



# 2017

## ANNUAL REPORT

Responsible investments

**DNB Asset Management**

Responsible Investments

# Report from the CEO

2017 became another favourable year for investing in funds. Healthy global economic growth and stronger corporate earnings lifted both the Norwegian and international equity markets. 2017 was also another year with increasing focus on responsible investments, both among professional and private investors.

The DNB Group implemented a new strategy in 2017 called "4 THE FUTURE". In the new group strategy, corporate responsibility has a strengthened and prominent position as one of four key elements, and responsible is one of three key values. The new strategy supports the strong focus DAM has on responsible investments. We believe that integrating ESG (Environmental, Social and Governance) issues in investments is essential for long-term and sustainable financial value creation.

To support this work, DAM's dedicated team for responsible investments has been strengthened over the last two years and had three full-time employees in 2017. To ensure ESG integration in investment decisions, the team works closely with the portfolio managers, companies, service providers and other investors.

The wide scope of being a responsible investor also includes the work of screening and engaging with external suppliers of investment products, as well as contributing to the appropriate labelling of the large number of external funds now accessible on open platforms by DNB, such as share savings accounts.

One key element of responsible investment is active ownership, and DAM further intensified its efforts here last year. DAM voted for all its holdings, on behalf of the clients, at Norwegian annual and extraordinary general meetings (AGMs). DAM also voted at selected important meetings internationally, in total 128 meetings in 2017. Furthermore, DAM conducts proactive dialogue ahead of meetings (or after) as well as engaging companies in a range of other ESG topics throughout the year. A total of 176 company dialogues were conducted in 2017 either directly or through our engagement service provider.

## FACTS

### DNB Asset Management

DNB Asset Management (DAM) is part of Wealth Management & Insurance (WMI), a business area in the DNB Group.

DAM employed 139 people (FTEs) across three locations in Europe at the end of 2017.

DAM managed NOK 596 billion in fixed income, equities, hedge funds, and private equity – on behalf of institutional and retail clients.

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

Standard setting is another important element of responsible investment, and a tool that also supports the work with active ownership. In 2017, two expectation documents were published – one on human rights and one on serious environmental harm.

In order to structure the work with a large number of possible ESG related issues, three long-term focus areas have been defined: climate change, water and human rights. In addition, the 2017 engagement strategy prioritised certain shorter term thematic engagements: corruption, fracking, supply chains in emerging markets and sustainable shipbreaking.

The long-term focus on mitigating climate change is also a driver for DAM's growing family of relevant funds for this topic. DNB Global Lavkarbon was launched in August 2017, being our second low carbon fund together with DNB Grønt Norden. Furthermore, we offer DNB Miljøinvest which is a sustainability-themed fund investing globally in renewable energy and energy efficiency, thereby providing solutions for the transition to a low carbon economy.

To further the work in the ESG area in 2018, deforestation and land use will be added as prioritised themes. Production of the four soft commodities soy, palm oil, timber products and cattle products are the main driver for deforestation and forest destruction – and account for 10-15% of global greenhouse gas emissions. There are also other ESG issues related to soft commodity production such as labour rights, child labour, land rights and indigenous peoples' rights.



Torkild Varran  
CEO  
DNB Asset Management

# DNB Asset Management's work with responsible investments – guidelines and strategies

In addition to following Norwegian standards, DNB has chosen to support and participate in a number of global initiatives and international guidelines to ensure shareholder value in a long-term perspective. The Group supports internationally recognised standards and initiatives such as the UN global Compact, the UN Guiding Principles for Business and Human Rights, the G20/OECD Principles of Corporate Governance, the OECD Guidelines for Multinational Enterprises and the UN Principles for Responsible Investments, UNPRI. These standards and initiatives form the basis for the Group's work.

