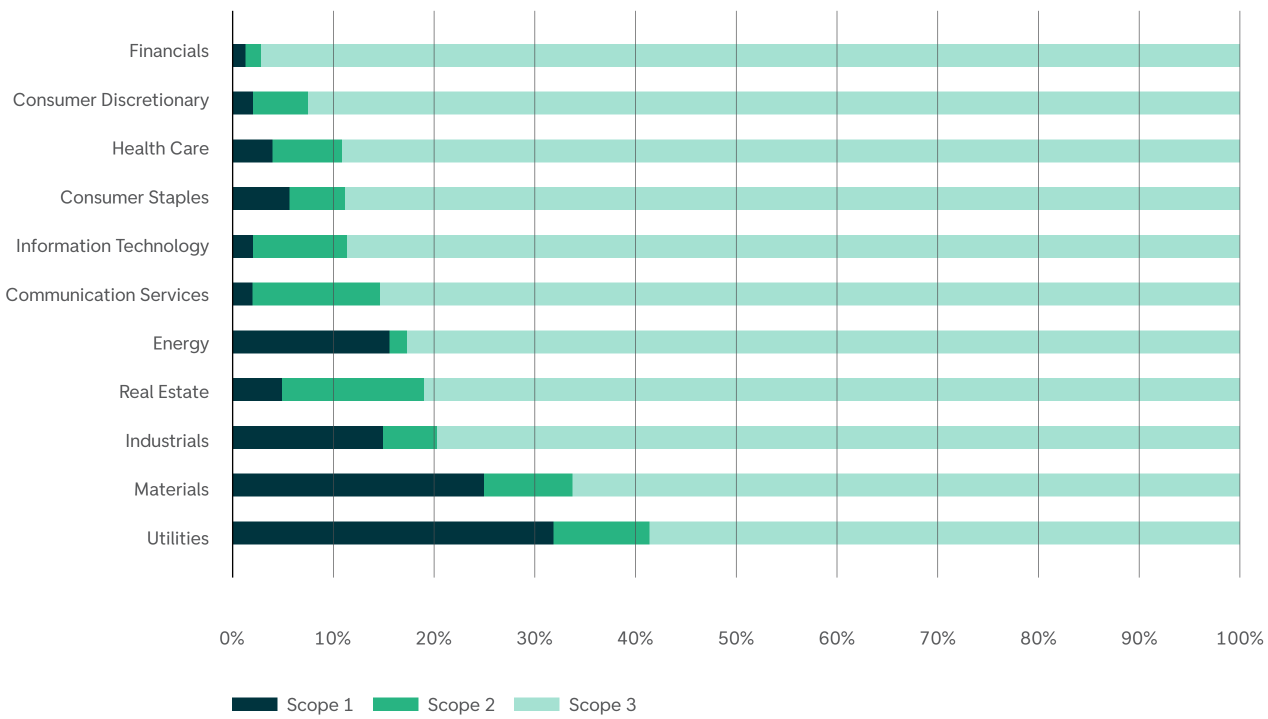
Figure 10.4 shows 37 equity funds and their respective indices where data on greenhouse gas emissions was available for more than 70 per cent of the funds' investments. These funds represent more than 99 per cent of the total market value of DNB's equity funds. For our fixed income funds, we are reporting on 15 funds covering more than 40 per cent of the total market value of DNB's fixed income funds. This is an increase from the 4 funds we published data for in our 2020 report. There is low coverage of the companies in the reference indices for the Nordic fixed income funds, which is the reason why we are unable to disclose 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. 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 sectors where we have gathered CO_2 data, we provide the companies' self-disclosed data where available. For companies not disclosing, 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, and hydropower in particular.

The graph is a snapshot of the portfolio as of 31 December 2021 and shows that compared with the respective benchmarks, most of the funds had a lower or equal carbon footprint.

In terms of future improvements of this assessment, we are continuing to track Scope 3 emissions on a fund basis internally and these findings are important inputs in engagements with companies regarding the full life cycle approach to carbon in their products and services. It is our hope that quantity and quality of disclosure of this data will continue to increase so we can have a more complete picture of the carbon risk in our funds. The importance of collecting this information is evident, particularly when considering the scale and contribution of Scope 3 emissions relative to sectors' total emissions in figure 10.5. This chart was based on DNB AM's equity and fixed income holdings from 31 December 2021, utilizing MSCI ESG's carbon emissions data, including estimated Scope 3 data, and reflects that Scope 3 plays a significant part in emissions not currently being fully recognised. In an effort to increase the quality and coverage of reported emissions, DNB AM 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. We are continuing to witness a large year on year increases in the number of companies reporting greenhouse gas emissions data, in 2021 the CDP saw more than 13,000 companies reporting, up from 5800 in 2016. At the same time, a recent study from University College Dublin[4)] found that there was a considerable mismatch between the emissions reported by companies as part of their public disclosures. As the pressure for companies to report on this information, and set targets, public scrutiny of this information is only likely to get more intense and we are supporters of public and transparent standards.

4) Carbon Disclosure Quality: Oil & Gas. Vega, S; Hoepner, A; Rogelj, J; Schiemann, F

Figure 10.5 Sectoral breakdown of emissions by scope
DNB Holdings 31.12.21 (percentage of total)



Further, DNB AM has over the past year developed our internal database and analysis tool, ESG Lab, to improve availability and analysis of sustainability data. ESG Lab defines, develops, collects, categorizes, analyses, and presents secondary and primary data. In the tool, ratings and company meeting information are shared between the PMs and RI Analysts. The initiative consists of several ESG workstreams including the collection of primary data through direct engagement with companies, among other activities. For further information, please see the fact box on ESG Lab here.

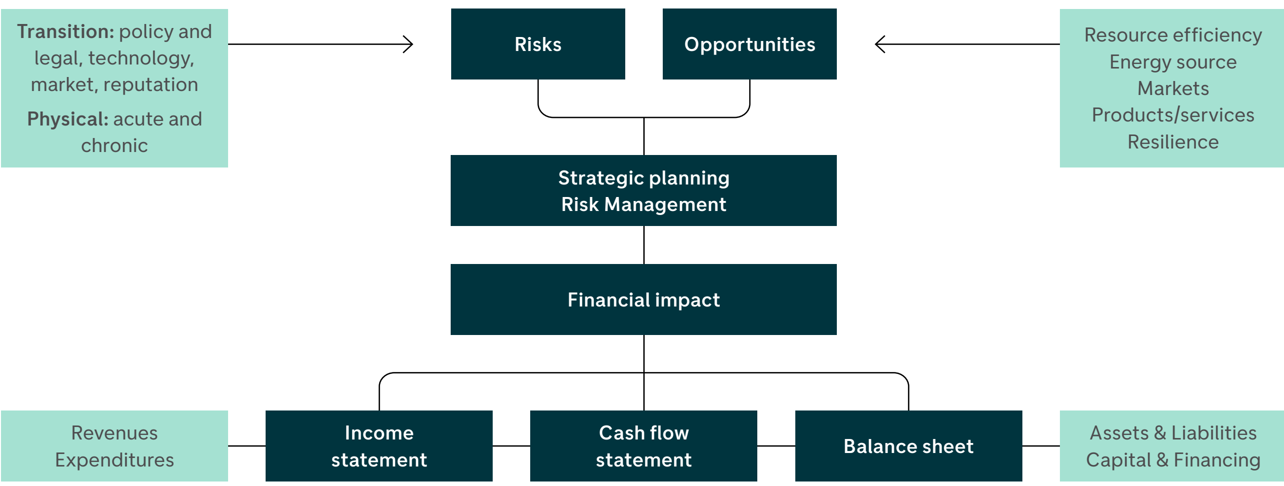
There is significant uncertainty surrounding data on greenhouse gas emissions. This is driven not only by the regional variations in practices for reporting emissions, which have been shown to vary considerably between markets and companies of different size, but also from the use of estimated figures when companies do not report emissions. There are well-known shortcomings due to lags in data reporting, and also questions as to whether an assessment of future carbon risk can be made using backward-looking data. We do not see this as a measure of future risk, but rather as a snapshot of a company's and/or a funds, exposure at a particular point in time. All things considered and despite these shortcomings, DNB AM is of the opinion that greenhouse gas emissions are an important factor to consider, among an increasing number, in the analyses of companies' climate risk and impact. At the same time, we are continuing to explore different approaches, increasingly those with a forward-looking approach, to assess the future climate risks associated with our holdings.

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.[5] 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. This tool was bought by MSCI ESG Research in 2019 and was expanded on, we have since this time been utilizing the tool as part of our internal analysis regarding scenario analysis.

5) DNB AM did not participate in the real estate sub-group

Figure 10.6 Climate-related risks and opportunities have a financial impact (TCFD, 2017)



During 2021, we have continued our TCFD work through Phase II of the UNEP FI project. This has been a two-fold approach. First, the project's roadmap stream has focused on competency-building opportunity through a series of webinars held by industry experts. The second stream has entailed working through modules focusing on specific topics. We have contributed with a case-study as part of the Climate Stress Test module. We will continue working with this initiative through 2022.

As part of our approach to climate risk management, we continue to conduct scenario analyses, to understand the transition and physical risks and opportunities which may be experienced by companies in DNB AM's funds, and the associated potential financial impact. As part of this report, we have assessed our thematic funds (climate and environment), under a range of scenarios. The approach assesses the transition risk and opportunities separately from the physical risk and opportunities, ultimately combining the results. The output is a forward-looking Climate Value-at-Risk (CVaR) metric comprised of an assessment of policy risk, transition opportunities, and physical risks. The CVaR assessment aims to "measure the potential impact of different climate scenarios on individual securities' valuation"[6], and provides a percentage value of the potential impact resulting from climate change under each scenario. These security level results are then aggregated up to the fund level to provide a fund level CVaR. 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.

Transition risks and opportunities

The first element is the assessment of the transition risks and opportunities. These include the additional costs associated with the low carbon transition, and include "policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change".[7] The speed and severity of the required transition will impact the scale of the financial impacts felt by companies.

To assess the transition risks and opportunities, we have utilized a range of Integrated Assessment Models (IAM) and scenarios available from MSCI ESG to conduct the assessment. The description of the IAMs and the warming scenario(s) under which they were assessed is outlined in the table below.

Integrated Assessment Model	Model description	Warming scenario assessed
AIM-CGE	"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"[8].	1.5°C, 2°C, 3°C
GCAM	"A dynamic-recursive model with technology-rich representations of the economy, energy sector, land use and water linked to a climate model that can be used to explore climate change mitigation policies including carbon taxes, carbon trading, regulations and accelerated deployment of energy technology."	2°C
IMAGE	"A comprehensive integrated modelling framework of interacting human and natural systems. The model identifies socio-economic pathways, and projects the implications for energy, land, water and other natural resources, subject to resource availability and quality.[9]	2°C
REMIND	"An energy-economy general equilibrium model linking a macro-economic growth model with a bottom-up engineering-based energy system model. It covers twelve world regions, differentiates various energy carriers and technologies and represents the dynamics of economic growth and international trade."[10]	2°C

6) From MSCI ESG Report, Managing Climate Risk in Investment Portfolios
7) TCFD (2017), Recommendations of the Task Force on Climate-related Financial Disclosures
8) From: MSCI ESG Report, "Introduction to Climate Scenarios", August 2020.
9) Integrated Assessment Model Consortium Wiki, Accessed 15 January 2022
10) Integrated Assessment Model Consortium Wiki, Accessed 15 January 2022

Additionally, the GCAM, IMAGE, and REMIND models allow for further customization by selecting a Shared Socioeconomic Pathway (SSP). The SSPs are sets of standardised pathways representing different socio-economic challenges faced when balancing demands for climate mitigation and adaptation. There are 5 SSPs in total, produced by the global climate research community, and as part of the analysis we have utilized the SSP 1 and SSP 2.

Shared Socio-economic Pathway	Details
SSP 1	Sustainability – Taking the Green Road (Low challenges to mitigation and adaptation) The world shifts gradually, but pervasively, toward a more sustainable path, emphasizing more inclusive development that respects perceived environmental boundaries.
SSP 2	Middle of the Road (Medium challenges to mitigation and adaptation) The world follows a path in which social, economic, and technological trends do not shift markedly from historical patterns.[11]

11) Riahi, K et al, The Shared Socioeconomic Pathways and their energy, land use, and greenhouse gas emissions implications: An overview

Figure 10.7. CVaR Transition Risks and Opportunities under 1.5°C AIM-CGE

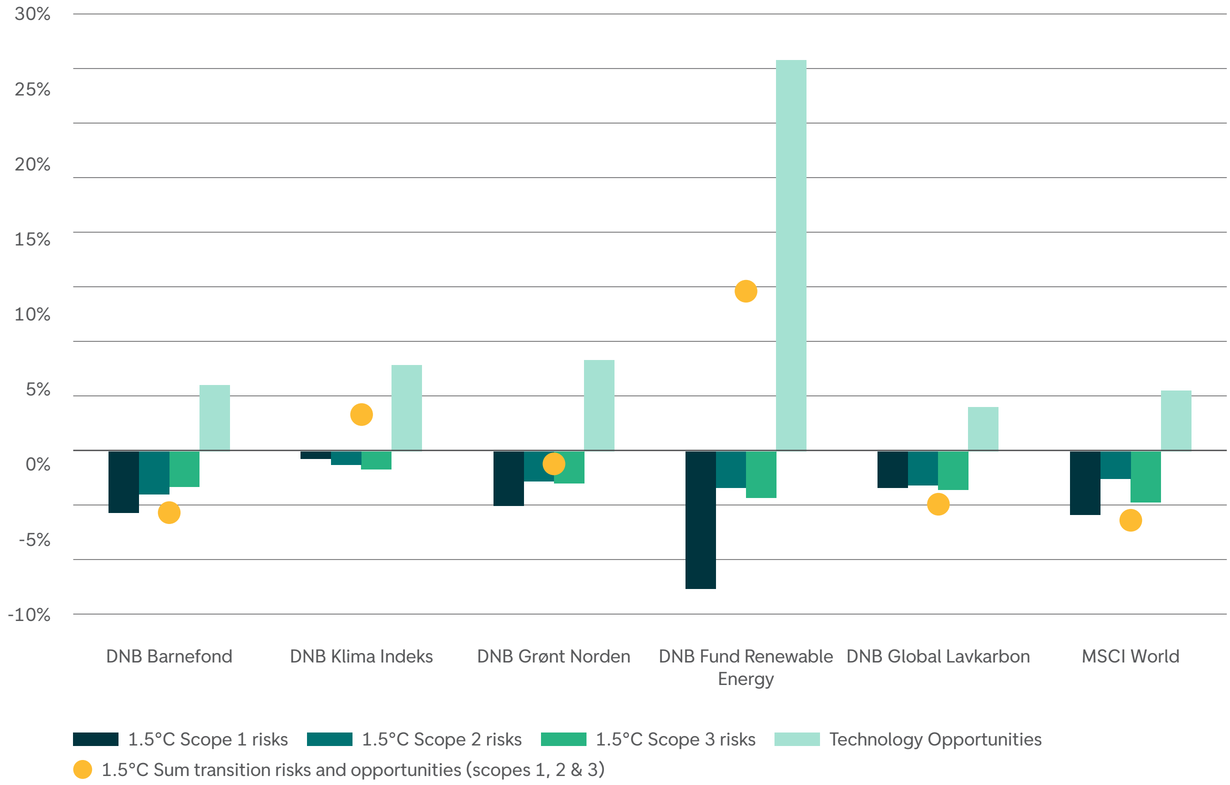


Figure 10.7 presents the results of the CVaR analysis under the 1.5°C AIM-CGE scenario. The risks and opportunities are shown by negative and positive columns relative to the left axis. The aggregated transition risks and opportunities under the 1.5°C AIM-CGE scenario are demonstrated via the yellow marker. Value chain (scope 3) emissions are those emissions related to up- and downstream activities in the value chain of companies' products and/or services. The assessment is an update of the analysis presented in our 2020 annual report on responsible investments.

The results of the analysis are aligned with our expectations. When looking at the transition risk and opportunity component of the CVaR analysis, the DNB thematic funds focused on climate and environment, have a positive CVaR compared to the MSCI World. Compared with the 2020 results, all funds and the MSCI World have reduced policy risk, although the largest reduction is most notably from the DNB Renewable Energy fund. In 2020, the DNB Renewable Energy fund's relatively higher potential negative CVaR was driven by the fund's overweighting of certain carbon-intensive sectors compared to MSCI World – utilities, materials, energy and industrials – the fund looks to have reduced these policy risks. All funds had positive technological opportunities.

Figure 10.8 Transition risks and opportunities under 1.5,2,3°C AIM CGE

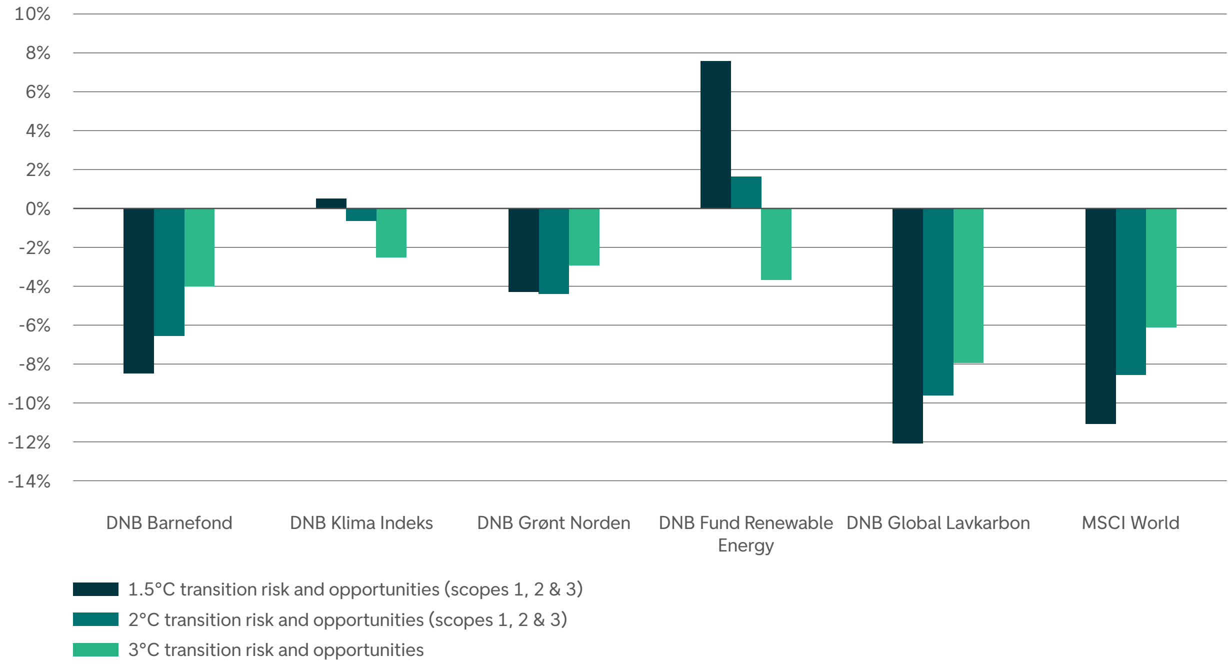


Figure 10.8 presents the results of analysis under the 1.5,2, and 3°C AIM CGE model, covering the transition risks and opportunities. The DNB Klima Indeks fund and DNB Fund Renewable Energy both perform well in the 1.5°C, 2°C and 3°C assessments. Under the 1.5°C at an aggregated DNB AM level, this scenario (i.e. a 1.5 degree world) represents the greatest level of negative CVaR. This follows logic that this scenario, with the shortest timeframe and the most limited carbon budget, would represent challenges across the global economy associated with transitioning rapidly. In the 3°C scenario, the CVaR figures are clustered close to 0, with all funds assessed to experience little negative CVaR linked to policy risk but at the same time, little positive CVaR linked to technological opportunities.

