Responsible Investments

Annual Report 2023

DNB
Asset Management
A company in the DNB Group

Facts

- Part of Wealth Management (WM), a business area in the DNB Group, Norway's largest bank.
- Has 163 full-time employees across three locations in Europe at the end of 2023.
- Managed NOK 950 billion by year-end in fixed income, equities, hedge funds, and private equity – on behalf of institutional and retail clients.
- DNB Asset Management (DNB AM) is a responsible investor with a long-term view, aiming to provide high, long-term returns, at an acceptable level of risk for our clients. We consider sustainability risk and opportunities in our investment decision-making and ensure DNB AM does not contribute to actions perceived to be unethical or unsustainable.

1. Report from the CEO

Ola Melgård,
CEO DNB Asset Management.

The overall global equity market showed a double digit return in 2023 despite tighter global monetary conditions, helped by an impressive performance of the US "Magnificent Seven" (Apple, Microsoft, Meta, Alphabet, Tesla, Nvidia, and Amazon). This very concentrated market performance was related to tailwind from the play on artificial intelligence (AI). The broad sustainability-index (MSCI World ESG Leaders index) also did well, outperforming the general market, while the narrower "cleantech" NEX-index struggled for the third consecutive year. On the fixed income side, raising interest rates made global bond funds perform sluggishly.

Following several years of steady growth in ESG asset under management, 2022 and 2023 have been difficult years for active "sustainability" funds in terms of capital flow, while the flow picture has been better for passive "sustainability" funds (similar picture as for the general equity market). Note that making an accurate assessment is complicated by a lack of global standardised definitions of what a "sustainable" fund is and mandates vary widely. In any case, a politically-charged debate in the US and greenwashing concerns globally, may have negatively impacted funds flow as well as causing fewer funds being labelled as "sustainable" or "ESG". Both the investment community and regulators are trying to adapt, including improved quality of disclosures, led by the EU – with standardisation through the EU Sustainable Finance Disclosure Regulation (SFDR).

Regulatory requirements continue to be a top priority for sustainable investments, again particularly regarding the European market. High on the agenda is the SFDR, the Taxonomy Regulation, and the upcoming EU Sustainability Reporting Standards (ESRS). Norwegian companies have been in the forefront of supply chain due diligence, especially regarding human rights and labour rights, with the introduction of the Norwegian Transparency Act in 2022. Thematically, climate issues remained centre stage, but biodiversity received considerable attention in 2023, helped by the launch of the Taskforce on Nature-related Financial Disclosures (TNFD) and the launch of the global engagement initiative Nature Action 100 (similar to the TCFD and CA 100+ on the climate side).

The trends described above have also been highly relevant for the Responsible Investments (RI) efforts of DNB Asset Management (DNB AM) in 2023. In addition to having a dedicated RI-team of six, there are sustainability specialists among our portfolio managers, supporting the ESG integration in portfolio management and contributing to the broad offering of thematic funds – such as DNB Miljøinvest/DNB Fund Renewable Energy, DNB Fund Future Waves, DNB Grønt Skifte Norden/DNB Fund Nordic Equities and DNB Grønt Skifte Norge. Furthermore, the DNB AM work on acquiring and processing data for ESG integration, regulatory requirements, and customer reporting was a key project in 2023. DNB AM has also continued the multi-year effort of collecting sustainability related data from large Norwegian issuers of debt instruments, underpinning the attention to sustainable investments in the domestic market and in our own organisation. Finally, DNB AM played an important part in developing the new climate transition plan for DNB Group launched in the fall of 2023.

As before, DNB AM's work on responsible investments rests on four main pillars: Standard setting, active ownership (through voting and dialogues), exclusions, and integration of material ESG factors into the investment process. Our series of expectations documents are often the starting point for engagement with companies and sets the standard of what we consider to be best practice. In 2023 our expectation documents have been published in a new format, and we have updated and re-launched the expectation document on human rights. We have also started the work on a new expectation document on health and sustainable food systems to support one of our newer thematic focus areas. Read more about this work in the section on Standard Setting.

Active ownership encompasses both dialogues and voting, and DNB AM often leverages its engagements through collaborations with other investors. Examples are PRI-led working groups, FAIRR, Climate Action 100+, Nature Action 100, Chemsec, collaboration through our engagement service provider, and joint climate/biodiversity engagements with large Norwegian companies. Assessing country risk is also an integral part of our engagement effort, the increased geopolitical tension experienced in 2023 have made us intensify this work. Examples here were Russia, looking at indirect exposures and sanction risks, and a broad attention to the MENA region. In total, 359 reactive and proactive dialogues were conducted in 2023. We define goals and milestones for each engagement, read more about our engagement process here.

DNB AM further increased voting efforts last year, voting at 1 352 meetings in 2023 on behalf of our clients (up 7 per cent from 2022 and a four-fold increase from 2021). DNB AM also had a comprehensive approach to shareholder resolutions in 2023, voting on 761 proposals. Some central topics that we emphasized in voting include climate change, social issues (including DEI), lobbying, board composition, and executive compensation. Note that the voting statistics and details are available in a public searchable proxy voting dashboard available here. Read more about our voting process here.

Supporting the active ownership process are our long-term focus areas and our shorter-term thematic focus areas. Starting in 2023, biodiversity was upgraded to a long-term focus area. DNB AM has worked extensively on biodiversity the last three years including releasing an expectation document, signing the Finance for Biodiversity Pledge, conducting engagements, preparing for regulatory requirements, and working on utilising the TNFD framework (see the TNFD-reporting in the biodiversity chapter). In 2024, DNB AM will also step up the efforts on the thematic focus area Health and Sustainable Food Systems including publishing the forementioned expectation document. Responsible use of AI will also become a broader topic across our focus area, not the least for human capital considerations.

Exclusions and screening of ESG criteria are still important tools in our risk management work. DNB AM prefers to promote best practice over exclusions. However, when active ownership does not lead to an acceptable solution, a company may be excluded from our investment universe. If the company implements adequate measures to remedy the situation, it will be reincluded. Read more about exclusions here.

The last pillar, ESG-integration, centres on the systematic integration of sustainability factors into the portfolio managers' financial models and investment decisions. Key portfolio management teams each have a dedicated sustainability analyst from the RI-team that follows the fund closely, and DNB AM has in place a long-term effort to ramp up sustainability expertise in the various portfolio management teams, both on the equity and the fixed income side. A key element in 2023 has been the work with SFDR requirements including extensive ESG data collection and analysis, supporting the portfolio management. Read more about ESG-integration here.

For DNB AM in 2024, central themes will still be Net zero 2050, emission reduction targets aligned with science, the energy transition, nature positive, water targets and metrics, circularity, critical/conflict minerals, and human rights risk and mitigation across the entire supply chain. In addition, we expect that risks and opportunities connected to AI will become a broader consideration across most of our other defined focus areas and themes. The work with responsible investments is relevant for all DNB AMs asset classes, including the Private Equity side – where intensified efforts continue into 2024.

2. Highlights 2023

Key figures

NOK 124 billion

in Sustainability-themed funds

29.5% of AUM has set a science-based target, as part of the DNB Group's transition strategy ambition

Target for assets under management (AUM) in sustainability-themed funds:

NOK 200 billion

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

Active ownership

In 2023, we voted at

1 352

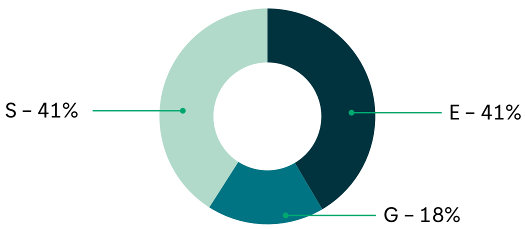
annual general meetings (including 761 shareholder resolutions), up from 1 267 meetings in 2022.

We conducted

359

dialogues with 230 companies, both individually and in collaboration with other investors as well as through our external service providers. 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



Focus areas

Long-term

We have promoted **Biodiversity** to a long-term focus area. Biodiversity has been a focus area for DNB AM since 2020, but in 2023 we have seen the area emerge as one of the most material topics we discuss with companies.

Thematic

We have introduced the thematic focus area **Human Capital** which will center on diversity, equity and inclusion initiatives (DEI) and workplace-rights related beyond internationally recognized standards on labour rights.

Data and ratings

- → We compiled significant data to meet the requirements of the SFDR and have disclosed information for all relevant funds. Please find more information on our website and in the chapter on ESG-integration.
- → We gathered data and rated over 100 bond issuers within the banking, utilities, real estate, logistics and transportation, food and food production and diversified chemicals sectors.
- → DNB Renewable Energy published, for the fourth time, an assessment of the fund's potential avoided emissions. Avoided emissions data is developed in collaboration with ISS and the report can be found here.

New funds

- → Launched the DNB Grønt Skifte series which is a series of combination funds that aim to contribute to the green transition. By investing in these funds, clients invest in a combination of our sustainability-themed funds across equity and fixed income.
- → Reclassified several of our funds in accordance with SFDR, read more about this in the chapter on Product Overview.

European ESG Labels

- DNB Fund Renewable Energy received the LuxFLAG Environment Label for the fifth year running
- DNB Fund Renewable Energy received the German FNG Label with the highest possible rating of three stars for the sixth year running
- DNB Fund Nordic Equities received the Towards Sustainability label for the third year running, and DNB Fund Future Waves received the label for the first time in 2023.

Initiatives and Partnerships

The FAIRR Initiative is a collaborative ESG investor network that DNB AM has participated actively in during the past years on issues and opportunities brought about by intensive livestock production. We have joined six different engagement initiatives, pertaining to working conditions, sustainable aquaculture, meat sourcing, animal pharmaceuticals, protein diversification as well as waste and pollution. More information on these initiatives can be found in the chapter on Biodiversity, Health and Sustainable Food Systems, and Human Rights.

We previously joined the **PRI Advance** initiative that launched in December 2022. PRI Advance is a group of 220 investors, representing more than 30 trillion USD in AUM of endorsed investors. The initiative is the PRI's most significant human and labour rights-oriented investor initiative to date and it is expected the agenda-setting nature of the initiative will continue to be relevant for DNB AM's work going forward. More details on this and other human rights related initiatives can be found in our chapter on Human Rights.

Climate Action 100+ is an investor-led initiative that work to ensure the world's largest corporate greenhouse gas (GHG) emitters take necessary action on climate change. 2023 was a quiet year for engagements from CA100+. The development of the Phase II of the initiative was finalised and reinitiated in Q3 2023. You can read more about our engagments here in the chapter on Climate Change.

New initiatives joined in 2023

Nature Action 100

6 team members

with experience within sustainability, including climate change, and human rights, in addition to more than 25 years of combined portfolio management experience. Read more about the team members of the responsible investments team here.

Scoring

PRI rating

Policy Governance and Strategy: 93/100

Confidence Building Measures: 100/100

CDP rating for DNB ASA

A

Morningstar best fund house 2023

3. Product Overview

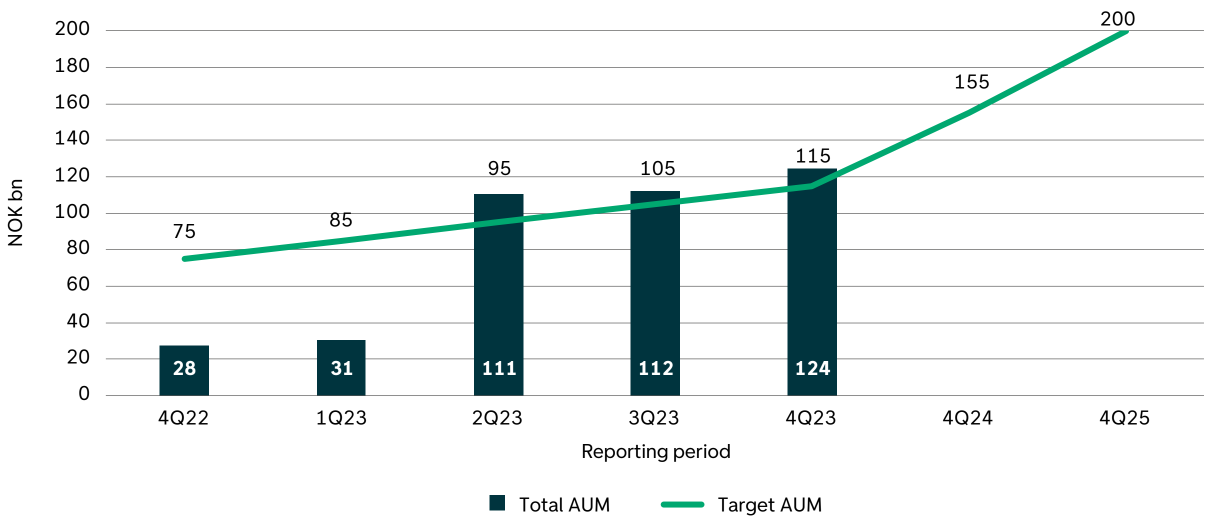
Sustainability Strategy and Transition Plan Targets

In 2021, the DNB Group launched a revitalised sustainability strategy outlining goals for 2025, 2030 and 2050. The overall aim is to become a bank with Net zero emissions by 2050, which includes both DNB's lending and investments portfolios as well as the group's operations. In 2023, the DNB Group published a transition plan outlining additional targets for all parts of the group. To support the Net zero target set forth in the sustainability strategy and the transition plan, DNB AM has defined four sub-targets which sets a clear path for the funds in our product portfolio.

The four targets are:

- Increase total AUM in sustainability-themed funds to NOK 200 billion by 2025.
- In 2025, at least 50 per cent of net flows will go to sustainability-themed funds.
- 58 per cent of AUM in companies that have set a science-based target in 2030.
- Engage with high emitting companies on climate, starting with the 30 companies with the largest contribution to DNB AM's Weighted Average Carbon Intensity (WACI) in 2023.

Figure 3.1 AUM in sustainability-themed funds and the DNB Group target (NOK bn)



There has been a positive net flow towards sustainability-themed funds in 2023, evident both in the last two quarters and year-to-date. The AUM for sustainability-themed funds has substantially increased throughout the year, as illustrated in figure 3.1. This growth is attributed to notable enhancements in our offerings, encompassing the introduction of new products and the improved integration of sustainability considerations into existing products. More funds now incorporate additional exclusion criteria specifically addressing high carbon emissions. Read more about the two additional targets in our chapter on the DNB Transition Plan.

To address the risk of greenwashing in descriptions of sustainability-themed investing, DNB AM has adopted a conservative approach in defining our sustainability-themed funds. The targets for AUM in sustainability-themed funds cover a selection of DNB AM's funds, including funds with a sustainable objective and sustainability-themed funds addressing climate change and environmental considerations, or the UN SDGs. Please refer to figure 3.2 for an overview of our sustainability-themed funds and their different levels of commitment towards making sustainable investments.

Key Terms

Sustainability-themed funds: Some of our funds incorporate specific sustainability considerations in their investment strategy, collectively referred to as sustainability-themed funds. These funds may center on climate criteria, excluding companies with high carbon emissions, or take a broader perspective that encompasses both climate and environmental aspects. The overarching goal is to invest in companies well-positioned for the green transition, whether in their operations or the products and services they offer. Additionally, some funds target both environmental and social objectives through investing in companies aligned with one or several of the SDGs.

Sustainable investment: A sustainable investment is defined by the SFDR as

a) an investment in an economic activity that contributes to an environmental or social objective;
b) the investment does not significantly harm any environmental or social objective; and
c) investee companies follow good governance practices in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance.[1]

Product Strategy and Development

Understanding and aligning with customer preferences is crucial for achieving our goals. Through MiFID 2, we are already inquiring about our customers' sustainability preferences. Simultaneously, we strive to ensure that sustainability-themed funds stand out as the most competitive and attractive options for our clients. In response to customer demand, DNB AM introduced a new series of balanced funds named Grønt Skifte in 2023, aimed at contributing to carbon emission reductions and supporting the green transition.

All our funds invest and align with the principles set out in the DNB Group Instruction for Responsible Investments. Certain funds in our portfolio also incorporate additional criteria, including exclusions of companies involved in the production of weapons, alcohol or deriving income from gambling. Another criterion involves the additional exclusion of companies with high carbon emissions.

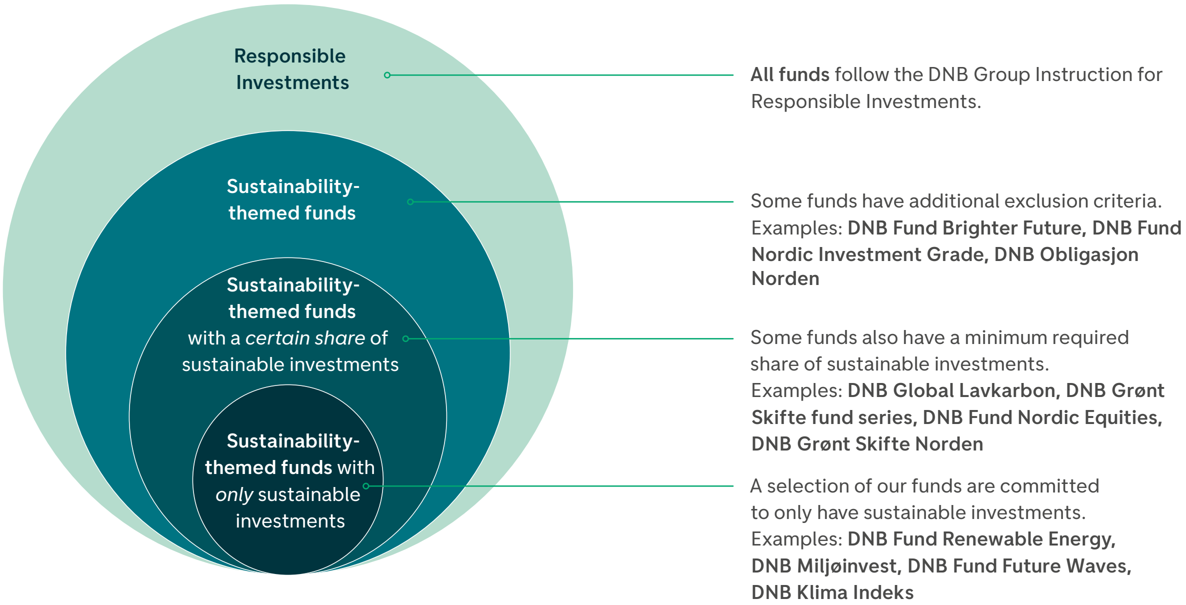
A selection of our funds has a minimum required share of sustainable investments. Please refer to the key terms above for an explanation of sustainability-themed funds and sustainable investments.

SFDR Reporting and Re-classification

The requirements set forth in the SFDR have significantly influenced the trajectory of our product portfolio in recent years. In response to heightened transparency and sustainability reporting demands, we have diligently enhanced practices within each specific fund. In 2023, we reported on the principal adverse impacts of our investments for all our funds registered in Luxembourg for the first time. In 2024, we are extending this reporting to also encompass funds registered in Norway, aligning with the SFDR level 2 requirements.

1 As defined by the Sustainable Finance Disclosure Regulation, Article 2(17).

Figure 3.2 Responsible investments and sustainability-themed funds



To support this comprehensive reporting, we have dedicated substantial efforts throughout the year to gather data on a wide range of sustainability indicators, filing data gaps, creating new relationships with external service providers, and developing our internal portfolio manager system. The aim is to continuously improve the data available to all investment professionals for use in their company risk assessments, financial modelling, and investment decision-making processes.

Further to this, DNB AM has re-classified some of our funds in line with SFDR in 2023. Taking an initial conservative approach to classifying our funds, more funds are now considered to promote environmental and social characteristics in line with SFDR article 8. This is due to both increased data coverage on sustainability data, as well as more clarification from the EU regarding the interpretation of the regulation. This work will also continue in 2024, where our aim is to disclose information for all our funds on how they promote environmental and/or social characteristics.

4. Regulations and Trends

Regulations

EU regulation

The EU sought further integration and development of the EU taxonomy and the continued integration of the SFDR in 2023. DNB AM has worked with companies and service providers to gather data for the extensive reporting requirements. You can find relevant reporting and documentation on the DNB AM website.

Standardisation of sustainability reporting for European companies is imminent. The European Commission formally adopted on July 31st the ESRS, marking a final step in the long project of aligning disclosures across regulations as well as setting the stage for increased interoperability of sustainability reporting. While many of the reporting areas initially proposed to be mandatory for corporates were diluted to voluntary before being adopted, the European Commission said it aimed to strike a balance between limiting the reporting burden on companies while enabling them to show their sustainability efforts. DNB AM seeks to discuss ESRS and nudge companies in all engagements to prepare for the reporting process, which commenced January 2024. The key concept which sets ESRS apart from other sustainability-related reporting standards is double materiality. ESRS emphasise both financial materiality, by assessing the impact of sustainability-related risks and opportunities on future financial performance; and impact materiality, by assessing an entity's impact on sustainability matters.

The EU has also turned its attention to addressing human rights due diligence for companies. In December 2023, the Council of the EU and the European Parliament reached a provisional agreement on the Corporate Sustainability Due Diligence Directive (CSDDD). The CSDDD is a mandatory due diligence legislation that aims to enhance the protection of the environment and human rights in the EU and globally. The directive will set obligations for thousands of companies, including U.S.-based multinationals, requiring them to conduct due diligence on their value chains and adopt transition plans for climate change mitigation.

The CSDDD introduces a civil liability regime whereby companies could be liable for damages if their operations cause adverse impacts on human rights or the environment. This is similar to legislation such as the Norwegian Transparency Act (NTA) and other regulations in Germany, France, Australia and California.

Companies that do not comply with these rules may face sanctions from national administrative authorities. The directive is expected to be signed before EU elections, which take place in June 2024, and the member states are expected to have two years for transposition, with company obligations beginning in 2027. Among other things, the CSDDD requires large companies to have transition plans that align their strategy and business model with limiting global warming to 1.5 °C. Transition plans are a vital tool for companies to demonstrate their commitment to combatting climate change and ensuring their business model remains relevant in a Net zero carbon economy. DNB released it's transition plan in October, where the investments we make in DNB AM play a key role. You can read more about this in the chapter on the DNB Transition Plan.

The increasing regulatory and disclosure environment is a key challenge for companies. Since the implementation of SFDR last year, entities falling within its scope (referred to as financial market participants or FMPs) have faced difficulties in interpreting the law; e.g., construing terms such as "sustainable investment" and applying labelling requirements meant to prevent exaggerated green credentials. Three-quarters of companies globally are not ready to have their environmental, social and governance data audited externally months before new regulations kick in, according to a new report from KPMG.

United States regulation

2023 was the first full year of the Inflation Reduction Act (IRA), signed by President Biden in 2022. According to Goldman Sachs, a total of 280 clean energy projects have been announced across 44 U.S. states in the IRA's first year, representing 282 billion USD of investment. The act provides tax incentives and funding for clean energy, climate mitigation, and resilience programs, aiming to create good-paying jobs, lower energy costs, and invest in U.S. infrastructure. Many European companies have also expressed interest in taking advantage of the more favourable incentive structures in the U.S. with Yara ASA and battery maker FREYR Battery Inc, with more likely to follow.[2]

Norwegian regulation

The inagural reporting deadline for the NTA passed in summer of 2023. The quality of the first reporting was varied, but it is expected to improve as the routines for reporting will be formalised over the next few years. One notable critique of the legislation is the reporting burden on businesses with limited resources and with customers and suppliers with little knowledge of the law to report. As Europe begins its inaugural reporting on human rights due diligence, the Norwegian companies with presence in the EU will gain synergies from the preceding NTA requirements. You can find the disclosure of the DNB Group here. For details on 2023 disclosure for DNB AM, please see the NTA section in the chapter on Human Rights.

Level 2 of the SFDR also entered into effect in Norway in December. DNB AM was prepared for this change and the relevant fund prospectuses have been updated in accordance with the legislation. Visit our fund page on our website for a full list of funds and the updated prospectuses.

Other markets

The U.K. is pursuing a different regulation path from the EU, which may involve less expansive sustainability-related corporate reporting. A U.K. taxonomy framework currently under development may similarly be more flexible for companies reporting against it than the EU taxonomy. Meanwhile, the U.K. is one of the first major capital markets to base its sustainability disclosure standards on those of the International Sustainability Standards Board (ISSB).

The regulatory route to ESG has generated severe pushback from several stakeholders, but most importantly, companies. The alphabet soup of regulations and guidelines is not easy to navigate and are putting a strain on company reporting. One challenge in particular is gathering emissions data from suppliers who are not facing the same regulations. Data and tracking are good things, especially for investors like DNB AM, but a key concern is that the amount of reporting may detract resources from necessary projects to implement long-term change at the companies.

2 https://www.yara.com/corporate-releases/yara-delivers-strong-results-in-a-volatile-market/

https://www.menon.no/ira-og-den-norske-batterisatsingen/

Market Trends

2023 saw the continued expansion of how climate change is being considered, with focus on loss and damage, impact on biodiversity, transition to a low carbon economy and the continued integration and focus on the activities of global supply chains.

The crutch of the energy transition

The 28th Conference of the Parties (COP28), was marked by a significant shift in focus towards phasing out fossil fuels and transitioning towards a more sustainable future. One of the key outcomes of the conference was the adoption of a roadmap for "transitioning away from fossil fuels," which is a first for a UN climate conference. The transition also involves accelerating renewable capacity, tripling it by 2030. The conference emphasised the need for reforms to the international financial system, enhanced concessional support, the development of sustainable finance markets, and strengthening voluntary carbon markets. Additionally, COP28 introduced trade as a means for climate-smart, equitable growth, including supply chain decarbonisation, transition, and resilience. Yet COP28 also symbolised that it is still an energy market, and indeed world economy, very much dominated by fossil fuels. The question of who will give away their competitive advantage is therefore going to be an ongoing debate.

The transition debate is closely linked with discourse on the energy trilemma which has emerged over the past few years. The concept describes the interplay and interaction between energy security, energy transition, and energy affordability. It is important to remain aware of how energy demand is changing and how geopolitical incidents impact both supply and demand, for example in how the European energy providers have decreased their reliance on Russian oil and gas. However, the argument of the trilemma can also be used as a justification for reduction of efforts to fulfil both short term and long-term climate targets and halt the transition. It is therefore important to maintain pressure on companies, investors and regulators to accelerate this progress going forward and not allow transition and the energy trilemma to be a crutch for inaction.