DNB has adopted high standards for responsible investments and the work is based upon four pillars. This is standard setting, ownership, risk management and ESG integration. DNB's Responsible Investment Guidelines specify that DNB Asset Management (DAM) will exercise special care with respect to certain transactions and acts, especially those which represent a risk of involvement in unethical conduct, infringement of human or labour rights, corruption or harm to the environment. These are standards that our clients attach great importance to and therefore apply to all investments made by DAM, not only to specific responsible funds. In addition, all externally managed funds offered by DAM to its clients are screened, and DAM has an active dialogue with fund managers whose mutual fund portfolios include companies which DAM itself has excluded from its investment universe. The aim is to influence the funds to adopt a more sustainable and responsible investment practice. DAM shall not invest in or distribute external funds that include companies which themselves, or units they control, produce weapons which, by normal use, breach fundamental humanitarian principles. The wide scope of being a responsible investor also includes contributing to the appropriate labelling of the large number of external funds now accessible on open platforms by DNB, such as share savings accounts. We regularly screen about 400 external funds and label them based on the findings of the screening and whether they are in line with DNB's guidelines for responsible investments.

The investment considerations DAM makes are based on international conventions/norms for the environment, human rights, labour rights and corruption. DAM will not invest in companies that are involved in the production of anti-personnel landmines, cluster weapons, nuclear weapons or the production of tobacco or pornography. As from January 2016, mining companies and power producers which themselves, or entities they control, derive 30 per cent or more of their income from thermal coal, or base 30 per cent or more of their operations on thermal coal, may be excluded from the investment universe. In addition, emphasis shall be placed on forward-looking assessments of the companies, including any plans which will reduce the share of their income or operations derived from thermal coal and/or increase the share of their income or operations derived from renewable energy sources. DAM has also developed specific guidelines for government bonds.

In 2017, we further elaborated on the guidelines regarding two issues, namely human rights and serious environmental harm, by publishing two new documents with criteria and expectations. We also signed the Montreal Carbon Pledge, after publishing the carbon footprint of our equity funds by year-end 2016. This means that we will calculate and publish the carbon footprint of our portfolios annually.

DNB has a Committee for Responsible Investments that implements and monitors the guidelines for responsible investment and meets five times a year. If a company has been identified as being involved in controversial weapons, or the production of tobacco or pornography, as mentioned above, all holdings will be sold and the company will be excluded as a possible investment. If companies are considered to violate other parts of the guidelines, we primarily try to influence the companies by actively exercising ownership rights, but we also exclude companies on these grounds.

DAM's ambition is to offer its customers equity funds investing in companies which excel within environmental and social performance and corporate governance. In DNB Asset Management, we have products for clients who wish to have further exclusionary screening, among others DNB Global Etisk and DNB Barnefond. These funds also exclude companies that are involved in the production of alcohol, weapons or gambling. Furthermore, DNB Renewable Energy and DNB ECO Absolute Return invest in companies that provide solutions to the challenges of climate change. The funds invest in companies involved in solar, water and wind power, but also in companies that promote more efficient use of electricity, such as more efficient power transmission and electrical batteries. We also offer funds that exclude direct exposure to fossil energy and have a clear sustainability focus, such as DNB Grønt Norden, which focuses on Nordic companies with a positive environmental profile. In August, we launched DNB Global Lavkarbon, an equity fund that is "fossil free" which means that it excludes companies that have exposure to fossil energy, a high carbon footprint (intensity) and large fossil reserves. The fund also has an average ESG score higher than its benchmark, MSCI World.

DAM puts considerable resources into ensuring that the responsible investments are of high quality. The work is undertaken by a team consisting of a manager and two analysts, who work closely with portfolio managers, the companies, service providers and other investors. The service providers are three external consulting firms which monitor companies in the investment universe and portfolios, prepare sustainability analyses, provide support in the voting processes and engage in dialogue with companies. The purpose of the dialogue is to influence the companies in a sustainable direction. The contact with the companies is often triggered by special issues related to environmental and social aspects, or governance. In addition, dialogues may also reflect a wish to improve the companies' general sustainability performance.