Figure 10.9 Variation in CVaR Transition risks and opportunities results per fund under different 2°C climate scenarios

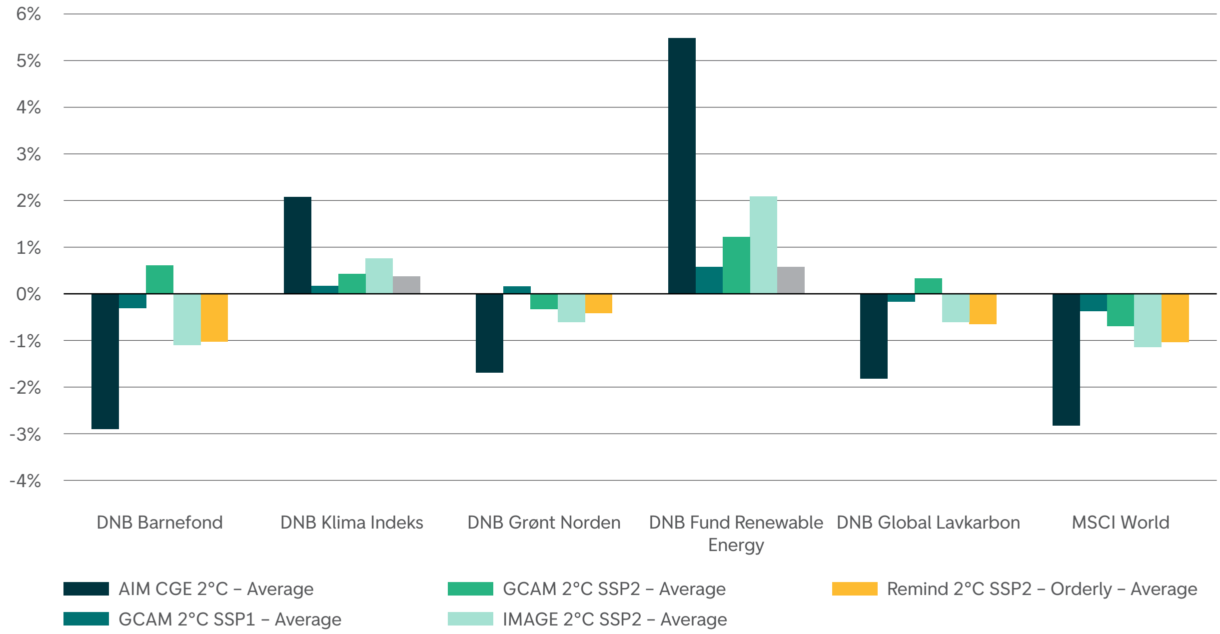


Figure 10.9 presents the results of analysis of the DNB thematic funds (climate and environment) under five different 2°C models. In each model's scenario, there are differing assumptions regarding the development of sectors, future associated emissions, and carbon prices – and these differences considerably impact the results for companies and funds. It is unsurprising that in this assessment of the 2°C models, the results for the funds across the different models do not, for the most part, agree on which funds will have positive or negative CVaR. The exceptions are for DNB Fund Renewable Energy and DNB Klima Indeks, which are deemed to have positive CVaR in all of the IAM 2°C scenarios assessed.

This highlights the importance in understanding the underlying assumptions in the IAM and scenarios, when considering the results, and in the selection of which IAM and scenario(s) will be utilized in the assessment. For the purposes of this assessment, the large negative CVaR assessed by the AIM CGE model for DNB Barnefond, DNB Grønt Norden, DNB Global Lavkarbon and MSCI World are the result of significantly larger policy risks when compared to the other models. This is the result of the scenario's carbon price trajectory, which requires a more rapid increase in global carbon price than the other 4 scenarios assessed.

By utilizing a range of IAMs and scenarios we are able to understand better the dynamics driving the assessments and feed this information into our analysis and investment process.

Physical risks and opportunities

The second element in the assessment is the assessment of the physical risks and opportunities. The physical risks resulting from climate change can be "event driven (acute) or longer-term (chronic) changes in climate patterns" Examples of acute physical risks can include flooding, wildfires or severe storms, while chronic risks can include sea level rises and heat waves.

MSCI ESG provides an assessment of both average and aggressive physical risk scenarios. We present both scenario for our funds in figure 10.10. The average scenario represents the most likely impact of climate change in the assessed period. The aggressive scenario, which is derived from the 95th percentile of the cost distribution of estimated extreme weather costs, is considered a worst-case scenario. Both scenarios utilize a BAU approach in modelling physical impacts due to lag within the climate system, the IAM and scenario selected does not impact the physical risks and opportunity results.

Figure 10.10 Aggregate CVaR Physical Risks and Opportunities – comparison of results per fund under average and aggressive scenarios

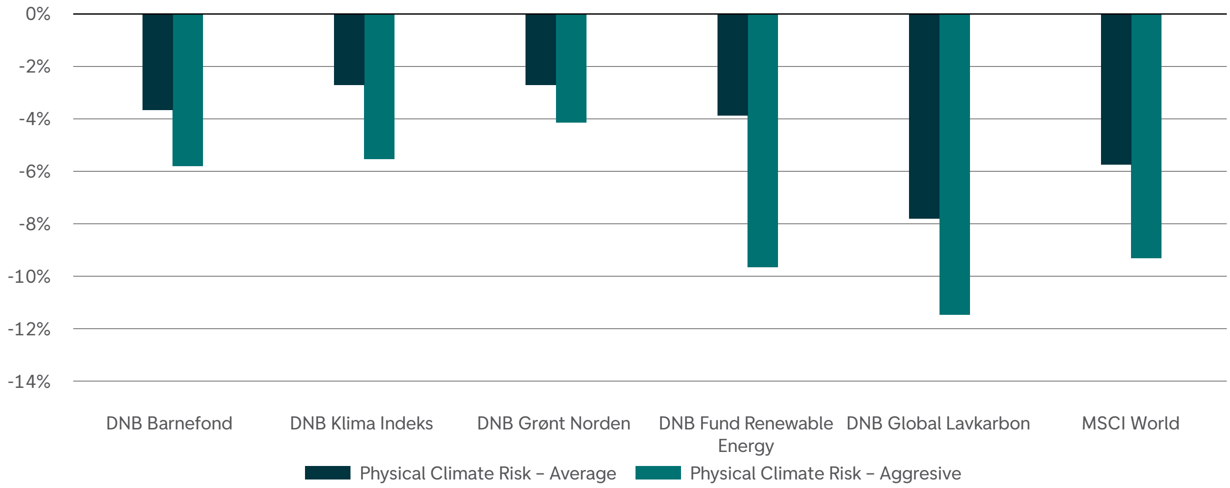


Figure 10.10 presents the results of the physical risk assessments for the funds. Under the Average scenario, all funds except from DNB Global Lavkarbon had less negative physical CVaR compared with the MSCI World. This looks to be primarily due to increased costs associated with potential circumstances of extreme heat and coastal flooding in South East Asian-based assets belonging to companies in the fund. Under the aggressive scenario, DNB Global Lavkarbon again had more negative CVaR than MSCI World, which was again associated with extreme heat and coastal flooding. Under the aggressive scenario, DNB Fund Renewable Energy also had more negative CVaR than MSCI World, due primarily to costs associated with potential coastal flooding in Northern Europe. We see these results as interesting starting points for discussion with companies, to understand how they are managing these risks in the listed assets.

Limitations

There are a number of factors which may have influenced the findings observed in the analysis. These include:

- Company weights in 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

Therefore, these scenario analyses are only one input into our company analysis regarding climate risk. We continually look for products and tools which can provide insight into these risks and opportunities, to ensure we are implementing a best-in-class approach.

Paris Agreement Capital Transition Assessment (PACTA)

In 2021, DNB AM participated in the Norwegian Ministry of Finance and Ministry of Climate and Environment's PACTA pilot assessing the alignment of the country's financial sector with the Paris Agreement. The PACTA tool was developed and is managed by 2 Degrees Investing Initiative. The ambition was to gain new insights on potential future sectoral development for companies within DNB AM's investment funds by comparing our portfolios with trajectories aligned with the Paris-agreement. The PACTA assessment covered 9.6 per cent of equity holdings and 8.4 per cent of bond holdings, representing 46 per cent of equity emissions and 32 per cent of bond emissions, respectively. We welcome the initiative of the Ministries in instigating this pilot.

Company emissions reduction targets

A transition to a lower carbon economy will require companies reduce the quantity of emissions they produce directly (Scope 1) and those they are responsible for (Scope 2 and 3), as determined by the Greenhouse Gas Protocol standard. A company's targets for reduction can provide an indication regarding preparedness and allows investors and other stakeholders to hold companies accountable for the emissions they produce in an increasingly carbon budget-constrained world.

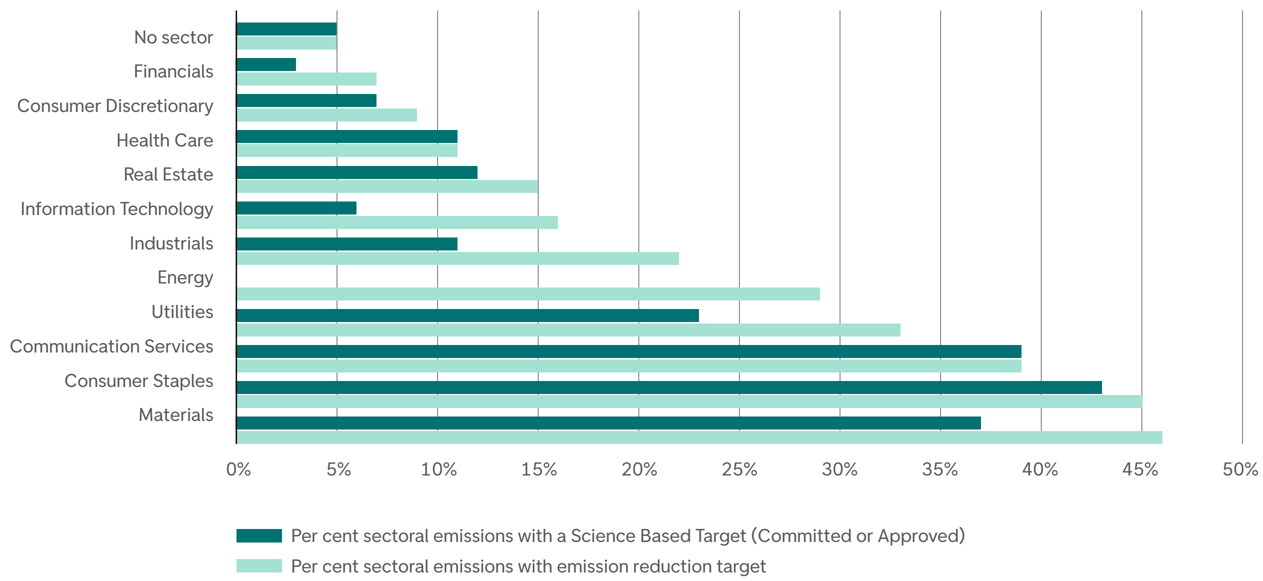
For this reason, DNB AM have company expectations regarding target setting. Specifically, we expect that companies should disclose targets/benchmarks used to manage climate-related risks in their direct operations and supply chain and report their performance against these targets/benchmarks, including the baseline used. Ideally, these targets should be science based. A target is science based when aligned with limiting warming, based on the allocation of a carbon budget using climate science. The Science Based Targets Initiative (SBTi) is increasingly being seen as the global standard for carbon emission reduction target setting, allowing for comparability using a standardised approach.

Figure 10.11 provides details of an assessment of DNB AM holdings, and the percentage of each sector's emissions that are covered by an emission reduction target. Further, it shows how much of that target is an accredited Science Based Target (either committed or approved). The sector with the greatest proportion setting targets is the material sector – this is a positive sign as the material sectors is the largest contributor to DNB AM's overall carbon footprint. The next largest contributor, the energy sector, has less than 30 per cent of companies setting emission reduction targets, and almost no science based targets, although is unsurprising given the SBTi Oil and Gas methodology is still in draft form. In total, 32 per cent of DNB AM's carbon footprint is covered by emission reduction targets, with nearly 20 per cent Science Based Targets. Going forward, increasing the proportion of DNB's carbon intensive companies with emission reduction targets will be a key focus of our company engagements on climate risk.

Implied Temperature Rise (ITR)

An Implied Temperature Rise (ITR) or Temperature score is an easily understandable, forward-looking metric, which can quantify whether a portfolio is aligned with the Paris agreement, indicating the level of warming associated with a company or investment fund. Over the past year, we have seen increasing interest in demonstrating the temperature trajectory of funds.

Figure 10.11 Percentage of total holding's sectoral emissions, covered by an emission reduction target, or a Science Based committed or approved Target.

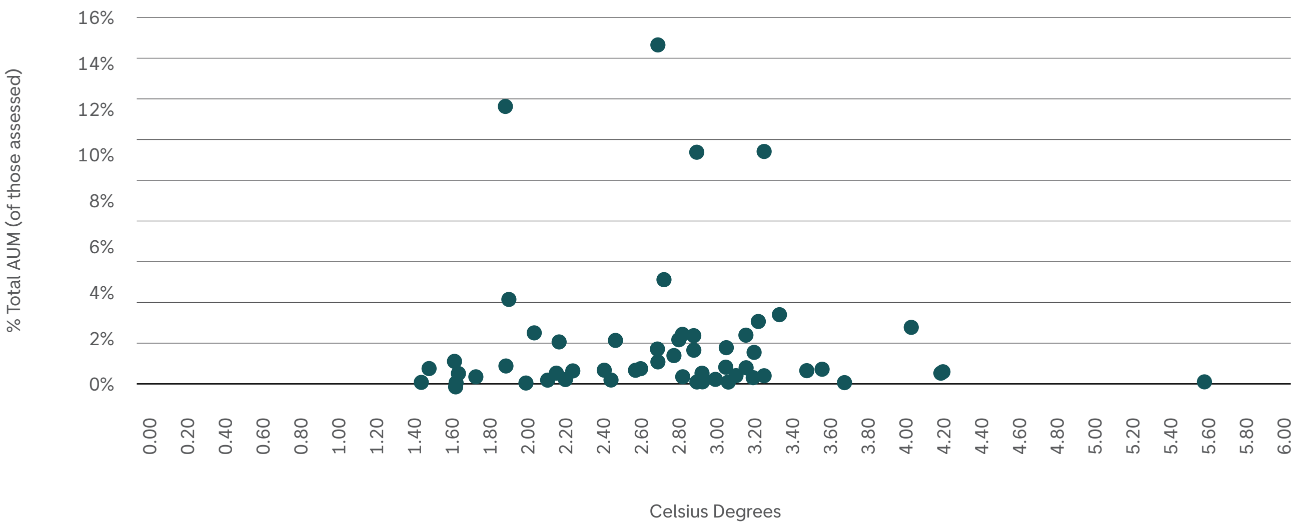


We have conducted an analysis of the DNB AM funds, using the MSCI ESG ITR approach. Their metric aims to provide an indication of how companies and investment portfolios align to global targets. Figure 10.12 presents all DNB fund ITR and includes the percentage of total DNB AM AUM the fund represents, demonstrating the size of the AUM aligned with different ITR. Like other tools, it is reliant on data and the coverage was lacking in parts. To be assessed, funds require a minimum of 65 per cent of holdings to have ESG data, in order to assess ITR. With this consideration, 64 per cent of DNB AM funds by AUM were eligible for assessment, the remaining positions were reweighted to 100 per cent.

While we see positives with the metric, we believe it is important to separate company and fund temperature alignment from impact.

Other challenges with an ITR or Temperature score include the differences in approaches implemented by different actors in the market. From the approaches we have seen, there look to be considerable differences in methodology, as well as in the allocation of the remaining global "carbon budget" to different sectors and companies. The Cambridge Institute for Sustainable Leadership (CISL) in their report – *Understanding the climate performance of investment funds. Part 2: a universal temperature score method* – call for a universal, simple, transparent and robust approach to provide clarity for investors and their customers regarding temperature warming alignment. We see standardisation as important in the road forward for the metric, to ensure results are easily comparable for companies, investors and investment fund customers. With regards to MSCI ESG's ITR metric specifically, we are unsure about whether the methodology captures the emissions avoiding capability of companies in the methodology – which are important considerations for several of our funds. For example, we question whether it makes sense that independent power producers, such as Scatec and Neoen, which develop and own solar and wind, receive ITR scores of over 3°C in the current version of the methodology. We will continue to follow the development of this metrics and we are hopeful that companies' emissions-avoiding capabilities will be better captured in future iterations of the methodology as it develops over time.

Figure 10.12 Fund ITR by percentage of total DNB AM assets under management funds



The assessment required a fund to have a minimum of 65 per cent of all holdings with ESG data. This data is how the ITR is assessed. With this consideration, 64 per cent of DNB AM funds by AUM were eligible for assessment, the remaining positions were reweighted to 100 per cent.

Water

Long Term Focus Areas

Water

Relevance to the SDGs

6 CLEAN WATER AND SANITATION

SDG 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.

In 2021, the World Economic Forum ranked a *natural resource crisis*, including food and water crises, as a "Top 5 Global Risk" in terms of impact in the 5–10-year horizon.[1] Anthropogenic climate change has and will continue to exacerbate this natural resource crisis by creating shifts in precipitation and extreme weather associated with water such as flooding and drought.[2] Since 2000, flood-related disasters have increased by 134 per cent compared with the two previous decades. The number and duration of droughts also increased over the same period by 29 per cent. These shifts in climate further impacted food security, water security and human health.[3] Over 2 billion people already live in countries where water supply is inadequate and half of the world's population is estimated to live in areas facing water scarcity by as early as 2025.[4] Beyond this, water security is compromised by poor management of urban-, industrial-, and agricultural wastewater making water unusable due to pollution[5]. Further, the COVID-19 pandemic has in some instances led to the worsening of water security, acting as a multiplier of pre-existing vulnerabilities.

Water is considered one of the most essential natural resources for human life, but also an essential input factor within many sectors across the whole value chain. 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. Water management by companies is especially challenging as it is a local and/or regional issue, often requiring site-specific solutions and approaches for the management of this resource. This is further complicated as company sites may be impacted by other companies operating in the same river basin – thus requiring a collective approach to the management of the resources. The complexity of the issue further increases for multinational companies when considering that their direct operations and value chains exist over a range of international geographies – meaning a one-size-fits-all approach is not possible when implementing a strategy to manage the risks. When considering the multitude of factors impacting the quantity and quality of water available, including human and industrial activities, and regional variation in policies, the complexity of the issues is

1) WEF_The_Global_Risks_Report_2021.pdf (weforum.org)
2) IPCC_AR6_WGI_Chapter_11.pdf
3) doc_num.php (wmo.int)
4) Water scarcity | UNICEF
5) Drinking-water (who.int)

made increasingly clear. Lastly, the linkage between water and climate challenges increases the complexity in that companies should assess and manage climate-related risk and consider the interplay with water, as part of the water management process.

CDP's Water Watch[6] highlights the business activities with the greatest impact on water and ranks these industries as critical:

- Apparel (textiles and fabric goods)
- Biotech and pharma
- Food, beverage, and agriculture (crop farming, fish and animal farming, food and beverage processing)
- Fossil fuels (chemicals, coal mining, oil processing and gas extraction, -production and -processing)
- Manufacturing (electrical and electronic equipment including semiconductors and metal products manufacturing)
- Materials (chemicals, metal smelting, -refining and -forming and metallic mineral mining)
- Services (financial services)

Agriculture is one of the most water intensive sectors and currently accounts for 70 per cent of the world's freshwater withdrawals. It is estimated that agricultural production will need to expand by approximately 70 per cent by 2050 due to increasing population, which is likely to intensify water challenges.[7] Another water intensive sector is mining, where water is used in several processes across the value chain, such as ore processing, supressing dust, or heating and cooling machinery.[8]

Further, mining is problematic in relation to water pollution. Tailing dams, which are used to store by-products of mining, have in some instances failed and resulted in discharge of tailings into the natural environment. This was seen in recent year, most notably at the Vale-owned Brumadinho dam in Brazil. This led to significant action from the international investor community to engage the mining sector on practices within the industry.

The semiconductor industry has continued to place increased pressure on water resources over the past few decades. As a result of increased digitalization, semiconductors and other electronic components have become vital for maintaining normal operation in many industries and in everyday lives. However, the semiconductor industry is particularly exposed to water risks due to the water intensive nature of the fabrication, with each chip requiring to be rinsed with a large quantity of ultrapure water. In recent years, some of the world's largest semiconductor manufacturers, based in Taiwan, have faced challenges regarding water shortages resulting from the country experiencing a period of prolonged drought.[9] This has meant that many were required to transport in water for use in manufacturing, leading to higher costs, potentially impacting the bottom line and worsening the semiconductor chips shortage already being experienced globally.[10] Given societies increasing reliance on semiconductors, there is the potential for repercussions impacting other sectors and industries to be felt globally.