Finally, reporting on climate is also transitioning and evolving. The TCFD is being succeeded by the ISSB and the CSRD, with the IFRS Foundation taking over the monitoring of climate-related disclosures under the new IFRS S2 which will expand the disclosure on scope 3 emissions and financed emissions in particular. These frameworks aim to further standardize and enhance climate-related financial disclosures, with the CSRD introducing regulations to a much wider audience than its predecessor, the NFRD. To read more about how we engage companies on climate and work with companies to improve disclosure, please see the chapters on Climate Change and the DNB Transition Plan.

Nature on the agenda

Nature is being reaffirmed on the investor agenda, but now in a more measurable and actionable way. The launch of the final recommendations in the TNFD is an important step in getting a framework for biodiversity reporting. The recommendations of the TNFD have been designed to meet the corporate reporting requirements of organisations across jurisdictions, to be consistent with the global baseline for corporate sustainability reporting and to be aligned with the global policy goals in the Kunming-Montreal Global Biodiversity Framework. DNB AM is part of several initiatives that have contributed to the development of the TNFD and have started to report in line with the requirements. To read more about our work on nature and our inaugural TNFD disclosure, please see the chapter on Biodiversity.

ESG investing rebounded or redefined?

The ongoing critique of ESG investing continued in 2023. In the U.S., the further politicisation of ESG efforts is a trend that is likely to increase as the 2024 election approaches based on the statements of leading political candidates. Approximately 100 anti-ESG bills have been introduced in state legislatures around the country. These bills cover a range of topics including blocking state entities from considering ESG factors when making investment decisions, prohibiting and defunding state entities' diversity and inclusion efforts, and protecting fossil fuel and other industries.

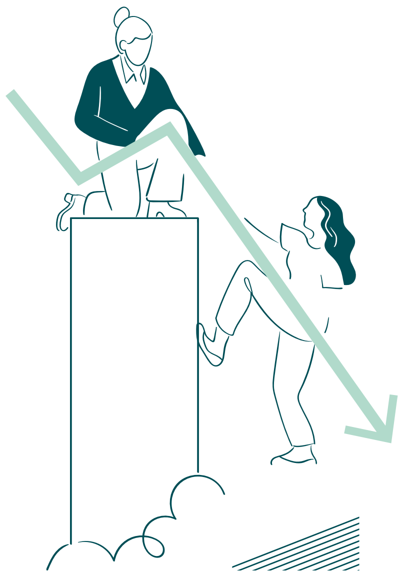
Despite this backlash, ESG momentum seems to remain intact. A Bloomberg Intelligence survey found that three quarters of executives think the benefits of ESG are worth the increased risk of scrutiny. Around 90 per cent of investors felt ESG was mainstream, part of their fiduciary duty, and helped them make better decisions, according to the same report. More than half of investors plan to increase their ESG-orientated investments in 2024, according to a survey from deVere Group. In Europe, outflow from some funds classified through the SFDR regulation as article 8 and above, have been attributed to both increased regulatory pressure and lagging performance compared to 2021. While investors would require a higher expected return for holding companies with added sustainability risk, the empirical research on whether sustainable investments yield the highest return is inconclusive. Because of challenges in interpreting the requirements outlined in SFDR articles 8 and 9, many fund managers have also been forced to reclassify their funds from article 9 to article 8.

Man v. machine

2023 was also the year in which AI took centre stage. The penetration and dissemination of AI into company reporting, strategies, and announcements was unprecedented in the past year. The opportunities are immense, and we are only seeing the very beginning of the role and impact of generative AI. However, as we are seeing emerging possibilities, the clear risks and challenges this new shift poses are also evident. There are key risks related to both user privacy and copyright law that may already limit the capabilities of these models before they can come to fruition. There are two core perspectives to understand in the battle to regulate AI, namely the state and the market view. The EU has already begun proposing legislation which limits the use of data that builds upon existing legislation. The EU's General Data Protection Regulation (GDPR) has centred around user rights, consent and secondary purposes, as well as a "privacy-by-design" principle in product development. But that is evolving.

The newly proposed AI Act includes a comprehensive governance framework for AI systems, from ethical product development to extending best practices for data privacy. The more cautionary and market positive voices from the AI developers' community have recommended self-governing for these systems. However, as demonstrated by the leadership debacle at OpenAI, the creator of ChatGPT, there is a strong conflict between increased AI safety and restriction of data access on one hand, and the improvement of the technology on the other. DNB AM will work on the topic of AI safety as an integrated subtopic under the focus area Human Capital for 2024.

5. DNB's Transition Plan



The world must limit the release of GHG emissions if we are to reach the goals of the Paris Agreement to limit global temperature rise and its consequences for our planet and species. This means a massive transition that no country, sector, or policymaker can achieve alone. The transition to a low-carbon economy requires major investments, targeted policies, strength of action, and cooperation across sectors and national borders.

DNB Net Zero 2050

Climate transition plans can be defined as "quantitative and time-bound action plans that outline how an organisation plans to pivot its existing assets, operations, and business model towards a trajectory that aligns with the most recent and ambitious climate science recommendations"[3].

DNB published a transition plan in 2023, as a continuation of the sustainability ambitions launched in 2021. The plan is an important strategic tool that helps us understand the business implications of our Net zero commitment, and to navigate the challenges and opportunities presented by climate change and the transition to a low-carbon economy. It sets out how DNB will drive the transition, and the tools we have at hand to engage with and guide our customers and the companies we invest in to reduce their GHG emissions. It is our ambition to reach Net zero emissions by 2050 across our lending and investment portfolios, as well as in our own operations. You can read the transition plan in its entirety here.

Financial institutions are already playing an important role in the transition. Investments are increasingly being channelled into scaling up clean energy production and distribution, and in 2022, for the first time, global investments in renewable energy exceeded those in fossil fuels[4]. In DNB, we are strongly committed to our strategic ambition of being a driving force in the transition, as well as to our ambition of becoming a Net zero bank by 2050. We strongly believe that the best path to Net zero is the one we create together with our customers, through cooperation and dialogue. Engaging with customers and companies to support their transition is vital for truly making a difference.

What this means for DNB AM?

DNB AM seeks to drive real-world impact in terms of emissions reductions. To reduce our emissions as an asset manager, we are dependent on emissions reductions from the companies we invest in. We have therefore been engaging with companies on setting emissions reduction targets for their operations and their value chain for years and we see this as our main lever for contributing to emissions reductions in our portfolios going forward.

Explaining our target

DNB AM has set a target based on the Science Based Target Initiative's (SBTi) portfolio coverage methodology, in line with best practice for asset managers. The target

3 https://cdn.cdp.net/cdp-production/cms/guidance_docs/pdfs/000/003/101/original/CDP_technical_note_-_Climate_transition_plans.pdf?1643994309

4 IEA (2022), World Energy Investment 2022

entails that we increase the proportion of our investments that have science-based emissions reduction targets. Our target covers equities and corporate bonds as that is where we have access to reliable and recurring data which we can use in an actionable way.

We have set a target based on the baseline AUM with science-based targets (SBTs) at year-end 2022. A linear path was drawn to 100 per cent in 2040, giving a target for 2030 of 58 per cent of AUM with science-based targets. We have set the target deadline in 2040, as that year is the last chance for companies if they are going reach their target in 2050 given the 5–10-year timeline of short term climate targets.

For company targets to be considered science-based, they should be approved by the SBTi. However, DNB AM may accept targets that are not SBTi approved but that are science-based. We have developed an in-house framework to review companies' science-based targets and can accept targets and actions by companies that meet our criteria. The framework was developed using the framework of Climate Action 100+, along with input from other sources including the Carbon Disclosure Project (CDP), the Institutional Investors Group on Climate Change (IIGCC), the TCFD, Transition Pathway Initiative (TPI) and the SBTi. We are also informed by other key climate initiatives which we are participating in beyond these. For a complete list of initiatives, see the chapter on our Responsible Investment Principles. We see that our approach is well-aligned with target assessment frameworks from sell-side research houses. Our approach will allow companies within sectors that do not currently have an SBTi methodology to be given credit for their transition efforts if they meet our criteria.

In addition to the portfolio coverage target, DNB AM currently reports overall WACI figures in the annual report for responsible investments and use these figures as a governance tool for seeing the long-term trends and the effect of the work on active ownership and engagements related to emissions. We have reported on the carbon intensity of funds since 2018. All climate reporting is available on the DNB AM website.

How we will reach our targets

To achieve our targets, we will utilise active ownership and work with companies to reduce their emissions within a recognized, scientifically developed carbon budget and holding them accountable for delivering on these targets. While it has been indicated that previous divestment decisions made can be a signal to companies to change practices, academic research on the topic as of today remains inconclusive[5]. Still exclusions remain a key tool for DNB AM but we believe that an engagement approach will give the best overall positive impact and drive real-world emissions reductions.

Our Net zero efforts are mutually reinforced by our constantly evolving approach to monitoring and managing climate risk. We are increasingly looking beyond backwards looking data such as carbon emissions, towards forward looking metrics. These forward-looking metrics include scenario analysis, target setting and capital allocation, which give us greater insight into the future transition of companies. We are working continuously to strengthen our approach and efforts in this area, and this will remain a topic of key focus in the years to come.

Transition strategy progress

With the release of the transition plan, we set specific targets for actions in 2023. A target list of companies was identified, based on the largest contribution to DNB AM's WACI at year end 2022. The 30 largest contributors to

5 https://journals.sagepub.com/doi/full/10.1177/1086026620919202

our WACI came from companies in the energy, materials, and industrial sectors, and represented 50 per cent of our total WACI. This was an initial approach to identifying key companies and the process for selecting companies where we should focus our engagement for the best real world outcome will be reviewed in 2024.

In 2023, 26 of the top 30 companies were engaged with on the strength of their targets. For the remaining companies, one company was no longer within our investible universe and three had difficulties with scheduling calls in Q4 so the dialogues was scheduled for 2024.

Reflections on the general trends of 2023 engagements with top contributing emitters:

Challenges

→ Companies face a multitude of challenges in the transition to a low-carbon economy, such as technological barriers, cost pressures, regulatory uncertainty, customer demand, supply chain issues, or energy security. Some highlighted the trade-offs or dilemmas involved in balancing different aspects of the energy trilemma, such as affordability, reliability, and sustainability. We acknowledged these difficulties and urged the companies to collaborate with stakeholders and seek solutions where possible.

Opportunities

→ Companies identified opportunities in the climate transition, such as new markets, products, services, or partnerships. Some indicated they considered climate action as a competitive advantage, a value driver, or a source of innovation. We encouraged those that have come far on their leadership, ambition, and performance, to seize the opportunities and scale up these efforts. To the companies who are beginning their journey on climate, we have encouraged them to look for possible opportunities within their sector and operations and provided guidance in line with best practice. This is included in our expectation document on climate change which can be found on the DNB AM website.

Emission reduction targets

→ Most have set some kind of climate target, either net zero, carbon neutral, or other emission reduction. However, several have not used a science-based approach, did not have a clear indication as to how the targets were set, have not covered all scopes, or have not demonstrated progress relative to their targets. We have highlighted to companies the importance of setting targets that are aligned with 1.5°C, that cover scope 1, 2, and 3 emissions, and that are approved by the SBTi where possible. The demonstration of progress relative to set targets was also emphasised, including the need for clear and transparent reporting on emissions.

Decarbonisation strategy

- Companies have different strategies to achieve their climate goals, depending on their industry and business model, although all were based on efficiency improvements, low carbon technologies, or a combination of both. Investments in low-carbon technologies included renewable energy, hydrogen, ammonia, carbon capture, utilisation and storage (CCUS), or other green fuels. Key actions to improve efficiency included technological changes, mechanical improvements, reduced flaring for those operating in the energy sector, and electrifying operations. Many companies are dedicated to diversifying their energy mix and pivoting away from carbon-based transport. We requested clear reporting on decarbonisation strategies, as well as further clarity on how the companies plan to decarbonise value chains and align capex with the EU taxonomy or other standards.

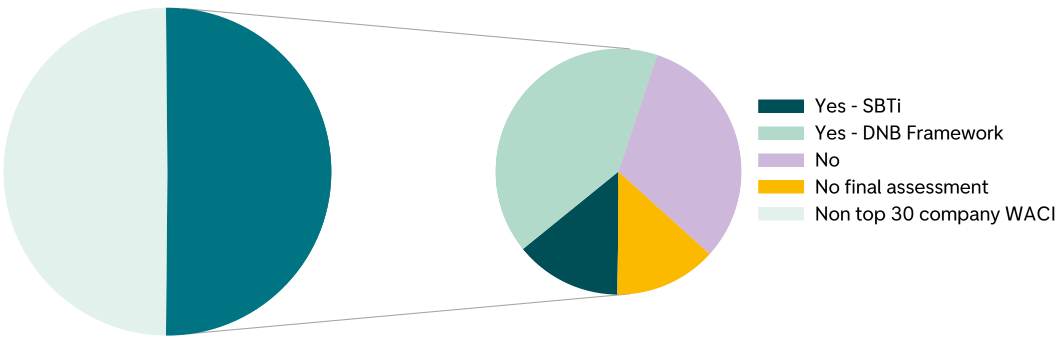
Climate reporting

- There are varying levels of climate reporting from the companies we have engaged with, using TCFD, CDP, or other frameworks. Some companies are not currently reporting, while many of those based in the U. S. are waiting for regulatory guidance or sectoral methodologies before disclosing information beyond scope 1 emissions. We encouraged more detailed and transparent reporting on climate risks, opportunities, scenarios, and potential avoided emissions.

Engagement process

- The companies expressed differing levels of openness, responsiveness, and satisfaction with the engagement process. The tone of the conversations with companies ranged from cooperative, constructive, and positive, to defensive and skeptical. We emphasized the importance of dialogue, feedback, and trust in building a constructive relationship and achieving mutual goals.

Figure 5.1 Proportion of top 30 WACI contributors DNB AM have engaged on setting targets and status of target



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6. Our Responsible Investments Team

DNB AM's RI team has strong competency within sustainability, including climate change, and human rights, in addition to more than 25 years of combined 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 service providers, consultants, and collaboration with other investors as well as portfolio managers across all asset classes.

Lise Børresen
Head of Responsible Investments

Lise has led the team since October 2022 after working as an analyst in the team since 2021.

Lise holds an MSc in Finance from the Norwegian School of Economics. She has previously worked as an Investment Analyst at the Gjensidige Foundation.

Karl G. Høgtun
Senior Analyst

Karl is an expert in active ownership and governance including proxy voting. He is also responsible for our work with biodiversity and sustainable oceans.

Karl holds both a Master of Business Administration and a Master of International Management. He has worked with Norwegian and global capital markets since 1990 in several roles, including as portfolio manager and head of the Nordic Equities team in DNB AM.

Henry Repard
Senior Analyst

Henry leads our work and company dialogues on climate and Net zero engagements. Henry also served as an expert advisor to the DNB Group on the DNB Transition Strategy.

Henry holds an MSc from University College London. He has experience as an analyst from KLP Asset Management and the Carbon Disclosure Project (CDP) before joining the team in 2018.

Ingrid Aashildrød
Analyst

Ingrid works with human rights, supply chains, and health and sustainable food systems.

Ingrid holds a double master's degree from NHH and the University of Sydney Business School. She has previously worked as an analyst at Nordea before joining the team in 2021.

Peder Heiberg Sverdrup
Analyst

Peder works with screening, reporting and company engagements. He is also involved in our work on human rights with a particular focus on emerging markets supply chains as well as issues relating to human capital.

Peder holds an MA (Hons) from the University of St Andrews. He has previously worked in Norfund before joining the team in 2022.

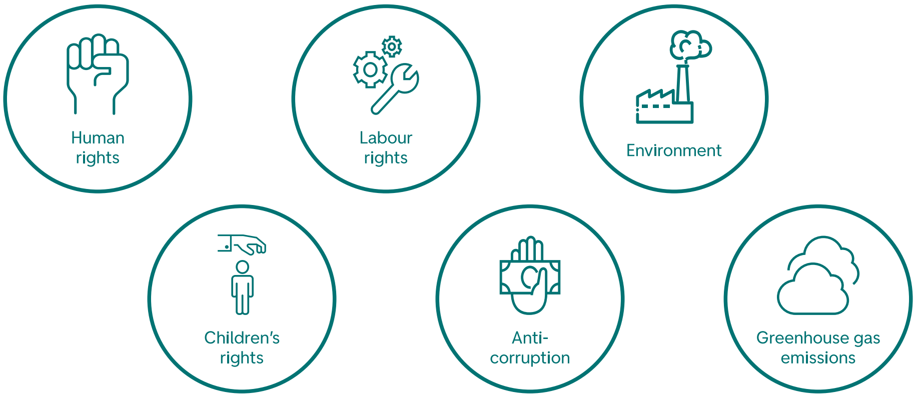
Olav Midtveit Bertelsen
Analyst

Olav joined the team in early 2023 and works with ESG-data, regulatory framework, and reporting. He also supports the work on water sustainability and the integration of ESG for fixed income.

Olav holds a MSc in Finance from Grenoble Ecole de Management. He has previous experience from economic research and fixed income investment strategy from Allianz Investment Management.

7. Our Responsible Investments Principles

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



Highlights of Initiatives and Standards

Table 6.1 The following principles 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, the following standards and initiatives are also important to our work

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
FAIRR	Multi-stakeholder initiative, with collaborative platform
Partnership for Carbon Accounting Financials (PCAF)	Standard and tool for FIs to assess and disclose GHG
Partnership for Biodiversity Accounting Financials (PBAF)	Standard and tool for biodiversity disclosures
Task force on Nature-related disclosures (TNFD)	International principles and recommendations

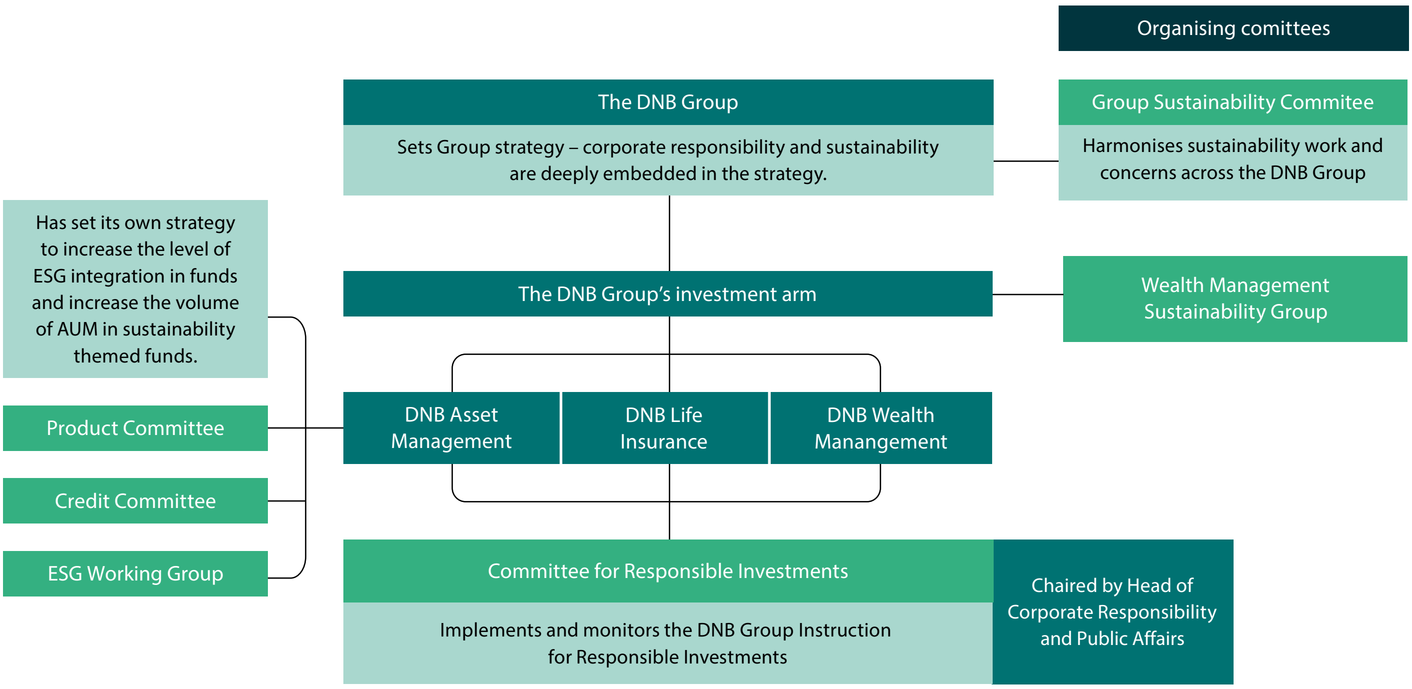
Governance

The DNB Group has a well-established governance structure that is led by the Board, see figure 6.2.

DNB AM is working within DNB's governance structure, the DNB AM Board, relevant Committees and senior management to further integrate sustainability risks and opportunities and other ESG considerations into decision making and business processes.

As a signatory to the Principles for Responsible Investments (PRI), implementing the TCFD and TNFD 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. Sustainability at DNB AM is addressed at senior management level through Ola Melgård (CEO), Lise Børresen (Head of Responsible Investments), Knut Johan Hellandsvik (CIO Equity) and Svein Aage Aanes (CIO Fixed Income).

Figure 6.1 Governance Overview



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

DNB's Committee for Responsible Investments

- The committee reports to DNB's Executive Vice President of Communications. The Committee is chaired by the Head of Corporate Responsibility and Public Affairs. Representatives from Wealth Management, including DNB AM are also represented in the Committee. The Committee is responsible for implementing and monitoring the DNB Group Instruction for Responsible Investments.

DNB Wealth Management Sustainability Group

- The RI team is represented in the governing body for sustainability of the investment arm of the DNB group, which is a sub-committee of the Group Sustainability Committee. The group adopts sustainability strategy of the investment entities of the DNB group and informs the work of the Group Sustainability Committee.

DNB Asset Management's Product Committee

- The RI team have been represented in Committee meetings since fall 2018 to provide input on responsible investment considerations into fund product development.

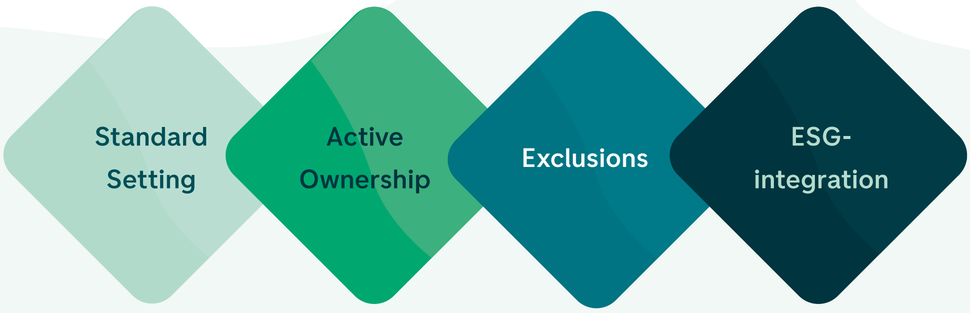
DNB Asset Management's Credit Committee

- The RI team have been represented in Committee meetings since fall 2019 to secure the approach to integrating sustainability risks and opportunities into fixed income strategies.

DNB Asset Management ESG Working Group

- The group is led by the Head of Responsible Investments and includes representatives across DNB AM as a collaboration forum to integrate sustainability in our operations. The group is also instrumental in fulfilling the regulatory requirements of the SFDR.

8. Responsible Investments Approach: Four pillars



Our work with responsible investments rests on four main pillars.

Standard Setting

Standard setting is the baseline of our work with active ownership. The DNB Group Instruction for Responsible Investments is the starting point when considering sustainable investment practices. This document defines the criteria for exclusions and the general guidelines for exercising ownership rights. Aditionally, DNB AM has developed a series of expectations documents, which are available on our website. These documents are the basis for communicating our expectations to companies regarding best practice in terms of sustainability on issues we asses to be material. We also ask for feedback from companies on our expectations documents, making sure we cover all relevant aspects for companies in different sectors in our investment portfolio.

In 2023, our expectation documents were redesigned, and we have updated and re-launched one of the first expectation documents published by DNB AM on human rights. We also started the work on a brand-new expectation document on health and sustainable food systems to support one of our newer thematic focus areas.

Our voting guidelines are also part of DNB AMs work on standard setting. We updated the Norwegian Voting Guidelines in 2021 and the Global Voting Guidelines in 2022, while no major changes have been made in 2023.

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.

Summary of the expectations documents published in the last years:

2017: Published Human Rights, Serious Environmental Harm, and Guidelines for Voting in Norway.

2018: Published Climate Change, Anti-corruption, and Responsible Tax Practices.

2019: Published Gender Equality and Diversity, Global Voting Guidelines. Updated Guidelines for Voting in Norway.

2020: Published Sustainable Oceans and Water. Updated Human Rights, Serious Environmental Harm, and Climate Change.

2021: Published Biodiversity Including Deforestation. Updated Guidelines for Voting in Norway.

2022: Updated Human Rights, Anti-corruption, Responsible Tax Practices, Diversity and Inclusion (changed the title from Gender Equality and Diversity), and Global Voting Guidelines.

2023: Relaunched Human Rights, redesigned the structure for all the expectation documents.

Support standardisation within sustainability reporting

DNB AM supports efforts to improve the quality and increase standardisation within sustainability reporting. We believe this makes it easier for companies to report relevant information to stakeholders and it also makes it easier for portfolio managers to compare results between companies and different sectors, assisting in our double materiality assessments and company risk assessments.

On the climate side, we are supporters of the TCFD, and we have continued working to promote disclosure in line with these standards. We will also continue our support of the IFRS2 as this entity will probably take over from the TCFD as the best practice framework for climate reporting. IFRS2 contain some additional elements which include the requirements for companies to disclose industry-based metrics, to disclose information about their planned use of carbon credits to achieve their net emissions targets, and to disclose additional information about their financed emissions. In addition, we support the continued work of CDP in promoting disclosure on climate change, water security, and deforestation. For more information, please see the chapter on Climate Change.