# Highlights from 2017

## Q1

### Active ownership through voting

March was a busy month with many meetings and several Norwegian annual general meetings (AGMs) in which DAM voted. In 2017, DAM voted for all its holdings, on behalf of its clients, at Norwegian AGMs, and at selected meetings internationally, in total 128 meetings. Guidelines for our voting policies in Norwegian annual general meetings are published on our web pages, and companies will from 2018 receive our voting guidelines before the voting season so that they are informed about DAM's expectations when it comes to voting. Our guidelines are in line with the recommendations for corporate governance in Norway issued by The Norwegian Corporate Governance Board (NUES).

## Q2

### New expectation documents on human rights and serious environmental harm

In June, we published two documents defining our criteria and expectations to companies concerning human rights and serious environmental harm. The documents represent our interpretation of DNB's Guidelines for Responsible Investments, and define the criteria we use when assessing companies and engaging with companies on these topics. The documents aim to give a broader understanding of our guidelines for responsible investments for both the companies and other stakeholders.

## Q3

### DNB Global Lavkarbon launched

In August 2017, we launched our new, dynamic, multi-factor equity fund DNB Global Lavkarbon. The new fund is a global, fossil free equity fund which aims for a better performance than its benchmark. DNB Global Lavkarbon excludes fossil fuel and companies with high carbon emissions and large fossil reserves. The fund also maintains an average ESG score better than the benchmark. Furthermore, the fund does not invest in controversial or conventional weapons, pornography, tobacco, alcohol or gambling. The new fund is our second low carbon fund together with DNB Grønt Norden. In addition, we manage DNB Miljøinvest as a sustainability themed fund focusing on alternative energy and energy efficiency.

## Q4

### Climate change on the international agenda

COP 23 took place in Bonn in November with the purpose to advance the aims and ambitions of the Paris Agreement, and achieve progress on its implementation guidelines. The pre-2020 ambition became one of the focus points in the negotiations, and is essential to reach a global reduction of greenhouse gas emissions after 2020.

In December, Paris hosted the Global Climate Summit. Several commitments to the Paris Agreement were made during the summit. The World Bank announced that from 2019 the bank would stop financing projects involving upstream oil and gas. Furthermore, Norway, among others, is supporting France to mobilise sovereign wealth funds to advance responsible practices. The Government Pension Fund Global will be representing Norway in this working group. In 2018, we expect to see further progress in the implementation of the recommendations launched by the Task Force on Climate-related Financial Disclosures (TCFD) in 2017. The work and recommendations of TCFD will help companies understand what financial investors demand. In addition, it could contribute to further incorporation of climate and environmental issues in strategic thinking and make the measurement of the financial impact of these issues available to investors, lenders, insurers and other stakeholders.



# New expectation documents on human rights and serious environmental harm

**DNB's guidelines for responsible investments shall ensure that DNB does not contribute to human or labour rights violations, corruption, serious environmental harm or other actions which may be perceived as unethical. The purpose of the documents published in 2017 is to define our expectations towards companies in terms of their obligations to respect human rights in general, labour rights and the environment. The documents include detailed descriptions of our interpretation of the guidelines for responsible investments and define our criteria and expectations towards companies we invest in or plan to invest in. Furthermore, they describe how DNB Asset Management (DAM) assesses companies once an issue has occurred.**

## Serious environmental harm

Companies may be excluded from DAM's investment universe if there is an unacceptable risk that a company contributes to, or is responsible for, grave harm to the environment. Our expectation document defines and gives a description of the criteria and expectations we have towards companies when it comes to their obligation to respect the environment (air, water and soil).

Serious environmental harm is damage caused by polluting activities that have a significant negative impact on species and habitat. DAM's assessment of companies is based on international standards and norms. Companies have a responsibility to comply with international standards and norms even though they are not legally bound to do so. Sites deemed to be of outstanding universal value by UNESCO World Heritage Sites are regarded as more vulnerable, and DNB expects companies to protect these areas of great ecological and biological value. For relevant sectors we apply High Conservation Value Methodology in our work.