SDGS AND REPORTING

We expect companies to identify, assess and manage their exposure to water-related risks and opportunities, and to ensure high levels of transparency around such information. This is applicable for all companies where water is material, but especially for the most water intensive sectors and companies located in areas that may be or are exposed to water stress. As part of our assessments of risk related to water, we utilize a range of tools, including World Resource Institute (WRI) Aqueduct and World Wide Fund for Natur's (WWF) Water Risk Filter, which quantify this risk. The DNB AM company expectations document for water builds on internationally recognised standards and initiatives such as the UN SDGs, CDP Water Security, GRI Water and other water-specific standards.

The SDG aimed at ensuring availability and sustainable management of water and sanitation for all (SDG 6) is a central target, while also linked to many other SDGs. By both tracking and increasing the rate of recycled water, companies can contribute to achieving the goal of sustainable consumption and production (SDG 12). Other SDGs of relevance, including SDG 2 and 3, are linked to water as a more reliable flow of water can decrease

6) Water Watch – CDP Water Impact Index – CDP
7) Water in Agriculture (worldbank.org)
8) Water Risks in Extractive Industries (sustainalytics.com)
9) The Chip Shortage Is Bad. Taiwan's Drought Threatens to Make It Worse. – WSJ
10) MSCI ESG 2021, Thirsty Chipmakers Face Taiwan's Worst Drought In Decades

drought and contribute to the eradication of hunger, and help improve life quality. We believe better reporting can contribute to improved management of water resources. As of now, corporate reporting on water is not as ubiquitous as carbon reporting, and much of the data that exists is non-standardised and difficult to compare. We support efforts to standardise this information through international reporting standards including the CDP.

ACTIVITIES IN 2021

In 2021, we continued to work strategically to make a positive impact on the management of water. We have been involved in investor collaborations and information sharing to address this important topic. We also continued the engagement with companies on tailings under the Investor Mining and Tailings Safety Initiative. The initiative has seen a considerable response from the mining industry regarding tailings facilities. In addition, we continued the proactive engagements on meat sourcing and on sustainable oceans both as part of collaboration through FAIRR and individually. The FAIRR working group is entering phase 2, with special emphasis on sustainable fish feed.

In 2021, we designed an internal water framework to assess companies' sustainable water practices and gather water data, as part of our ESG Lab project (see more information on ESG Lab in section 7). The ambition is to further increase integration of water management into the investment process and address gaps in information on sustainable water management. In this context, we collaborated with researchers at the Columbia Water Centre (CWC) at Columbia University to improve datasets and water risk modelling. We collected both primary and secondary data from companies in DNB AM's investment universe, and uploaded this to the DNB ESG Lab database, to better inform our sustainability assessment of companies.

The water framework addresses both risk and opportunities related to physical and regulatory risks, in direct operations and throughout the value chain. We gathered water information on 76 per cent of the 84 contacted companies through returned questionnaires, meetings or otherwise reported information. The framework is consistent with the biodiversity and water management expectation documents. Responses on governance and risk assessment of water risks and opportunities were best responded to, while disclosure of water-related supply chain issues, water targets and water management KPIs were not well responded to.

FOCUS FOR 2022

In 2022, we aim to encourage companies to improve in line with our expectations document on water. We will continue to work on the Global Investor Mining and Tailings Safety Initiative, and any water-relevant initiatives as part of the 2030 Investor Agenda for Mining Sector. We will also continue to support collaborative engagements on water, including the FAIRR initiative. We intend to systematically continue to identify and engage companies on water, targeting industries and companies we have identified as facing high water related risks and/or opportunities. The collaboration with CWC will be continued in 2022, where we will be a part of the ESG, Water and Emerging Risks Network (EWER). The EWER initiative aim to define a robust and applicable process for assessing and disclosing water risks, based on pertinent metrics and evolving data sources.

Selected company dialogues on water related topics in 2021:

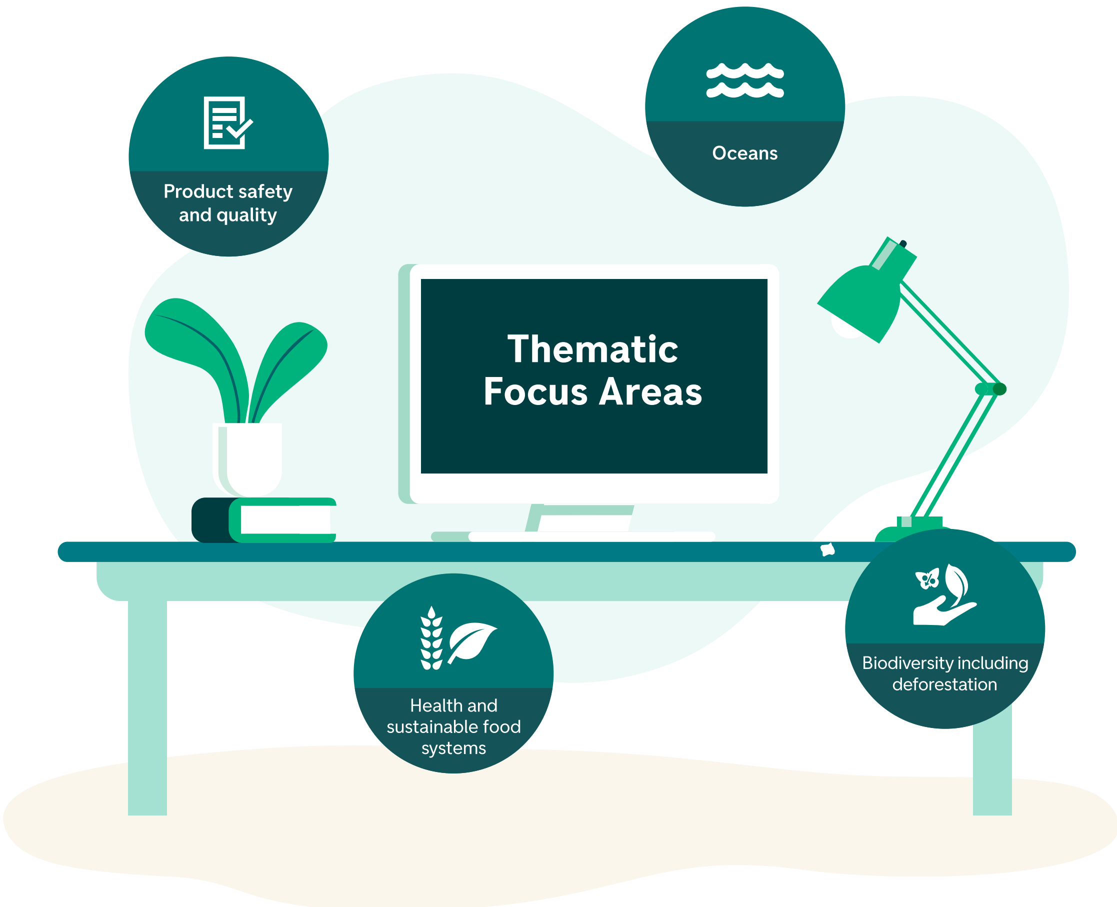
Expectations	Company	Details	Start
Water	Idex Biometrics ASA	Water disclosure	2021
Water	Desert Control AS	Water disclosure	2021
Water	Boliden AB	Water management	2021
Water	First Solar	Water disclosure	2021

Thematic Focus Areas

In addition to the long-term focus areas, our engagement strategy consists of selected shorter-term thematic focus areas. In 2021, our thematic engagements have consisted of: emerging markets supply chains, product safety and quality, biodiversity, deforestation and land-use, and oceans. Health and sustainable food systems was introduced as a new thematic focus area in 2021. 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. For 2022, we will make two changes to the thematic focus areas:

- The two areas biodiversity and deforestation and land-use will be merged.
- The focus area emerging markets supply chain will be concluded as a separate thematic engagement.

The changes are further elaborated on and integrated into the other relevant thematic areas.



Oceans

Biodiversity

Deforestation and land-use

OCEANS

Achievements in 2021

- Continued the proactive engagement on sustainable oceans, focusing on key sectors/themes. Coordinated the work with the engagement on biodiversity.
- Signed the Plastic Pollution Treaty (a business call for a UN treaty on plastic pollution).

Goals for 2022

- Continue the proactive engagement on sustainable oceans, focusing on key sectors/themes:
  - > Fishing and aquaculture (seafood)
  - > Offshore oil and gas
  - > Renewable marine energy
  - > Marine transport (including ship building, ship recycling, marine operations, and port activities)
  - > Deep sea mining
  - > Biotechnology (marine)
  - > Marine/coastal tourism
  - > Land-based activities with significant influence on the oceans
- Continue the cooperation with FAIRR regarding sustainable aquaculture (and other relevant collaborative engagements on ocean issues).

BIODIVERSITY

Achievements in 2021

- Developed and published an expectations document on biodiversity including deforestation. Further developed the framework for biodiversity engagement
- Continued engagement with companies in collaboration with other investor through FAIRR and other working groups.
- Signed the Finance for Biodiversity Pledge.

Goals for 2022

- Continue the systematic engagements on biodiversity using the newly developed expectations document.
- Continue engaging with companies in collaboration with other investors (through FAIRR and PRI). Consider joining Nature Action 100 (already indirectly involved through the Finance for Biodiversity Pledge).
- Follow up the Finance for Biodiversity Pledge.

DEFORESTATION AND LAND-USE

Achievements in 2021

- Developed and published an expectation document on biodiversity including deforestation.
- Continued the engagement on meat sourcing with FAIRR.
- Continued the engagement on sustainable proteins with FAIRR.

Goals for 2022

- Continue the engagement on deforestation as part of the broader engagement on biodiversity – using the newly developed expectations document (see the section on biodiversity).

HEALTH AND SUSTAINABLE FOOD SYSTEMS

Achievements in 2021

- Continued engaging through investor collaborations, for example FAIRR engagements: Meat Sourcing, Sustainable Aquaculture and Sustainable Proteins. Working towards retailers and restaurants
- Engaged with companies in the pharmaceutical industry through The Access to Medicine Foundation
- Signed a global investor statement in support of an effective, fair and equitable global response to COVID-19
- Continued engagements with companies within agricultural chemicals as well as fertiliser industries
- Engaged with companies exploring sustainable agriculture by offering new ways of farming and more efficient use of resources.

Goals for 2022

- Continue engaging with companies through investor collaborations like FAIRR within Sustainable Proteins, Sustainable Aquaculture and Meat Sourcing.
- Continue engaging with companies in the pharmaceutical industry through Access to Medicine to advance access to medicine in low-and middle-income countries
- Engage on unethical marketing of formula milk in collaboration with other investors

PRODUCT QUALITY AND SAFETY

Achievements in 2021

- Signed the Investor Statement on Facial Recognition. Following the statement, a group of investors sought to engage with a range of companies regarding approaches to Facial Recognition Technology, and how that compares to the expectations for the technology set by the group.
- Continued proactive engagement on data security and privacy with telecommunications companies
- Supporting investor letter to companies requesting participation in the 2021 ChemScore initiative on Chemical Safety.

Goals for 2022

- Continue using systematic approach for engaging with companies on this topic across a range of industries and products.

EMERGING MARKETS SUPPLY CHAINS

Achievements in 2021

- Continued engagement with textile companies to improve working conditions, end forced labour practices and ensure appropriate health and safety measures
- Continued our engagement with companies operating in high-risk areas, including China, Belarus, Sudan, and Western Sahara
- Engaged with companies in the IT and solar sector on Uyghur forced labour
- Engaged with companies in the semiconductor supply chain on the issue of conflict mineral content, in collaboration with other investors
- Published expectations document on biodiversity including deforestation
- Continued the thematic engagement on child labour in cocoa in collaboration with our engagement services provider
- Engaged with Norwegian companies regarding the new Norwegian Supply Chain Transparency Act that is entering into force in 2022. Read more under Human Rights

Goals for 2022

- The focus area will be concluded as a separate thematic engagement. Goals related to emerging markets supply chains are integrated in the other focus areas, specifically within the human rights area.

Oceans

Thematic Focus Areas

Oceans

Relevance to the SDGs

SDG 11: Sustainable cities and communities
Includes a target to reduce environmental impact of cities – including paying attention to waste management, and a target to protect natural heritage.

SDG 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.

SDG 13: Climate action
Climate change is directly addressed by this SDG, which focuses on mitigation, adaptation, and integration into policies and impact reduction.

SDG 14: Life below water
This is the most central SDG, focusing on conservation and sustainably use of the oceans, seas, and marine resources.

Global oceans cover 71 per cent of the planet's surface and are an essential part of the biosphere, regulating the global climate by mediating temperature and driving weather changes.[1)] 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 efforts on promoting a circular economy, including how to handle marine plastics waste. Threats and opportunities related to global oceans are key considerations for the whole DNB Group.

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 oceans, or which affect oceans significantly. The following sectors/activities are therefore especially relevant:

- Fishing and aquaculture (seafood)
- Offshore oil and gas
- Renewable marine energy
- Marine transport (including ship building, ship recycling, marine operations, and port activities)
- Deep sea mining
- Biotechnology (marine)
- Marine/coastal tourism
- Land-based activities with significant influence on the oceans

ACTIVITIES IN 2021

DNB AM published a new expectations document regarding sustainable oceans in 2020. In 2021, we continued the proactive engagements on sustainable oceans, prioritising the same key sectors/themes as the year before. In addition, this work was coordinated with the engagement on biodiversity.

We have engaged with the key sectors of fishing and aquaculture for several years. In 2021 we collaborated with other investors, through FAIRR, on sustainable aquaculture. The focus was on sustainable feed, targeting companies in Chile and Norway. Although there are some signs of progress, clearer and stronger ambitions regarding the development of more sustainable feed ingredients are needed. Phase II of this engagement will take place in 2022.

1) https://www.worldwildlife.org/stories/how-climate-change-relates-to-oceans

Another important sector is renewable marine energy, especially the growing segment of offshore wind and floating wind. We met with Ørsted A/S and Vestas Wind Systems A/S as part of our proactive engagements on sustainable oceans and biodiversity. The aim was to ensure that the companies have strong policies and measures in place to manage the impacts on the ecosystems surrounding the companies' offshore windmills. We did not uncover any obvious gaps to best practice for Ørsted. However, they acknowledge that there is room for improvement regarding biodiversity metrics that better capture real impact. They also recognize the need of better solutions to solve the issue concerning recycling of windmill blades. Moreover, Vestas seems to be needing a more comprehensive framework for handling challenges and opportunities with respect to sustainable oceans and biodiversity. We encouraged them to put the issues higher on the agenda. In summary, these companies within renewable marine energy could benefit from developing better metrics and targets to handle these complicated oceans issues. We will continue to engage on this issue.

In overlapping engagements with biodiversity and climate, we also reached out to companies within offshore oil & gas, land-based activities influencing the oceans, and deep-sea mining. The last sector, deep sea mining, is an emerging and controversial sector. There is a growing need for many minerals to support the green transition, but much more knowledge is needed about impact on the deep-sea ecosystems from this type of minerals extraction. We met Green Minerals AS and discussed how the company may be proactive on a range of ESG issues, taking a precautionary approach. We will continue to follow up the company and the developments of this sector.

In addition to the various sector engagements, we also signed the Plastic Pollution Treaty, a global business call for a UN treaty on plastic pollution.[2)] Every year, millions of tons of plastic leak into the environment, and this problem will continue to grow unless we fundamentally rethink the way we produce, use, reuse, and dispose of plastic. This is therefore a key issue for ocean sustainability as well as for promoting a circular economy.

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

2) https://www.plasticpollutiontreaty.org

FOCUS FOR 2022

DNB AM will continue the proactive engagement regarding sustainable oceans, focusing on the eight mentioned sectors/activities. Engagements within this focus area will be coordinated with our work on biodiversity and climate issues, targeting both risk and opportunities.

We will continue to participate in collaborative engagements. One example is the continuation of the FAIRR-led engagement on sustainable aquaculture. In the upcoming phase II, the plan is to also focus on shrimp, launch a progress report and measure progress through the updated Coller FAIRR Protein Producer Index. In 2019, the DNB Group signed up to the UN Global Compact Sustainable Ocean Principles committing to take action to secure a healthy and productive ocean.[3] Similarly, DNB AM promotes a sustainable ocean through the membership in the Sustainable Blue Economy Finance Initiative.[4]

Selected company dialogues related to oceans in 2021:

Expectations	Company	Details	Start
Renewable marine energy and sustainable oceans	Ørsted A/S Vestas Wind Systems A/S	Sustainable oceans, promote best practice (see the expectations documents on oceans and biodiversity)	2021
Deep sea mining and sustainable oceans	Green Minerals AS		

3) https://www.dnv.com/news/30-companies-and-institutional-investors-commit-to-take-action-to-secure-a-healthy-and-productive-ocean-160615
4) https://www.unepfi.org/blue-finance/our-members/

Biodiversity

Thematic Focus Areas

Biodiversity

Relevance to the SDGs

13 CLIMATE ACTION

SDG 13: Climate action
It has been suggested that biodiversity underpins the delivery of more than 80 per cent of the SDGs – including climate related issues. And climate changes are, in itself, a large driver for loss of nature.

14 LIFE BELOW WATER

SDG 14: Life below water
Marine biodiversity unpins all economic activities that depend on the sea, from aquaculture & 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

SDG 15: Life on land
Working towards companies to encourage conservation, restoration and sustainable use of terrestrial and freshwater ecosystem is crucial for sustainable development.

Biodiversity describes the variety of all life on Earth, including plants, bacteria, animals and humans and their interaction within ecosystems. World Economic Forum (WEF)'s Nature Economy Report series highlights that over half the world's total gross domestic product (GDP) is potentially at risk because of the dependence of business on nature and its services, which are being threatened. The window for action is narrowing at an alarming rate, while the cost of inaction is increasing.[5] The same message of urgency is found in "The Global Assessment Report on Biodiversity and Ecosystem Services" from the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES), pointing out that the drivers of change of nature have accelerated during the past 50 years. Transformative changes across economic, social, political, and technological factors are urgently required.[6]

The global community has searched for a solution to the biodiversity challenge for decades, and a key foundation for the efforts is the UN Convention on Biological Diversity (CBD) from 1992. The CBD has been followed up by several protocols, and the Strategic Plan for Biodiversity 2011–2020 (including the Aichi Biodiversity Targets).[7] Unfortunately, the Aichi targets were not met, and the biodiversity challenge continues to become more acute. This is the background for renewed efforts from the UN, labelled the Post-2020 Biodiversity Framework. The aim of the framework is to reverse the negative trend towards 2030 by establishing a set of action targets and milestones, the longer-term vision of the CBD is "living in harmony with nature by 2050".

Some of the challenges for investors and companies in fighting biodiversity loss have been the local nature of biodiversity challenges, the lack of good data/metrics, no broadly accepted assessment tools, and no globally accepted reporting standards. One key initiative by the G7 might help: the Taskforce on Nature-related Financial Disclosures (TNFD).[8] The TNFD will complement the Taskforce on Climate-Related Financial Disclosure's (TCFD) climate-related framework, to give companies and financial institutions a more complete picture of their environmental risks. The preliminary launch date is 2023, and we will follow the development of this initiative closely.

5) https://www3.weforum.org/docs/WEF_The_Future_Of_Nature_And_Business_2020.pdf
6) https://ipbes.net/global-assessment
7) https://www.cbd.int/sp
8) https://tnfd.info

ACTIVITIES IN 2021

DNB AM developed and published an expectations document on biodiversity including deforestation in 2021. Based on this, the framework for biodiversity engagement was further developed, and we engaged with a number of companies following a risk-based assessment. These efforts were coordinated with our engagements on deforestation, oceans, and climate issues.

We also continued the collaborative engagements through FAIRR (meat sourcing, sustainable proteins, sustainable aquaculture) as well as broadening the TCFD/climate engagement with larger Norwegian companies to also encompass biodiversity issues. In the last collaboration, we had five meetings in 2021 in order to understand companies' position on climate change and biodiversity, and to identify gaps to best practice. One of the companies we have engaged with is the construction company Veidekke ASA. Veidekke has progressed on climate related issues/TCFD since the last meeting in 2019 and seems quite advanced. A net zero 2045 target was announced in 2021 (aiming for SBTi-approval for 1.5 degrees). Veidekke is also stepping up the efforts on biodiversity. We suggested developing deforestation as part of a broader biodiversity policy, which the company will consider. Another company we have engaged with as part of the collaboration is Norsk Hydro ASA. The company seems well advanced regarding climate and environmental issues. Norsk Hydro is aiming for net zero 2050 and has a clear roadmap for handling biodiversity and waste issues.