Furthermore, to advance the rapidly changing field of biodiversity, we support the TNFD. In 2023, we have contributed to input to the TNFD standard including participating in work coordinated by Finance Norway. DNB AM has also signed the Finance for Biodiversity Pledge, joined the UNEP FI Sustainable Blue Economy Initiative, and the whole DNB Group is a partner of Partnership for Biodiversity Accounting Financials (PBAF). For more information, please see the chapter on Biodiversity.

Lastly, the ever-expanding 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 (VFF) and Finance Norway. We have also continued to work on (guidelines for) the implementation of the SFDR and the EU taxonomy in Norway through VFF, Finance Norway, and Norsif, and we are part of a collaborative effort to create a Norwegian standard for the reporting of financed emissions. Lastly, we are part of VVF's ESG working group.

DNB AM will continue to support standard setting related to several sustainability topics including our long-term and thematic focus areas such as Climate Change and Biodiversity. We publicly support multiple initiatives and encourage our stakeholders to do the same where relevant. See here for an overview of investment principles and initiatives DNB AM is aligned with.

Active Ownership

We practice active ownership through voting and engagement with companies our funds invest in and that is in the investment universe. Our overarching aim is to influence companies to improve their practices, thereby securing long-term shareholder value and mitigating sustainability risks in the best interest of our clients, as required as part of our fiduciary duty.

Engagements

Engagements are a key tool in delivering on our mandate as a responsible investor. 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.

Two main types of engagements

DNB AM divides engagement activities into incident-based (reactive) engagements and proactive engagements. Information on all company engagements are shared with investment professionals in DNB AM through our internal database to inform investment decisions. It is DNB AM's priority to ensure that the companies we invest in adhere to the DNB Group Instruction for Responsible Investments.

Table 7.1 Dialogues per topic in 2023

Overall engagement per year	2023
Climate/GHG	61
Water and oceans	21
Biodiversity (incl. deforestation)	43
Other enviromental topics	24
Human and Labour Rights	119
Human Capital & Ethical AI	12
Health and sustainable food systems	7
Other social topics	9
Board structure and independence	13
Renumeration	11
Other governance	39
Total	359

Reactive engagement takes place when a company is reported (allegedly or confirmed) to be in breach of the DNB Group Instruction for Responsible Investments. 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 unless significant progress has been made to rectify the situation that has lead to the suspected breach of the Group Instruction for Responsible Investments.

Progress is measured using milestones

Milestone 1
Issuer acknowledges issue and commits to mitigation and management.

Milestone 2
Issuer establishes a strategy to address the issue.

Milestone 3
Strategy is well formed and has moved into early stages of implementation.

Milestone 4
Implementation of strategy has advanced meaningfully, and related issuer disclosures are maturing.

Milestone 5
Issuer has implemented all aspects of its strategy that are reasonable to expect and the Change Objective is considered fulfilled.

The engagement process in a reactive engagement 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)

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 the present time. Proactive engagement may also be conducted as part of a fact-finding exercise. The dialogues may revolve around a specific issue or to raise the company's general level of awareness around sustainability issues, without the company being suspected of being in breach of the DNB Group Instruction for Responsible Investments.

Proactive engagements are also important inputs to the investment decision-making process for the portfolio managers of DNB AM.

If the desired outcome of reactive engagement 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, targeted proxy voting, or the exclusion of the relevant company from DNB AM's investment universe. For proactive engagements, the aim of our dialogue is continuous improvement, and the engagement periods may therefore be more flexible and long-term. To find more information on how we engage with companies, please see the DNB AM Engagement Guidelines

You can read more about our engagements for the different focus areas in chapter 9.

Voting

Table 7.2 Voting statistics

General meetings	1 352
Management proposals	18 434
Shareholder proposals	761
Share of proposals voted against management's recommendation	9%

Figure 7.1 Votes Cast by Proposal Category

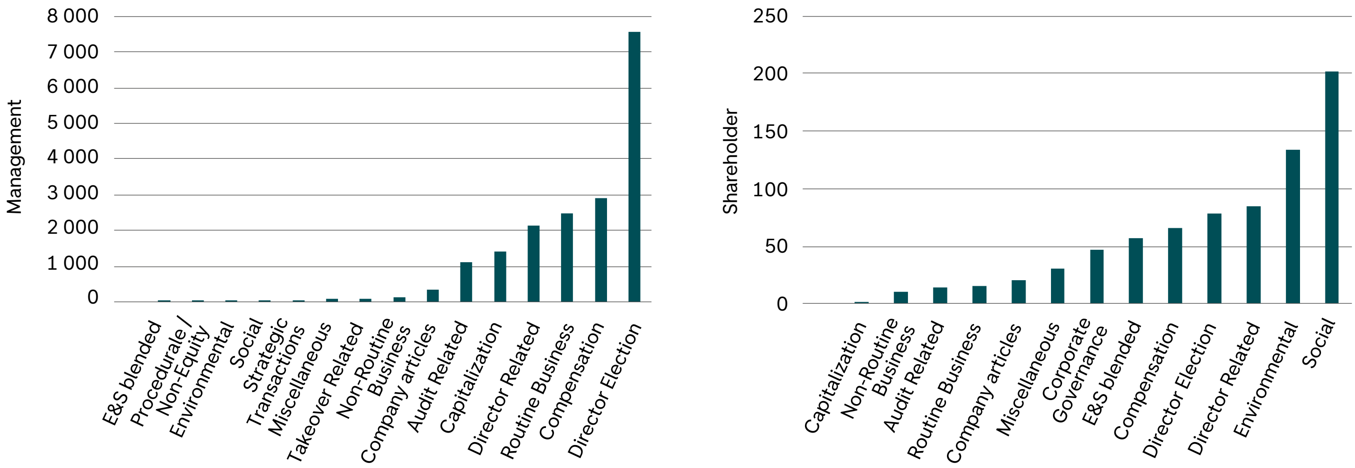


Figure 7.2 Meetings by Sector

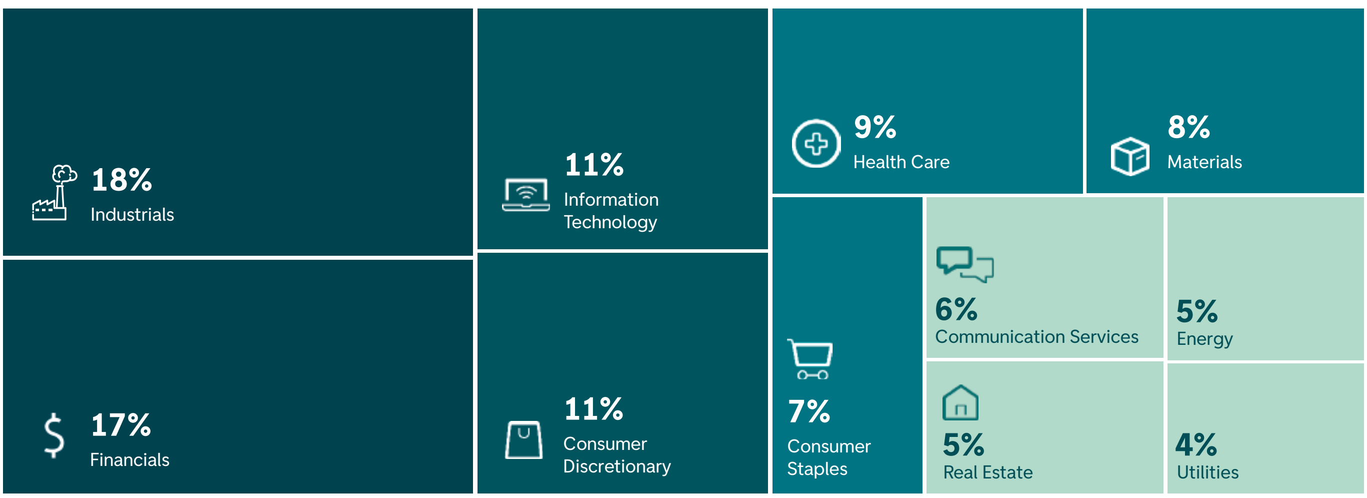
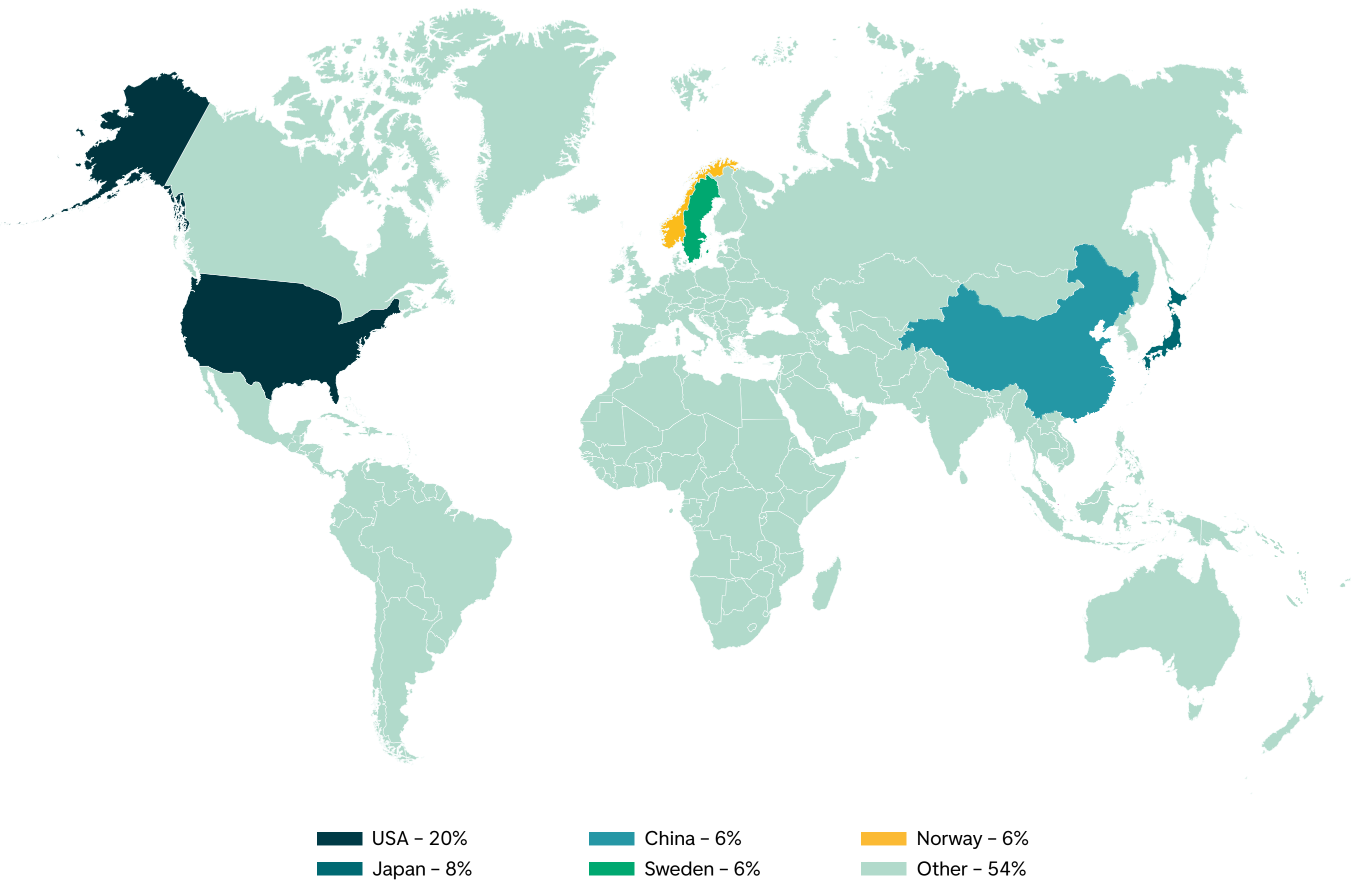


Figure 7.3 Meetings by Market



DNB AM's aim is to vote for all holdings in actively managed funds, at all Norwegian general meetings, and at all general meetings with shareholder resolutions on the agenda (for listed companies where DNB AM funds have holdings). DNB AM's voting guidelines are applied on a case-by-case basis to cater to the specific circumstances of individual companies. Furthermore, we engage with boards, management, and nomination committees prior to such meetings, or follow up after the meetings in order to create changes over time. Our proxy voting is also made publicly available to ensure transparency for our clients and other stakeholders as well as to support standard setting for what DNB AM consider to be best practice. Through informed proxy voting we endeavour to secure long-term shareholder value and ensure that companies act sustainably. We believe it is important to evaluate voting decisions together with what we achieve through engagements and other investor initiatives.

DNB AM further increased voting efforts last year, voting at 1 352 meetings in 2023 on behalf of our clients, up 7 per cent from 2022 and a four-fold increase from 2021.

We have voted contrary to companies' recommendations 9 per cent of the time, on issues such as board composition, remuneration (executive management/board), capital structure, and shareholder resolutions. Notably, in quite a few cases, we did not support proposals related to executive pay. Failed proposals on executive pay tend to have a significant effect on the share price, and often lead to improved proposals at subsequent general meetings. Note that the voting statistics and details are available in a public searchable proxy voting dashboard that you can find here.

DNB AM has a comprehensive approach to shareholder resolutions, seeing many credible proposals related to sustainability. We voted on 761 shareholder resolutions in 2023, and about half of the resolutions were related to environmental and social issues, while the rest were related to governance. Across all the voting, some central topics that were emphasised by us in 2023 were environmental issues such as climate change, energy transition, biodiversity, and plastics/circularity, and social issues such as human capital/DEI and lobbying/political contributions. Governance is also of high importance including board composition, board/executive compensation, and shareholder rights.

Worth highlighting is also that the majority of the environmental proposals were related to climate issues, in total 110 proposals (of these were 100 shareholder proposals, see table 7.3). While most of the management proposals related to climate passed, very few climate shareholder proposals received a majority. However, these initiatives may still have a positive effect on companies. In some cases, the issue is settled by changes committed to in advance of the general meeting and the resolution is withdrawn. In other cases, a substantial minority support of a shareholder resolution nudges a company to advance their climate agenda.

Table 7.3 Breakdown of environmental proposals voted at in 2023

	Management proposals	Shareholder proposals
Environmental proposals*	10	134
Of these, climate proposals	10	100
Number of climate proposals passed	10	1
Percentage of climate proposals passed	100%	1%

**Excluding mixed environmental/social proposals, including withdrawn proposals*

Table 7.4 Proposals on climate that DNB AM supported in 2023 that passed

Shareholder proposals on climate that passed and DNB AM supported

Report on Reliability of Methane Emission Disclosures
→ Coterra Energy Inc. (item 6, May 4th)

Management proposals on climate that passed and DNB AM supported

Approve Climate-Related Financial Disclosure
→ Aviva PLC (item 3, May 4th)

Approve Climate Transition Plan
→ Schneider Electric SE (item 17, May 4th)
→ Legal & General Group Plc (item 3, May 18th)

Approve the Energy Transition Progress
→ Shell Plc (item 25, May 23rd)

Approve Opinion on Quantification of the Company's Various Scope 3 Action Levers
→ Carrefour SA (item 24, May 26th)

Approve the Company's Sustainable Development and Energy Transition Plan
→ TotalEnergies SE (item 14, May 26th)

Approve 2022 Sustainability Report and 2025 Sustainability Plan
→ Acciona SA (item 5, June 19th)

Approve Advisory Vote on Climate Action Report
→ Orica Ltd. (item 5, December 13th)

Approve Westpac Climate Change Position Statement and Action Plan
→ Westpac Banking Corp. (item 5, December 14th)

Approve Net Zero Transition Report
→ SSE Plc (item 17, July 20th)

Exclusions

DNB AM aims to promote best practice and prefer active ownership over exclusions, but companies may be excluded from the investment universe if they are found to be in breach of the DNB Group Instruction for Responsible Investments such as the product-based criteria or international norms and standards.

When it comes to international norms and standards, exclusions are reserved for severe cases and we will always evaluate whether we are able to influence a company's behaviour through engagement before making a decision on exclusion. The RI team present companies that are deemed to be in breach of the DNB Group Instruction for Responsible Investments as exclusion recommendations to the DNB Committee for Responsible Investments. This committee makes final recommendations, and the recommendations are sent to the heads of DNB Liv and DNB AM for final approval. Exclusions from the investment universe apply to all DNB AM managed funds and mandates.

Divesting an already established position is a decision made with the greatest care. Following an approved recommendation for exclusion, a notice will be sent out that affected DNB AM portfolio managers should sell the excluded position(s) as soon as possible and at least within 14 days. Exceptions to this rule include situations where there are restrictions related to transacting in the relevant securities. When a security is sold out, a block will be added in the portfolio management systems so that the security cannot be traded.

We make the exclusion list publicly available on the DNB AM website after every update, and as of 31.12.2023, we have excluded 216 companies from the investment universe. The exclusions made in 2023 were based on unacceptable risk that the companies in question contributed to environmental harm, human rights violations, other ethical norms, and coal processing in excess of our thresholds. We also have fund specific exclusion lists for some sustainability-themed funds. For more information please see the Product Overview Section.

Table 7.5 Exclusions and reinclusions in 2023

Exclusions 2023

Human rights
- AviChina Industry & Technology Ltd.
- Bharat Electronics Ltd.
- Gail India Ltd.
- Korea Gas Corporation (KOGAS)
- PTT Exploration and Production PCL

Environmental harm
- Power Construction Corporation of China, Ltd. (PowerChina)

Ethical norms
- Delek Group Ltd

Thermal coal
- Wintime Energy Company Ltd.
- Zhejiang Zheneng Electric Power Company Ltd.

Reinclusions 2023
- Noble Group
- Serco Group PLC
- Thai Thoresen Group PLC

We exclude companies that produce:

Tobacco | Pornography | Cannabis | Controversial weapons | Oil sands > = 30% | Coal > = 30% + Abs. criteria

And may exclude companies that breach international norms and standards.

ESG-integration

All actively managed funds managed by DNB AM incorporate sustainability risks and opportunities into their investment strategies. However, the specific approach may vary among investment teams with different mandates. The RI team works closely with all portfolio managers and key portfolio management teams are supported by a dedicated analyst from the responsible investment team for continuous oversight and support.

The RI team 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, the RI-team highlight potential sustainability risks and opportunities to the portfolio managers in addition to the portfolio managers receiving alerts on controversial issues.

For some of our sustainability-themed funds and for funds where the portfolio management teams can benefit from a more thorough screening of specific sustainability factors and metrics, a quarterly or bi-annual report is developed by the supporting analyst from RI-team. The results are discussed with the portfolio management teams and any follow up are decided in collaboration.

Data on sustainability indicators is incorporated into DNB AM's portfolio management and information systems and is available to all investment professionals. The portfolio management teams use available data as well as feedback from the RI team in their screening and investment processes. This information can affect the selection of companies, portfolio construction and weighting decisions. 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.

Our portfolio management systems for equity investments incorporates a dedicated ESG monitor. We are currently working on a similar solution for our fixed income portfolio management systems. The tool allows for monitoring of sustainability performance by consolidating data from both external vendors and

internal assessments conducted by the RI team. It incorporates various sustainability indicators, including Principal Adverse Impact Indicators, ESG rating, taxonomy data, and other climate-related metrics which aide portfolio managers in assessing individual company- and aggregated portfolio performance and sustainability risk. Additionally, the dashboard enables simulations of adverse impacts and positive contributions from portfolio reconstruction.

For several of our funds, ESG-ratings are the starting point for sustainability assessment of companies, though funds with defined thematic focus areas or that have a sustainable investment objective might use additional metrics such as information about greenhouse gas emissions, potentially avoided emissions, Principal Adverse Impact Indicators and/or the SGDs. One example is the fund DNB Fund Future Waves who use the SDGs as part of their initial screening process to assess whether the investment opportunity fit into one or more of the four focus areas of the fund. Being a fund classified as article 9 in line with the SFDR regulations, the fund also assesses all mandatory principal adverse impact indicators to make sure the possible investment does not do significant harm. You can find more information about what data providers we use in the appendix.

When evaluating which company to invest in, the portfolio managers evaluate traditional factors such as financial statements and projections, business model, peer group analysis, competitive positioning, management, industry trends etc. In addition, the team conducts a sustainability assessment by evaluating several E, S and G factors and how these presents potentially risks and opportunities for the particular company. The goal of the sustainability assessment is to estimate potential financial impact this may have on the company which is being analyzed. For example, we might use a higher discount rate for a company's cash flow where we see an elevated sustainability risk.

Following the re-classification of several of our funds to article 8, portfolio managers are committed to take into consideration the potential adverse impact of their investments. The RI team have developed a methodology for assessing companies based on our interpretation of significant harm for each of the mandatory indicators for measuring principal adverse impact. Portfolio managers have also participated in comprehensive training to enhance their ability to assess sustainability metrics for companies, alongside traditional financial metrics. You can read more about the product classification in the product overview.

As part of DNB Group's Net zero target, DNB AM has committed to a transition plan in order to reduce financed emissions. Consequently, the RI team will continue to engage with large emitting investee companies on climate mitigation measures and the implementation of carbon emission reduction initiatives. The RI team has developed a framework for assessing investee companies on their ambition to reach Net zero emissions. To ensure that climate risks and opportunities are incorporated into the investment process, portfolio managers can also monitor company specific climate metrics as well as fund aggregates through the ESG monitor and other internal systems. You can read more about how we assess commitments to Net zero in in the chapter on the DNB Transition Plan.

As part of the SFDR requirements and adaption to best practice, EU Taxonomy eligibility and alignment is measured for all our funds. DNB AM also manages funds that have an enhanced focus on environmental goals of the EU Taxonomy and where EU Taxonomy alignment is an integral part of portfolio decisions. You can read more about this group of funds in the chapter on product Overview.

Integrating ESG in Norwegian Fixed Income

In 2023, we continued our commitment to further integrating sustainability assessments in the Norwegian Fixed income portfolios. For the fourth consecutive year, we sent out questionnaires to fixed income issuers in Norway to enhance the coverage of sustainability data for the region. By systematically assessing a large portion of the Norwegian fixed income issuers, we can identify potential vulnerabilities that may affect creditworthiness as well as investment decisions. Engaging with these issuers is also important for promoting best practice, highlighting regulatory trends and enhance transparency. Throughout this year, we evaluated companies across various sectors, including banking, utilities, real estate, logistics and transportation, food and food production, and the diversified chemical sector.

A majority of the companies sampled are in the banking sector, with utilities and real estate making out the remaining independent categories. Logistics and transportation, food and food production, as well as chemicals are categorised as "Other" given the smaller data sample. Every year the questionnaire is modified and extended, in response to evolving regulations and increasing reporting requirements.

Figure 7.4, shows the non-normalised average score for the sectors for the past three years, showing that the steady increase in the banking sector is slowing, and that there are more significant increases for the sector categorized as "Other" in 2023. The scores are normalised based on the sectoral average and given a rating. The rating distribution of the sectors for 2023 can be seen in figure 7.5.

Since the initial sustainability assessment of the Norwegian fixed income market in 2020, there has been significant improvement across all sectors. The trend has been particularly strong for smaller banks, demonstrating increased commitment and development of ESG metrics for their operations. Size is a predictor of degree of ESG integration, but some smaller companies within banking and utilities sector are outperforming their size on many metrics.

As we have introduced further assessment criteria related to sustainability reporting in line with SFDR, the trend in the banking sector has stagnated compared to earlier assessments. However, companies across all sectors report that they are preparing CSRD reporting requirements which is expected to bridge the gap toward best practices in sustainability reporting. The results from this years' analysis have been integrated into our systems and we are following up with companies that are flagged due to their performance.