*In 2017, DNB Asset Management had 31 meetings with companies on issues related to serious environmental harm and water issues. 22 companies have been excluded due to serious environmental harm.*

## Human rights

Companies may be excluded from the investment universe if there is an unacceptable risk that a company contributes to, or is responsible for, serious or systematic violations of human rights, the worst forms of child labour or other exploitation of children. We expect companies to demonstrate particular attention to vulnerable groups with emphasis on children's rights, labour rights

and the rights of indigenous people. Our expectation document defines and gives a description of the criteria and expectations we have towards companies when it comes to their obligation to respect human rights in general.

The legal obligation to protect the human rights of individuals or groups is a governmental responsibility under international law. However, it is widely accepted that business enterprises have a responsibility to respect human rights in their business, including their supply chain. The UN Global Compact, the OECD guidelines for Multinational Enterprises and the UN Guiding Principles for Business and Human Rights provide a basis for what is expected from business enterprises as part of good business practice and risk. The responsibility extends beyond the company's employees and also includes affected members of communities, contract workers, workers in supply chains, families, customers and other stakeholders. Companies should understand their responsibility and risks in connection with the social consequences of their business operations by carrying out human rights due diligence processes and integrating human rights considerations in their business strategies, policies, procurement and risk management, and disclosing material information.

*In 2017, DNB Asset Management had 75 meetings on issues related to human rights and labour rights, and 6 meetings on issues related to indigenous peoples' rights. 14 companies have been excluded due to breach of human rights and labour rights.*

# Active ownership engagement

Active ownership engagement is one of the bearing principles in the UN-backed Principles for Responsible Investment (PRI), which DNB Asset Management committed to by signing the principles as early as in 2006. Active ownership is one of the most important approaches in our work on responsible investments to ensure shareholder value through our investments. The main tools we use in our engagement with companies are voting, dialogue and screening in order to safeguard DNB's guidelines for responsible investments.

The specific companies DNB Asset Management engages with are chosen based on our engagement strategy. The level of engagement is decided by the severity of the suspected breach, our ownership status in the company and the likelihood that our engagement will have a positive impact on the situation. Qualitative dialogue with companies is very resource and time-consuming, but in our experience and according to recent studies, this type of engagement is effective and will continue to be a priority for DNB. We use external service providers to support our work with norm-based screening of our investment universe and in a majority of our global engagement processes. We regularly receive alerts containing new information or updates on companies in our investment universe that are or might be in violation with our guidelines.

In 2017, DAM's own sustainability analysts held 81 company meetings with the primary aim to discuss various sustainability issues. Through GES Investment Services, our external engagement service provider, DAM has had 112 dialogues with 97 companies concerning suspected breaches of international conventions or otherwise ethically doubtful actions. These dialogues follow structured processes with clear targets for the desired outcome. Progress is measured by milestones.

## Voting

In certain situations, e.g. in cases where we have voted against the Board of Directors recommendation in at least one item or in cases with significant public interest or of special interest to fund unit holders, DAM announces its decisions regarding voting at companies' annual general meetings. Voting records are published on [dnb.no](http://dnb.no).<sup>1</sup> In 2017, we voted at 122 AGMs or extraordinary shareholders' meetings in Norway and 6 globally. We voted against management on at least one item at about 23 per cent of the AGMs. We also served on the board nomination committee of a few selected Norwegian companies. We have in 2017 entered into an agreement with a proxy voting service provider and intend to increase the number of AGMs to vote at globally.

## Screening of externally managed funds

In 2017, DNB screened more than 100 externally managed funds in order to ensure that all funds we offer to clients are compliant with DNB's Guidelines for responsible investments. We were also engaged in dialogue with several fund management companies to discuss their practices within responsible investments and certain portfolio holdings. After the introduction of share savings accounts, we regularly screen about 400 external funds accessible on the open platform in DNB and label them based on the findings of the screening and whether they are in line with DNB's Guidelines for responsible investments.