Finally, we signed the Finance for Biodiversity Pledge, a multiyear global initiative. As part of this initiative we will work on many aspects of biodiversity including goal setting, development of metrics, engagements, collaboration and progress reporting.

FOCUS IN 2022

We will continue using the new expectations document on biodiversity including deforestation to further explore and engage on important subtopics such as sustainable food systems and protecting key ecosystems, including world heritage sites. Furthermore, we will continue to undertake collaborative engagements through FAIRR and the Principles for Responsible Investment (PRI), as well as consider joining the Nature Action 100 – where we are already indirectly involved through the Finance for Biodiversity Pledge. Our commitment to the Finance for Biodiversity Pledge will also be important for our engagement activities as well as contributing to better metrics and standards. For better standards and frameworks, we also seek to use and support the developments of the CBD, the TNFD, and the SBTN (Science Based Targets for Nature).[9)]

Selected company dialogues related to biodiversity in 2021:

Expectations	Company	Details	Start
Climate/TCFD and biodiversity	Veidekke ASA	Climate/TCFD and biodiversity – promote best practice	2021 for biodiversity, 2018 for climate/TCFD
	Norsk Hydro ASA		
	Elkem ASA		
	Yara International ASA		
	DNO ASA		

9) https://sciencebasedtargets.org/about-us/sbtn

Deforestation and land-use

Thematic Focus Areas

Deforestation and Land Use

Relevance to the SDGs

SDG 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.

SDG 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.

The report "Bringing it Down to Earth" from the World Wild Fund for Nature (WWF) points to the food system as the largest driver of deforestation, water use, biodiversity loss and soil degradation.[10] Agriculture occupies half of our planet's habitable land, where of 82 per cent is used to produce animal food (directly or indirectly). This enormous scale of land use makes agriculture the largest cause of deforestation, and it is also the largest user, and polluter, of fresh water. In the link between food systems and deforestation, there are particularly large challenges related to palm oil, soy, and cattle (beef and leather).

Other large drivers of deforestation are extractive activities including infrastructure expansion, logging and mining. Of special concern is the protection of the so called "deforestation fronts", these are locations facing imminent risk of large-scale deforestation. According to WWF, there are 24 deforestation fronts globally – in Latin America, Africa and Asia/Oceania.[11]

The Intergovernmental Panel on Climate Change (IPCC) has highlighted 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. The importance of the widespread adoption of sustainable land use practices is paramount if the world is to achieve the targets of the Paris Agreement and limit impacts from climate change.[12]

ACTIVITIES IN 2021

In 2021, we developed and published our expectations document on biodiversity including deforestation. Based on this document, we have screened and engaged proactively on selected sectors and companies.

Specifically on the forest industry, we have engaged with the Nordic forest companies Stora Enso Oyj and Upm-Kymmene Oyj, as well as with hygiene and health company Essity AB, a large buyer of wood pulp. The two main goals of these engagements are to 1) address potential gaps to best practice on biodiversity in the forest industry, and 2) addressing potential gaps to ensure proper labour conditions for forest workers in the Nordics. With regards to biodiversity, Stora Enso and Upm-Kymmene have ambitious

10) https://wwf.panda.org/wwf_news/?2660466/nature-finance-risk-and-agriculture
11) https://www.worldwildlife.org/stories/deforestation-fronts
12) https://www.ipcc.ch/srccl/chapter/summary-for-policymakers

goals and seems well aligned with DNB AM's expectations, but we encourage even more transparency on the handling of biodiversity challenges. Concerning the labour rights issues, these are mainly connected to the companies' supply chains. This is still a challenging area, but according to Stora Enso, there were big issues about ten years ago with contractors not paying their employees enough. This made the company strengthen their check-ups and routines and it has done so continually since then. We will continue to engage the companies, especially on biodiversity related issues, including deforestation.

We also continued to use our collaborative engagements as a key apparatus by which to address the topic with companies, key examples are FAIRR and the Principles for Responsible Investment (PRI). Our involvement with these engagements is important, given our potential exposure through our emerging markets funds. Our engagements through FAIRR are now in phase two for Meat Sourcing and phase five for Sustainable Proteins, while our engagements with PRI on soft commodities have taken a new direction.

For the three commodities palm oil, soy, and cattle, the PRI working groups were paused for 2021 as one sought to find the best method to work with the topic. To do so, the UN PRI Sustainable Commodities Practitioners working group was initiated to establish the foundations for the tools and processes that are needed for investors to act upon deforestation. We are part of the group and are inputting into the future development of the theme. The intention is that this new collaborative engagement will be coordinated by the PRI and will continue to focus on supporting investors to engage with companies to address deforestation in cattle, soy, and palm oil value chains.

FOCUS FOR 2022

The topic of deforestation will remain of key importance for us in 2022, and we are encouraged by the new focus in EU on deforestation-linked products, and palm oil, cocoa, soya, beef, timber, and coffee. Going forward, we will have a united thematic focus on biodiversity including deforestation (see the section on biodiversity).

Selected company dialogues related to deforestation and land use in 2021:

Expectations	Company	Details	Start
Deforestation (and the broader focus on biodiversity)	Stora Enso Oyj	Deforestation (and biodiversity), labour conditions for forest workers	2021
	Upm-Kymmene Oyj		
	Essity AB	Deforestation (and biodiversity), labour conditions) in the supply chain	

Thematic Focus Areas

Health and Sustainable Food Systems

Relevance to the SDGs

SDG 2: Zero hunger
End hunger, achieve food security and improved nutrition and promote sustainable agriculture.

SDG 3: Good health and well-being
Ensure healthy lives and promote well-being for all at all ages.

SDG 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.

SDG 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.

SDG 15: Life on land
Working towards companies to encourage conservation, restoration and sustainable use of terrestrial and freshwater ecosystem is crucial for sustainable development.

Health and sustainable food systems was a new focus area from 2021. The area covers a range of topics from food-related issues to preparedness and 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 first ever UN Food Systems Summit was held in September 2021, setting the stage for global food systems transformation to achieve the SDGs by 2030.

ACTIVITIES IN 2021

We have engaged with healthcare and pharmaceutical companies in collaboration with other large investors through the Access to Medicine Foundation. The Foundation aims to advance access to medicine in low and middle-income countries by guiding the pharmaceutical industry to play a greater role in improving access. DNB AM has pledge support to the Foundation's research and signed the Access to Medicine Index Investor Statement. In 2021, the Foundation published the report "Access to Medicine Index 2021". In 2021, we joined several engagements with companies evaluated in the report, with an important topic being COVID-19 vaccine distribution.

Through the FAIRR initiative, we participated in three engagements: Meat Sourcing, Sustainable Aquaculture and Sustainable Proteins. All the engagements have seen good progress. For Sustainable Proteins engagement, all 25 companies in the engagement now recognise the importance of protein diversification as a material issue for their business. This is in sharp contrast to 2016 when no company was talking about protein, let alone thinking around the commercial and climate opportunities associated with alternative proteins. Furthermore, all companies are investing in the development of plant-based products, one of the fastest-growing categories. 80 per cent of the manufacturers in the engagement have allocated internal capital and/or human resources to support research and develop in alternative proteins.

A central topic for engagements within the focus area Health and Sustainable Food Systems is efficient resource use. There are important opportunities in more efficient use of resources like land and water. However, it is key to mitigate the potential harm to people and the environment connected to the use of agricultural chemicals and fertilisers. Therefore, we have continued engagements with companies within agricultural chemicals as well as fertiliser industries to encourage companies to take responsibility for the product through the value chain from raw material to use. We have also engaged with companies that are exploring sustainable agriculture by offering new ways of farming and more efficient use of resources.

Fundamental for a sustainable food system is also respect for labour rights and children's rights. We are engaging with major cocoa and chocolate companies to combat child labour and ensure living wages in cocoa supply chains. Read more about this work under Emerging Markets Supply Chains.

FOCUS FOR 2022

Our work on this thematic focus area will continue to be relevant to sectors such as food production, agricultural chemicals, consumer staples and health care. We will continue engaging with companies through FAIRR on our existing engagements. Furthermore, we will step up the work on animal health and overuse of antibiotics. In our investor collaboration through Access to Medicine Foundation, we will continue the work towards fair distribution and increased production of COVID-19 vaccines. We will also continue the engagements on marketing of formula milk.

Regulatory movements will be important in 2022. EU has proposed a new regulation for deforestation-free products which applies to six commodities: beef, soy, palm oil, wood, coffee and cocoa. It will be illegal to sell or export these commodities if it cannot be proved that they are deforestation-free. Therefore, we will coordinate engagements with the biodiversity and deforestation focus area.

Selected company dialogues related to health and sustainable food systems in 2021:

Expectations	Company	Details	Start
Health	Teva Pharmaceutical Industries Ltd	Price fixing violations	2019
Health	Johnson & Johnson	Access to Medicine: Allocation of COVID-19 vaccines	2021
Food Systems	Bayer AG	Product safety and quality	2018
Health	Novo Nordisk A/S	Access to Medicine: integration of an access plan in R&D	2021

Product safety and quality

Thematic Focus Areas

Product Quality and Safety

Relevance to the SDGs

SDG 2: Zero hunger
The SDG aims to end hunger, achieve food security and improved nutrition, and promote sustainable agriculture

SDG 3: Good health and well-being
The SDG aims to ensure healthy lives and promote well-being for all at all ages

SDG 12: Responsible consumption and production
The SDG aims to ensure sustainable consumption and production patterns.

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 quality and safety is that this encompasses a range of issues including chemical safety, cyber security and data protection, marketing practices, and gambling, amongst others. These issues are widely discussed in the media and have, in some cases, led to significant 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.

ACTIVITIES IN 2021

We continued our proactive engagements with tele-communications companies regarding their policies and practices for data privacy and security, specifically relating to location-based data. This was identified as an area of key importance given our increased online presence stemming from the COVID-19 pandemic. Initiating the engagements with a framework for best practice, the engagements provided an opportunity to learn from companies about new and intelligent solutions to the challenges we had identified. As we developed our thinking on the topic, we utilised this with the companies we were engaging, challenging them on the updated best in class approach. As a result of our efforts on the topic, we believe we were able help raise awareness of potential risks for these businesses, while also providing potential means by which to implement a solution.

Facial Recognition Technology identifies or verifies the identity of a person using a picture or video of their face. This technology has increasingly been entering into our lives in the past years – in the pursuit of increased efficiency and improved security. A challenge is in how it is being developed and used has implications, which may pose risks to basic human rights. For this reason, we signed on to an Investor Statement on Facial Recognition, along with a group of international investors. The letter requested companies that use or sell Facial Recognition technology in their products or services to demonstrate awareness of related challenges and prioritise actions to identify, prevent and resolve them.

Hazardous chemicals pose a key risk to human health, with the World Health Organization (WHO) attributing 2 million deaths to their use in 2019.[13] Further, these chemicals are known drivers of biodiversity loss. For this reason, we have joined an investor collaboration to engage companies, in this sector on the Sustainable Management of Hazardous Chemicals. The engagement requests companies to make improvements in transparency on chemicals produced, and requests that they make time bound commitments to phase out these chemicals from production. This is a known topic for us, with historic engagements with Monsanto (now Bayer AG) regarding products containing Glyphosate.

Selected company dialogues related to product quality and safety in 2021:

Expectations	Company	Details	Start
Data privacy and security	Vodafone Group Plc	Data privacy practices regarding user data, including location-based data	2020
	Orange SA		2020
	Telefonica Deutschland SA		2020
Product quality and safety	Bayer AG	Product-related toxicity	2018

FOCUS FOR 2022

In 2022, we intend to continue using our systematic approach for identifying areas of concern within industries and engaging with companies on this topic. We plan to engage companies on the back of the Hazardous Chemicals letter we signed in 2021, with the aim to have companies improve performance in the area.

13) WHO 2016 The Public Health Impact of Chemicals, Knowns and Unknowns, 2021 Data Addendum https://www.who.int/publications/i/item/WHO-HEP-ECH-EHD-21.01. This includes lead and pesticides, and is equivalent to 3.6 per cent of all deaths globally.

Thematic Focus Areas

Emerging Markets Supply Chains

Relevance to the SDGs

SDG 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".

SDG 9: Industry, innovation and infrastructure
The SDG seeks to build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.

SDG 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.

SDG 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.

Within many sectors global supply chains can be highly complex. They often cross several countries and include multiple tiers. Supply chains fall outside companies' core operations and expose them to hidden and uncontrollable ESG risks. The COVID-19 pandemic has accelerated the attention 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 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. One example is the COVID-19 impact on the garment industry in the Asia-Pacific region. 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 measures 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, energy, and technology industries on global supply chains.

With the importance of supply chains becoming apparent in all our focus areas, we see the engagements as increasingly overlapping. Some examples:

- Human rights issues in supply chains which are well covered under the focus area Human Rights. Supply chains are becoming an increasingly important topic within the human rights area in general, partly driven by mandatory human rights legislations both on EU and national level. As an example, the Norwegian Supply Chain Transparency Act will enter into force in 2022.
- The cocoa engagement is overlapping with both Human Rights and Health and Sustainable Food Systems.
- The work with soft commodities, palm oil, soy and cattle is covered under both the focus area Deforestation as well as by the focus area Health and Sustainable Food Systems.
- The proactive engagement on data security and privacy with telecommunications companies is well covered under the thematic focus area Product Safety and Quality.

Based on this, we have decided to conclude the separate Emerging Markets Supply Chains focus area, as it is considered well covered by the other focus areas. We will continue to work with companies on supply chain issues going forward, but as part of the other focus areas.

ACTIVITIES IN 2021

We have continued engagement with companies with complex supply chains in high-risk regions, such as China, Belarus, Sudan and Western Sahara, both directly and in collaboration with other investors. This work is outlined in the section on human rights. Furthermore, we have engaged on forced labour and modern slavery in the Xinjiang Uyghur Autonomous Region, including with companies in the IT and energy sector. The latter has involved engagements based on allegations of forced labour of Uyghur and other Muslim minority workers in solar sector supply chains. In these engagements we encourage companies to improve supply chain oversight, including labour rights requirements and supplier audits to ensure that commitments are being met. The same goes for companies in the textile industry, where we have continued our engagements covering key topics such as living wages, labour rights and modern slavery in supply chains.

Additionally, we have engaged with companies in the semiconductor supply chain on the issue of conflict mineral content, in collaboration with other investors. The goal with these engagements is to encourage companies to improve their practices and reporting on the issue of mineral provenance, traceability, and purity within the semiconductor supply chain. We have also engaged with Norwegian companies regarding the implementation of the new Supply Chain Transparency Act.

Combatting child labour in cocoa supply chains

In June 2021, an important report was released on the topic of child labour, by the International Labour Organization (ILO) and the United Nations Children's Fund (UNICEF). The overall picture is disheartening, with a first increase in child labour noted in 20 years. According to the statistics, there are 160 million children in child labour in the world, an increase by 8.4 million since 2016. As before, most child labour happens in the agricultural sector, more than two-thirds is family-based, and most child labour occurs in Sub-Saharan Africa. A large portion of the increase is explained by the economic downturn following the COVID-19 pandemic, in particular income losses among vulnerable families. School closures is another related impact from the pandemic.[14)]

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 during 2021. The dialogues have been centred around three main topics: child labour monitoring and remediation (CLMRS), access to education and living income for cocoa-growing farmers.

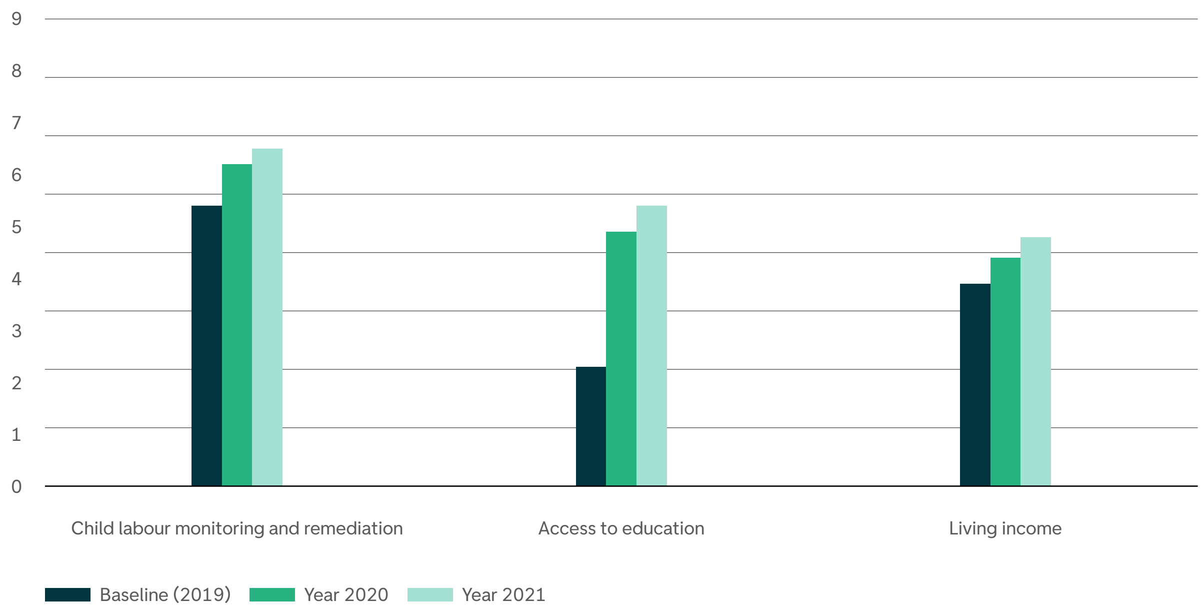
Engaged companies continue to report further roll-out of CLMRS. Most companies are currently well above 50 per cent roll-out of CLMRS, or similar, in cocoa-growing communities in Ivory Coast and Ghana. There is also an industry level commitment by the sustainable cocoa industry organization the World Cocoa Foundation (WCF) to have CLMRS, or similar systems, rolled out by 2025 or earlier.

Selected company dialogues related to emerging markets supply chains in 2021

Expectations	Company	Details	Start
Human rights/labour rights in supply chain	Daqo New Energy Corp.	Allegations of forced labour of Uyghur and other Muslim minority workers in solar sector supply chains	2021
Children's rights	Nestlé S.A.	Child labour in coca production	2019
Children's rights	Mondelez International, Inc.	Child labour in coca production	2019

14) Child Labour: Global estimates 2020, trends and the road forward – UNICEF DATA

Figure 10.13 Company performance (average score per KPI)



Source: Sustainalytics Child Labour in Cocoa Thematic Engagement

FOCUS FOR 2022

The topic of emerging markets supply chains will remain of key importance for us in 2022. However, with the importance of supply chains becoming apparent in all our focus areas, we see the engagements as increasingly overlapping. Therefore, we have decided to conclude the separate Emerging Markets Supply Chains focus area, as it is considered well covered by the other focus areas.

11 Sustainability Themed Funds in Focus

The DNB Group launched a revitalized strategy in 2021 outlining goals for 2025, 2030 and 2050. The group's strategy has already set expectations and influenced DNB Asset Management's product portfolio and will continue to guide product development in the years to come.

In 2021, DNB launched a revitalized strategy for the group, outlining goals for 2025, 2030 and 2050. The overall aim is to become a bank with net zero emissions by 2050, which includes both DNBs lending and investments portfolios as well as the group's operations. The group's strategy set expectations and outlines clear sub-goals and targets for DNB Asset Management (DNB AM). DNB AM aim to increase total assets in sustainability themed funds to NOK 100 billion by 2025, and in 2025 the goal is that at least 50 per cent of net flows will go to sustainability themed funds.

The volume and unit targets relating to funds with a sustainability theme have influenced our product portfolio already and will continue to guide product development in the years to come. The targets for prioritizing sustainability challenges and a revised transitional focus have influenced the work of the responsible investment (RI) team and will continue to influence our standard setting and engagements towards 2025.