Figure 7.4 Sectorial average normalised ESG score for Norwegian fixed income

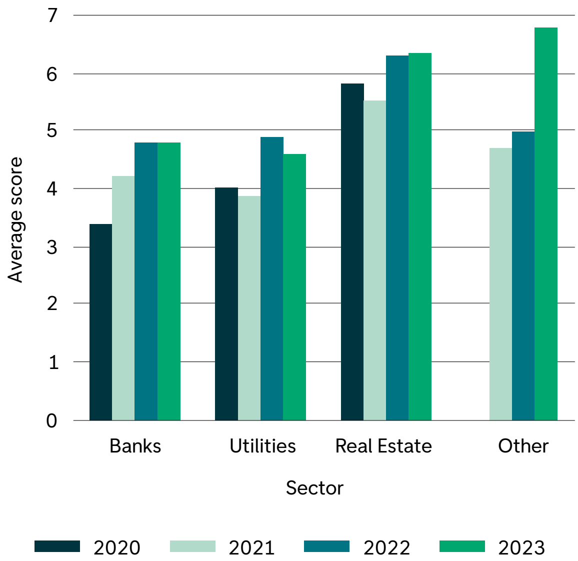


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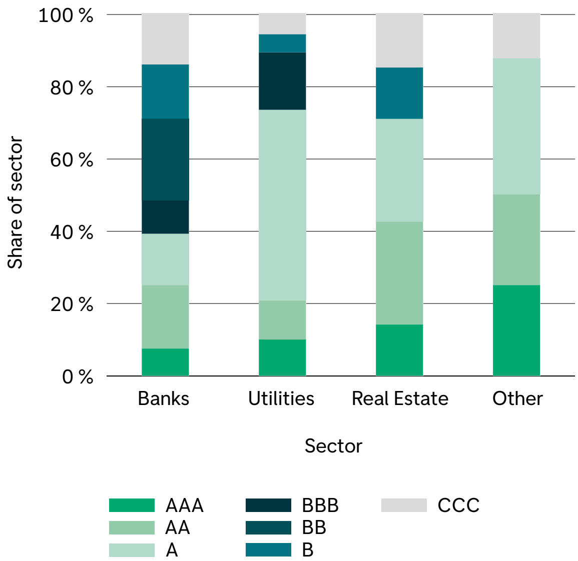
Figure 7.5 ESG rating distribution by sector in 2023



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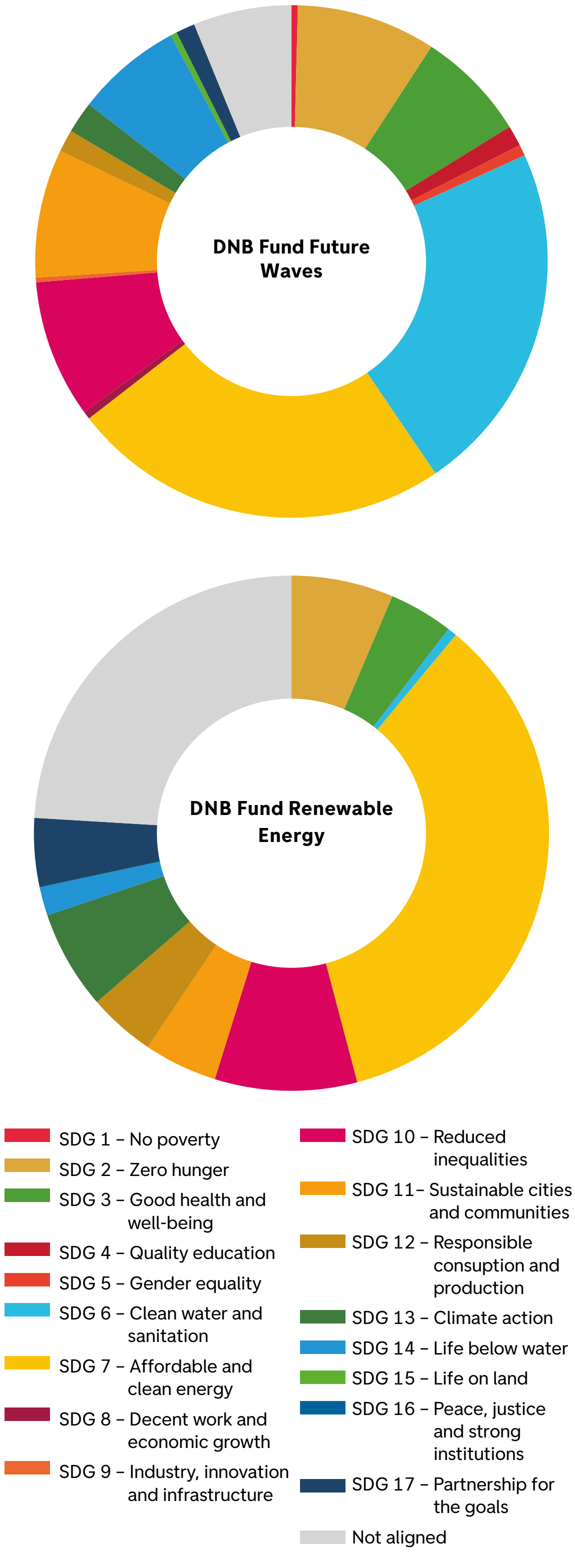
SDG

DNB AM measures alignment to the SDGs for all funds, with a special emphasis on the two actively managed SFDR article 9 funds, DNB Fund Renewable Energy and DNB Fund Future Waves. For the portion of the portfolio not covered by external data providers for SDG alignment, we perform internal mapping from company activities to corresponding SGDs. We consider SDG alignment to be an indicator for positive contribution, which is used for determining sustainable investments in line with the SFDR requirements. The graphical representation, together with the description below, provides a breakdown of how DNB Fund Future Waves and DNB Fund Renewable Energy perform on SDG alignment as of 31.12.2023.

DNB Fund Future Waves uses alignment to the SDGs as one of its main sustainability indicators. The fund aligns with a large range of SDGs and has an overall weighted average alignment above 90 per cent as the fund sets a minimum requirement for all companies to have more than 20 per cent of revenues aligned with one or more of the SDGs. As we expect to observe for the fund, the main contributors for alignment are SDG 6 and 7 which reflects the funds focus areas.

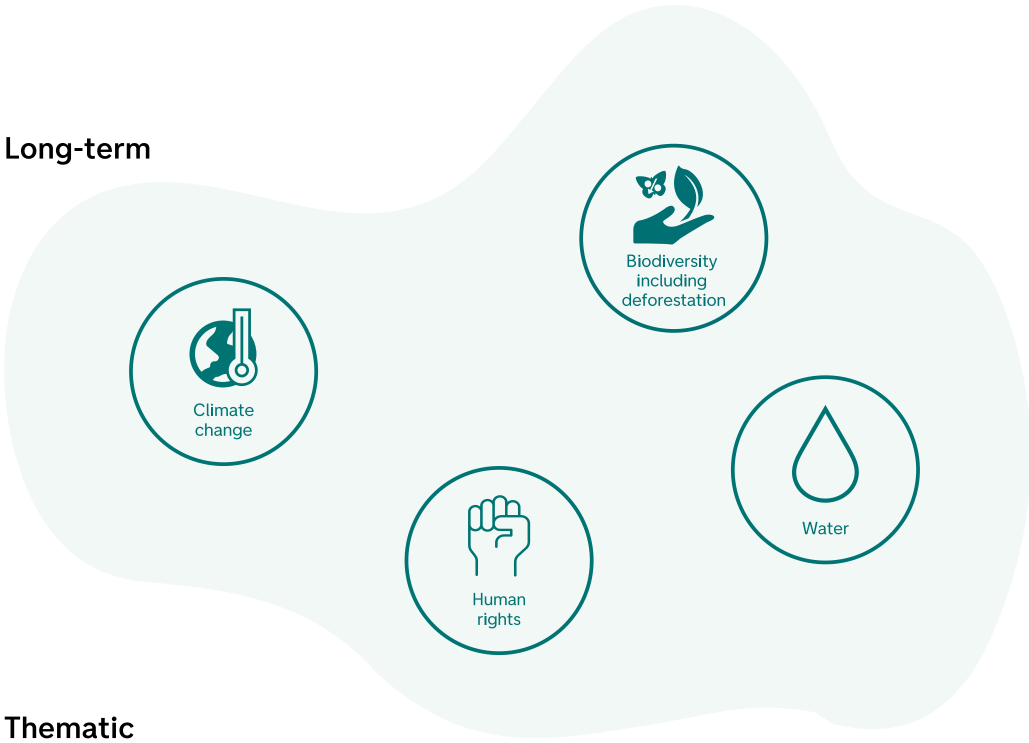
DNB Fund Renewable Energy also uses alignment to the SDGs as one of its main sustainability indicators. However, the fund considers positive contribution towards enviromental objectives as Taxonomy alignment, science based targets, Potential Avoided Emissions or a portion of the SDGs. As a result, the number of SDGs included in the funds breakdown of SDG alignment is more limited and the overall SDG alignment is lower than for DNB Fund Future Waves. The fund still has a weighted average alignment above 72 per cent. SDG 7, which focuses on affordable and clean energy, contributes the most to the overall SDG alignment of the fund.



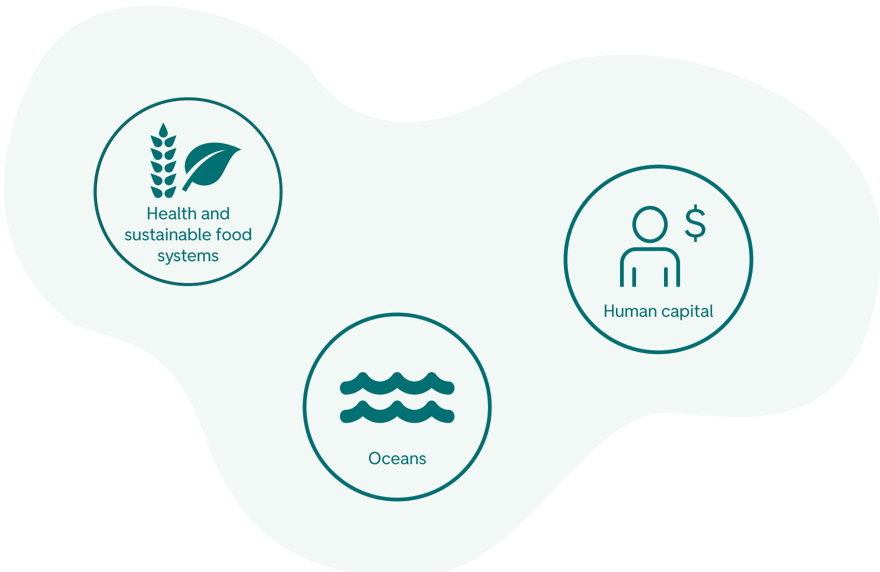
9. Focus Areas

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



Thematic



Human Rights

Relevant SDGs

SDG 1: End poverty in all its forms everywhere

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 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 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 regarding children's rights in their operations and supply chain.

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.

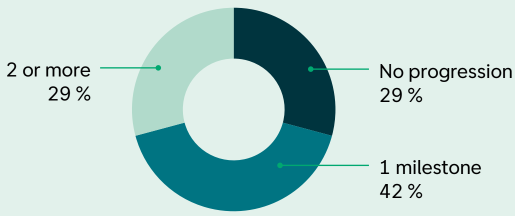
Goals for 2023

- → Participate in PRI Advance.
- → Develop country risk assessment tool to guide engagements with companies operating in high-risk markets.
- → Further expand engagements on human and labour rights supply chain due diligence.
- → Continue engagements with the investor collaboration KnowTheChain.
- → Engage with companies in the technologies sector regarding ethical AI and disinformation on platforms.
- → Utilise Global Child Forum data in company engagements on human rights.

Progress achieved in 2023

- → Signed on to multiple engagment initiatives and participated in the engagement with Enel as part of PRI Advance.
- → Conducted a comprehensive country risk review, updating market assessments based on recent geopolitical developments, and integrated country revenue data into internal systems for analysing country risk exposure.
- → Engaged with companies operating in markets identified as having elevated risks in the country risk review.
- → Conducted engagements with companies on human and labour rights supply chain due diligence in line with requirements in the Norwegian Transparency Act.
- → Initiated engagements with companies to discuss their AI governance.
- → Utilised Global Child Forum data for screening companies for both human rights and human capital engagements.
- → Significantly upgraded the DNB AM expectations document on human rights, including a new section on just transition.

Milestone progress on the topic



Initiatives and collaborations

Results

- → Advance is a PRI-led collaborative stewardship initiative on human rights, human capital and social issues. The initiative was launched in December 2022 with the objective to advance human rights and positive outcomes for people through investor stewardship. DNB AM is part of the collaborative engagement with Enel.
- → DNB AM is a signatory of the Global Child Forum, which launched their Global Benchmark Report 2023, providing comprehensive and in-depth insight into the private sector's views on children's rights. 1 108 companies, distributed across eight sectors and six regions, was benchmarked against a set of 25 indicators. This data is used for screening companies for both human rights and human capital engagements.

Company engagements

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Vale S.A.

Vale S.A. Themes and goals

Remediation and tailings management in light of the Brumadinho dam disaster.

Key remaining gaps to reach milestone 5:

- Resume compliant status through UN Global Compact.
- Adhere 100 per cent to Global Industry Standard on Tailings Management (GISTM) across all assets, with priority of level 3 risk asset completion.
- Disclose details on the relocation plan as mandated by the Brazilian courts for level 2 dams, as well as details and stability certificates for dams.
- Ensure remedial programmes are in place and improve the technical knowledge of its board, with reporting lines to ensure that potential concerns are addressed appropriately. Independent and high-quality audits of the plan should be publicly disclosed.

Results

- Vale is still excluded from the DNB investment universe. During the in-person meeting, DNB AM expressed a list of clear expectations to the company to help guide the future work to deliver upon the ongoing reparation strategy and reinstitution of the social license to operate in Brazil.
- The company has invested a substantial amount in improving the safety of their dams and mines in the four years since the disaster which took 270 lives. Health and safety statistics demonstrate a significant decline in incidents, and many of the highest-risk dams are completely remotely operated with no person on the ground in the pit.
- Vale used the meeting to communicate its community restoration and advancement of their processes for remediation, claiming it has repaid about 58 per cent of the funds required.

Enbrigde Inc.

Themes and goals

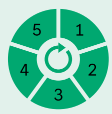
- Dakota Access Pipeline (DAPL) and the rights of indigenous peoples.

Key remaining gaps to reach milestone 5:

- No remaining gaps on this topic.

Results

- Enbridge has made significant progress on the issue of human rights and community relations stemming from their involvement in the DAPL.
- The company has demonstrated leadership in the sector in engaging and developing policies and structures to secure the interests and concerns of the indigenous communities in their operations.
- The company has implemented sufficient tools and mechanisms in future planning demonstrating organizational knowledge and ability to address the issue in a responsible manner.



Embracer Group AB

Themes and goals

- Operations in Russia.

Key remaining gaps to reach milestone 5:

- Develop a clear and committed plan for a reduction of exposure to Russia, and possibly complete removal from Russian operations, in a responsible manner.

Results

- DNB AM has raised the question of exiting Russian operations in two meetings with the company throughout the year.
- Embracer has confirmed that the company is working on finding a long-term solution without Russian presence, with a timeframe of one to three years. The possible alternatives are relocation of employees, sale, closing of operations, or a combination of various alternatives.
- The company emphasized that it must be done in the right way, without disrupting projects or putting employees at risk.

Why do we focus on Human and Labour Rights?

All companies have a responsibility to respect human rights, recognising the potential impact on human rights across business operations, supply chains, community interactions and the marketing and use of products and services. The imperative to respect human rights is an inherent part of good business practice and risk management, guided by international norms and standards such as the UN Global Compact, the OECD Guidelines for Multinational Enterprises, and the UN Guiding Principles for Business and Human Rights.

Integrating human rights into business practices is not only responsible but also crucial for navigating regulatory complexities, ensuring compliance, and building resilience in the face of evolving legal requirements. Furthermore, sound human rights practices contribute to operational efficiency and risk mitigation, demonstrating a commitment to ethical conduct and preventing potential legal battles, operational disruptions, and reputational damage.

DNB AM's expectations to companies on human rights are outlined in our recently updated expectations document on human rights. We expect companies to integrate respect for human and labor rights into policies, corporate strategy, risk management and reporting.

Activities in 2023

Recognising the risks associated with the transition towards a low carbon economy, we have incorporated the concept of "just transition" into our expectations document on human rights. Just transition is defined by the ILO as "greening the economy in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind".[6] This update reflects our expectations for companies to balance the environmental outcomes of their transition plans with the consequences for the social dimension, with special emphasis on human and labour rights. During the year, DNB AM has actively engaged with companies in the renewable energy industry, both individually and collaboratively, to mitigate risks and promote a just transition.

6 ILO, Climate change and financing a just transition (ilo.org),

Participating in a collaborative engagement with the multinational power company Enel for Advance, a PRI-led initiative on human rights and social issues, exemplifies our commitment. Enel, a major player in wind farm constructions, has faced controversies concerning potential adverse impact of wind farms on indigenous communities in Colombia and Western-Sahara, as well as allegations of suppliers employing ethnic minorities through labour-transfer programs. Our goal for this collaborative engagement is for the company to implement the UN Guiding Principles on Business and Human Rights and align political engagement with the responsibility to respect human rights. The engagement will be continued in 2024.

Our commitment remained on integrating supply chains into the human rights agenda for company engagements, spurred by existing and upcoming supply chain transparency legislation in Norway, Europe, and other core markets. To enhance our engagement efforts related to supply chains, we have advanced the integration of relevant supply chain data into core systems. This year, we extended this integration to encompass country revenue data, providing a more nuanced understanding of company activities. Moreover, a detailed country risk review completed during the first parts of 2023 has refined our assessment of various markets in light of recent geopolitical developments. Based on this review, we engaged several companies with exposure to markets with elevated risks.

DNB AM also visited Saudi Arabia together with the emerging markets equity team to meet companies and other stakeholders. We discussed sustainability concerns such as human rights work in the country. A blogpost summarizing our key take aways from this visit can be found here.

DNB AM has engaged with portfolio companies with direct operations or suppliers in the Xinjiang region on forced labour, including Daqo New Energy (Daqo). In previous dialogues we have encouraged the company to conduct and disclose an external third-party audit of the company's operations. A labor due diligence report was released in September, concluding that no evidence of forced labor was found. While the audit appears to be in line with social audit guidelines, a gap remains between the report and best practice as defined by the ILO. DNB AM has encouraged the company to also ensure supply chain management with special emphasis on forced labour. The supply chain was not considered in the labour due diligence report, but Daqo shared that the company is in the process of conducting a similar assessment of the supply chain, which is anticipated to be completed before the end of 2024.

Focus for 2024

Ensuring respect for human rights, children's rights and labour rights will continue to be an important topic in our engagements in 2024 as it has been in previous years. Ensuring further integration of country risk assessments and supply chain issues due diligence will be of particular importance in 2024. Given growing regulatory pressures in Norway and beyond, it is expected that this will also be on the agenda of engaged companies, allowing DNB AM to advice and guide companies towards best practice. We will also seek to increase our participation in investor initiatives and monitor regulatory movements in the EU and other markets.

Goals for 2024

- → Continue participation in PRI Advance.
- → Further expand engagements on human and labour rights supply chain due diligence, specifically related to CSDDD.
- → Engage with big tech companies on human rights and consider joining relevant investor initiative.

Norwegian Transparency Act Disclosure

DNB Asset Management AS (DNB AM) is a management company licensed pursuant to the Mutual Funds Act and the Act relating to the management of alternative investment funds for, among other things, management of mutual funds and alternative investment funds, as well as authorisation to provide individual portfolio management and investment advice pursuant to the provisions of the Norwegian Securities Trading Act. DNB AM is a wholly owned subsidiary of DNB ASA and is a part of Wealth Management in DNB ASA, for an overview of all subsidiaries in DNB Bank ASA see here.

The Group Instruction for Responsible Investments shall ensure that DNB does not contribute to violations of human and labour rights, corruption, severe environmental damage or other actions that may be perceived as unethical. It shall also ensure that assessments of environmental, social and corporate governance risks and opportunities are integrated into investment decisions and serve as a basis for active ownership activities. Active ownership is based on the UN Global Compact and the OECD Guidelines for Multinational Enterprises, and is in line with the UN Guiding Principles on Business and Human Rights. Ownership rights are exercised by DNB AM through voting, engagment and other advocacy work. DNB AM will seek to influence companies in a positive direction. In cases where the companies are suspected of violating the DNB Group Instruction for Responsible Investments and internationally recognised standards and conventions, DNB AM will encourage the companies to rectify the misconduct. If the company does not demonstrate progress in addressing the goals of the engagement, we may exclude the company from our investment universe. For more information on exclusions, please see the chapter on Exclusions.

The risk of violations of human rights and decent working conditions as defined in DNB's Group Instruction for Responsible Investments is considered to be low for DNB AM. Through the work on due diligence assessments, areas and setors with a higher risk than others have been identified. When investing in companies operating in sectors or areas with an elevated risk of human and labour rights violations, we attempt to enter into dialogue with companies about their routines for uncovering violations. We conduct both reactive and proactive company dialogues, which are described in the table below. We have also conducted an updated country risk assessment throughout 2023 to improve our understanding of changes in geographic risk for our investments. See our human rights expectations document for more information on sectors we consider to have an elevated risk.

DNB AM also reports for the portfolio through the requirements of the SFDR. DNB AM considers SFDR's requirements for due diligence on investments to be complementary to the requirements of the Transparency Act with regard to the asset classes equities and bonds. SFDR requires reporting of principal adverse impact indicators, which are a set of sustainability metrics that identify, among other things, possible damage to social, economic and environmental conditions to which investments contribute. Some of the measurement parameters are mandatory and others are voluntary. Principal adverse impact indicator 10, 11 and 16 are related to the requirements of the Transparency Act. DNB AM published the first principal adverse impact statement in June 2023, and will publish such statements annually in line with the requirements of the SFDR. There we also share information on selected voluntary principal adverse impact indicators, which include the share of companies in our portfolios that have adopted ethical guidelines for their supply chains.

You can read our full principal adverse impact statement on DNB AM's website.

Requirement	DNB AM fulfilment in 2023
General description of the organisation, operational area, guidelines and routines for dealing with actual and potential negative consequences for fundamental human rights and decent working conditions	Please see the section on Governance for details on organisational structure and ESG governance at DNB AM. Please see the section on ESG-integration and Exclusions for details on screening procedure. DNB AM has defined high risk areas where we view an increased risk of violations of human and labour rights. We have also developed tools, including but not limited to, a dashboard for viewing company revenue by country in order to more accurately map company activity and risk. For details on our country risk assessment from 2023, please see chapter on Human rights Further details and identification of high risk sectors can be found in our expectation document on human rights. Process is outlined and anchored in the following documentation: → DNB Group Instruction for Responsible Investments → Principle Adverse Impact Statement → Expectation document on Human Rights
Information on actual negative consequences and significant risk of negative consequences that DNB AM has uncovered through its due diligence.	DNB AM reports on exclusions and engagement with companies on human and labour rights in our quarterly reporting available on the DNB AM website. We also publish our principal adverse impact statement on our website annually. All exclusions are publicly available and categorised by the cause on the DNB AM website. An annual review can also be found in the report on Responsible Investments. Where we suspect a possible violation of the DNB Group Instruction for Responsible Investments, we will engage the company to improve our understanding of the case. If the engagement process is unsuccessful, we may exclude the company from the DNB investment universe. For more details, see the section on Engagements.
Measures taken or plans to be implemented by DNB AM in order to stop actual negative consequences or limit the material risk of negative consequences, and the result or expected results of those measures	See section on Exclusions for details on measures taken. All exclusions are publicly available and categorised by the cause on the DNB AM website. We have also developed tools for revenue mapping of company activities as stated above, and are using this to track and engage companies who are operating in the identified high-risk regions and areas. Exclusions in the past year due to violations of: → Human rigths and/or labour rights: 5 See section on Engagements and Human Rights for details on relevant company engagements in the past year. → Number of engagements on Human rights and labour rights: 119 → 71 per cent of these engagements had milestone progression in 2023

Climate Change

Relevant 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

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.

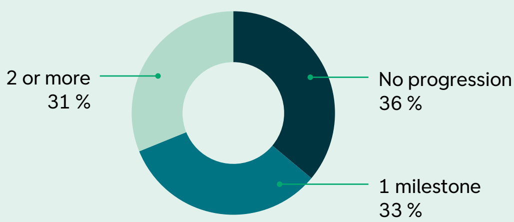
Goals for 2023

- Continued focus on largest holdings in the most carbon intense sectors, regarding emission reduction and target setting, both in direct operations and in supply chains.
- Continue work as part of the Finance Norway's Working Group regarding financed emissions.
- Participate in Climate Action 100+ in the second phase in 2023.
- Increased reporting of DNB AM's own emissions, and utilisation of forward-looking metrics in assessment of companies' trajectories. Continue to investigate tools for forward-looking metrics and climate risk identification.

Progress achieved in 2023

- Developed and launched the DNB transition strategy that is an important strategic tool to help us understand the business implications of our Net zero commitment, and to navigate the challenges and opportunities presented by the transition to a low-carbon economy.
- Developed framework for assessing companies on strength of emission reduction targets. Engaged the most significant contributors to DNB AM's WACI.
- Contribute to Finance Norway's working group on financed emissions, resulting in the publication of the report: "Veileder for beregning av finansierte klimagassutslipp" (in norwegian).
- A new phase of the CA100+ work started in September 2023, DNB AM participated in initial meeting with engagement group for Equinor.
- DNB's annual report for 2022 included absolute emissions for the first time. The reporting for 2023 follows the same structure, including reporting in line with TCFD.

Milestone progress on the topic



Initiatives and collaborations

Results

- CA100+: 2023 was a quiet year for engagements from CA100+. The development of the Phase II of the initiative was finalised and reinitiated in Q3 2023.
- DNB AM continued the collaborative engagement activities on TCFD with Norwegian companies. The ambition is to encourage best in class practice regarding climate in Norway. In 2023, the group met with 10 companies in total to discuss climate change.
- CDP: More than 24,000 companies reported through CDP in 2023, a 24 per cent increase from 2022. CDP report that these companies represent 2/3 of global market capitalisation.

Company engagements

61

Altera Shuttle Tankers L.L.C.

Themes and goals

- → Setting carbon emission reduction targets including supply chain emissions (Net zero targets for GHG).

Key remaining gaps to reach milestone 5:

- → Continued progress on reducing emissions, particularly beyond 2030.
- → Disclosure of sufficient details of future strategy for decarbonisation post 2030.
- → Company should demonstrate CAPEX spend, aligned with EU taxonomy which is currently not reported.

Results

- → The company has a Net zero 2050 commitment but has not set a SBTi target as their industry (crude carrying vessels) is not eligible. Furthermore, the company's target does not include scope 3 emissions. However, they are following best practice as set by the IMO, which was strengthened in July 2023 to reach "near or Net zero 2050".
- → The company has an explicit plan on how they plan to reduce emissions. They are utilising their E-shuttles and other efficiency measures, with the fleet on a path to reach Net zero by 2050.
- → The company is reporting in line with TCFD and will report in line with CSRD in 2025.
- → A significant challenge for the company relates to the material they are transporting (crude), and the long-term business model.

NextEra Energy, Inc.

Themes and goals

- → Carbon emission reduction targets including supply chain emissions (Net zero targets for GHG).

Key remaining gaps to reach milestone 5:

- → Company should set a science-based GHG emission reduction target, including all scopes-, short-, medium- and long-term targets, and it should lead to absolute emission reductions.
- → Company should have an explicit strategy outlining how they plan to achieve emission reductions. The company should indicate with regards to CAPEX strategy how this is being implemented.

Results

- → Company commits to what they call "real zero", i.e., without offsets by 2050, and indicated this could be achieved by 2045.
- → The company have not set an SBTi approved target, the primary challenge with the methodology is the base year. They continue to assess for validity for SBTi. The company is also awaiting requirements under the SEC climate reporting decision, which is pending.
- → The emission intensity reductions are not aligned to any specific climate model but are significantly within the intensity requirements for 1.5°C as outlined by the Transition Pathway Initiative (TPI) in their assessment of the company.
- → The most significant challenge for the business to deliver on targets looks to be the development of long duration storage capacity.