1) [dnb.no/privat/sparing-og-investering/fond/aktivt-eierskap.html](http://dnb.no/privat/sparing-og-investering/fond/aktivt-eierskap.html)





### Company dialogues

Responsible and sustainable investment activity implies exerting influence on companies as a shareholder to promote responsible business practices and create shareholder value. DNB Asset Management exercises active ownership primarily through dialogue or by using our voting rights. We have dialogues with individual companies either alone, together with our service provider, or together with other investors. During 2017, DNB Asset Management's responsible and sustainable investment analysts had 176 meetings with companies to discuss various ESG and sustainability issues. We also participate in collaborative engagements with other investors in the UN PRI, for example within palm oil and fracking/methane. We are member of the PRI Investor working groups on sustainable palm oil and on methane.

### Corporate dialogue per topic in 2017

(more than one topic may be raised in one meeting)

| Topic   | No. of dialogues |
|---|------------------|
| Climate change/greenhouse gas emissions             | 19               |
| Other environmental issues                          | 29               |
| Local communities/indigenous rights                 | 6                |
| Corruption  | 18               |
| Human and labour rights                             | 75               |
| The Board of Directors structure, independence etc. | 12               |
| Remuneration  | 7                |
| Other governance issues                             | 10               |

### Measuring progress of company dialogues

Our priorities for starting a company dialogue are described in our engagement strategy. When we start a company dialogue, it is usually in connection with a specific incident or based on a sustainability issue. We log company interactions either in internal systems or in our service provider's system. Each dialogue has an objective and a set of milestones to ensure that the dialogue achieves a result. Progress is measured and registered, and in cases where there is a lack of progression, we may exclude or divest the company.

### Excluded companies in 2017

Companies that are in breach of DNB's Guidelines for Responsible Investments and show no willingness to change their practices can be excluded from our investment universe. As at 31 December 2017, DNB had excluded 154 companies that were deemed to be in breach of the Group's guidelines. <sup>2</sup>

| Exclusion criterion                       | No. of companies |
|---|------------------|
| Anti-personnel mines (landmines)          | 0                |
| Cluster weapons                           | 5                |
| Nuclear weapons                           | 18               |
| Environment                               | 22               |
| Labour rights                             | 2                |
| Human rights                              | 12               |
| Corruption                                | 1                |
| Pornography                               | 1                |
| Tobacco                                   | 25               |
| Thermal coal                              | 68               |
| <b>Total number of excluded companies</b> | <b>154</b>       |

2) Table externally verified by EY as part of DNB's Annual Report (including CR) 2017. <https://www.ir.dnb.no/press-and-reports/financial-reports-and-presentations>

# Engagement strategy and priorities

As part of our integration of ESG factors and sustainable investments initiatives, DAM acts as an active owner and regularly engages in dialogue with companies we invest in. Active ownership and engagement shall ensure compliance with DNB's guidelines for responsible investments. The objective of engagement is to influence companies to improve their practices, thereby securing long-term shareholder value and mitigating risk in the best interest of our clients and in accordance with our mandate as part of our fiduciary duty. The cause for engagement is often specific concerns related to environmental, social and governance matters, but could also be to improve companies' general performance or sustainability related processes, which may otherwise lead to underperformance.

Our engagement strategy is divided into four major types of engagement activities that define what is valuable for our activities as a long-term investor.

Incident-based engagement is DAM's top priority in order to ensure that the companies we invest in adhere to DNB's guidelines for responsible investments. Incident-based engagement is employed in cases where companies are reported to be in breach of our guidelines or in breach of international norms and conventions. The incident in question should be deemed to be systematic in nature and/or to give severe negative consequences.

Informed proxy voting and explanation is DNB Asset Management's policy. DAM seeks to vote at all Norwegian annual general or extraordinary meetings of listed companies in which DAM has ownership. We explain our voting decisions and engage with boards, management and nomination committees prior to or after annual general meetings. The objective of informed proxy voting is that the long-term effects of voting will secure shareholder value and ensure that the company acts in a sustainable way. From 2017, we have implemented proxy voting for selected global companies and publish the proxy voting record.