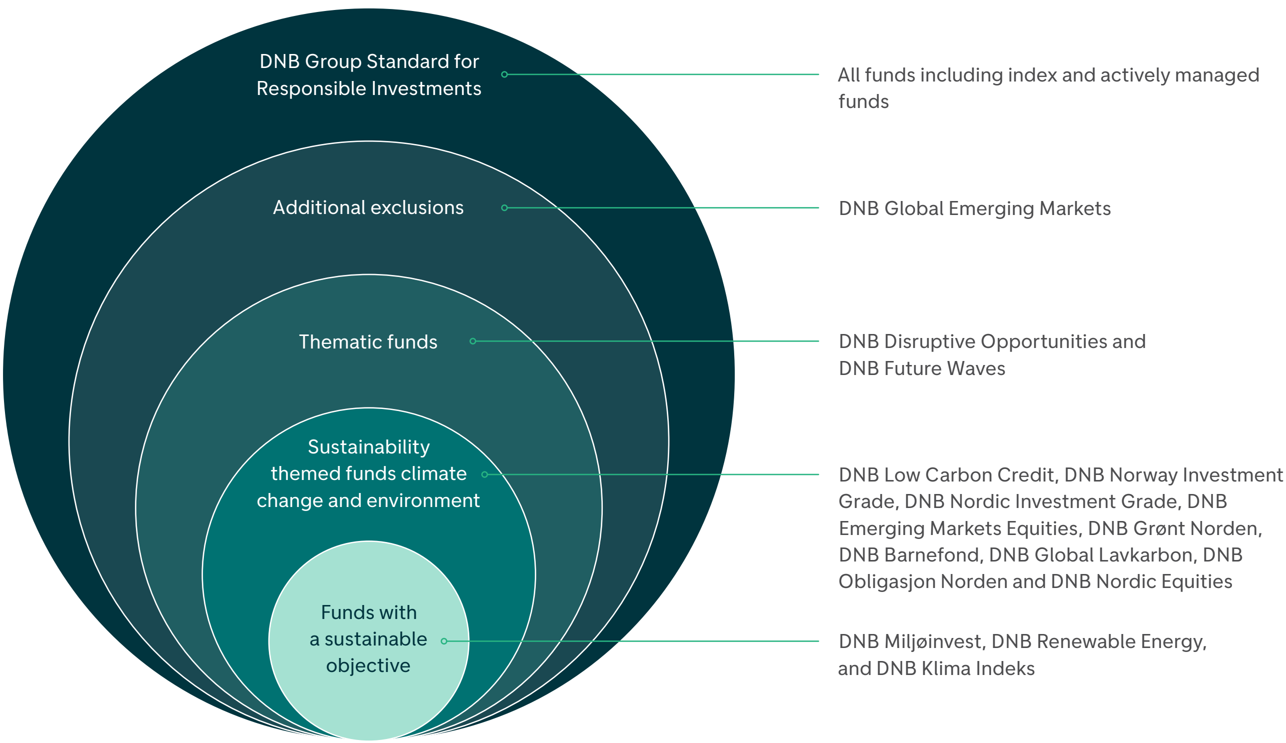
DNB AM have classified each of our funds in line with the graphic display below. All our funds invest and align with the principles set out in the DNB Group Standard for Responsible Investments. Some of our funds have additional criteria relating to additional exclusions of companies that are involved in the production of weapons, alcohol or that derive income from gambling. Another criteria is additional exclusion of companies with high carbon emissions. Further, we offer a group of thematic funds that have added criteria or investment themes depending on what category they fall under.

There have already been multiple changes and developments to our product portfolio over the last year. For example, in 2021, DNB AM launched DNB Klima Indeks, an index fund that follows a Paris aligned benchmark. The fund DNB Future Waves was relaunched with the sustainable development goals (SDGs) as an investment framework. One of our main goals for 2022 is to get an even clearer set of fund groupings and aligning our fund offerings even further with the transitional focus of the DNB group strategy mentioned above. Therefore, our product strategy will consequently be developed over the next months to support DNB AM's set goals and milestones.

DNB AM is also required to report in line with the EU Sustainable Finance Disclosure Regulations (SFDR) framework in 2022. Though further clarifications of the interpretations of the framework are still expected later in 2022, DNB AM have been working on classifying all our funds across asset classes in line with the existing framework and recommendations. We are continuously working to enhance practices within each specific fund and are looking to reclassify funds where we have identified room for improvements.

Read more about our sustainability themed funds on the following pages.

Figure 11.1 Overview of funds



DNB Future Waves

HIGHLIGHT FROM 2021

"Climate and ocean biodiversity are two sides of the same problem and must be tackled together. We need to provide capital for businesses working on solutions for ocean health, technology, and ocean restoration. I believe that Bluetech today is where Cleantech was 20 years ago. To achieve this transition, we need innovation and transformation, and the finance industry has a key role to play."

Isabelle Juillard Thompsen, Portfolio Manager

ABOUT THE FUND (31.12.2021)

NOKm **600**
Fund AUM

145
Weighted average carbon intensity of fund (tCO_2e/USDm)[1)]

Global
Regional Focus

7.6
Fund's weighted average ESG score

MSCI World
Benchmark

87
Companies engaged with[2)]

70
Portfolio Holdings

1) Coverage carbon Intensity: 72 per cent
2) ESG-engagement, where the RI-team has participated in the engagement on behalf of the fund (including companies in the benchmark).

DNB Future Waves is an actively managed equity fund that invests in global listed companies. The fund utilizes positive screening to include companies providing technology, products, and services to support the funds thematic focus areas, using the UN's Sustainable Development Goals (SDG) as a framework:

- Blue Economy: SDG 6 and 14.
- Green Economy: SDG 9, 11, 12 and 15.
- Climate: SDG 7 and 13.
- Quality of Life: SDG 2, 3 and 4.

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 a significant portion of revenues coming from conventional weapons, gambling or alcohol production.

Identifying ESG risks and opportunities is a key part of the investment process, and the RI team maintains a close dialogue with the portfolio managers. The fund portfolio is screened on a regular basis and companies for possible inclusion in the fund are all carefully assessed to make sure they are in line with the themes listed above. Sustainability issues and trends affecting the fund's portfolio may impact the final investment decision and could lead to initiating a dialogue with the company.

ESG-RATING

The fund's mandate is to have an average ESG-score (MSCI ESG) higher than its benchmark, and the graph below shows that the ESG (Industry-adjusted) for the fund was 7.60 versus the benchmark's 6.48 at the end of 2021.

Figure 11.2 ESG-score

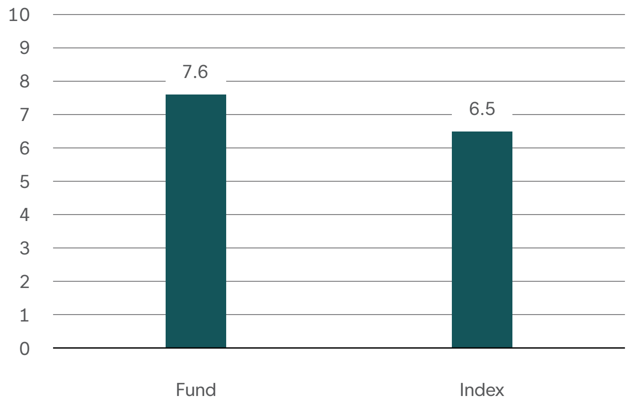
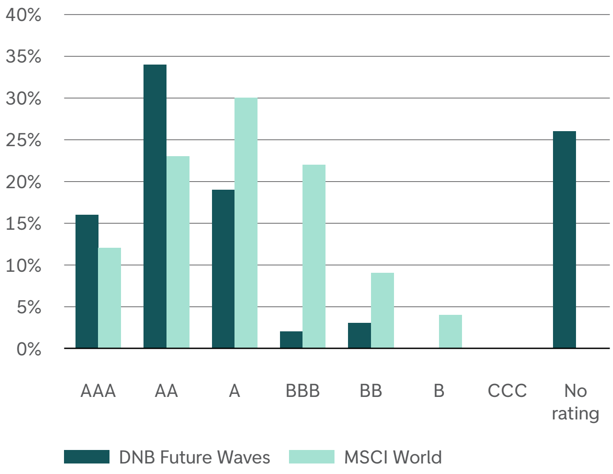


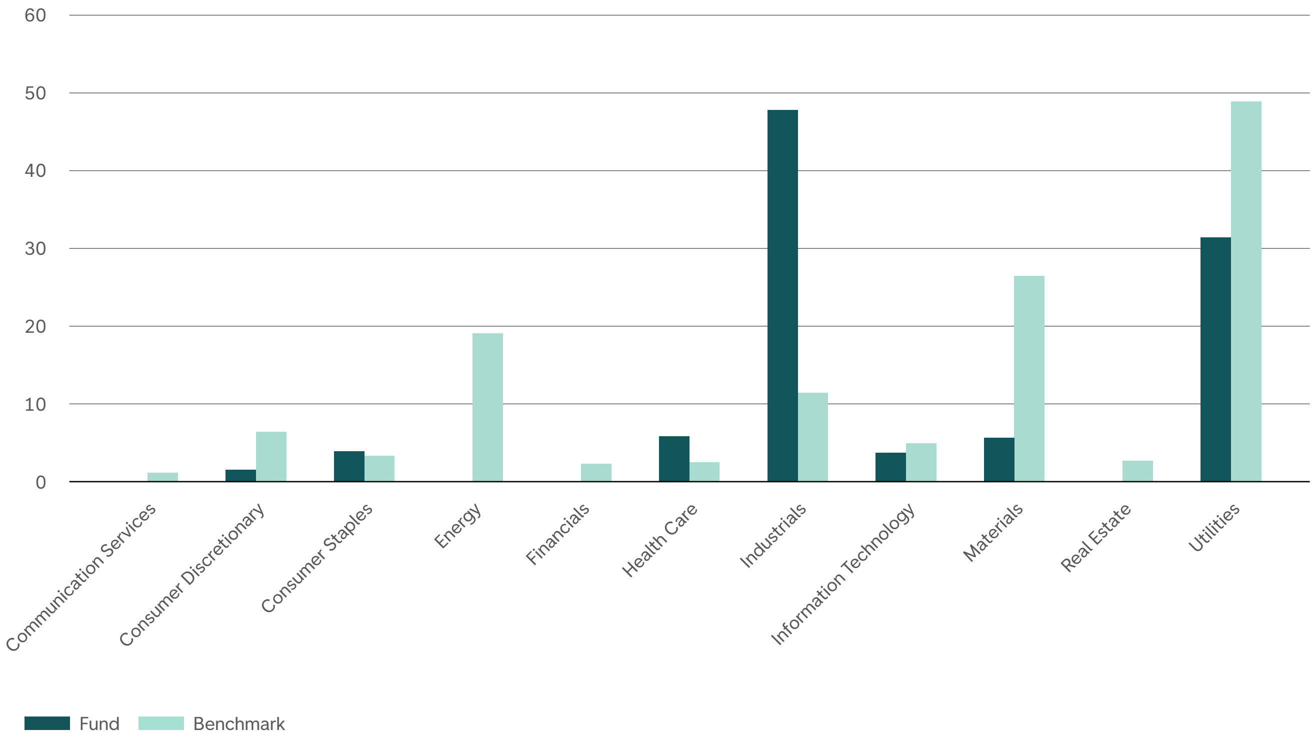
Figure 11.3 ESG-rating distribution



CARBON FOOTPRINT

The funds focus areas closely relate to the environmental aspect of responsible investments. The portfolio carbon footprint (intensity) is continuously being monitored and companies with higher emissions are evaluated for possible engagement activities. At the end of the year the carbon intensity of the fund was 139 tonnes CO_2e/USDm sales (benchmark: 129 tonnes CO_2e/USDm sales). One of the reasons why the carbon footprint intensity for the fund is slightly higher than for the benchmark is that the fund is invested in quite a few smaller companies developing new solutions and technologies. Many do not yet report carbon emission and as a result, the fund carbon footprint is calculated on the larger companies where we have data. The overall result is that the carbon footprint does not benefit from potentially lower emissions intensity from these companies. For this reason, we actively encourage all companies to disclose this information and we are exploring alternative calculation methodologies as part of our expanded carbon reporting. In the graph below, there are further details of carbon intensity per sector. Notice that the sector where the fund has the highest carbon intensity compared to the benchmark is the Industrials sector. Industrials account for over 45 per cent of the fund at the end of 2021.

Figure 11.4 Weighted average carbon intensity per sector (tCO_2e/mUSD)



SDGS AS A FRAMEWORK

The fund combines expected high future return potential with solution-oriented business models, using the SDGs as a framework. Emphasis is placed on companies that are well positioned for future social, demographic, environmental, regulatory, health and technological changes. Each of the fund's investments are carefully mapped to one or more of the four investment themes and the related SDGs.

POSITIVE SELECTION

DNB Future Waves is a thematic fund and utilizes positive screening to include companies that align with the fund's four investment themes. Some examples of how companies provide solutions in relation to the blue economy, the green economy, climate, and quality of life are described in the table below.

Company	Investment theme	Potential contribution	Relevant SDGs
Schneider Electric SE	Green Economy	• Offers digital solutions for energy efficiency and automation that enable the society to be greener. • Continuously investing and developing innovative solutions that deliver immediate and lasting decarbonization and improved energy efficiency, supporting industries' transition to net zero. • Schneider Electric annually manages more than 30 billion EUR in energy spend (70 GW), 250 000 client sites and 128 metrics tonnes of CO_2[3] • Delivered 134 million tonnes CO_2 savings in 2020. By 2025 the goal is 800 million tonnes CO_2 saved and avoided for customers.[4]	9 Industry, innovation and infrastructure 11 Sustainable cities and communities 13 Climate action
Beyond Meat Inc	Quality of Life	• Fighting hunger is not just about streamlining agriculture, but about what is produced. Beyond Meat contributes with sustainable alternatives that helps to reduce climate emissions. • The company enables the shift from animal to plant-based solutions, contributing to lowering the carbon footprint of our food system. • A plant-based diet reduces the risk of high blood pressure, obesity, cardiovascular disease, diabetes and cancer. Beyond Meat creates products that contribute to SDG#3 Good health and well-being. • The Beyond Burger generates 90 per cent less greenhouse gas emissions, requires 46 per cent less energy, has >99 per cent less impact on water scarcity and 93 per cent less impact on land use than a ¼ pound of U.S. beef. Plant-based burgers are saving around 250 000 animals pr. year.[5]	2 Zero hunger 3 Good health and well-being 12 Responsible consumption and production
First Solar, Inc.	Climate	• First Solar develops, finances, engineers, constructs and operates some of the largest grid-connected solar power plants in the world. • Energy accounts for 10–15 per cent of the worlds, global water withdrawals. In Europe and North America, it can account for up to 50 per cent. First Solar has the lowest water footprint of all PV technologies. • First Solar contributes to cleaner energy with lower cost and reduces emissions. • In 2020 First Solar produced 6.1 GW of solar power generated energy. • Compared to traditional c-si, solar PV uses 98 per cent less semiconductors, has 2.5 times lower carbon footprint and over 90 per cent of the material can be recovered through recycling.[6]	7 Affordable and clean energy 13 Climate action 6 Clean water and sanitation
Evoqua Water Technologies Corp.	Blue Economy	• Offers products and services to protect the worlds water resources securing access to clean water. • Cleaner water enables good health for more people. • The demand for water would increase 50 per cent by 2050. Evoqua provide solutions that transforms the quality of water. • Evoqua transforms approximately 100 billion gallons of water every day. That is more than 4.5 times the amount of water flowing over Niagara Falls every single day. • Evoqua's anaerobic digestion technology installations produce enough renewable energy to meet the electricity needs for the equivalent of 5000 American homes per day.[7]	6 Clean water and sanitation 14 Life below water 3 Good health and well-being

3) https://www.se.com/ww/en/about-us/investor-relations/investment/esg.jsp
4) https://www.se.com/ww/en/assets/564/document/189255/release-2020-full-year-financial-results.pdf
5) https://css.umich.edu/sites/default/files/publication/CSS18-10.pdf
6) https://www.firstsolar.com/-/media/First-Solar/Sustainability-Documents/FirstSolar_Sustainability-Report_2021.ashx
7) https://www.evoqua.com/siteassets/documents/about-us/sustainability/2020-sustainability-report.pdf

ACTIVE OWNERSHIP

We engage in dialogues with companies to influence them in a positive direction. The case for many of the companies where DNB Future Waves have a stake, is that they are small and in an early phase of their life cycle, which have influenced our engagement activities. We have for example put emphasis on possible improvements in companies' corporate governance. The four themes and the clear relationship to environmental issues have been evident in this year's engagement activities. In 2021, DNB AM has also been a part of a research collaboration on water and the blue economy with the aim of contributing to better reporting on water related metrics. You can read more about this initiative in the section on water as a long term focus area. Below are some examples of the engagement activities we have partaken in this year. In addition to the 87 dialogues conducted by representatives from the responsible investment (RI)-team in 2021, the Future Waves team have had 37 meetings with portfolio companies discussing ESG topics.

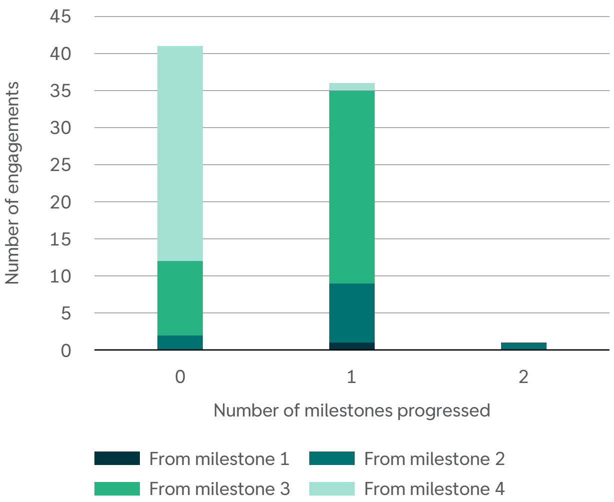
Company	Engagement theme	Result	Milestone progression
Kalera AS	**Remuneration and Board Structure** • Compliance with best practice following their relisting **Other Governance issues** • Reporting in line with best practice	• The company has set up a compensation committee. • ESG-elements are to be a part of the executive remuneration. • In relation to the Nasdaq listing, the company will further look at board compensation. There is a separation of management and board. • The company plans to significantly improve their reporting practices in general. They are evaluating taxonomy aligned reporting and target setting in line with net zero or Paris alignment.	 **Next step**, achieve further improvements in: • Kalera needs to strengthen their reporting, including reporting in line with the EU Taxonomy and reporting on their climate related practices. • Close the gaps to best practice for corporate governance.
Vestas Wind Systems A/S	**Oceans** **Biodiversity**	• Discussions on best practice on sustainable oceans. • Discussions on best practice on biodiversity. • The company agree with DNB AM in regard to their view on best practice and commits to putting the issues higher on the agenda.	 **Next steps**, achieve further improvements in: • Close the gaps to best practice in relation to sustainable oceans and biodiversity by developing policies and setting targets. • Take appropriate actions regarding the Lake Turkana Wind Power Project and the court ruling of 2021 indicating serious breaches of the principles of Free, Prior and Informed Consent (FPIC).
M Vest Water	**Other Governance issues**	• The company has developed an ESG strategy. • The company has identified material key issues with the basis in the SDGs mostly in line with the company's operations.	 **Next steps, achieve further improvements in:** • Publicly disclose the newly developed ESG strategy. • Report on goals and metrics set out in the strategy. • Further strengthen existing policy for a framework that covers all material key issues.

MILESTONE PROGRESSION ENGAGEMENTS

In 2021, we engaged with 87 companies on behalf of the fund. Most of the dialogues have reached milestone 3 or 4 where the company has committed to address issues or is developing a strategy to address issues.

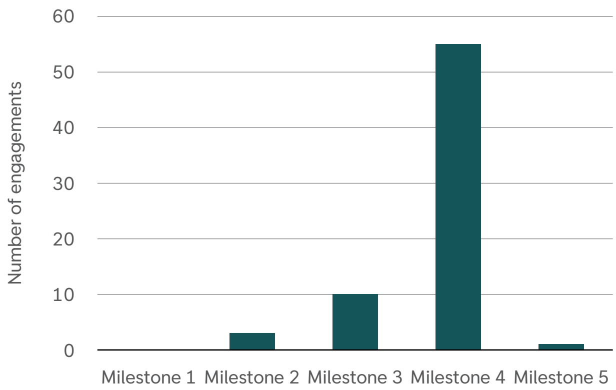
Further details on milestone progression are shown in the graphs below.