Orkla ASA

Themes and goals

- → Carbon emission reduction targets including supply chain emissions (Net zero targets for GHG).

Key remaining gaps to reach milestone 5:

- → Continued progress on reducing emissions, particularly beyond 2030.
- → Develop and publish an explicit transition strategy.
- → Develop and publish a policy around the use of offsets, and how/when they would be utilised in the future.

Results

- → The company recorded an increase in their overall scope 2 emissions in 2022, this was the result of the decision to stop purchasing guarantees of origin during a year of record energy prices. Orkla uses the scope 2 market-based emissions in their target, and this demonstrates the challenges with doing so.
- → The company is well positioned regarding their climate emission reduction target setting. The company has set science-based targets and are working to reduce emissions in line with their targets.
- → There are strong governance practices in place, however, given the investment-based approach to the company, the individual companies are responsible for reaching the goals set to them by Orkla ASA.

Why do we focus on Climate Change?

Climate change has been a focus area for DNB AM for many years. Climate change is a complex and critical challenge facing humanity, and the IPCC has stated that human-induced climate change is already affecting many weather and climate extremes in every region across the globe.[7] This challenge would be significantly worsened by the triggering of climate tipping points. Tipping points are thresholds in the earth system that, once crossed, can lead to abrupt and irreversible changes in the state of some parts of the climate system. Examples include the collapse of major ice sheets, loss of the Amazon rainforest, and the shutdown of ocean circulation patterns.

To mitigate future climate change, the IPCC provides unambiguous direction to limit cumulative CO_2 emissions, reaching at least net zero CO_2 emissions. This represents an enormous challenge for humanity, and asset managers have a key role in the management of climate-related risks and opportunities to contribute to the transition to the low carbon economy. DNB AM acknowledges that climate change can impact value through transition- and physical-risks and opportunities associated with the low carbon transition. DNB AM is committed to making a meaningful contribution towards the goals of the Paris Agreement by taking a long-term view and effectively managing the risks and opportunities associated with the transition towards a low-carbon economy.

Activities in 2023

A priority for 2023 was the development of the DNB Net zero 2050 transition plan. This is a continuation of the sustainability ambitions launched in 2021. The plan is an important strategic tool that helps us understand the business implications of our Net zero commitment, and to navigate the challenges and opportunities presented by climate change and the transition to a low-carbon economy. You can read the further details in the Transition plan chapter. Throughout 2023, DNB AM had 61 engagements with companies on the topic of climate change. These engagements included a focus on the top contributors to DNB AM's WACI, who were engaged with on the strength of their targets (more details in Transition plan chapter). Other companies were also assessed using DNB AM's internal assessment framework to determine the strength of the targets and provide suggestions for improvement to align with best practice. Our active ownership approach also includes proxy voting, and in 2023 DNB AM voted at 110 proposals regarding climate. More information can be found in the Voting section.

DNB AM continued to support the CA100+ in 2023, which aims to ensure the world's largest corporate GHG emitters take necessary action on climate change. The CA100+ entered its second phase in 2023 and DNB AM has joined the initiative with the ambition to continue to push companies to align with the "three asks":

1. Implement a strong governance framework.
2. Take action to reduce greenhouse gas emissions across the value chain, consistent with the Paris Agreement's goal of limiting global average temperature increase.
3. Provide enhanced corporate disclosure in line with the TCFD recommendations.

In collaboration with a group of Norwegian investors, DNB AM continued to engage Norwegian companies regarding the company's approach to climate change. Through this work we seek to understand how companies are performing regarding climate-related governance, strategy, and reporting. The scope of these engagements expanded in 2022 to include biodiversity and this continued in 2023. The Norwegian companies engaged were focussed within sectors highly exposed to climate-related risks and opportunities, namely energy, materials, and transport. As part of the work, we have also encouraged companies to set emission reduction targets, disclose in line with best practice, and consider biodiversity risks and impact in operations and supply chains.

As part of our work on standard setting, DNB AM collaborated with other Norwegian investors within a Finance Norway initiative to develop a

7 IPCC, 2021: Summary for Policymakers. In: Climate Change 2021: The Physical Science Basis. Contribution of Working Group I to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change

'Guidance for calculating financed GHG emissions' for Norwegian financial institutions. The intention was to improve the quality and comparability of financed emissions reporting in Norway. The guide provides recommendations on data sources, assumptions, and boundaries for different asset classes and sectors, but also acknowledges the challenges and limitations of the current methods. Further details regarding our standard setting work can be found here.

Focus for 2024

In 2024, we will engage companies on their emission reduction targets, progress relative to these targets, and decarbonization strategies. The engagements will also include discussions regarding management of climate related risks and opportunities, scenario analysis and reporting. The scope for these discussions includes companies' direct activities as well as operations in their supply chains, and aims to address the two sides or "double materiality" of climate change:

← The impact or potential impact of the effects of climate change on companies, both in terms of transition risks and physical risks.

→ The impact of the company on the climate, because of the GHG emissions associated with the company.

We also intend to continue our standard setting work with the release of an update to our climate expectation document, and continue to increase transparency with regards to our own climate emissions reporting in DNB AM.

Goals for 2024

- Continued active ownership with special emphasis on engaging the largest holdings in the most carbon intense sectors as well as the companies with the largest carbon footprint, both in direct operations and in supply chains.
- Continued collaborations with investors groups for greater impact.
- Participate in Climate Action 100+ in the second phase in 2024.
- Increased reporting of DNB AM's own emissions, and utilisation of forward-looking metrics in assessment of companies' trajectories.
- Release an updated climate expectation document.

Task Force on Climate-Related Financial Disclosures (TCFD) Recommendations

In 2023, the Financial Stability Board stated the work of the TCFD's was complete, highlighting that the ISSB's Standards represent the culmination of the TCFD's efforts. Adherence to IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures ensures compliance with TCFD recommendations, as these recommendations are fully integrated into the ISSB's Standards. Companies have the option to continue using TCFD recommendations, which may still be required in some jurisdictions, serving as a valuable starting point for an eventual transition to the ISSB's Standards.

DNB AM reports in line with the TCFD framework, following on from reporting in the 2022 annual report.

Recommendation	Disclosure
Governance: Disclose the organisation's governance around climate-related risks and opportunities	
Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long-term.	DNB Group Sustainability Policy Section on governance
Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	DNB 2023 CDP response, C1.2 DNB Group Instruction for Responsible Investments DNB Sustainability Risk Integration Policy
Strategy: Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.	
Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	Section on ESG-consideration in the DNB Group Annual report DNB 2023 CDP response, C2.1a, C.2.3, C2.3a, C2.4a
Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	Section on ESG-consideration in the DNB Group Annual report DNB 2023 CDP response, C2.3a, C2.4a,C3,1, C3.2a, C3.3. C3.4, C-F3.7.
Describe the resilience of the organizations strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Section on Scenario Analysis Section on ESG-consideration in the DNB Group Annual report DNB 2023 CDP response, C3.2a, C3.2b
Risk management: Disclose how the organization identifies, assesses, and manages climate-related risks	
Describe the organization's processes for identifying and assessing climate-related risk.	Section on ESG-consideration in the DNB Group Annual report DNB 2023 CDP response, C2.1, C-F2.2 a-e
Describe the organization's processes for managing climate related risks.	Section on ESG-consideration in the DNB Group Annual report DNB 2023 CDP response, C2.1, C2.2, C-F2.2 d-e
Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organizations' overall risk management.	Section on ESG-consideration in the DNB Group Annual report DNB 2023 CDP response, C2.2
Metric and targets: Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material	
Disclose the metrics used by the organisation's to assess climate related risks and opportunities in line with its strategy and risk management process.	Section on reduction of climate emissions in the DNB Group Annual report DNB 2023 CDP response, C4.2 a-b
Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	Section on carbon emissions in Appendix Section on reduction of climate emissions in the DNB Group Annual report DNB 2023 CDP response, C6.1, C6.3, C6.5+a, C9.1, C-F14.0-1.b
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Section on financing the climate transition through sustainable activities in DNB Group Annual report Section on Reducing GHG emissions in the investment portfolio in DNB Group Annual report Section on reduction of carbon emissions in the DNB Group Annual report Section on analysis of climate risk in the loan and investment portfolio in the DNB Group Annual report DNB 2023 CDP response, C4.2 a-b

Water

Relevant SDGs

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.

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

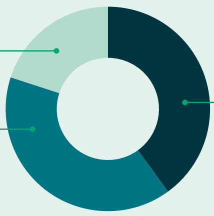
Goals for 2023

- Continued participation in collaborative engagements such as FAIRR and the Mining and Tailings Safety Initiative.
- Engage with companies on the alignment to the ambitions of the Global Plastic Treaty coalition.
- Engage with companies in the food and agricultural sector on water related issues.

Progress achieved in 2023

- We continued to engagement with mining companies on issues such as tailings management and progress towards conformance with the Global Industry Standard on Tailings Management. Furthermore, DNB AM joined the Global Investor Commission on Mining 2030, formerly known as the Mining and Tailings Safety Initiative.
- DNB AM spoke to the leading technology companies NVIDIA Corporation and Sony Corporation concerning water management and water risk assessments of the supply chain. The engagement addressed issues related to water for data centers and production of semiconductors.
- DNB AM conducted the fourth consecutive questionnaires sent out to Norwegian fixed income issuers in the utilities sector. The questionnaire is used to assess companies' performance on sustainability topics including water.

Milestone progress on the topic



Initiatives and collaborations

chemsec INTERNATIONAL CHEMICAL SECRETARIAT

BUSINESS COALITION FOR A GLOBAL PLASTICS TREATY

Mining 2030

Results

- ChemSec engaged some of the largest chemical companies regarding phaseout of PFAS and other hazardous chemicals
- The Global Plastic Treaty coalition has continued to work towards a legally Global Plastics Treaty. In September 2023 the "Zero draft text of the international legally binding instrument on plastic pollution" was published, reflecting several elements of policy recommendations from the initiatives.
- Mining 2030 has continued, but collaborative engagements have been less active than in past years. However, there have been significant engagement activity on the principles the initiative has set forth.

Company engagements

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Lynas Rare Earths, Ltd

Themes and goals

- Improved management of tailings storage facilities and wastewater treatment.

Key remaining gaps to reach milestone 5:

- Company should have in place strong strategies for managing toxic waste and emissions, within the international and domestic standards.
- Demonstrate impact of R&D spend to reduce radioactivity of waste produced.

Results

- Lynas Rare Earths is actively working to reduce water consumption and the company has improved their recycling rate to 31 per cent in 2023 compared to 13 per cent in 2019.
- The company has invested in water treatment plant at the Mount Weld site. Consequently, the site would reduce the reliance on groundwater. In addition, the company is purchasing 100 per cent recycled water for use at the Kalgoorlie site from the City of Kalgoorlie.
- With regards to management of tailings storage facilities and treatment of wastewater for their operations in Malaysia, the company reports that all treated water is tested before and after discharge. The company is further investing into R&D to improve the management of hazardous waste.

3M Company

Themes and goals

- Phaseout of PFAS.

Key remaining gaps to reach milestone 5:

- Identify and plan for challenges associated with the phase-out of PFAS.
- Provide detailed timeline for the phase-out and report on progress towards the goal.
- Provide evidence that substitutes to PFAS do not pose adverse impact to the environment.
- Prepare for regulatory requirements with regards to PFAS and other chemical groups.

Results

- 3M Company announced December last year that they are going to phase out the manufacturing of per- and polyfluoroalkyl (PFAS) as well as the use of PFAS in their product portfolio (15.000 products) by 2025.
- The company is aware of the potential impact that persistent substitutes to PFAS could have on the environment. As a result, 3M avoids implementing regrettable solutions to substitutes that might prove to have negative impact on the environment.
- Changes to the definition of substances included in the PFAS category is making it difficult to provide accurate KPIs and timeline for the phaseout.

NVIDIA Corporation

Themes and goals

- Conduct water risk assessment which includes the company's supply chain.

Key remaining gaps to reach milestone 5:

- Materiality assessment which incorporates water risk within the supply chain.
- Set reduction targets for water related metrics.
- Report on relevant metrics for water, subject to external verification.

Results

- NVIDIA is a fabless company, which indirectly exposes the company to water stress through manufacturing of semiconductors in the supply chain. The company has implemented a strategy and reports on metrics associated with direct water consumptions, however assessments of indirect water risks are still in the early stage.
- Water is also a material risk for the company's data centres, where the company has implemented several measures to mitigate water consumption.

Why do we focus on Water?

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.

DNB AM has had water as a long-term focus area for many years and according to CDP's High and Dry Report published in 2022, there are likely to be more water stranding events in the years to come as resource majors are not acting to protect freshwater resources. Sectors that are particularly water intensive such as extractive and mineral processing, infrastructure and energy have long been a focus for DNB AM, but new regulations and trends have also adjusted the view to other sectors and issues beyond water usage such as pollution and recycling. Consequently, companies that fail to address the risks associated with water regulations are subject to significant regulatory risks. Our work on water is informed by the CDP's Water Watch, which highlights the business activities with the greatest impact on water and ranks these industries based on the materiality of water for their operations.

Activities in 2023

DNB AM has had water as a long-term focus area for many years, working to positively impact water management of investee company. We have taken a two-fold approach to our water engagements in 2023, focusing both on companies with water intensive operations and on management of wastewater. Throughout the year, DNB AM have had 15 engagements with companies on water related issues. We have also continued our collaborative engagements through the ChemSec initiative with the aim of reducing the use of toxic chemicals. In addition, DNB AM joined the Global Investor Commission on Mining 2030, formerly known as the Mining and Tailings Safety Initiative, to continue our work on tailings management. The investor-led initiative aims at shaping a socially and environmentally responsible mining sector by 2030.

The mining sector has also been a key focus area for our direct engagements, as the sector plays a crucial role in the global energy transition. Meanwhile, poor management of tailings storage facilities has historically had significant consequences for the environment and local communities. As a result, we have directly engaged with investee companies operating in the sector, about such storage. The industry has been working towards bringing all tailings storage facilities categorised as "very high" or "extreme" potential consequences to conform with the Global Industry Standard on Tailings Management.

Following recent advancements in AI and increased digitalization, the demand for semiconductors and data centres has increased, both of which are dependent on water. As a compliment to the growing need for freshwater, seasonal droughts are expected to become more frequent and severe as the global mean temperature rises. To ensure that water management reflects the recent trend, DNB AM has engaged with companies operating in the technology sector. The engagements were centered on water consumption in direct operations as well as water related issues in the supply chain. DNB AM encouraged companies to monitor and evaluate potential risks associated with water stress, and to implement water reduction targets.

In 2023, DNB AM continued its commitment to water conservation, notably through its endorsement of the Business Coalition for a Global Plastic Treaty. The coalition is actively working towards a legally binding and ambitious treaty with the aim of reducing plastic pollution through reduction of plastic production, recycling, enhanced waste management. While the investor collaboration largely centers on mitigating plastic pollution in the oceans, a global treaty would also contribute to addressing the issue of the pollution of freshwater sources affecting local communities and biodiversity.

Focus for 2024

Water will remain one of our long-term focus areas in 2024. DNB AM will continue to proactively engage with companies that have significant water consumption and inadequate water management practices. We will target industries and companies where we identify water related risks or opportunities, such as companies operating in the agriculture, mining, and utilities sectors. DNB AM will also continue to support collaborative engagements on water, including the Global Investor Commission on Mining 2030 and ChemSec Business Group.

Goals for 2024

- → Continue the proactive engagements on water, prioritising companies and sectors that are water intensive and impacting water quality.
- → Continued participation in collaborative engagements such as the Global Investor Commission on Mining 2030 and the ChemSec Business Group.
- → Engage with companies on the alignment to the ambitions of the Global Plastic Treaty coalition.

Biodiversity

Relevant SDGs

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.

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.

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.

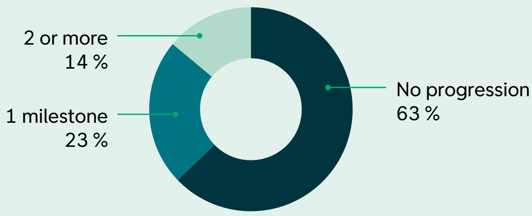
Goals for 2023

- The Finance for Biodiversity Pledge: Further progress on the commitments (goals, metrics, engagements, reporting, knowledge sharing).
- TNFD: Support the standard, use the TNFD framework.
- PBAF: Participate in work groups, use as an aid in implementing the TNFD framework.
- Nature Action 100 (NA 100): Take active part in the company engagements.

Progress achieved in 2023

- Biodiversity was upgraded to a long-term focus area, and engagement activities were intensified. Broad knowledge sharing including meetings and a roundtable targeting a Chinese audience (together with the Rainforest Foundation).
- Initial TNFD-aligned reporting in the 2023 reporting, utilising learnings from TNFD, the Biodiversity Pledge, and PBAF.
- Joined the NA 100, initial engagement activities started (letters sent to target companies).

Milestone progress on the topic



Initiatives and collaborations

FAIRR
A COLLER INITIATIVE
Regnskogfondet
Nature Action 100
Mining 2030
Finance for Biodiversity Foundation

- UNEP FI Sustainable Blue Economy Initiative.
- Partnership for Biodiversity Accounting Financials (PBAF).
- Mining & Tailings Safety Initiative.
- The Investor Working Group for a Deforestation-free Automotive Industry.
- Investor Initiative on Responsible Nickel Supply Chains.
- Investor Collaboration With Other Leading Norwegian Institution Centring on Climate Issues and Biodiversity.

Results

- Intensified collaborative engagements, moving companies towards best practice.
- Knowledge sharing and contribution to the development of standards and best practice (inclusive TNFD and SBTN).

Company engagements

42

Hormel Foods Corporation

Themes and goals

- Biodiversity (waste and pollution, together with FAIRR). For nutrient pollution, conduct a meaningful risk assessment (manure, animal waste), and put in place action plans that significantly reduce the impact on biodiversity.

Key remaining gaps to reach milestone 5:

- Ensure a comprehensive action plan that reduce the impact on biodiversity from nutrient pollution - in a targeted manner.
- Further advancement regarding biodiversity related disclosures including further developments of metrics.

Results

- Hormel conducts risk assessments for both biodiversity and water quality for its U.S. operations, limited risk is identified by the company. Best practice would be to have a top-down biodiversity strategy going beyond at-risk species.
- Hormel's company-level water quality target is quite unique compared to peers. However, it doesn't have target specifically around circularity or nutrients but believes that the organic targets for wastewater inherently cover these.
- Investors nudged the company to provide more details on its plans regarding sustainability disclosure beyond nutrient pollution. The company responded that it is seeking to deepen its CDP disclosure, while also looking to conduct an analysis of its beef supply given it has limited granularity on its supply chain mapping for this area.

Norsk Hydro ASA

Themes and goals

- Biodiversity (together with other Norwegian Investors). Encourage commitment to best practice in goals, governance, strategy, risk management, and reporting/metrics. Climate, encourage commitment to Paris alignment/Net zero 2050 (preferably SBTi - approved).

Key remaining gaps to reach milestone 5:

- Having no significant gaps to best practice on biodiversity including strong reporting and clear expectations to suppliers. Climate/TCFD: Have a high standard framework for Net Zero 2050 including all parts of scope 3.

Results

- The company launched a new biodiversity strategy in 2020 that included no net biodiversity loss for new projects. DNB AM nudged for broadening of the scope to encompass the supply chain and existing project. The company was responsive, especially due to the upcoming CSRD requirements.
- TNFD was also discussed, and the use of it as a base requirement in reporting was encouraged by the investors. Norsk Hydro seemed responsive, but they see some shortfalls in the TNFD standard - there may be better ways to report on some aspect.
- On climate issues, Norsk Hydro launched Net zero targets 1.5 years ago and the company has a detailed roadmap to 2050. A key challenge is that no aluminum smelter technology aligned with a 1.5°C pathway is commercial today. However, the company expects to have a technology overview (pathway) by 2030 in this respect.

AAK AB

Themes and goals

- Biodiversity (palm oil and other key raw materials, together with other Nordic Investors). No significant gaps to best practice regarding sustainable practices, including zero deforestation.

Key remaining gaps to reach milestone 5:

- Ensure zero deforestation in the value chain.
- High degree of traceability for palm oil and other key raw materials.
- Comprehensive KPIs covering the different raw materials that the company sources.

Results

- We engaged the company to follow up the allegations in a Sveriges Natur article. The article claimed that AAK had sourced palm oil from at least 20 mills supplied by illegal plantations within protected nature reserves. AAK seems to have followed up the controversy well, having excluded one company and cleared nine mills (four mills are still under investigation).
- The 2022 reporting from AAK was generally good, but further enhancements was discussed. The methodology for VDF (Verified deforestation free) has been refined, and the whole related document will be published on the company's website – something the investor group has encouraged.
- The investor group nudged for a first attempt of TNFD aligned reporting already for the reporting year 2023.

Why do we focus on Biodiversity?

Biodiversity describes the variety of all life on earth, including plants, bacteria, animals, and humans - and their interaction within ecosystems. Unfortunately, due to human interference and climate change, nature itself is threatened. Loss of biodiversity is often caused by human activity, and WWF points to food production as the biggest driver of deforestation, overuse of water, loss of biodiversity, and soil degradation.[8] Furthermore, climate change and loss of biodiversity are closely interconnected. Nature absorbs large amounts of greenhouse gases and mitigates the harmful effects of climate change.[9] Promoting biodiversity is therefore an important part of the solution to the climate challenges we face, and a prerequisite for achieving the SDGs. Finally, protecting nature and biodiversity is also important for the value creation for companies.[10] Companies should therefore assess the risks and opportunities associated with their impacts and dependencies on nature, and should seek to transition from a linear to a circular business model.

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 COP15 in late 2022 marked an important milestone for this work. Governments from around the world agreed to a new set of goals for nature over the next decade, resulting in the Kunming-Montreal Global Biodiversity Framework (GBF). The aim of the framework is to reverse the negative trend in nature loss towards 2030 and the longer-term vision is "living in harmony with nature by 2050". The GBF will also be integrated into national plans, the deadline for nations being COP16, which is scheduled for the second half of 2024. These actions will also inform future legislation and the biodiversity work of DNB AM.

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 and metrics, no broadly accepted assessment tools, and no globally accepted reporting standards. One key initiative that might help is the TNFD[11]. After several years of work, the final TNFD recommendations were launched in September 2023. The TNFD complements the TCFD climate-related framework, to give companies and financial institutions a more complete picture of their environmental risks and opportunities. DNB AM is working on how to use this framework optimally, and our first attempt at TNFD-aligned annual reporting is to be found towards the bottom of this section. In summary, the global shift towards prioritising biodiversity will hopefully drive the investment community from mere ambitions to tangible actions in 2024.

Activities in 2023

For DNB AM, biodiversity was defined as a thematic focus area already in 2020, and we have also been working on related topics such as sustainable oceans, water, deforestation, and land use for many years. The work has focussed, among other things, on sustainable agriculture and aquaculture, sourcing of meat, palm oil and soy, deforestation, and mining. For 2023, biodiversity was upgraded to a long-term focus area, and engagement activities were intensified. We conducted 45 dialogues focusing on biodiversity.

We conducted the engagements both individually and through various investor collaborations and initiatives. For example, the collaboration with other investors through FAIRR kept expanding in 2023.[12] Related to biodiversity, FAIRR started a collaboration on sustainable aquaculture in 2021. The engagement targeted eight global salmon companies, asking them to diversify feed ingredient sources to better manage sustainability risks associated with sourcing wild forage fish. Further, in 2022 FAIRR launched an engagement on biodiversity waste and pollution, fighting the threat of dead oceans from land

8 https://wwf.panda.org/wwf_news/?2660466/nature-finance-risk-and-agriculture
9 https://ipbes.net/events/ipbes-ipcc-co-sponsored-workshop-biodiversity-and-climate-change
10 https://www3.weforum.org/docs/WEF_The_Global_Risks_Report_2022.pdf?_gl=1*n2ptxz*_up*MQ..&gclid=EAIaIQobChMIxoOz4qz7-gIVlfh3Ch0bWQ7LEAAYASAAEgIw6PD_BwE
11 https://tnfd.global/publication/recommendations-of-the-task-force-on-nature-related-financial-disclosures/
12 https://www.fairr.org/

based nutrient pollution - an engagement with pork and chicken producers as well as fertilizer companies. Finally, in late 2023, the Seafood Traceability Engagement was started, also with DNB AM's participation. The aim is to develop and implement robust, full-chain traceability systems as a means of identifying and addressing key environmental and social risks and opportunities.

In 2023, we also joined another key collaboration, the Nature Action 100 initiative (NA 100). Similar to the CA 100+ on the climate side, NA 100 is a global investor engagement initiative focused on driving greater corporate action to reverse nature loss. The initiative engages companies in key sectors that are deemed to be systemically important in halting nature and biodiversity loss by 2030. DNB AM has committed to several engagements with this initiative going forward.

Other examples of collaborative engagements that we are part of include two mining related initiatives as well as the Investor Working Group for a Deforestation-Free Automotive Industry. In later parts of 2023, we also joined and contributed to, the Investor Initiative on Responsible Nickel Supply Chains. The initiative will address the environmental and social risks along the nickel supply chains, by targeting key companies in the electric vehicle industry. Finally, in Norway, we continued the multiyear investor collaboration with other leading Norwegian institution centring on climate issues and biodiversity where DNB AM was one of the lead investors.

Regarding integration in portfolio management, several of the EU's regulatory initiatives, including the EU Taxonomy, CSRD, and the SFDR, also contain biodiversity elements and metrics. Considerable efforts in DNB AM has been made to ensure relevant biodiversity data, supporting the sustainability profile of key funds such as DNB Fund Renewable Energy, DNB Fund Future Waves, DNB Fund Nordic Equities/DNB Grønt Skifte Norden, and DNB Grønt Skifte Norge. However, finding comprehensive, relevant, and accurate data for biodiversity footprints and impacts remains a challenge.

Focus in 2024

We expect 2024 to be a key year for fulfilment of DNB AM's commitments in signing the Finance for Biodiversity Pledge, including target setting and using appropriate metrics. We also need to continue working with the data challenge. Continued broad engagement efforts, through NA 100 and other collaborations, and expanded use of the TNFD framework, will also be important elements.

Goals for 2024

- Further progress on the commitments of the Finance for Biodiversity Pledge, including goals, metrics, engagements, reporting and knowledge sharing.
- Take active part in the company engagements of NA 100, as well as and other relevant investor collaborations, including FAIRR.
- Advance the use of the TNFD framework with regards to reporting and engagements.

Biodiversity reporting aligned with the TNFD for DNB AM

DNB AM is making a first attempt at TNFD-aligned annual reporting in this section. The reporting is based on the additional guidance for financial institutions provided by TNFD.[13] Due to the lack of complete and/or accurate relevant data, the reporting will not cover all the recommended reporting, something we will seek to improve in later reporting.

Governance: DNB AM's governance of nature-related dependencies, impacts, risks and opportunities

- The board of the DNB Group has the ultimate oversight role. Furthermore, the board of DNB AM has the direct oversight role for DNB AM regarding nature-related issues, including compliance with the DNB Group Instruction for Responsible Investments. The board gets regular updates on ESG matters including nature/biodiversity. In the executive management team, the head of the RI-team plays a key role in assessing and managing nature-related dependencies, impacts, risks, and opportunities for the investment portfolios. The RI-team also follow up the rights of indigenous peoples, and local communities, related to nature. This is aided by the expectation documents on biodiversity and human rights, and it is conducted through extensive active ownership activities, including engagement and voting.

Strategy: The effects of nature-related dependencies, impacts, risks and opportunities on the DNB AM's business model, strategy and financial planning where such information is material

- DNB AM is still in the process of mapping its nature-related dependencies, impacts, risks, and opportunities as well as their materiality over the short, medium, and long-term. However, some key elements are already identified – that provides both risks and opportunities:
  - Climate change and loss of biodiversity are closely interconnected.
  - Food production is the biggest single global driver of deforestation, overuse of water, loss of biodiversity, and soil degradation.
  - Protecting nature and biodiversity is important for the value creation for companies, and they should seek to transition from a linear to a circular business model. Note that extractive industries are on the front line of this issue.
  - Further, there are ongoing efforts to better understand the effect nature-related dependencies, impacts, risks and opportunities have on DNB AM's business model, value chain, strategy, and financial planning, as well as the implications for transition plans and scenario analysis. Nevertheless, biodiversity elements are already increasingly incorporated into product development and our thematic funds - such as DNB Miljøinvest/DNB Fund Renewable Energy, DNB Fund Future Waves, Grønt Skifte Norden/DNB Fund Nordic Equities, and DNB Grønt Skifte Norge. In terms of DNB AM's direct operations, priority locations (as defined by TNFD) is not a material issue.

13 https://tnfd.global/publication/additional-disclosure-guidance-for-financial-institutions/

Risk and impact management: The processes used by DNB AM to identify, assess, prioritise and monitor nature-related dependencies, impacts, risks and opportunities

- Starting in 2023, biodiversity was upgraded to a long-term focus area. Moreover, DNB AM has worked extensively on biodiversity in the last three years including releasing an expectation document on biodiversity, signing the Finance for Biodiversity Pledge, conducting engagements, improving reporting, and preparing for regulatory requirements.
- There are several elements in DNB AM's processes for identifying, assessing, prioritising, and managing nature-related dependencies, impacts, risks and opportunities relevant for our investment portfolios. A starting point is the DNB Group Instruction for Responsible Investments which apply to all funds across all asset classes. Managing biodiversity risk is an important part of our work on responsible investments and all its four pillars.
  - In standard setting, our series of expectation documents is a key tool, especially relevant for nature are four expectation documents: Biodiversity Including Deforestation, Climate Change, Water, and Sustainable Oceans. These documents also help guide our active ownership process.
  - At the beginning of each year, the targeted engagement plan for biodiversity is updated based on overall engagement strategy. In proxy voting, the policy is to vote on all shareholder resolutions related to environmental issues including biodiversity.
  - Portfolio holdings, and the relevant investment universe, are regularly screened – also for nature relevant elements. If a company is found to be in breach of the DNB Instruction for Responsible Investments requirements on environmental factors, the company may be excluded from the investment universe of DNB AM.
  - In integration in portfolio management, DNB AM utilise biodiversity data from several data vendors. One important source is MSCI ESG Research that incorporates biodiversity in their ESG scoring as well as in SFDR principal adverse impact data. The RI-team supports portfolio managers in using biodiversity data in their company risk assessments, financial modelling, and investment decision making.

Metrics & targets: The metrics and targets used to assess and manage material nature-related dependencies, impacts, risks and opportunities

DNB AM signed the Finance for Biodiversity Pledge in 2021, committing to goal setting and development of metrics relevant for nature. We are still working on developing targets and goals to manage nature-related dependencies, impacts, risks, and opportunities and our performance against these.

As previously mentioned, the lack of complete and/or accurate biodiversity data makes comprehensive reporting on metrics challenging at the present time. However, going forward, we aim to report on:

- Metrics used to assess and manage material nature-related risks and opportunities in line with our strategy and risk management process.
- Metrics used to assess and manage dependencies and impacts on nature.

The TNFD has also proposed two core sector disclosure metrics to support financial institutions' disclosure of their exposure to sectors with material nature related dependencies and impacts, and exposure to sensitive locations. To cover this, we have analysed all the holdings across our equity funds in the following way:

- Mapped exposure to a defined set of **(high risk) sectors** considered to have *material* nature-related dependencies and impacts using the GICS-codes provided by TNFD.
- Mapped exposure to companies with activities in **sensitive locations** (direct operations) using a similar methodology as for SFDR principal adverse impact number 7 and data from MSCI ESG Research (complemented with data from other sources).
- Combined the mapping with additional relevant data on controversies and materiality.
- Used the data as a basis for planning nature related engagements, both reactive and proactive.

High-risk sectors for biodiversity

Across the equity portfolios, about one-third of the companies belong to high-risk sectors as defined by TNFD. If narrowed down to the ones flagged for very severe or severe biodiversity controversies by MSCI ESG Research, these constitute 1 per cent of the holdings measured in numbers.

Number of companies	2 686	100 %
In high-risk sectors	921	34 %
High risk sectors & biodiversity very severe/ severe controversies	25	1 %

Source: Internal portfolio management system WorldPort and MSCI ESG Research, November 2023

See appendix for more details.

Sensitive locations for biodiversity

From another angle, companies exposed to biodiversity sensitive locations, we also identify one-third of the companies in equity portfolios. If narrowed down to the ones flagged for very severe or severe biodiversity controversies by MSCI ESG Research, these constitute 1 per cent of holdings by number.

Number of companies	2 686	100 %
Operations in biodiversity sensitive areas	976	36 %
Operations in biodiversity sensitive areas & biodiversity very severe/severe controversies	24	1 %

Source: Internal portfolio management system WorldPort and MSCI ESG Research, November 2023

See appendix for more details.

Combined approach and implications for engagement activities

The two approaches above have considerable overlap, combined we find 26 companies (1 per cent) operating in biodiversity sensitive areas and/or high-risk sectors, that are being flagged for very severe or severe biodiversity controversies. In risk management, it is also relevant to engage (proactively) with companies DNB AM's funds have substantial ownership in, independent of risk levels. Expanding the list to include ownership of minimum 1 per cent (independent of controversy status) yields 70 companies or 3 per cent of the number of equity holdings. Many of these have already been engaged by us, the rest will be targeted going forward – either alone or in investor collaborations.

Number of companies	2 686	100 %
High risk sectors/sensitive areas & biodiversity very severe/severe controversies	26	1 %
High risk sectors/sensitive areas/ownership minimum 1 %	70	3 %

Source: Internal portfolio management system WorldPort and MSCI ESG Research, November 2023

See appendix for more details.

Oceans

Relevant SDGs

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 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
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.

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.

Goals for 2023

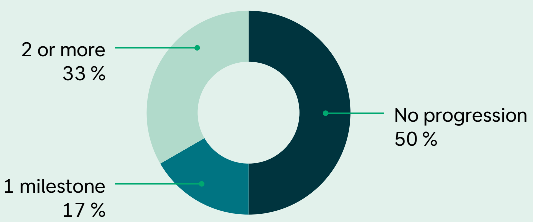
- Continue the proactive engagement on sustainable oceans, focusing on key sectors including deep-sea mining.
- Continue the cooperation with FAIRR (and other relevant collaborative engagements) on ocean issues.
- Promoting a sustainable blue economy through the membership in the Sustainable Blue Economy Finance Initiative.

Progress achieved in 2023

- Systematic proactive engagements covering key sectors including seafood (aquaculture), offshore oil and gas, marine transport, and deep-sea mining*.
- Expanded the collaborative engagements, with FAIRR (Sustainable Aquaculture, Biodiversity Loss from Waste & Pollution, Seafood Traceability Engagement) as well as with other leading Norwegian institution.
- Promoted a sustainable ocean through supporting, and participating in, the Sustainable Blue Economy Finance Initiative.

*Note that some engagements are counted under biodiversity or climate issues (not oceans).

Milestone progress on the topic



Initiatives and collaborations

FAIRR
A COLLER INITIATIVE

- UNEP FI Sustainable Blue Economy Initiative.
- Investor collaboration with other leading Norwegian institution centering on climate issues and biodiversity.

Results

- Broad collaborative engagements, both through FAIRR and together with other leading Norwegian institutions.
- Knowledge sharing and contribution to the development of standards and best practice.

Company engagements

Note that some engagements are counted under biodiversity or climate issues (not oceans).

Mowi ASA

Themes and Goals

- Promote best practice regarding juvenile fish ("settefisk") and the water consequences (water cleaning, circularity of organic residues, impact on local biodiversity).

Key remaining gaps to reach milestone 5:

- Ensure documented best practice for water cleaning, circularity of organic residues, and impact on local biodiversity - related to the farming of juvenile fish.

Results

- Mowi asserts that they strictly follow all laws and regulations regarding emissions to water from the production of juvenile salmon.
- For 6 of 21 juvenile fish units in Norway (20 per cent of production), there are no requirements of cleaning of the water released from these units. Glomfjord being the one large unit with no plans of upgrading the systems for water cleaning. DNB AM nudged Mowi on best practice here as well as more disclosure on water emissions and its effect on the oceans and biodiversity and the company appeared responsive.
- Constructive dialogue with Mowi, but further fact finding seems to be needed about the condition of various fjords, especially Hardangerfjorden, and the impact of juvenile fish. Furthermore, we will follow up the question about best practice and what to expect of Mowi going forward.

Petróleo Brasileiro S.A.

Themes and Goals

- Promote best practice on sustainable oceans including sustainable recycling of vessels and climate issues.

Key remaining gaps to reach milestone 5:

- Sustainable recycling of vessels. Extend the new Petrobras standards (Green Recycling Policy) to non-owned vessels. Annual reporting describing all decommissioned vessels and platforms with reference to publicly available third party audited reporting.
- Climate issues: SBTi verified scope 1-3 targets (or similar best practice SBT-approach), with sufficient details on related capex-plans.

Results

- Sustainable recycling of vessels: Petrobras has published a Green Recycling Policy with details on decommissioning practices. DNB AM commended the company's efforts and encouraged detailing disclosure in their annual reporting for 2023 and onwards. For non-owned vessels, DNB AM encouraged Petrobras to use similar standards, the company seemed receptive to the suggestions.
- Climate issues: There appears to be some gaps to best practice for the company's climate strategy. At the meeting, Petrobras pointed to the transition phase the company is in for general strategy as well as for executive management, indicating the possibility of key changes in their climate strategy and policy in the next few years.

Why do we focus on Sustainable Oceans?

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.[14] Unfortunately, the health of these important bodies is under severe pressure. 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, a critical issue to consider is how the oceans theme fits into the broader focus on promoting a circular economy (including how to handle marine plastics waste). Threats and opportunities related to global oceans are a key focus for the whole DNB Group.

DNB AM published an expectations document regarding sustainable oceans in 2020 that has been an important basis for our engagement activities on oceans in the last years – together with the expectation documents on biodiversity and climate issues. 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 and activities are therefore especially relevant: Seafood, offshore oil and gas, renewable marine energy, marine transport, deep sea mining, biotechnology, and marine/coastal tourism – and have been the focal point for our engagement activities.

Activities in 2023

In 2023, we continued the engagements activities, prioritising the same key sectors and themes as in the previous three years. In addition, this work has been coordinated with overlapping engagement on biodiversity, climate issues, and health and sustainable food systems.

In these overlapping engagements, we have in 2023 reached out to companies within seafood (aquaculture), offshore oil and gas, marine transport, deep-sea mining, and land-based activities influencing the oceans. For example, we have extensively followed up aquaculture companies, taking into account the whole value chain. Promoting sustainable feed is a key issue for this sector including important deforestation concerns and the handling of the carbon footprint, given that a large part of GHG emissions, especially scope 3, are linked to the feed ingredients. In investor collaborations together with FAIRR, we aim to encourage novel feed ingredients alternatives. Pollution to the fjords from juvenile fish, as well as fish pens, is another issue that we have engaged leading Norwegian salmon producers on. More sustainable and new technology is also a topic in our engagements and for positive selection in the funds managed by DNB AM. One example is Salmon Evolution ASA and their land-based hybrid flow-through salmon farming system (see also the comments under the section on Health & Sustainable Food System).

We have also continued engaging marine transport, partly through the multiyear investor collaboration with other leading Norwegian institution centering on climate issues and biodiversity. In these meetings in 2023, we had fruitful discussions with multiple companies such as Høegh Autoliners ASA, Wallenius Wilhelmsen ASA, and Odfjell SE, on various issues including ambitions for zero emission fuels and traveling through biodiversity sensitive areas. Finally, we have engaged with several oil and gas companies regarding sustainable oceans practices,

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

including Petrobras SA and their practices on recycling of vessels as well as climate issues.

In addition to the active ownership activities, we also continue to support the Plastic Pollution Treaty, a global business call for a UN treaty on plastic pollution.[15] Every year, millions of tons of plastic leak into the environment, and this is therefore a key issue for ocean sustainability as well as promoting a circular economy.

In summary, we continued to work for a healthier ocean in variety of manners in 2023 including overlapping engagement on biodiversity, climate issues, and health & sustainable food systems.

Focus for 2024

Oceans will not continue as a thematic focus area going forward as we see that this topic overlaps with several other focus areas. However, we will still participate in relevant collaborative engagements including the FAIRR-led engagements. Furthermore, 2024 will be the third year of DNB AM working through the membership in the Sustainable Blue Economy Finance Initiative - promoting a sustainable blue economy.

Goals for 2024

→ Discontinued as stand-alone focus area.

15 https://www.plasticpollutiontreaty.org

Human Capital

Relevant 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 3: Good Health and Well-being

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 and potential adverse work conditions.

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

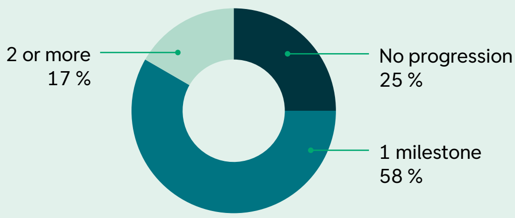
Goals for 2023

- Engage companies on issues relating to employee retention and paid sick leave.
- Integrate DEI considerations into voting.
- Engage with technology companies regarding ethical AI and disinformation on platforms.
- Utilise Global Child Forum data in company engagements on human rights.

Progress achieved in 2023

- We have engaged a number of companies on their employee retention strategies, including companies in the information technology sector.
- DNB AM has voted on several shareholder resolutions with implications for DEI, though we find that the human capital engagements we have had are more effective in communicating investor interest.
- DNB AM spoke to NVIDIA, the leading AI technology enabler on their governance of AI, and will promote the topic as part of our thematic focus area on human capital for 2024.
- We have used data from Global Child Forum for screening of companies for engagement and have targeted specific companies for both human rights as well as human capital engagements based on our analysis of the dataset.

Milestone progress on the topic



Initiatives and collaborations

FAIRR
A COLLER INITIATIVE

World Benchmarking Alliance

Results

- FAIRR Working Conditions has continued into its second phase and the engagements has already seen significant progress for many of the companies. DNB AM is signed up for further engagements with companies in the food production sectors on this important topic.
- The World Benchmarking Alliance's Collective Impact Coalition for Ethical Artificial Intelligence will be entering phase two in 2024 and we have been preparing for more engagements on this important topic for next year.

Company engagements

Tesla, Inc.

Themes and goals

- Workplace safety and employee retention.

Key remaining gaps to reach milestone 5:

- Tesla should complete a third-party audit of anti-discriminatory practices at its production facilities. These should be supported by robust grievance mechanism and demonstrated ability to identify, address and mitigate recurrent incidents. This should be annually externally verified and explained in the company's annual impact reporting.

Results

- Tesla has developed strong routines to manage and adress employee grievances in a responsible manner. More is expected in their 2023 Impact report on how this is being implemented across the enterity of the company's expanding operations.
- DNB AM also challenged the company on just transition considerations but Tesla has mainly approached the topic from a responsible management perspective up to this point.

Take-Two Interactive Software, Inc.

Themes and goals

- Low unionisation rate and efficient employee task allocation.

Key remaining gaps to reach milestone 5:

- Strong practices on human capital development, including formal grievance escalation and reporting procedures and annual engagement surveys to monitor employee satisfaction.

Results

- DNB AM encouraged Take-Two to improve disclosure on human capital practices, including formal grievance escalation and reporting procedures, as well as engagement surveys to monitor employee satisfaction. The company was responsive to this.

Why do we focus on Human Capital?

Human capital was introduced as a thematic focus area for DNB AM in 2023. Human capital refers to the economic value of a worker's experience, skills, knowledge, and qualifications, which are considered as assets. It is an intangible asset that is not listed on a company's balance sheet.[16] It is, however, a key driver of company value as human capital is a fundamental element in the production and delivery of goods and services. The sound and strategic management of a company's human capital is therefore a core concern and expectation for DNB AM.

Management of human capital also has implications for investors. Companies with sound management of human capital and integration of diversity, among other factors, 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[17]. At the same time, such companies may reduce their exposure to litigation and fines, reputational damage, and more structural risks, such as difficulty in attracting and retaining a diversity of talent at various levels within the organisation – all of which may negatively impact performance and therefore long-term returns for investors.

Activities in 2023

The first year of human capital as a focus area has been focussed on developing methods and defining the areas on where to focus our engagements for this topic. Previous engagements on human capital related matters have largely been reactive to company controversies, but the goal for this topic is to encourage and define company best practice in a proactive way. Attracting and retaining top talent is a prerequisite for long term

16 The World Bank, 2019, https://www.worldbank.org/en/publication/human-capital/brief/the-human-capital-project-frequently-asked-questions,

17 EY, 2018, "Why your Diversity and Inclusion Strategy Should Consider more than Gender and Background": https://www.ey.com/en_gl/workforce/why-your-diversity-and-inclusion-strategy-should-consider-more-t

success, and encouraging companies to adapt to best practice on this matter is also a key priority for DNB AM as an investor. In this first year, we have sought to integrate both reactive and proactive engagements as well as identifying key engagement initiatives.

Our engagements on human capital were initially an expansion of topics related to DEI considerations that have been central within the discourse on responsible investment in the past years. Although the topic has been a source of contention and controversy, the topic illustrates some key aspects of sound management as it is focussed on attracting and retaining the right employee for the right role. But importantly, we have found that on this topic perhaps more than any other, we must also listen and understand the needs of the companies themselves in assessing and challenging their management of human capital.

As discussed in the chapter on Human Rights, the just transition also has relevance for our engagements on human capital. Re-skilling and adapting the workforce of companies operating in sectors that are experiencing disruption remains a key concern and recommendation from DNB AM. A key sector for this year's engagements has been the gaming sector. In addition to technology company Embracer AB, we also engaged key holdings within the sector on both the opportunities of improved human capital management, but also on the many controversies associated with the start-up culture in the sector that has plagued many companies when they have scaled.

A key initiative for this work is PRI Advance, where we in 2023 participated for the first time in an engagement with Enel. Here the engagement has focussed on adverse impacts on local communities and supply chains, but the engagement initiative as a whole has the just transition as a key topic to discuss with companies.

Focus for 2024

One year on, DNB AM is ready to expand both the scope and intensity of the work on human capital. In doing so, we are developing a stand-alone expectation document on human capital management that formulates DNB AM's position on human capital management and identifies the expectations to companies on the topic in line with industry best practice. Initially, we find our expectations to be particularly relevant for companies operating within the information technology, communication services, financials and health care sectors.

Additionally, we also see the need to integrate considerations on the ethical use of AI and its potential impacts and opportunities for companies within this topic. We will seek to conduct this in a mainly proactive manner with companies.

Goals for 2024

- Expand on the engagement of companies on employee retention and challenge companies on the ethical use and integration of AI in their human capital management.
- Publish redefined expectation document on human capital in line with industry best practice.
- Participate in PRI Advance on human capital topics, with an emphasis on the just transition.
- Establish a DNB AM opinion on best practice use of artificial intelligence and engage companies on the topic.

Health and Sustainable Food Systems

Relevant SDGs

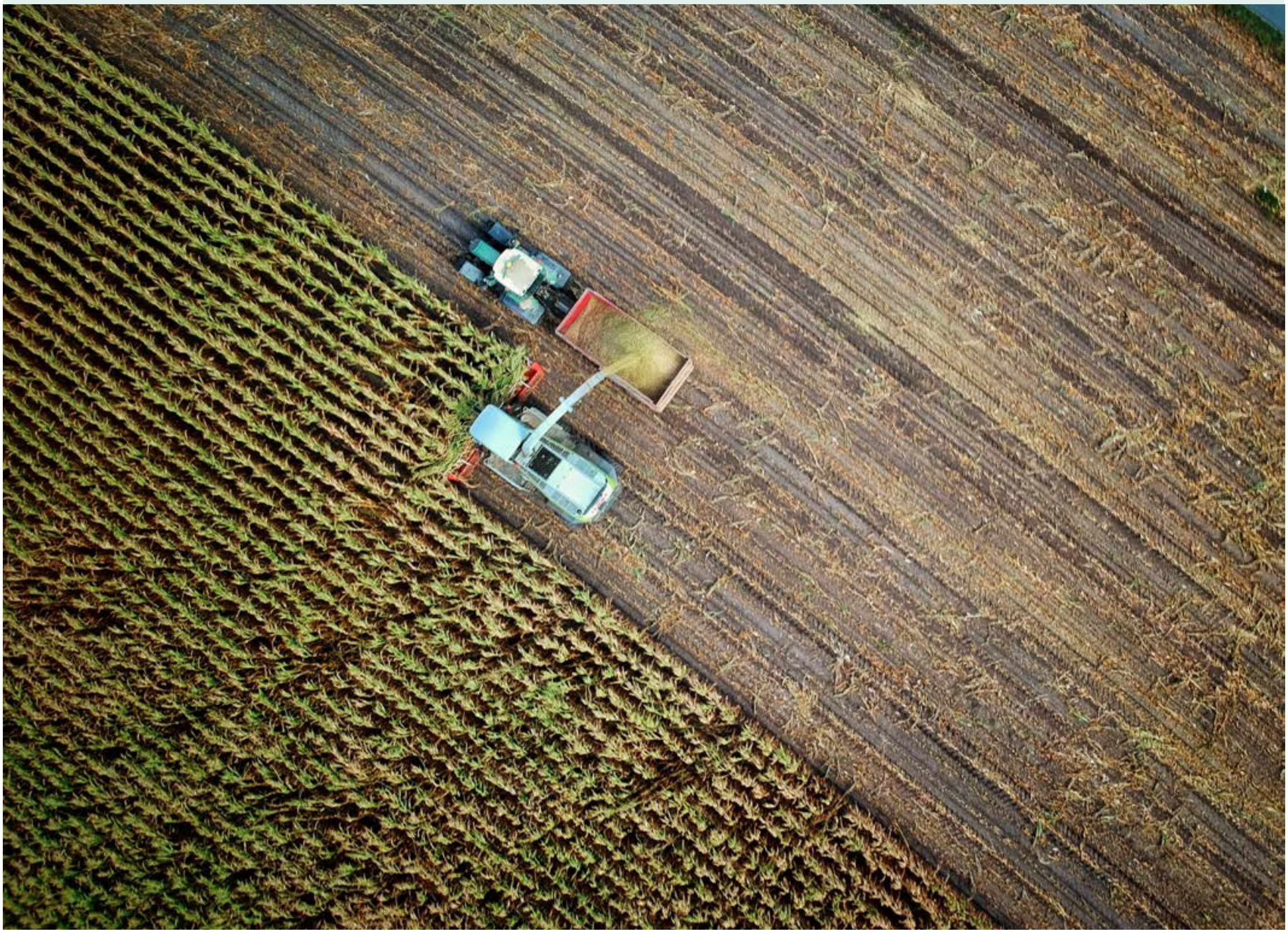
SDG 2: Zero hunger
End hunger, achieve food security and improved nutrition and promote sustainable agriculture.

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.



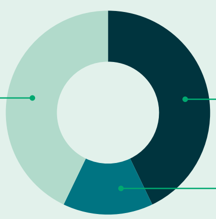
Goals for 2023

- 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.

Progress achieved in 2023

- Continued collaboration with FAIRR, including the Animal Pharmaceutical Engagement that was initiated in 2022. Signed up for two new collaborative engagements, namely FAIRR's Protein Diversification Engagement and the Seafood Traceability engagement.
- Continued collaboration with Access to Medicine Foundation (ATM), and engagements on the topic of access to medicine with companies in the Health Care and Biotechnology funds.
- Comprehensive engagements on animal welfare were conducted in the aftermath of recent salmon farming controversies, including a site visit.
- Started the work on an expectations document on health and sustainable food systems, gathering best practice on various aspects such as chemicals usage, animal welfare and nutrition.

Milestone progress on the topic



Initiatives and collaborations

access to medicine FOUNDATION

FAIRR A COLLER INITIATIVE

Results

- The latest update of the FAIRR Protein Producer Index show that considerably more of the larger food producers are responding to assessments and are implementing changes.
- Impactful collaboration also with the Access to Medicine Foundation which in its most recent Access to Medicine Index shows strong progress in the number of R&D projects with plan to promote access and new products covered by an access strategy.