Figure 11.5 Number of milestones progressed during 2021 *



*For fund relevant companies, including companies in the fund and in the benchmark

Figure 11.6 Milestone status at last meeting for engagements in 2021*



*For fund relevant companies, including companies in the fund and in the benchmark

DNB Grønt Norden

HIGHLIGHT FROM 2021

"Despite continued strong support and alignment for the green transition among regulators, corporates and consumers, the broader green investment case faced a setback in 2021. Strong performers of previous years, particularly within solar, wind and hydrogen were hit by raw material and interest rate headwinds, hurting the fund performance."

Øyvind Fjell, Portfolio Manager

ABOUT THE FUND (31.12.2021)

NOKm **5,890** Fund AUM

49 Weighted average carbon intensity of fund (tCO_2e/USDm)[8)]

Nordic Regional Focus

7.9 Fund's weighted average ESG score

VINXBCAPNI Benchmark

20 Companies engaged with[9)]

47 Portfolio Holdings

8) Coverage carbon Intensity: 89 per cent
9) ESG-engagement, where the RI-team has participated in the engagement on behalf of the fund (including companies in the benchmark)

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 utilises 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.

ESG-RATING

The fund's mandate is to have an average ESG-score (MSCI ESG) higher than its benchmark, and the graph to the right shows that the ESG score (industry-adjusted) for the fund was 7.94 versus the benchmark's 7.93 at the end of 2021. Note that in a global context, the average ESG-score of Nordic companies is high.

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 CO_2e/USDm sales. At the end of the year, the carbon intensity of the fund was 49 tonnes CO_2e/USDm sales (benchmark: 78 tonnes CO_2e/USDm sales).

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

Figure 11.8 ESG-score

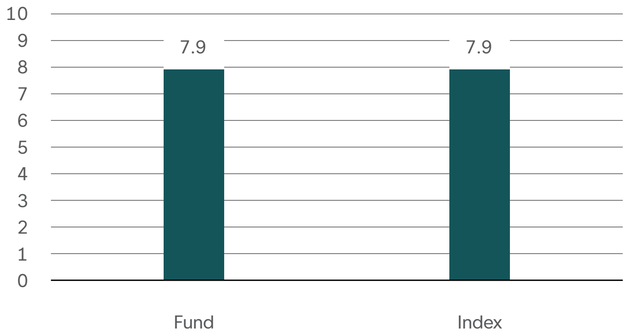


Figure 11.9 ESG-rating distribution

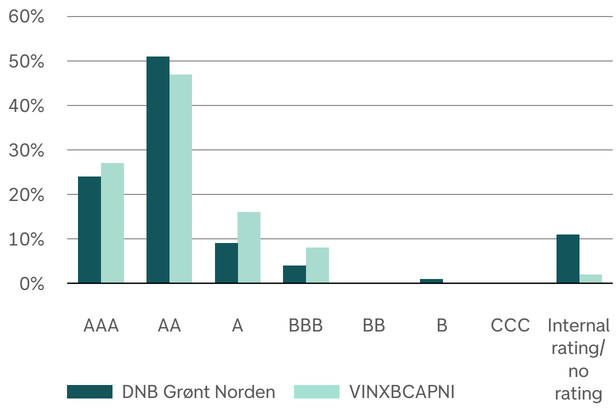
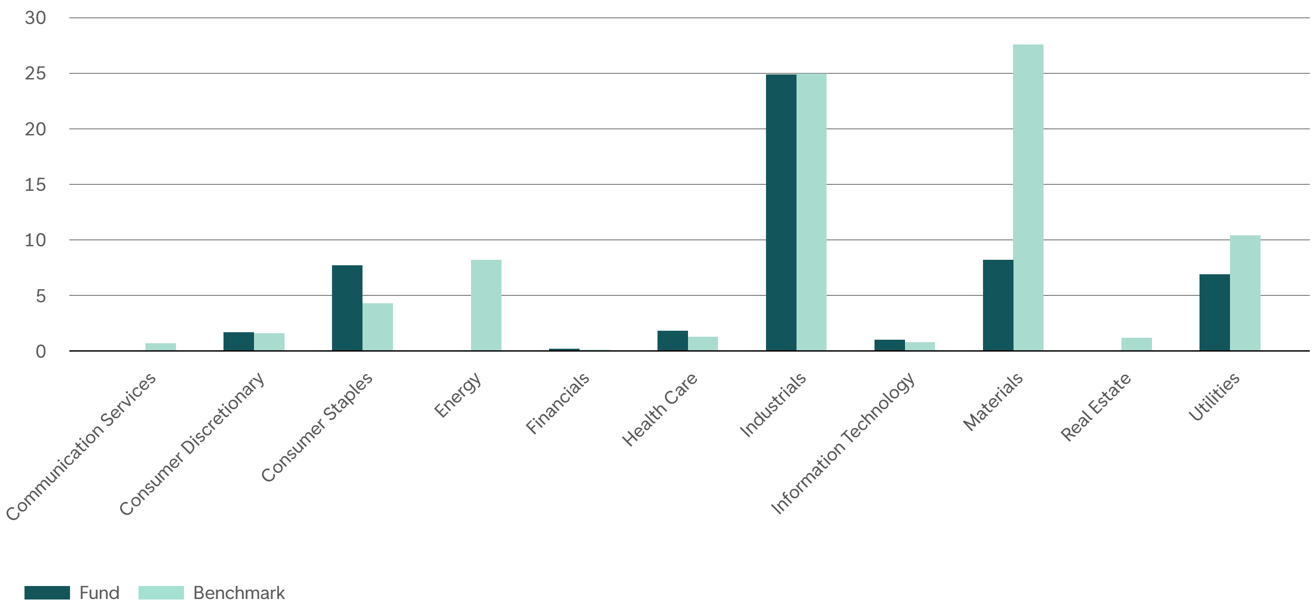


Figure 11.7 Weighted average carbon intensity per sector (tCO_2e/mUSD)



POSITIVE SELECTION

DNB Grønt Norden is a thematic fund that 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 challenges are described in the table below.

Examples of positive selection:

Company	Investment theme	Potential contribution	Relevant SDGs
Otovo AS	Climate change	• Leading European marketplace for the installation of residential solar panels and batteries. • Expanding into heat pumps, EV charging and energy saving software. • The company avoided 240kT CO_2 emissions in 2021 and target to quadruple this by 2025. • Enabler of the energy transition trough solar panel/ battery installations. • Offering grid stabilization and affordable green power to consumers.	 
Note AB	Climate change	• Leading European contract manufacturing partner with fast-growing green-tech segment (EV charging will soon be 50 per cent of business). • Manufacturer of EV charging boxes for four of the largest European charging OEMs. • Manufacturer of smart lightning devices, energy storage devices and climate control devices. • Enabling energy efficiency and energy savings. • Accelerating the penetration of electric vehicles, reducing the significant CO_2 emissions related to road transport.	 
Bonheur ASA	Climate change	• Develops, builds, owns, and operates onshore and offshore wind power plants, globally. • The company has installed 20 per cent of all offshore wind farms in the world. • The company avoided 800 kT CO_2 emissions in 2020 from operating wind assets in the UK, Norway and Sweden. • Accelerating the green transition through the development of its 4GW onshore and offshore wind pipeline.	 

ACTIVE OWNERSHIP

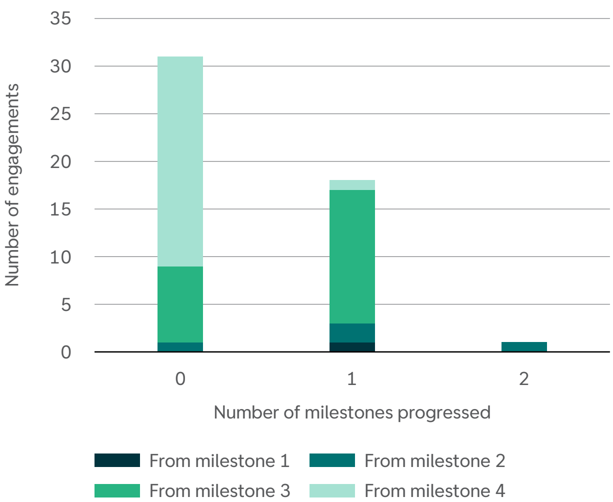
We engage in dialogues with companies to influence them in a positive direction, not only regarding the key environmental themes for the fund, but also on social and governance issues. Two examples are the telecommunication equipment providers Nokia Corp and LM Ericsson, which we engaged on a range of ESG issues in 2021 (and earlier). In the table below, we will focus on the social issue of supply chain human rights management.

MILESTONE PROGRESSION ENGAGEMENTS

In 2021, we engaged with 20 companies on behalf of the fund. 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.

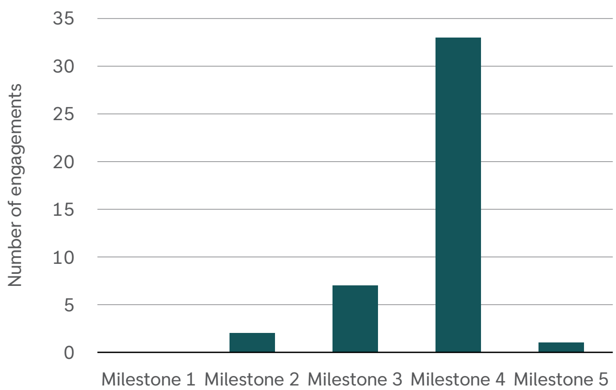
Company	Engagement theme	Result	Milestone progression
Nokia Corp LM Ericsson	**Supply chain human rights management** • Engage the company regarding the findings from the ASPI report on the use of forced labour (Uyghur people) within their supply chains. • Encourage the company to have strong and comprehensive policies and practices regarding human rights (covering both own operations and the supply chain). • Encourage the disclosure of policies and practices regarding human rights publicly (according to best practice).	• **Nokia Corp:** We would consider that the company has embedded respect for human rights in the supply chain, as the company conducts due diligence and audits for direct suppliers and partially further down the supply chain. We suggested that high risk regions and recruitment agencies may be particularly important to follow up, and we also stressed the need of increased transparency around policies and practices in their reporting. Nokia will consider the suggestions. • **LM Ericsson:** While Ericsson were not named in the ASPI report, Ericsson mapped their supply chain following the release of the report to assess for exposure to companies listed but did not find any direct links. Ericsson are currently working with different industry groups regarding standard setting and working beyond direct suppliers. They also plan to step up their in-person audits.	 **Next step**, achieve further improvements in: • Follow-up human rights deeper down in the supply chain (risk-based, with due diligence and audits). • Increased transparency (best practice) around policies and practices (for supply chain human rights management).

Figure 11.10 Number of milestones progressed during 2021 *



*For fund relevant companies, including companies in the fund and in the benchmark

Figure 11.11 Milestone status at last meeting for engagements in 2021*



*For fund relevant companies, including companies in the fund and in the benchmark

DNB Global Lavkarbon

HIGHLIGHT FROM 2021

"The ESG and CO_2 factors are fully integrated into the fund's proprietary factor model, and we are working on developing a database for internal ESG-scoring (ESG-Lab). The financial return was below the benchmark in 2021, but we produced solid financial return for the last two and three years in total."

Ole Jakob Wold, Portfolio Manager

ABOUT THE FUND (31.12.2021)

NOKm **1,500** Fund AUM

46 Weighted average carbon intensity of fund (tCO_2e/USDm)[10)]

Global Regional Focus

6.6 Fund's weighted average ESG score

MSCI World Benchmark

32 Companies engaged with[11)]

93 Portfolio Holdings

10) Coverage carbon Intensity: 100 per cent
11) ESG-engagement, where the RI-team has participated in the engagement on behalf of the fund (including companies in the benchmark)

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.

ESG-RATING

The fund's mandate is to have an average ESG-score (MSCI) higher than its benchmark, and the graph to the right shows that the ESG-score (industry-adjusted) for the fund was 6.60 versus the benchmark's 6.48 at the end of 2021.

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 46 tonnes CO_2e/USDm sales (benchmark: 129 tonnes CO_2e/USDm sales).

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 11.12 ESG-score

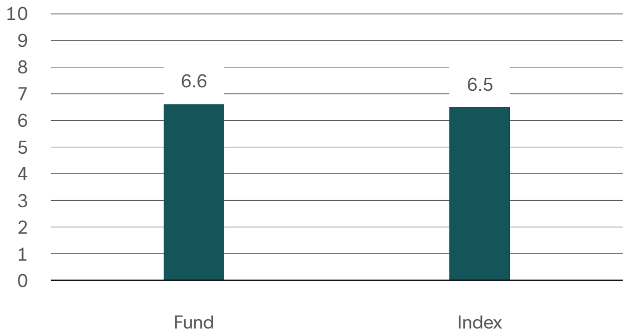


Figure 11.13 ESG-rating distribution

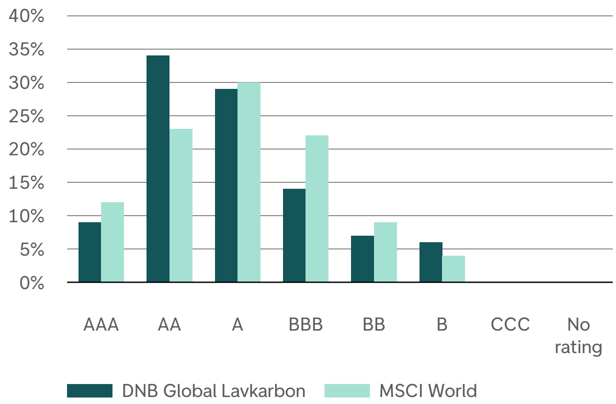
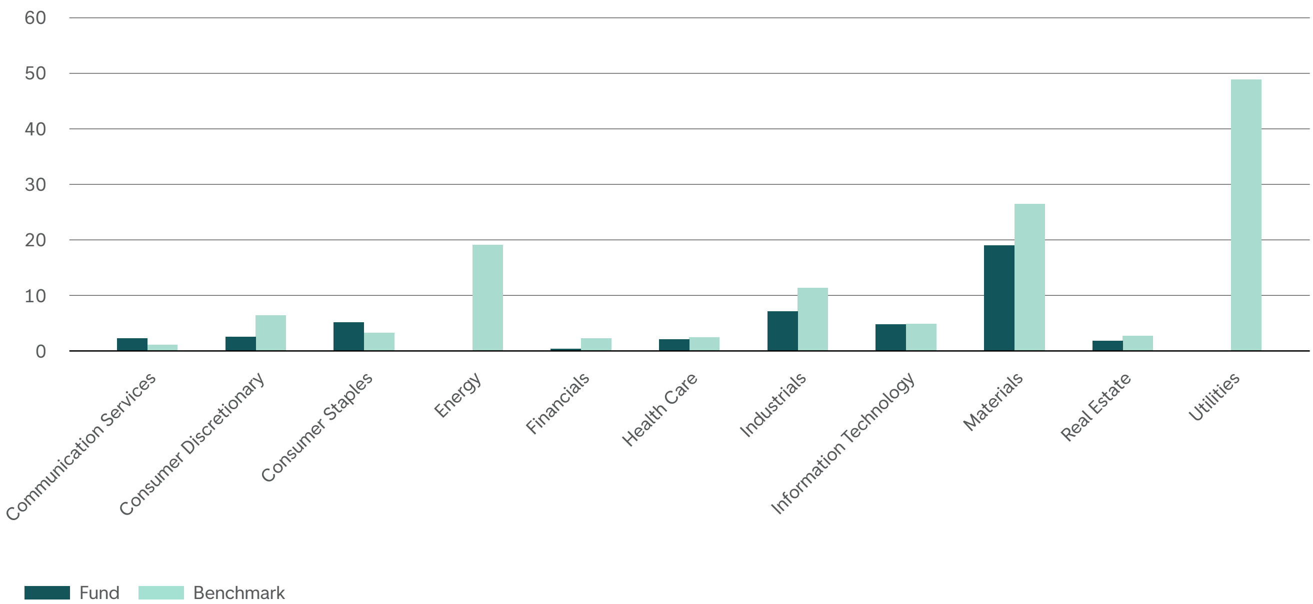


Figure 11.14 Weighted average carbon intensity per sector (tCO_2e/mUSD)



POSITIVE SELECTION

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

Figure 11.15 The multi-factor model

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 favour.

Dynamic multi-factor

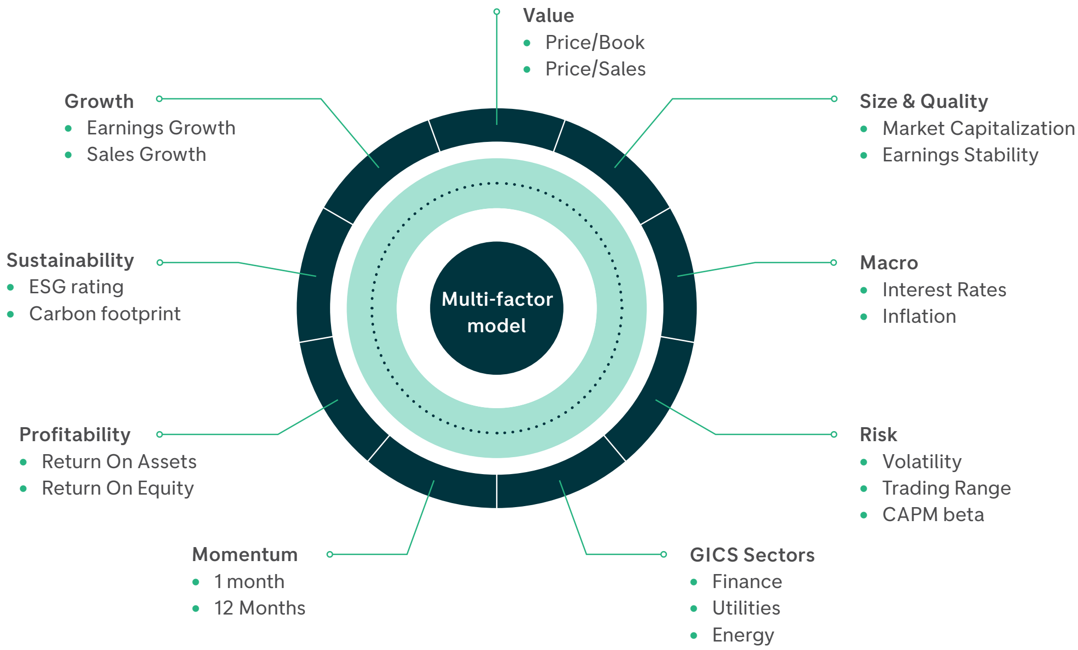
A systematic model; Consistent results

- 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 11.16 Example of fundamental factors used in the fund's multi-factor model



ACTIVE OWNERSHIP

We engage in dialogues with companies on a wide range of ESG-issues, often these dialogues encompass several themes discussed in one or more meetings. Among these, and typically related to upcoming general meetings, is the question of board structure (including obtaining the necessary degree of independence among the key corporate bodies). Below are examples from 2021 regarding three technology/telecommunication companies.

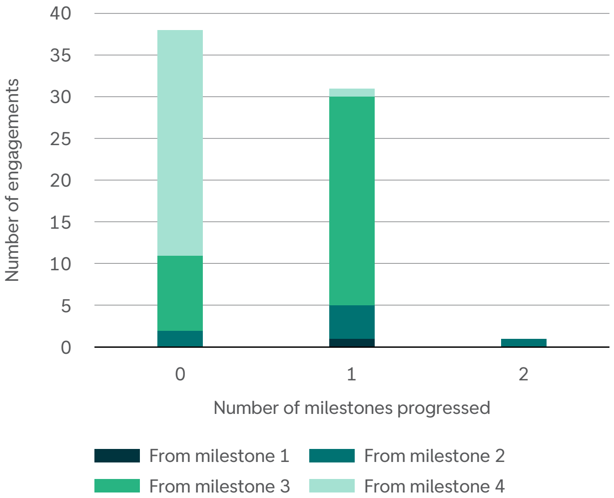
Company	Engagement theme	Result	Milestone progression
Capgemini SE Vodafone Group Plc Arrow Electronics Inc	**Board structure and independence** • Best practice regarding board structure. • Obtain the necessary degree of independence among the key corporate bodies.	• **Capgemini SE** appears to have high standards in the governance area in general. Possible deviation to best practice is on diversity at the board. However, the company communicated that they would propose two new board members at the 2021 AGM, the focus would be on recruiting at least one international director, and competence in technology would also be emphasized. DNB AM supported this. • **Vodafone Group Plc** believed that they have a good size of the board (12), and further, disagreed with the claims that overboarding is an issue. The company also felt that board could benefit from further diversity in terms of gender or ethnicity, given that the candidates have the necessary technology or telecom competence. The issue of whether the board needs their own ESG-committee was also discussed, a topic we want to follow up further. • **Arrow Electronics Inc.** signalled commitment to several improvements in governance. They indicated that the splitting of the dual CEO/Chair role will probably take place in connection with the replacement of the CEO, coming in the next few years. The company is currently in the third year of a 5-year board refreshment process to ensure a more diverse board in terms of experience, gender, ethnicity, and age. We found these signals encouraging.	 **Next step**, achieve further improvements in: • The necessary board diversity in terms of experience/ competence, gender, ethnicity, and age. • Obtain the necessary degree of independence among the key corporate bodies, including the separation of the role of CEO/chair (when necessary),

MILESTONE PROGRESSION

In 2021, we engaged with 32 companies on behalf of the fund. Most dialogues have reached milestone 4, where the company has created and implemented a strategy to address our concerns.