Company engagements

9

Salmon Evolution ASA

Themes and goals

- Sustainable Aquacultural Practices.

Key remaining gaps to reach milestone 5:

- No significant gaps to best practice, including animal welfare, as well as strong reporting and clear expectations to suppliers.

Results

- Enhancing feed sustainability remains a significant challenge due to the high GHG scope 3 emissions and the impact on land use and biodiversity within the value chain. The company has established a strategic partnership with Cargill to pioneer sustainable feed solutions. DNB AM emphasised the need to explore innovative feed solutions, such as algae, insects, and waste products.
- Salmon Evolution demonstrates strong practices on animal welfare in the aquaculture sector. A welfare issue in the traditional farming industry is disease load and treatment, which is less of an issue for Salmon Evolution as the company is not faced by sea lice challenges.
- DNB AM encouraged the company to also include additional parts of the value chain, in the reporting on welfare, including transport and slaughter.

Humble Group AB

Themes and goals

- Health claims and considerations in product offering.

Key remaining gaps to reach milestone 5:

- No significant gaps to best practice, including solid documentation of the health and sustainability claims made.
- Strong transparency on the sustainability efforts of the subsidiaries given the company's decentralized structure.
- Document proper supply chain management including a high degree of traceability.

Results

- Health and food sustainability is key in the product offering of the company. However, the claims made about the product offering's health benefits are the responsibility of each individual daughter company. DNB AM nudged for a group level approach to best practice, including KPIs and documentation of health and environmental effects of products as well as better transparency on subsidiaries in reporting.
- DNB AM further encouraged the company to substantiate claims regarding diabetes 2 and obesity, and asked for cases with a scientific underpinning, suggesting Wellibites and Bamboo toothbrush as examples.
- The company will start the work on mapping its supply chain. DNB AM encouraged the company to use service providers to assist the work.

Why do we focus on Health and Sustainable Food Systems?

The focus area of health and sustainable food systems encompasses a wide range of important topics that present both risks and opportunities from an investor perspective. In recent years, the vulnerability of the global food system has become increasingly apparent, exposing numerous threats to the security, accessibility, and nutritional quality of our food. A notable development in 2023 was the World Bank's report on acute hunger, impacting a quarter of a billion people. Contributing factors, such as economic shocks and conflicts, exacerbated the situation, raising concerns about the stability of the global food chain. Moreover, many countries experienced a significant rise in domestic food prices, particularly in low and middle-income countries. This inflationary trend, combined with ongoing conflicts and the challenges posed by climate change, adds complexity to the pursuit of the global nutrition goals set for 2030. There is an urgent need for coordinated global effort to comprehensively address malnutrition and ensure sustainable and healthy diets.

Health and sustainable food systems is closely intertwined with our efforts in various other focus areas, such as human rights, human capital, climate change, water, oceans, and biodiversity. As elaborated in the Biodiveristy section, food production stands out as the primary global driver of deforestation, water overuse, biodiversity loss, and soil degradation. Therefore, merely counting the number of engagements on health and sustainable food systems does not provide a complete picture of our actions within this area. However, because of its complexity and importance, we consider that health and sustainable food systems is a focus area where action is key for solving some of the world's major challenges.

Activities in 2023

During the year, important steps has been taken globally to ensure commitments towards a more sustainable future for global food systems and human health. At the forefront was COP28, where more than 130 countries committed to the UAE Declaration on Sustainable Agriculture, Resilient Food Systems, and Climate Action. Outside of the COP28, the Nordic Nutrition Recommendations 2023 (NNR2023) was launched in June, as a result of five years of work involving 400 researchers and experts. For the first time, the NRR2023 integrates environmental impacts into the guidelines, reflecting an overall trend in the Nordic region. The report emphasizes the health and environmental benefits of a predominantly plant-based diet.

An important vehicle for DNB AM's work with health and sustainable food systems is the FAIRR network, an investor network focussed on the sustainability risks and opportunities associated with intensive animal production. FAIRR seeks to educate investors about the risks of intensive livestock farming and to encourage the adoption of more sustainable practices in the food and agriculture sector. DNB AM is a part of several engagements through FAIRR. One example is the FAIRR Working Conditions Engagement. During the year, the coalition successfully engaged with six global meat processor companies with the objective of raising awareness of labour risk with companies and improving corporate disclosure and labour management strategies. Additionally, DNB AM joined two new collaborative engagements. First, the FAIRR Alternative Proteins Engagement, which has the aim of encouraging businesses to incorporate protein variety into their climate transition strategies. Second, the FAIRR Antimicrobial Resistance Engagement, which has engaged seven animal pharmaceutical companies over the year, with the goal of improving disclosure and transparency in the industry.

In the pursuit of advancing global health equity, global pharmaceutical companies must actively contribute to improving access to antibiotics and medicines in lower and middle-income countries. The issue of access to medicine in developing countries can present potentially significant business impacts on the pharmaceutical sector. Unlocking commercial potential through new market access is contingent on responsible actions. In 2023, DNB AM continued collaboration with the ATM, signing the Access to Medicine Index. Additionally, we engaged with companies in the DNB Health Care and Biotechnology funds to further amplify our impact.

Throughout the year, media attention on controversies related to fish farming practices has led to comprehensive engagements with portfolio companies in the fish farming industry. The controversies have been related to pollution from juvenile fish facilities, and sea lice challenges. Sea lice in fish farming significantly impact animal welfare, causing physical harm, stress, and behavioural changes in infested fish. The stress from lice infestations often results in erratic swimming, reduced feeding, and higher mortality rates. Additionally, methods used to control sea lice, such as chemical or mechanical treatments, can further stress the fish. DNB AM is engaging with key portfolio companies on the matter, including Mowi ASA which was in the media's spotlight in July due to high mortality rates. The company has demonstrated improvements, with mortality rates down to levels below industry average for the last batch releases. DNB AM encourages portfolio companies to achieve ASC certification and to ensure transparency on mortality rates and other key indicators used to measure animal welfare.

Additionally, another industry challenge within salmon farming is feed. Major feed producers have been accused of contributing to deforestation in Brazil. The large-scale clearing of forests for soy cultivation, to produce feed, has detrimental effects on biodiversity, carbon storage, and the climate. Moreover, the expansion of soy cultivation for feed production has been linked to deforestation and violations of the rights of indigenous peoples, Afro-Brazilians, and other forest-dependent communities. The complexity of feed supply chains hinders transparency and accountability, making it difficult to track and verify the origin of soy and ensure it is not linked to deforestation or human rights abuses. Therefore, DNB AM participates in engagements with some of the world's largest feed suppliers on these matters, including Bunge and Cargill. Simultaneously, we encourage companies to explore novel feed solutions, and we engage with relevant NGOs on the topic.

Finally, in addition to the continued engagements, DNB AM has been developing an expectation document on health and sustainable food systems, which will be published in 2024. This document outlines recent and significant research and formulates expectations towards portfolio companies in accordance with best practice.

Focus for 2024

In 2024, DNB AM will finalise the expectations document, which will incorporate feedback from experts and companies in our investment universe. We will also continue engaging on issues related to animal welfare in salmon farming and continue the collaboration with ATM, FAIRR and Access to Nutrition (ATNI). For several years, we have engaged with companies marketing breastmilk substation, and in 2024 we aim to engage with global baby food companies on health and nutrition, in collaboration with ATNI.

Goals for 2024

- Continue the relationship with the Access to Medicine Foundation and the proactive engagements, focusing on critical medicine development and distribution related to lower and middle-income countries.
- Further deepen our cooperation with FAIRR around Animal Pharmaceuticals, Protein Diversification, Working Conditions and Seafood Traceability, also aligning with other engagements relevant for focus areas such as Biodiversity.
- Continue engagements related to animal welfare in salmon farming.
- Publish expectation document on health and sustainable food systems.

10. Appendix

Climate-related Risk Management

Scenario analysis

DNB AM initiated work on climate-related 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. The methodology, an assessment of existing methodologies and case studies from investors were included in the pilot project report, Changing Course, published in May 2019. This tool was acquired by MSCI ESG Research in 2019 and we have since this time been utilizing the tool as part of our internal analysis regarding scenario analysis, 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 impacts.

The MSCI ESG Research tool assesses the transition risk and opportunities separately from the physical risk and opportunities, producing a forward-looking Climate Value-at-Risk (CVaR) metric. The CVaR assessment aims to "measure the potential impact of different climate scenarios on individual securities' valuation"[18], and provides a percentage value of the potential impact resulting from climate change under each scenario. Security level results are then aggregated up to the fund level to provide a fund level CVaR.

A positive 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.

As part of our annual reporting, we have assessed a selection of our sustainability-themed funds, under a range of scenarios compared to a range of benchmarks we utilize for various fund products. This is intended to provide a picture of the potential impact of the funds relative to a range of benchmarks, intended to broadly represent the markets in which we invest.

18 From MSCI ESG Research Report, Managing Climate Risk in Investment Portfolios

Scenarios

Scenarios are produced using climate models and the selection of scenarios is a key consideration when assessing funds under scenario analysis. There exists a significant range of models available for use publicly, with many developed by different academic research groups. Each model is built on a range of inputs and assumptions in the attempt to represent the earth's climate. For our purposes, we are reliant on a subset of climate models, known as Integrated Assessment Models (IAMs). The IAMs in addition to the physical earth systems also include considerations for human systems, including economic/ GDP growth, energy, and population growth. The IAMs are utilised to produce scenarios with varying levels of carbon emissions. When selecting the IAM and the scenarios under which to assess companies, an understanding for the inputs and assumptions must accompany the viewing of the results. For this reason, inputs and assumption to the model are part of our internal discussions regarding the results of the scenarios analyses.

Since 2022, we have utilised the Network for Greening the Financial System (NGFS) scenarios framework which has increasingly become a standard for scenario analysis within the financial system. In 2023, the NGFS scenarios were updated, including updates to the economic and climate data, changes to underlying assumptions regarding future availability of carbon capture and storage technologies, as well as improvements in modelling of acute physical risks. The NGFS now includes seven scenarios, broadly grouped into four categories based on the level of risks presenting as either transition or physical risk. Compared with the previous iteration, the orderly scenarios are now "more disorderly, reflecting climate policy delays and recent developments in energy markets in the current geopolitical context"[19].

19 NGFS Framework 2023

These groupings are outlined in the NGFS framework[20]:

- **Orderly scenarios** - assume climate policies are introduced early and become gradually more stringent. Both physical and transition risks are relatively subdued.
- **Disorderly scenarios** - explore higher transition risk due to policies being delayed or divergent across countries and sectors. For example, carbon prices would have to increase abruptly after a period of delay.
- **Hothouse world scenarios** - assume that some climate policies are implemented in some jurisdictions but that globally, efforts are insufficient to halt significant global warming. The scenarios result in severe physical risk, including irreversible impacts like sea-level rise. Note, that this includes both the Current Policies and Nationally Determined Commitment scenarios.
- **Too-little-too-late scenarios** – a new category of scenarios, intended to represent where late and uncoordinated transition leads to high physical and transition risks.

Table 10.1 NGFS Scenario narratives

Category	Scenario	Scenario narrative
Orderly	Net Zero 2050	Limits global warming to 1.5 °C through stringent climate policies and innovation, reaching global net zero CO2 emissions around 2050
	Below 2 °C	Gradually increases the stringency of climate policies, giving a 67 per cent chance of limiting global warming to below 2 °C
	Low Demand	Assumes that significant behavioural changes – reducing energy demand – in addition to carbon price and technology induced efforts, would mitigate pressure on the economic system to reach global net zero CO2 emissions around 2050.
Disorderly	Delayed Transition	Assumes annual emissions do not decrease until 2030. Strong policies are needed to limit warming to below °2C. Negative emissions are limited.
Hothouse world	Nationally Determined Contributions (NDCs)	Includes all pledged targets even if not yet backed up by implemented selective policies.
	Current Policies	Assumes that only currently implemented policies are preserved, leading to high physical risks.
Too-little too-late[21]	Fragmented World	Assumes a delayed and divergent climate policy response among countries globally, leading to high physical and transition risks. Countries with net zero targets achieve them only partially (80 per cent of the target), while the other countries follow current policies.

20 NGFS Framework 2023
21 In addition to the scenario as part of the new "Too-little-too-late" grouping, NGFS released a 'Low demand' scenario as part of the orderly scenario category. This scenario assumes that significant behavioral changes, such as reducing energy demand, carbon pricing and efforts driven by technology, will collectively alleviate the strain on the economic system. These behavioral changes not only contribute to emission reductions but also enhance well-being, public health, and address key challenges related to decarbonization.

Results of scenario analysis

We have for the second consecutive year, chosen to focus on the NGFS' Net Zero 2050, Below 2 degree, and NDC scenarios in our scenario analysis. These scenarios belong to their **Orderly** (Net Zero 2050, Below 2 degree), and **Hothouse World** (NDC) groupings of scenarios. In addition, an assessment was also performed using the **Disorderly** (Divergent net zero, Delayed transition) scenarios. The assessment was conducted on 'DNB All holdings', a selection of our sustainability-themed funds (DNB Renewable Energy, DNB Future Waves, DNB Nordic Equities), and relevant benchmarks.

We can see from the results using the NGFS scenarios that all sectors and funds face significant climate transition and physical risks under the selected low carbon transition scenarios (Net Zero 2050 and Below 2-degree scenarios). For DNB All holdings, the sectors which on a weighted basis, face the largest potential aggregated transition risk under these scenarios, are the Energy, Materials and Transportation sectors. For physical risks, it is the Utilities, Transportation and Consumer Staples sectors that face the largest aggregated risks.

Climate Value-at-Risk (CvaR)

A measure of the potential impact of different climate scenarios on individual securities' valuation. The results are a percentage value of the potential impact resulting from climate change under each scenario. Security level results are aggregated up to the fund level to provide a fund level CVaR.

Positive CVaR (e.g. 2.9%) implies that the overall portfolio-level impact will result in profits under the scenario.

Negative CvaR (e.g. -5.5%) implies that there will be portfolio-level costs associated with the scenario.

Figure 10.1 Aggregate Transition Risks and Opportunities under NGFS climate scenarios

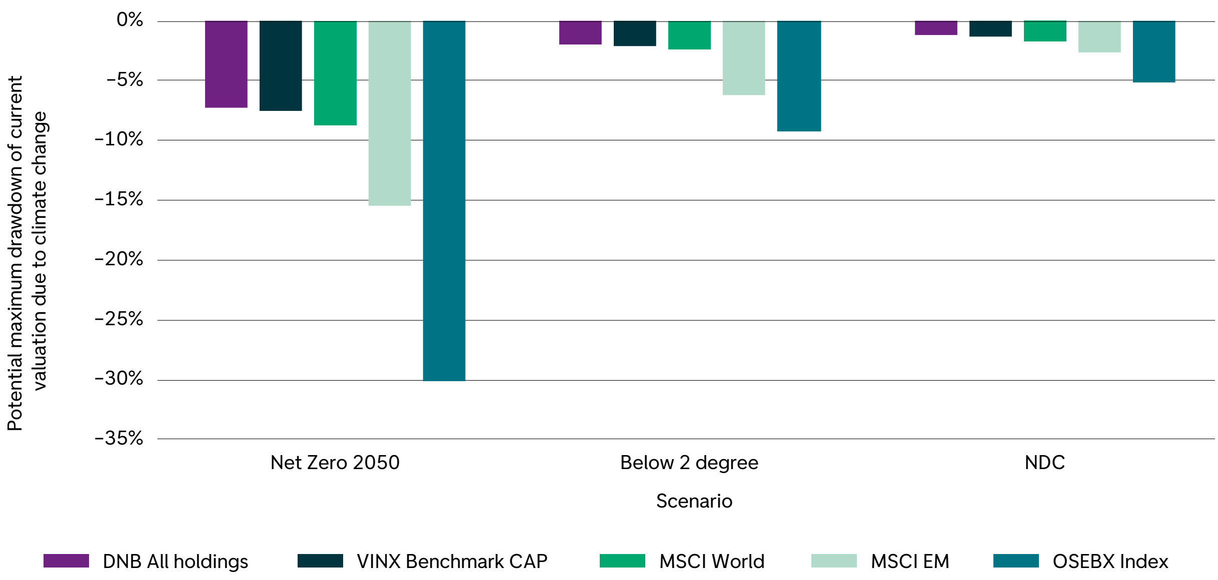
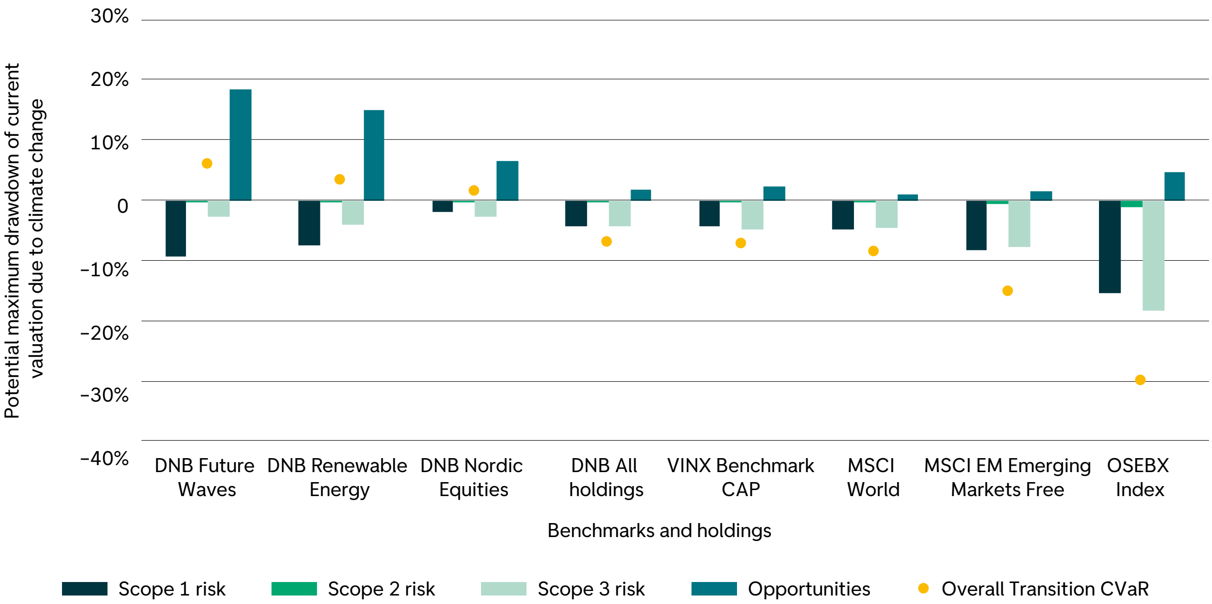


Figure 10.2 Transition risks and opportunities under NGFS Net zero 2050 scenario

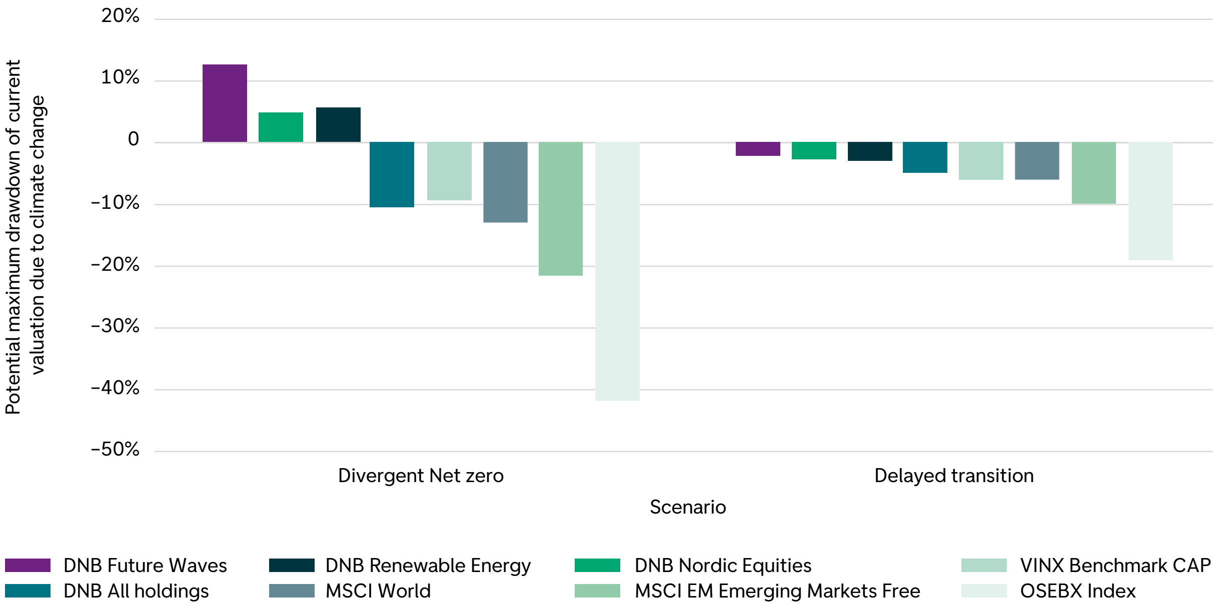


The results from the scenario analysis using the Net Zero 2050 scenario show the selected sustainability-themed funds have positive climate opportunities under this scenario. This was driven by the significant technological opportunities for companies within the fund, indicated in the dark green column in figure 10.2. The results reflect the thematic focus of these funds.

In addition, an assessment was also conducted under the **Disorderly** scenarios (Divergent Net zero, Delayed transition). With the collective persistent failure to reduce global emissions in line with the Paris Agreement, the eventualities presented in these scenarios are becoming increasingly relevant. Under the Divergent Net zero scenario, 'DNB all holdings' and the assessed benchmarks had significant overall transition risks, while the selected sustainability-themed funds were shown to have positive CVaR, i.e. it was profitable for these funds under this scenario. This was driven primarily by the increased technological opportunities for companies within these funds, under this scenario.

The Delayed transition scenario is characterized by significant action to decrease global emissions post 2030 driven in-part by carbon taxes. Under the assessment of funds using this scenario, all funds experienced negative transition risks driven primarily by the associated carbon costs (policy risks). All also experienced additional technological opportunities relative to the equivalent Orderly 2-degree scenario, indicating on aggregate companies in these funds take advantage of opportunities in these eventualities. The positive CVaR results for the selected DNB AM sustainability-themed funds can be attributed to the significant technological opportunities for companies within these funds under these scenarios, countering the additional policy risk.

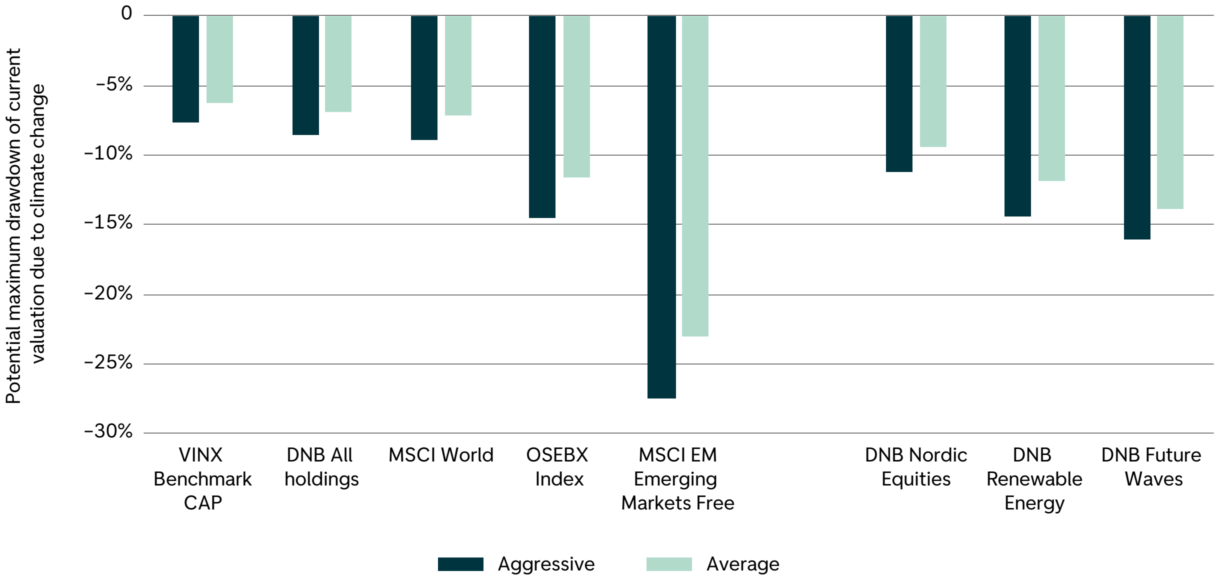
Figure 10.3 Aggregate Transition Risks and Opportunities under Disorderly NGFS climate scenarios



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 Research provides an assessment of both average and aggressive physical risk scenarios. We present both scenarios for our funds in figure 10.4. Both scenarios utilize a business-as-usual 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. The funds with greater physical climate risks than the MSCI World, were all relatively overweight in sectors with the largest physical climate risks.

It is important to be clear on these assessments and explicitly state that these scenarios are not forecasts, but are rather 'if-then' models, intended to guide the user through a range of potential outcomes. It is for this reason that understanding the underlying assumptions within the models are essential, and why where possible, we compare results under models with the same expected warming (e.g. 1.5 degrees), to identify how the underlying assumptions impact on the results. While not perfect, the results are an important starting point for discussions with companies, to understand how they are managing climate related risks. In many instances, we see that companies already have robust plans and strategies to address these potential risks.

Figure 10.4 Aggregate CVaR Physical risks and Opportunities - Average compared with Aggressive scenarios



Carbon emissions data

A carbon footprint is a measurement of the 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 normalising using some other factor. The measurement of CO_2 or equivalents released by the activities of a company, country or an investment fund, is one of several factors that can provide insight into a company's climate risk and impact. Measurement is a crucial first step, but companies must also take further steps to manage the associated risks created by their emissions across different scopes.

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. Since 2022, DNB AM have been 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. The DNB group and DNB AM are also part of the Nordic PCAF group. Unfortunately, carbon emissions data coverage for the Nordic investment universe, particularly within SMEs remains 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. For more information on this, read our section on ESG-integration. The companies' carbon intensity (tCO2e/mUSD revenues) is weighted by the respective holding in the portfolios, this is the same process for the relevant index. In the calculations, weight in 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 prorate 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 10.7 for details on emission Scopes). Scope 3 data is something we are t racking 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. Table 10.8 is a snapshot of the portfolio as of 29 December 2023 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 continue to track Scope 3 emissions on a fund basis internally as 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.

As the pressure for companies to report on this information and set emission reduction targets increases, public scrutiny of this data is only likely to intensify. DNB AM are supporters of public and transparent standards such as the IFRS and CDP.

Table 10.2 presents the DNB AM carbon reporting for 2023, for all holdings within scope. The results varied compared with 2022, across the different carbon metrics, but were broadly positive. with the most positive change being the reduction in financed emissions when compared with 2021. DNB AM observed the ITR for the holdings within scope at 2.3°C down from 2.5°C in 2022. This is likely a result of an increase in the percentage of holdings with SBTi approved targets as a proportion of AUM, and an increase in overall sectoral weight in Financials compared with 2022. In line with the DNB transition strategy, it is the expectation that an increasing portion of the DNB AM AUM will adopt science-based emission reduction targets. Figure 10.5 highlights on a sectoral basis, the increasing proportion of DNB AM WACI which are from organizations with a commitment to Net zero 2050. All sectors, except for Energy have seen a continued increase in these numbers since 2021.

Figure 10.5 DNB AM's WACI committed to Net zero 2050 on a sectoral basis.

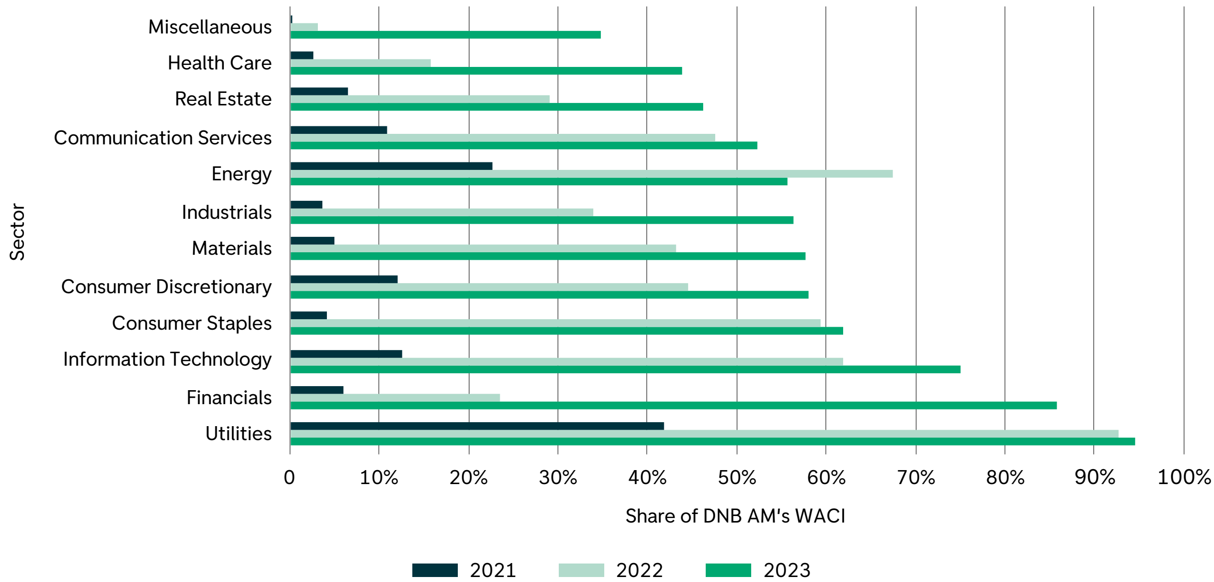


Figure 10.6 Greenhouse gas emissions from DNB's mutual funds relative to reference indices (Tonnes of CO_2 equivalent per USD 1 million of revenue)

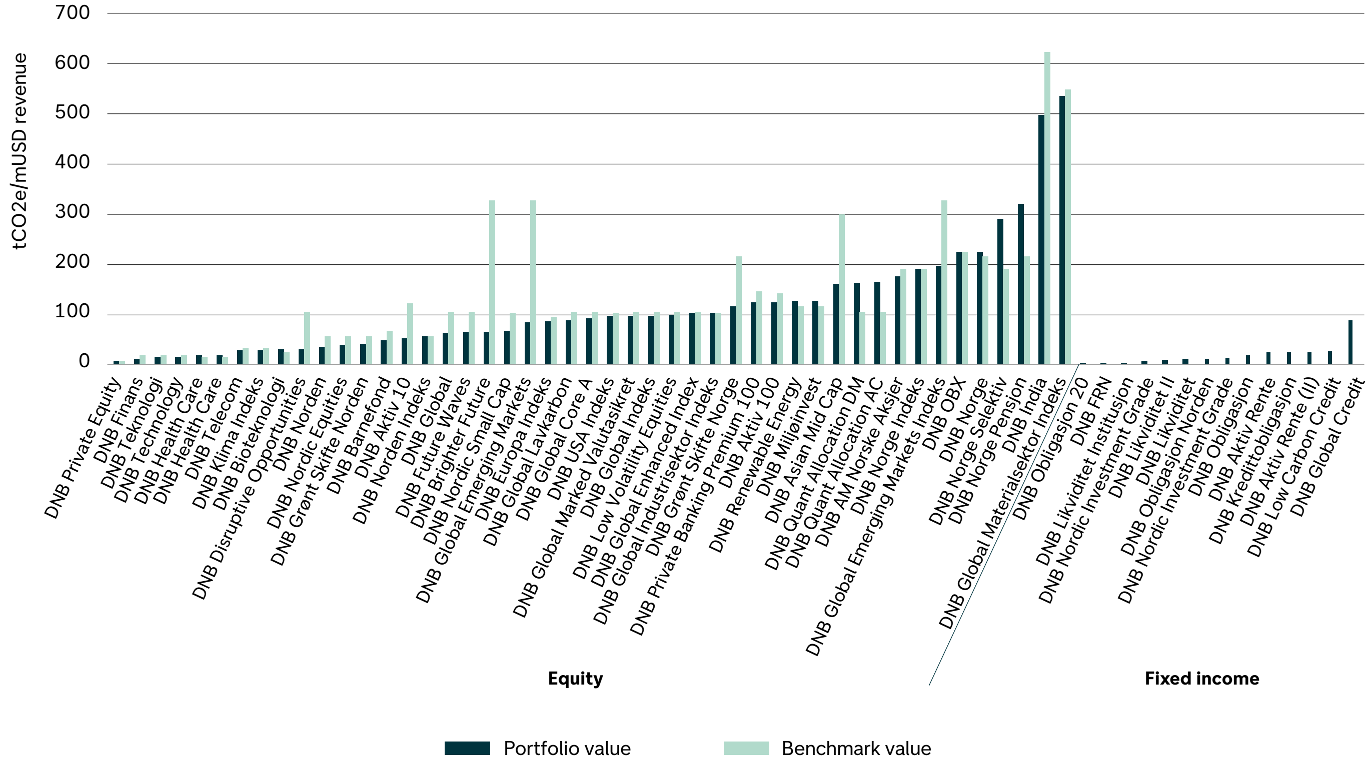
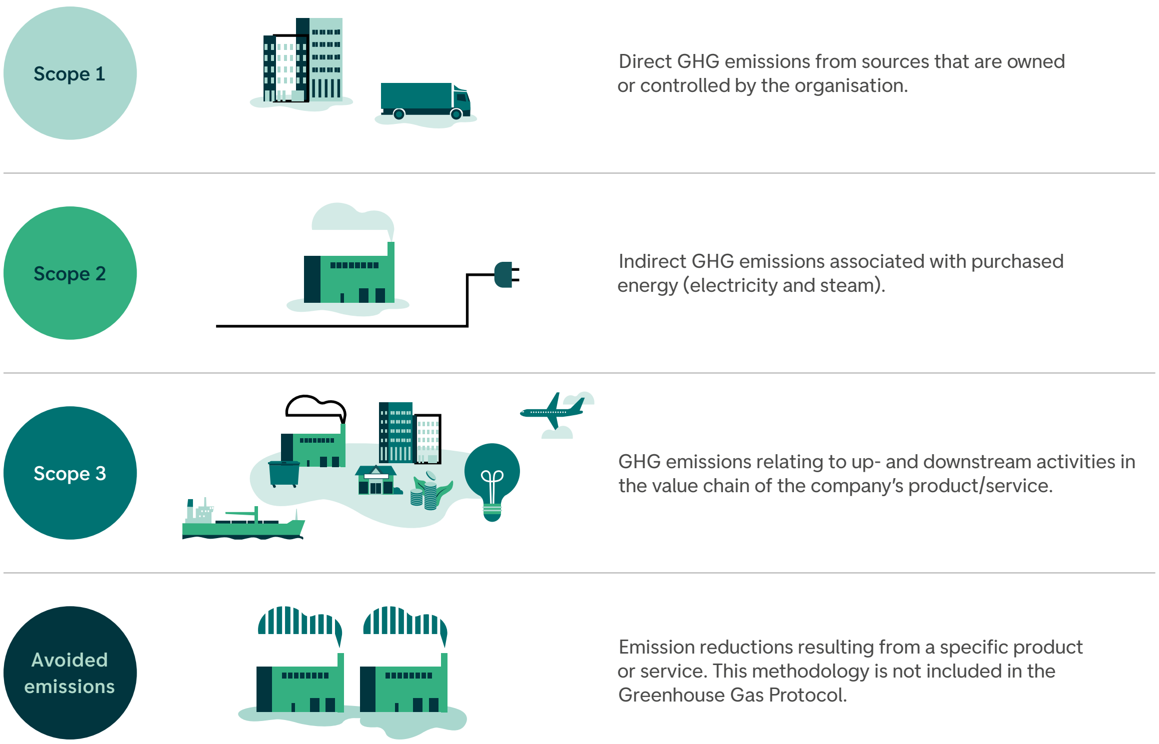


Table 10.2 Carbon metrics overview table

Carbon table 2023			2023	2022	2021	percentage change from 2022
Total financed carbon emissions	tCO2e	Scope 1 and 2	2 030 069,0	2 324 493,3	2 831 180,1	-13 %
	tCO2e	Scope 3	18 005 620,0	15 991 640,5	18 207 984,6	13 %
Financed carbon emissions	tCO2e/mUSD invested	Scope 1 and 2	39,3	51,1	50,0	-23 %
	tCO2e/mUSD invested	Scope 3	348,7	351,4	321,5	-1 %
Weighted Average Carbon Intensity (WACI)	tCO2e/mUSD revenue	Scope 1 and 2	72,1	105,2	101,1	-31 %
Implied Temperature Rise (ITR)	°C	Scope 1 and 2	2,3	2,5	2,4	

Figure 10.7 Categories of greenhouse gas emissions



Forward Looking Metrics

Carbon emissions reporting, while important, does not provide a complete picture of the actions and efforts taken by companies to reduce emissions and improve sustainability performance. The well-acknowledged weaknesses associated with carbon footprints, not least that the assessments are based on backwards-looking data, reduce the usefulness of the numbers. Further, while the widely adopted revenue-based intensity metrics, are useful in providing broad comparability and simplicity, they should be complemented with other metrics to provide a comprehensive understanding of carbon emissions and climate actions taken.

For this reason, DNB AM have continued to explore different metrics, tools and products to assess companies on their climate risks and alignment with the Paris Agreement. There are a range of tools and products available on the market intended to assist investors in these assessments. We are increasingly looking for means by which to assess companies on their current performance, their targets, and the performance relative to those targets. Carbon emission reduction targets, in line with science-based 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 SBTi is one standard for carbon emission reduction target setting, allowing for comparability using a standardised approach.

From an emissions perspective, companies belonging to the energy sector became the largest contributing sector to DNB AM's WACI in 2023, swapping places with Materials, who previously held the title. The lack of SBTI availability for companies in the energy sector, presents a challenge for asset managers investing the sector and with a portfolio coverage target. While the AUM with science-based targets has increased in 2023 for DNB AM, this may become increasingly challenging in the future. Further details on how we are addressing this challenge are included in the Transition Strategy chapter, with the discussion around DNB AM's target assessment framework.

Figure 10.10 provides details of an assessment of DNB AM holdings, and the percentage of each sector's emissions that are covered by an SBTi emission reduction target (either committed or approved). The sector with the greatest proportion setting targets is as with the previous two years, the material sector, which is the second largest contributor to DNB AM's WACI. The largest contributor to DNB AM's WACI, the energy sector, is unable to have SBTi approved targets as the sectoral methodology remains in draft. In total, 31.8 per cent of DNB AM's WACI are covered by Science Based Targets (or 29.5 per cent on an AUM basis). In line with the DNB transition strategy, and the relevant targets for DNB AM, increasing the proportion of DNB's AUM with emission reduction targets will be a key focus of our company engagements on climate. Further details are included in the Transition Strategy chapter.

Figure 10.8 Proportion of DNB AM's WACI by sector, and proportion of WACI with a science-based target.

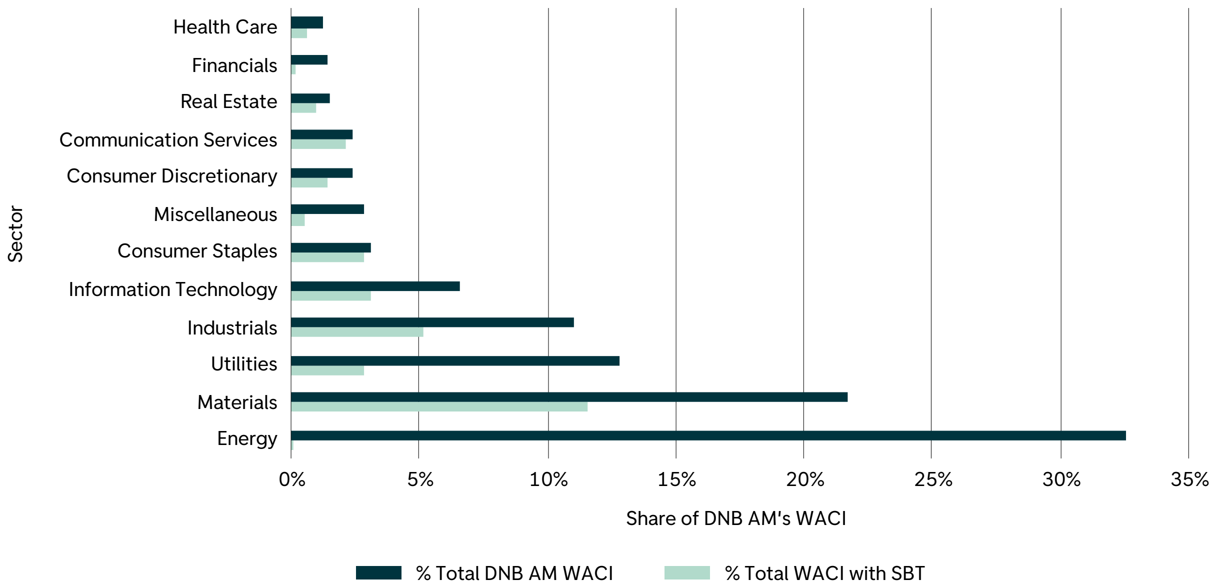
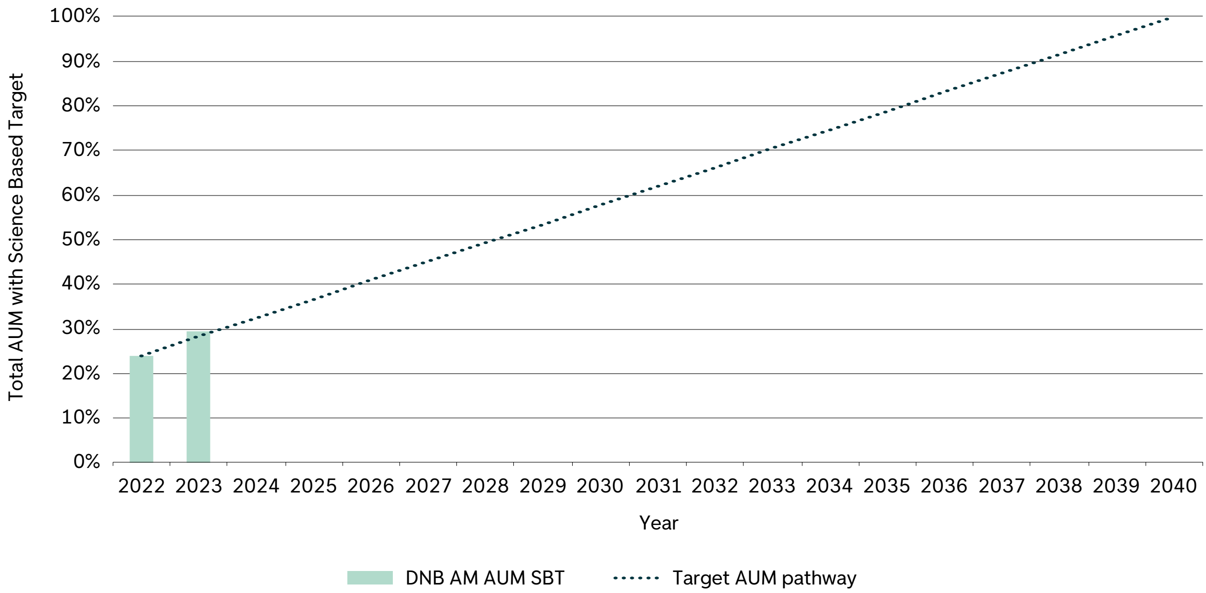
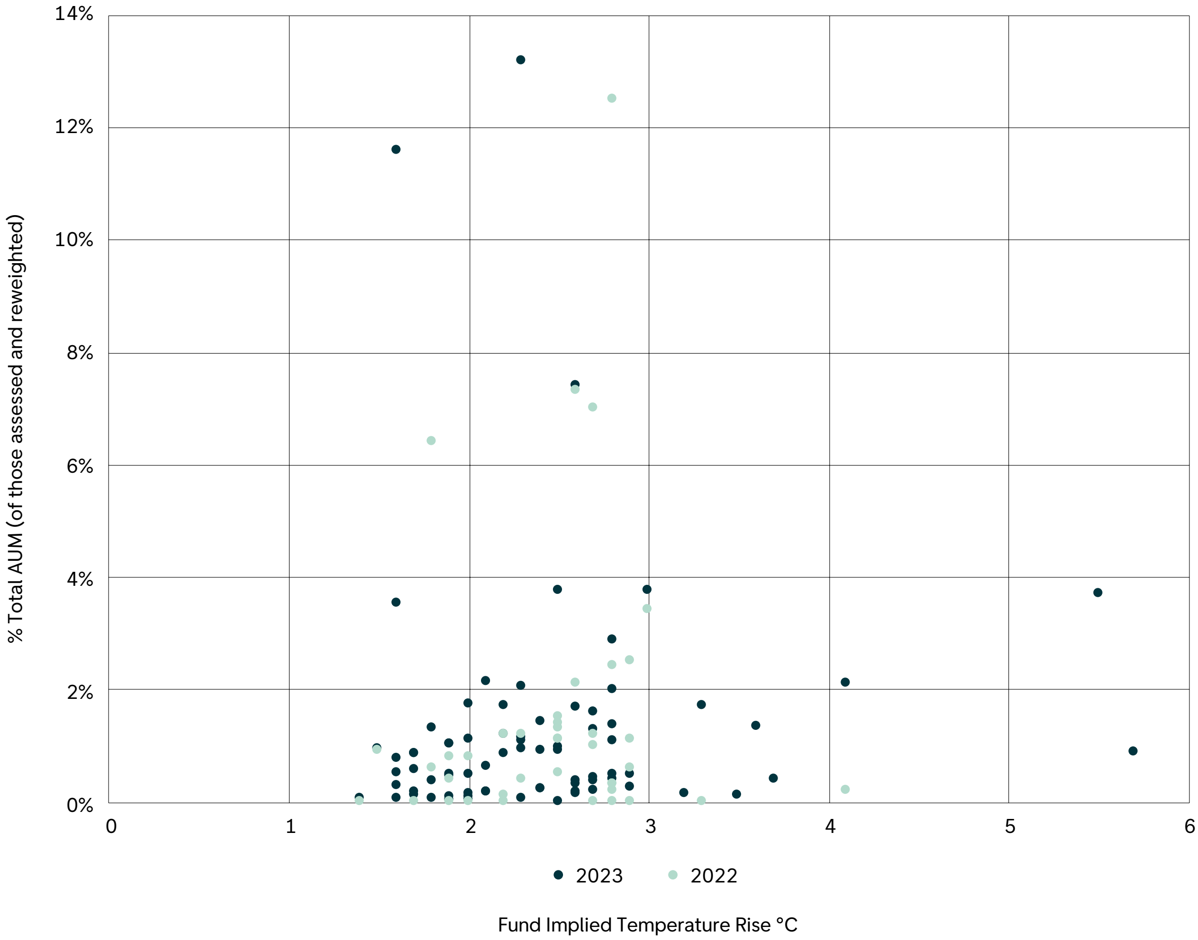


Figure 10.9 DNB AM's portfolio coverage target



An 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. We continue to see increasing interest in demonstrating the temperature trajectory of funds. We have conducted an analysis of the DNB AM funds, using the MSCI ESG Research ITR approach. The MSCI ESG Research 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. In addition, we are reporting the total ITR for DNB AM's eligible assets, in table 10.10. As with other tools, the ITR is reliant on data and the coverage is lacking in parts. To assess the ITR for a fund, we require a minimum of 65 per cent of holdings to have data. While we see positives with the metric, we believe it is important to separate company and fund temperature alignment from impact.

Figure 10.10 DNB AM fund implied temperature rise (Fund implied temperature rise (°C)



Other challenges with an ITR or Temperature score metrics include the differences in approaches implemented by different actors in the market. Despite the metrics being in place for a number of years, 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 under different IAM and scenarios. 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. We will continue to follow the development of these 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.

External Resources

As part of the DNB AM responsible investment approach, we utilise external research from data providers as inputs to our own company assessments. With the implementation of frameworks for SFDR-reporting, the scope of external data use has been vastly extended, particularly with respect to the relationships with MSCI ESG Research, S&P Global TruCost and Bloomberg. External datasources include:

- Company reporting
- MSCI ESG Research for ESG reports, scores, data, business involvement screening research, carbon metrics and controversies, climate value at risk, SDGs alignment and principal adverse impact indicators, amongst other data points.
- S&P Global TruCost data for carbon and environmental data and risk analysis, including complementary data points for do no significant harm assessments for SFDR reporting and SDG alignment.
- Sustainalytics for UN Global Compact compliance and controversy assessments, norms-based screening and engagement services.
- ISS for proxy voting and voting statistics (based on DNB AM's own guidelines) as well as data used for estimation of Potential Avoided Emissions (PAE).
- Bloomberg data, including data related to EU Taxonomy eligibility and alignment, as well as general ESG-data and screening related to government sanctions.
- 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.

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 Research

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Note, displayed data in this report contains the most recently available data from the underlying companies in our portfolios. This is due to delays in both reported and modeled climate data from our service provider, MSCI ESG Research.

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 summarised in the globally recognised 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-themed 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

DNB Fund Nordic Equities and DNB Fund Future Waves have been granted the Towards Sustainability label, meaning that the funds 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

- AI: Articial Intelligence
- ASK: Share savings accounts
- AUM: Assets under Management
- CA100+: Climate Action 100+
- CBD: Convention on Biological Diversity
- CO_2: Carbon dioxide
- COP28: The 28th Conference of the Parties
- CSDDD: Corporate Sustainability Due Diligence Directive
- CCUS: Carbon capture, utilisation and storage
- CVaR: Climate Value-at-Risk
- DEI: Diversity, Equity and Inclusion
- DNB AM: DNB Asset Management
- DNSH: Do no significant harm
- ESG: Environmental, social and governance
- ESRS: European Sustainability Reporting Standards (ESRS)
- ETS: Emissions Trading System
- FAIRR: Farm Animal Investment Risk & Return
- Finance Initiative
- GDP: Gross Domestic Product
- GHG: Greenhouse Gas Emissions
- IAM: Integrated Assessment Models
- IEA: International Energy Agency
- ILO: International Labour Organization
- IIGCC: Institutional Investors Group on Climate Change
- IPBES: Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services
- IPCC: Intergovernmental Panel on Climate Change
- IPSES: Intergovernmental Science Policy Platform on Biodiversity and Ecosystem Services
- IRA: Inflation Reduction Act
- ITR: Implied Temperature Rise
- NAV: Net Asset Value
- NA100: Nature Action 100
- NBIM: Norges Bank Investment Management
- NGO: Non-governmental organization
- NORSIF: Norwegian responsible and sustainable investment forum
- NTA: Norwegian Transparency Act
- NUES: The Norwegian corporate governance board (i.e. NCGB)
- PAE: Potential Avoided Emissions
- PBAF: Partnership for Biodiversity Accounting Financials
- PCAF: Partnership for Carbon Accounting Financials
- PRI: Principles for Responsible Investments
- Regulation (i.e. European Union SFDR)
- 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
- TCFD: Task Force on Climate Related Financial Disclosure
- TNFD: Taskforce on Nature-Related Financial Disclosure
- UN: United Nations
- UNEP FI: United Nations Environment Program
- UNGP: UN Guiding Principles on Business and
- UNICEF: United Nations Children's Fund
- WACI: Weighted Average Carbon Intensity
- WEF: World Economic Forum
- WHO: The World Health Organization
- WWF: World Wide Fund for Nature

Relevant Reports and Links

DNB Renewable Energy/DNB Miljøinvest Report on Potentially Avoided Emissions 2022

DNB Bank ASA Annual Report 2023

DNB CDP Response 2023

Further reporting on DNB AM's website

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