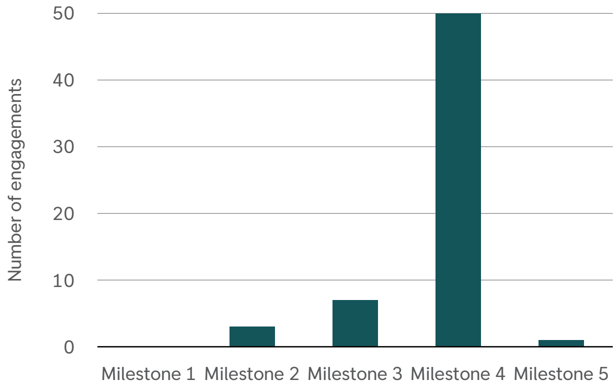
Further details of milestone progression are shown in the graphs below.

Figure 11.17 Number of milestones progressed during 2021*



*For fund relevant companies, including companies in the fund and in the benchmark

Figure 11.18 Milestone status at last meeting for engagements in 2021*



*For fund relevant companies, including companies in the fund and in the benchmark

DNB Miljøinvest and DNB Renewable Energy

HIGHLIGHT FROM 2021

"The fund's underlying holdings potentially avoid six times more emissions than they emit."

Christian Rom, Portfolio Manager

ABOUT THE FUNDS (AS AT 31.12.2021)

NOKm **10,200**
Fund AUM[12)]

193
Weighted average carbon intensity of fund ($tCO_2e/USDm$)[13)]

Global
Regional focus

7.2
Fund's weighted average ESG score

60
Portfolio holdings

97
Relevant ESG company dialogues[14)]

NEX
Benchmark

12) Combined fund AUM for DNB Miljøinvest and DNB Renewable Energy
13) Coverage carbon Intensity: 93.9 per cent, this includes ratings from MSCI ESG and own evaluations
14) ESG-engagement, where the RI-team has participated in the engagement on behalf of the fund (including companies in the benchmark) and where the funds team have had meetings with portfolio companies discussing ESG topics.

DNB Miljøinvest and DNB Renewable Energy[15)] are actively managed equity funds that invest in sustainable enablers of a better environment. Before conducting any financial fundamental evaluation of the equities, the environmental angle of the company is investigated, and we seek to understand if the business is significantly driven by enabling a better environment or not. The investment universe focuses on companies with broad exposure to the environmental theme. Naturally, we find opportunities in sectors such as hydrogen, renewable energy generation, and electric vehicles – these sectors clearly present solutions to a better environment. However, we also spend time thinking about industries where the solutions are less obvious. Who is moving the needle in the textile industry and who enables decarbonisation in construction? These sectors are large emitters, and we think the environmental investor should address them head on. Because they cannot be ignored from a climate change perspective, but also because industry stakeholders stand ready to reward companies that bring solutions. We also look at the value chain for potential companies involved in enabling other companies in their pursuit of environmental solutions.

15) DNB Renewable Energy is the Luxembourg-domiciled equivalent of DNB Miljøinvest, which is domiciled in Norway.

Figure 11.19 ESG-score

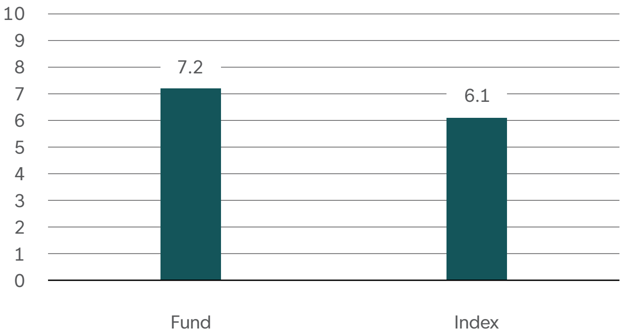
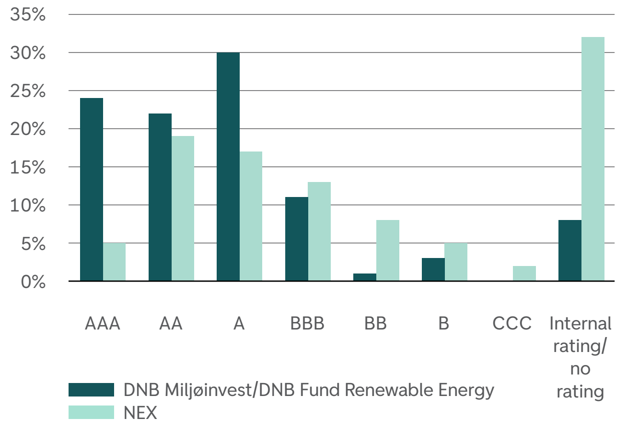


Figure 11.20 ESG-ratings distribution



POSITIVE SELECTION

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

Company	Challenges	Solutions	Relevant SDGs
Sika AG	**Climate change** Cement, an essential component in construction, as an industry is responsible for 3 per cent of the global greenhouse gas emissions.[16)] In order to achieve the Sustainable Development Goals, cement as a construction material will be necessary for the foreseeable future. However to achieve the goal of reduce global emissions to limit warming to less than 2 degrees, the sector requires transformation to reduce the emissions associated with the product.	**Enabling emissions reductions** • Sika delivers additives for concrete that result in stronger concrete that requires less inputs (water and raw materials). This led to a 26 per cent decline in CO_2 emissions per tonne sold in 2020, compared with 2019. • The Potential Avoided Emissions (PAE) intensity for Sika was -1,510tCO_2/EURm (indicating the company avoids more emissions than it prodcuces), ranking 12th amongst companies covered by the analysis, although we believe this to be conservative given only 20 per cent of company revenues were considered in the analysis.	

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.

16) Climate Watch, the World Resources Institute (2020). Licensed under CC-BY by the author Hannah Ritchie (2020).

On the back of these challenges and growing demand to quantify and measure positive contributions to climate and the environment, we engaged ISS-ESG to deploy a method known as "potential avoided emissions" (PAE). At the core it seeks to measure carbon emissions avoided in the value chain by a company's products and services. For example, when Scatec, the renewable energy developer, builds a solar farm we consider the emissions avoided to be the difference in carbon footprint from creating a MWh with today's global electricity mix and that of the solar farm.

The potential avoided emissions for the fund's underlying holdings were 1,480 tCO_2 per EURm invested as at 30.05.2021. This compares to a carbon footprint of 246 tCO_2 per EURm invested. The assessment covered 71 per cent of portfolio holdings by weight as at 30.05.2021. The implication is that the portfolio potentially avoids 6tCO_2 per 1tCO_2 emitted – net 5 tCO_2. The result is encouraging and suggests our research process is robust.

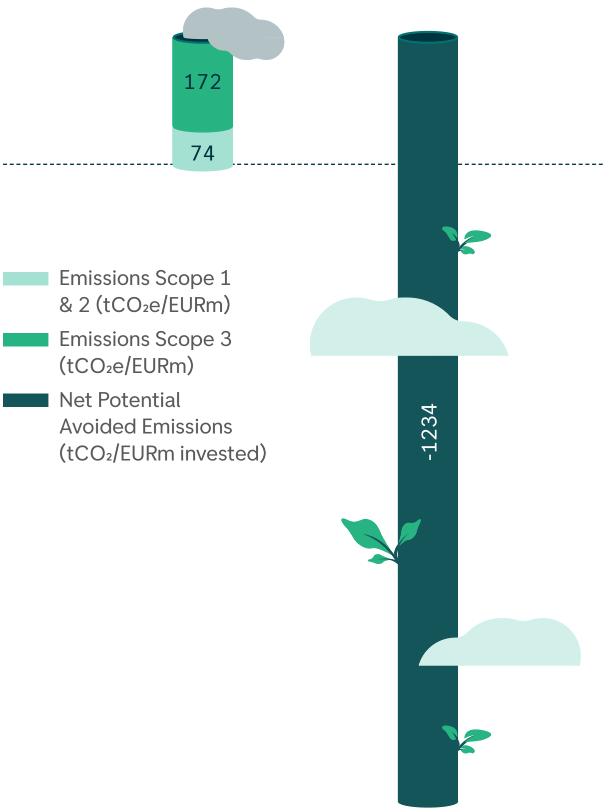
We believe this type of analysis is a step towards the goal: to build a portfolio of companies with large contributions to a better environment and strong abilities to extract abnormal profits from such undertakings.

Full details of this analysis are available in our DNB Renewable Energy report.

Figure 11.21 Results of 2021 PAE analysis

Significant net PAE for the fund's underlying holdings (tCO_2/EURm invested)

Sector	Scope 1 & 2	Scope 3	PAE	Net PAE
Solar	7	21	-478	-449
Wind	0	1	-217	-215
Materials	3	7	-224	-214
Grid	1	4	-132	-127
Biofuels	4	2	-98	-92
Energy saving	1	6	-95	-87
Power generation	57	130	-236	-49
Other	0	0	-1	-1
Total[17)]	**74**	**172**	**-1480**	**-1234**



17) The estimates cover 71 per cent of portfolio holdings as at 30.05.2021 and have been prepared together with ISS-ESG

LABELLING

DNB Renewable Energy received the **German FNG Label** with the highest possible rating of three stars for the fourth 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 per cent 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 10 per cent 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 fourth 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 third time in December 2021. The label is valid from the 1st of January until the 31st of December 2022. 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.

ACTIVE OWNERSHIP AND ESG INTEGRATION

Our engagement strategy outlines how we prioritise topics for engagement and track progress against milestones over time. Some examples from our engagement activity are described in detail below:

Company	Engagement theme	Result(s)	Milestone progression
AMG Advanced Metallurgical Group NV	Biodiversity	• The company does not believe there are any significant gaps to best practice regarding biodiversity. The company has identified three main geographical vulnerable areas, these are followed up carefully in a proactive manner.	 **Gaps to reaching milestone 5:** • Assurance of no large gaps to best practice regarding biodiversity & land use. • External reporting on status and progress as part of annual reporting
	Remuneration	• Compliance with best practice regarding executive remuneration.	 **Gaps to reaching milestone 5:** • Increased disclosure in the proxy material

MILESTONE PROGRESSION

In 2021, there was a large emphasis on engagement on carbon emissions and emissions reduction target setting. There were 17 engagements with the responsible investment team, and 80 additional dialogues by the portfolio management team where ESG topics were discussed.

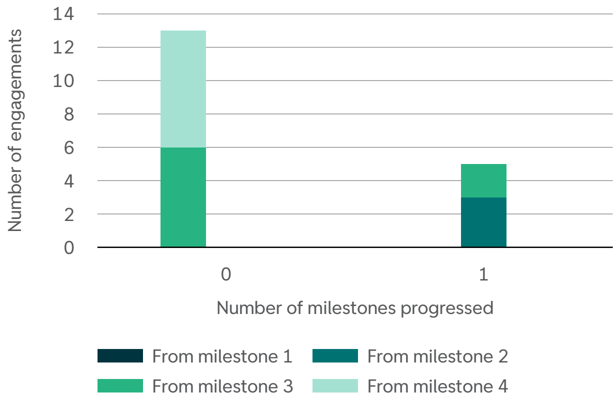
For engagements held in conjunction with the responsible investments team, proactive engagements formed the large majority in the fund. In instances of proactive engagements, these will not necessarily have milestones on which to measure progress.

Further details on milestone progression are shown in the graphs to the right.

CARBON FOOTPRINT

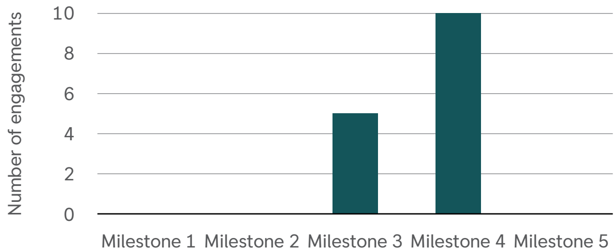
The fund's weighted average carbon intensity per sector compared with the benchmark. The fund has a larger proportion of the fund's emissions from the materials and utilities sectors compared with the benchmark, with fewer in the remaining sectors.

Figure 11.22 Milestone progression during 2021*



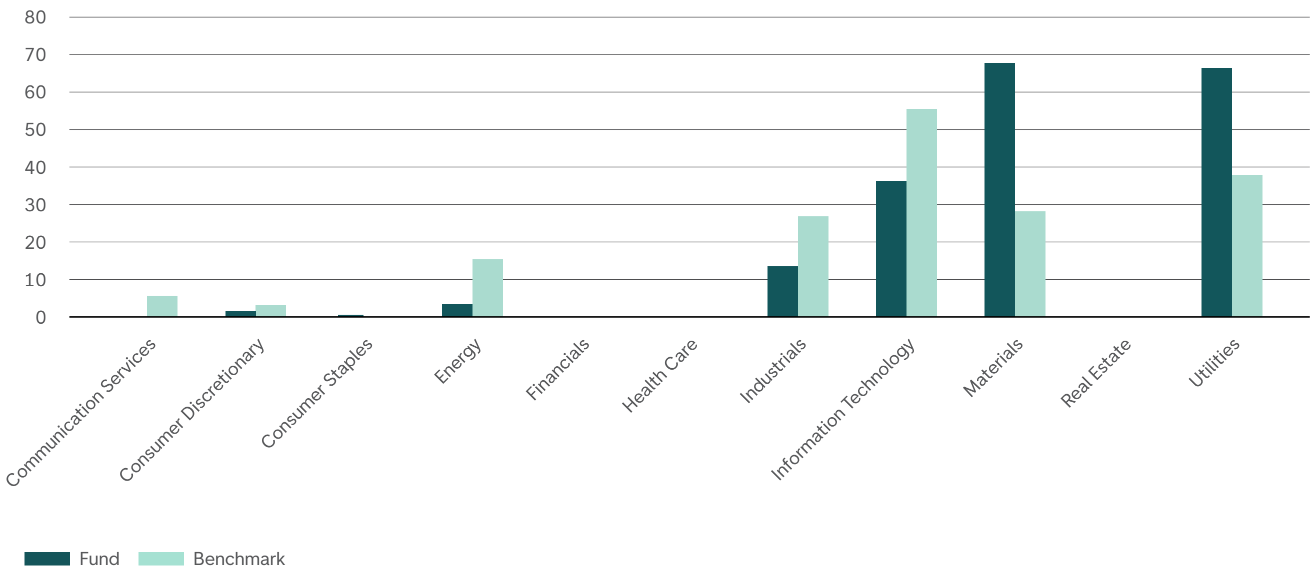
*For fund relevant companies, including companies in the fund and in the benchmark

Figure 11.23 Milestone status at last meeting for engagements in 2021*



*For fund relevant companies, including companies in the fund and in the benchmark

Figure 11.24 Weighted average carbon intensity per sector ($tCO_2e/mUSD$)



DNB Klima Indeks

HIGHLIGHT FROM 2021

"DNB Klima Indeks is DNB AM's first fund to follow a Paris aligned benchmark. This means that the fund selects companies with low greenhouse gas emissions which will help achieve the goal of limiting temperature rise and achieving a zero-emission society."

Erik Hannestad, Portfolio Manager

ABOUT THE FUND (AS AT 31.12.2021)

NOK
2,500m
Fund AUM

30
Weighted average carbon intensity of fund (tCO_2e/USDm)[18)]

Global
Regional focus

6.9/10
Fund's weighted average ESG score

-10%
Annual targeted decarbonization rate

MSCI World Climate Paris
Aligned Index

18) Coverage carbon Intensity: 99 per cent

The DNB Klima Indeks is an index-linked global equity fund, where the index is developed to be in line with the Paris Agreement. The fund overweights investments in "green" companies and companies that deliver technological solutions that contribute positively to a sustainable economy. The fund is designed to reduce exposure to various climate risks, while at the same time, pursuing opportunities that arise during the transition to a low-carbon economy.

The benchmark, the MSCI World Climate Paris Aligned Index, was designed to exceed the minimum standards of the EU Paris-Aligned benchmark outlined in the relevant EU delegated acts.

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.

Figure 11.25 ESG-score

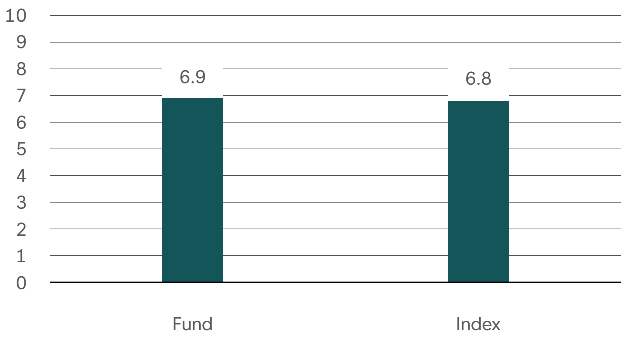
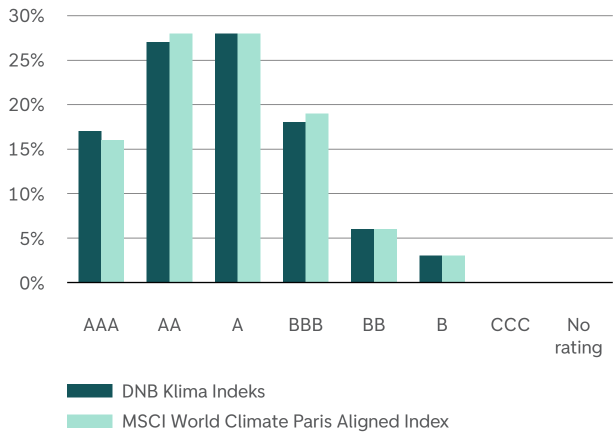


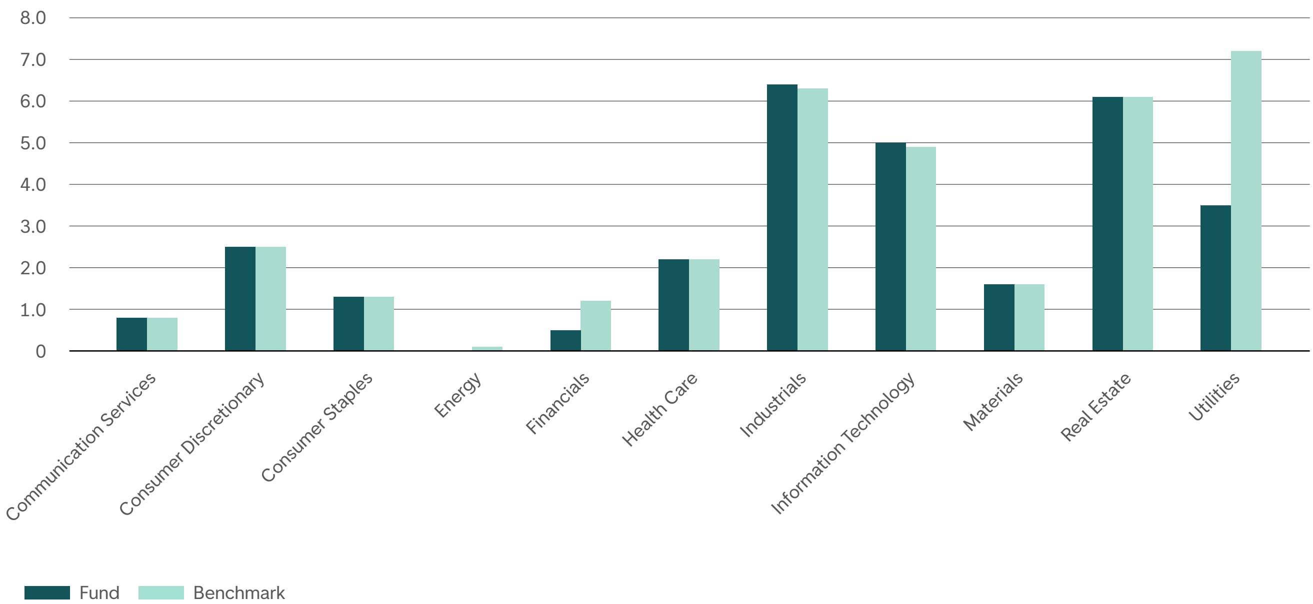
Figure 11.26 ESG-ratings distribution



CARBON FOOTPRINT

The fund's weighted average carbon intensity per sector compared with the benchmark. The fund and benchmark have a similar allocation of carbon emissions across sectors, except for utilities where DNB Klima has significantly less.

Figure 11.27 Weighted average carbon intensity per sector ($tCO_2e/mUSD$)



DNB Low Carbon Credit

HIGHLIGHT FROM 2021

"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 Manger

ABOUT THE FUND (31.12.2021):

NOKm **4,894** Fund AUM

361 Portfolio Holdings

Global Regional Focus

45 Weighted average carbon intensity of fund (tCO_2e/USDm)[19)]

Bloomberg Barclays Global Aggregate Corporate Bond Index (1–7 years) Benchmark

6.9 Fund's weighted average ESG score

19) Coverage carbon Intensity: 76 per cent

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 per cent of their revenue from business related to conventional weapons, commercial gambling, or alcohol production. The fund utilizes positive screening to increase exposure to companies with lower carbon emissions and select companies based on a wide range of criteria relating to the environmental, social and governance pillar.

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
Telenor ASA	Human Rights Product Quality and Safety	• DNB AM engaged with the company multiple times over the course of 2021 and follow the situation in Myanmar closely. • The company set up a local crisis group and steering committee operating out of Singapore to ensure employee safety and to work for keeping the mobile network running in Myanmar after the coup in February. • After careful considerations the company made the decision to sell its operations in Myanmar. The situation remains ongoing as the sale have been blocked by the government.	 **To reach milestone 5:** • Demonstrate that they are not involved in any significant human right incidents. • Provide additional details regarding their data privacy approach and demonstrate that this is in line with best practice. • Demonstrate that they protect their customers data from wrongfully being shared with authorities and performed additional audits in relation to the customer data and privacy controversies they have experienced in Myanmar.
Yara International ASA	Climate Change Biodiversity Board Composition Human Rights	• Advancements in the company's TCFD reporting by performing a scenario analysis and set goals for scope 1, 2 and 3 emissions. • The company are looking to report eligibility to the EU Taxonomy in their 2021-reporting. • Will continue to work on biodiversity related issues in 2022. • Provided feedback to the company in regard to the board composition. DNB AM has encouraged the nomination committee to consider multiple board members with experiences fit to tackle the increased challenges related to food production and climate change/biodiversity. • The company has provided information on how they are approaching the situation in Belarus where human rights and labour rights are at risk.	 **To reach milestone 5:** • Close gaps to best practice on climate related issues including use of the TCFD framework and SBTi approved targets for net zero 2050. • Develop a policy on biodiversity, as well as develop best practice on biodiversity related issues. • Full compliance with the new Norwegian Act on supply chain transparency.

Figure 11.28 ESG-score

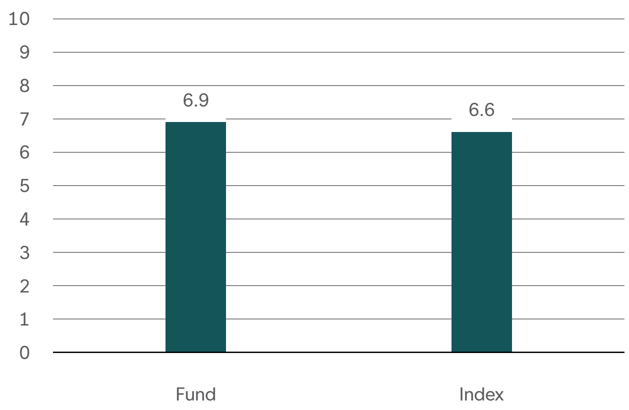
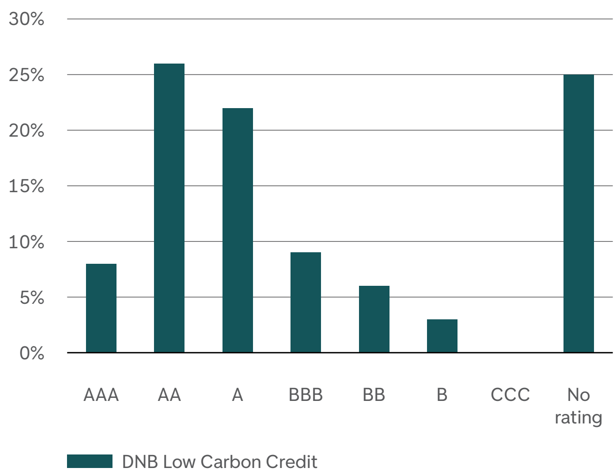


Figure 11.29 ESG-rating distribution



* Information about ESG-rating distribution for the benchmark is not available

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 USD 37bn was issued. In 2021, the issuance passed USD 400bn, and it may reach USD 1000bn in 2023 according to the Climate Bonds initiative.[20)]

As at 31.12.2021, 5 per cent of the portfolio comprised green bonds, versus the benchmark's 3 per cent. 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. Another example of a bond the fund is invested in, is an asset backed security where over 60 per cent of the loan portfolio is to solar panel retailers. Though this is not classified as a green bond, this is a clear positive contribution to the energy transition.

20) https://www.climatebonds.net/files/reports/cbi_susdebtsum_h12021_02b.pdf

DNB Obligasjon Norden

HIGHLIGHT FROM 2021

"The fund's investment process incorporates a proprietary scoring of a number of the issuers in the Nordic bond market. We believe this is an essential building block in our overall credit analysis."

Terje Monsen, Portfolio Manager

ABOUT THE FUND

NOKm
531
Fund AUM

17
Weighted average carbon intensity of fund ($tCO_2e/USDm$)[21)]

Nordic
Regional Focus

7.2
Fund's weighted average ESG score

82
Portfolio holdings

21) Coverage carbon Intensity: 81 per cent

DNB Obligasjon Norden invests in debt securities and other debt instruments issued by issuers principally domiciled in the Nordic markets, carry out the predominant portion of their business activities in the Nordic markets or have their debt securities primarily traded in the Nordic markets

The fund promotes environmental characteristics by investing in companies with a low carbon intensity. In addition to following the principles laid out in DNB Group's Standard for Responsible Investments, the fund does not invest in debt securities of companies with a significant portion of revenues coming from fossil fuels, conventional weapons, gambling, or alcohol production. Furthermore, the fund doesn't invest in companies with direct exposure to fossil fuels or with a high level of carbon emissions.
In addition to these exclusion criteria's, the fund utilizes positive screening to include companies with lower carbon emissions to reach the goal of a low carbon intensity of the portfolio. The fund might also invest in green bonds, that finance green investment opportunities. There can be made exceptions to the fossil fuel and carbon emissions requirements to invest in green bonds issued by carbon intensive companies.

ACTIVE OWNERSHIP AND ESG INTEGRATION

ESG factors are integrated into the investment process and sustainability risks is considered as part of credit lines and credit spreads evaluation. Because of a lack of data on the Nordic fixed income side, DNB AM has since 2019 been working on their own scoring of companies by developing a custom ESG Framework. You can read more about this continuous work under ESG integration. This framework is often used in dialogues with issuers and is constantly updated to reflect what we consider best practice for companies in different sectors and industries.

GREEN BONDS

As of 31.12.2021, the portfolio consisted of 24 per cent green bonds. One example of a green bond DNB Obligasjon Norden is invested in is one offered by Norske Tog AS. Norske Tog AS is the single provider of passenger rolling stock to the Norwegian railway system. The proceeds from the green bond they issued in 2021 will be used to finance investments into new of renewed electric train sets and renovate or improve the existing electric rolling stock.

Another example is a sustainability-linked bond offered by Kinnevik AB. Kinnevik AB invests in disruptive digital business within healthcare, food, consumer service and financial services. The sustainability-linked bond issued in 2021 identifies several sustainability performance targets for 3 key performance indicators (KPI), including a 7 per cent reduction in greenhouse gas emissions intensity from its portfolio year to year and 5 per cent points improvements in annual ESG score. This is a good example of standard setting as the coupon rate of the bond will increase if the company doesn't obtain these KPI's.

CARBON FOOTPRINT

The fund integrates CO_2-data in all investment decisions to reach the goal of a low carbon intensity of the portfolio. At the end of the year, the carbon intensity of the fund was 17 tonnes of CO_2e/USDm sales.

Figure 11.30 ESG-score

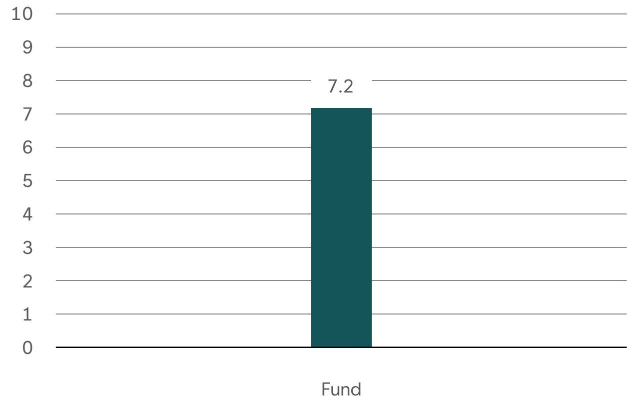
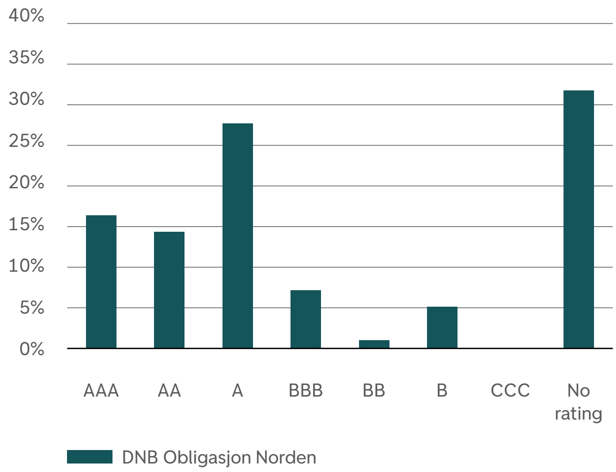


Figure 11.31 ESG-rating distribution



*Note: Cash is excluded. The funds benchmark consists mostly of municipal bonds, government bonds and covered bonds and it is therefore not relevant to compare the rating distributions.

DNB Nordic Investment Grade

HIGHLIGHT FROM 2021

"2021 has seen a further strengthening of the focus on sustainability issues from both issuers and investors in the bond market. The fund has participated in this development by improving ESG scores and increased its proportion of sustainable and green bonds over the year."

Terje Monsen, Portfolio Manager

ABOUT THE FUND

NOKm
100
Fund AUM

13
Weighted average carbon intensity of fund ($tCO_2e/USDm$)[22)]

Nordic
Regional Focus

8.1
Fund's weighted average ESG score

41
Portfolio holdings

22) Coverage carbon Intensity: 86 per cent

The fund invests in fixed or floating rate debt securities and other debt instruments with minimum BBB- or equivalent credit quality at the time of acquisition. The debt issuers are principally domiciled in the Nordic markets, carry out the predominant portion of their business activities in the Nordic markets or have their debt securities primarily traded in the Nordic markets.

The fund promotes environmental or social characteristics and in addition to following the principles laid out in DNB Group's Standard for Responsible Investments, the fund does not invest in debt securities of companies with a significant portion of revenues coming from fossil fuels, conventional weapons, gambling, or alcohol production. Furthermore, the fund doesn't invest in companies with direct exposure to fossil fuels or with a high level of carbon emissions. There can be made exceptions to the fossil fuel and carbon emissions requirements to invest in green bonds issued by these companies. The fund aims to have a minimum 15 per cent of its NAV in green bonds.

ACTIVE OWNERSHIP AND ESG INTEGRATION

ESG factors are integrated into the investment process and sustainability risks is considered as part of credit lines and credit spreads evaluation. Because of a lack of data on the Nordic fixed income side, DNB AM has since 2019 been working on their own scoring of companies by developing a custom ESG Framework. You can read more about this continuous work under ESG Integration. This framework is often used in dialogues with issuers and is constantly updated to reflect what we consider best practice for companies in different sectors and industries.

GREEN BONDS

As of 31.12.2021, the portfolio consisted of 29 per cent green bonds which is well above the minimum target of 15 per cent of AUM. One example of a green bonds DNB Nordic Investment Grade is invested in is one bond offered by Salmar ASA. Salmar ASA is the world's largest salmon farmer. The green bond they issued in 2021 was their first green bond in the NOK market and the proceeds from the bond issue will finance or refinance investments in so called "green projects", that promote the transition towards a low-carbon and environmentally friendly society. Examples from such projects include electrification of fish farms and streamlining waste management.

Another example of a green bond the fund is invested in is one offered by Posten Norge AS. Posten Norge AS is a Nordic postal service and logistics group and one of the companies we have also included in the internal ESG scoring in 2021. The company issued their first green bond in 2021 where the majority of the proceeds will be invested in clean transportation, such as financing of electric vehicles and supporting infrastructure/charging stations and also green buildings.

CARBON FOOTPRINT

The fund integrates CO_2-data in all investment decisions to promote environmental characteristics. At the end of the year, the carbon intensity of the fund was 13 tonnes of CO_2e/USDm sales.

Figure 11.32 ESG-score

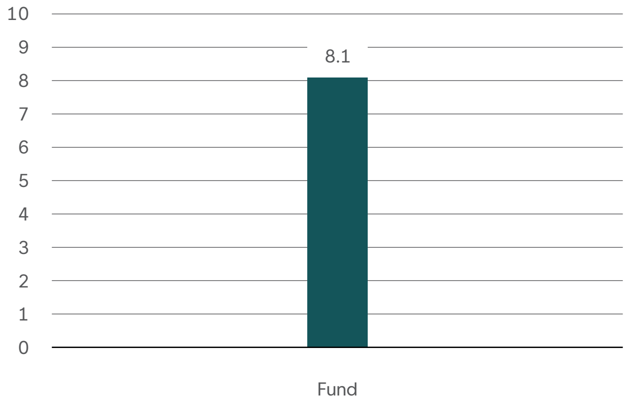
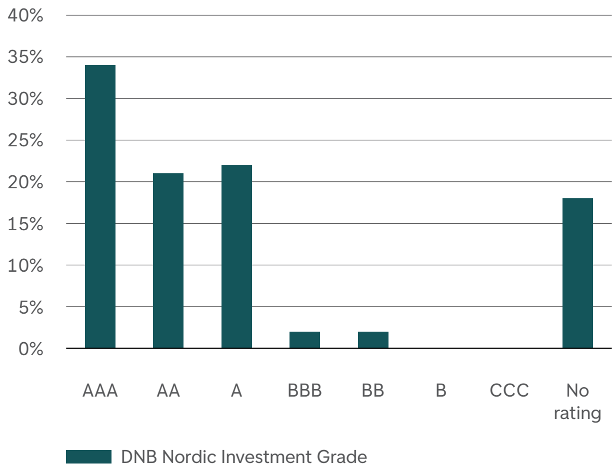


Figure 11.33 ESG-rating distribution



*Note: Cash is excluded. The funds benchmark consists mostly of municipal bonds, government bonds and covered bonds and it is therefore not relevant to compare the rating distributions.

12 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 in 2021). Please see section 10 for more information.

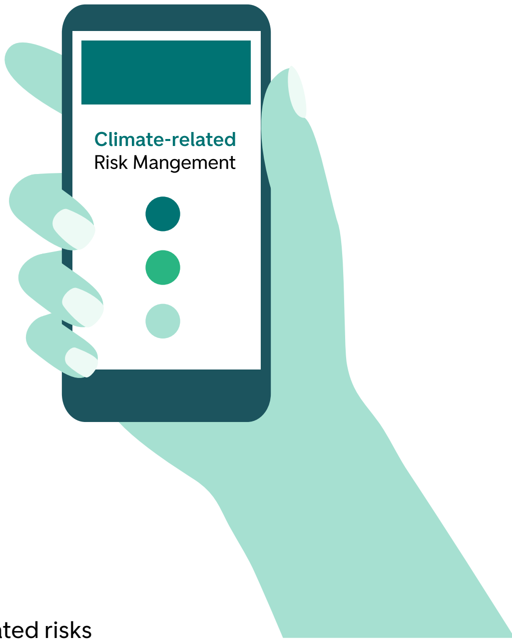


Table 12.1 Adapted TCFD[1)] Table A1 with examples of climate-related risks

Transition risks

Risk	Time Horizon	Description	Potential financial impact	Potential financial impact for DNB AM
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 involved 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 11 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.

1) https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf

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

Physical risks

Risk	Time Horizon	Description	Potential financial impact	Potential financial impact for DNB AM
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 workforce (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 operating costs (e.g. inadequate water supply for hydroelectric 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 investments. Through our work on scenario analysis through participation in the UNEP FI TCFD Investor Pilot Project, we have sought to understand 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.		

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 in 2021). Please see section 10 for more information.

Table 12.2 Adapted TCFD[2)] Table A2 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 11 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.	

2) https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf

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

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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.

Towards Sustainability Label

In 2021, DNB Nordic Equities was granted the Towards Sustainability label, meaning that the fund adhere to the highest quality standards for sustainable and socially responsible financial products. The label is awarded and administered by the Central Labeling Agency (CLA) of Belgian SRI label. The Towards Sustainability quality standard and label were developed on the initiative of Febelfin. Please see the website www.towardssustainability.be for more information on the Towards Sustainability initiative.

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ACRONYMS

ASK: Share savings accounts
AUM: Assets under Management
BNEF: Bloomberg New Energy Finance
CA100+: Climate Action 100+
CBD: Convention on Biological Diversity
CISL: Cambridge Institute for Sustainable Leadership
CLMRS: Child labour monitor and remediation
CO_2: Carbon dioxide
COP26: UN's 26th climate summit
CVaR: Climate Value-at-Risk
CWC: Columbia Water Centre
DNB AM: DNB Asset Management
ESG: Environmental, social and governance
ETS: Emissions Trading System
EWER: ESG, Water and Emerging Risks Network
FAIRR: Farm Animal Investment Risk & Return
GDP: Gross Domestic Product
GHG: Greenhouse Gas Emissions
IAM: Integrated Assessment Models
IEA: International Energy Agency
ILO: International Labour Organization
IPBES: Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services
IPCC: Intergovernmental Panel on Climate Change
IPCC AR6: IPSS Sixth Assessment Report
IPSES: Intergovernmental Science Policy Platform on Biodiversity and Ecosystem Services
ITR: Implied Temperature Rise
NAV: Net Asset Value
NBIM: Norges Bank Investment Management
NGO: Non-profit organization
NORSIF: Norwegian responsible and sustainable investment forum
NUES: The Norwegian corporate governance board (i.e. NCGB)
PAE: Potential Avoided Emissions
PACTA: Paris Agreement Capital Transition Assessment
PRI: Principles for Responsible Investments
RI: Responsible Investments
SBTi: Science Based Targets institute
SBTN: Science Based Targets for Nature
SDG: Sustainable Development Goals
SEC: Securities and Exchange Commission
SFDR: Sustainable Finance Disclosure Regulation (i.e. European Union SFDR)
SSP: Shared Socioeconomic Pathway
TCFD: Task Force on Climate Related Financial Disclosure
TNFD: Taskforce on Nature-Related Financial Disclosure
UN: United Nations
UNEP FI: United Nations Environment Program Finance Initiative
UNGP: UN Guiding Principles on Business and Human Rights
UNICEF: United Nations Children's Fund
WCF: World Cocoa Foundation
WEF: World Economic Forum
WHO: The World Health Organization
WRI: World Resource Institute
WSRW: Western Sahara Resource Watch
WWF: World Wide Fund for Nature

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