We also work with proactive long-term engagements and focus areas to improve sustainability operations in investee companies where DAM has larger holdings or might have holdings in the future. Such dialogue can revolve around a specific issue or take place to raise the general level of awareness around sustainability issues. Companies we engage proactively with are typically not suspected of breaching DNB's guidelines for responsible investments, but have been identified to have an elevated ESG risk which we believe has not been sufficiently addressed. We have identified three focus areas, climate change, water and human rights, which we consider to be areas of concern within responsible investments in coming years. All three focus areas are inherently connected to various other key challenges.

Thematic engagement and industry specific engagements<sup>3</sup>. Thematic engagement means engagement with companies within defined areas of concern, identified mainly by way of international initiatives, investor coalitions, specific ESG risks and clients' interests. We can also approach several companies within a specific industry to discuss an industry specific topic. The objective of having thematic and industry specific engagements is to increase knowledge internally in DAM about environmental, social and governance matters in these industries. This is to obtain a better basis for our investment decisions and to influence companies operating in these industries in a more sustainable direction to increase long-term shareholder value. In addition, thematic and proactive engagements aim to encourage companies to consider how they can manage these risks while preserving and increasing shareholder value.

DNB Asset Management does not necessarily have to be current holders of the companies addressed in these engagements. All companies within an industry in a given index are potential holdings of DAM, and portfolio managers often buy in and out of companies. Investors in DAM's actively managed funds will indirectly benefit from the industry's improved sustainability efforts, and holders of DNB index funds will directly benefit from increased shareholder value in index companies. In 2017, our specific thematic engagements were corruption, fracking (methane), supply chains in emerging markets and sustainable ship breaking. In 2018, we will continue to focus on corruption, fracking and supply chains in emerging markets. In addition, we will look at deforestation and land use, as well as tax and tax transparency.

3) The world is constantly shifting and this means that a topic or issue that has not been on our radar at the beginning of a calendar year can suddenly become critical, and an area that once seemed important, can quickly become obsolete.



# Focus areas

DNB Asset Management has three important focus areas which we consider to be areas of concern within responsible and sustainable investments that provide us with a basis for continued work in a long-term perspective. In 2017, we have continued the work on the three focus areas: climate change, water and human rights. All three topics are inherently connected to various other key challenges and are included in our daily engagement activities. We have throughout 2017 had proactive engagement activities towards companies on all these issues.



## Climate change

Climate change has been a focus area in DNB Asset Management for years. Climate change and its impacts may comprise risks and opportunities for companies and their operations. As an investor with a long-term investment horizon, this is a high priority topic for us. Climate change can impact companies' revenues, both negatively and positively. Firstly, we engage with companies we identify to be exposed to climate risks, for example through carbon pricing, regulatory risks and breaches of international norms and regulations. We also look at companies where climate change may result in improved business opportunities. We are signatory to CDP's climate change program.



## Water

Identified by the World Economic Forum and the UN's 2030 Sustainable Development Goals, access to clean water and sanitation represents one of the top global challenges for the next decade. Water is an important input factor in a number of processes for many sectors. We expect to see an increase in water management being incorporated into business strategies, risk management and measuring and valuing water impact. We will broaden our knowledge of water management within relevant sectors and markets. Our goal for 2018 is to continue to focus on engaging with relevant companies and sectors to make them report their water management to internationally recognised initiatives. This will lead to better integration of water data in our ESG integrated analysis at portfolio level. We are also a signatory to CDP's water program.



## Human rights

The long-term credibility of sectors, markets and companies may be dependent on the level of respect for human rights in their operations and products, including their supply chain. Companies which ignore human rights factors in their business may bear operational, legal, regulatory and reputational risk. We expect companies to respect human rights in agreement with international 'hard and soft laws', norms and standards. We expect companies to incorporate human rights in their strategic planning, risk management and reporting, in line with the UN Guiding Principles for Business and Human Rights.

# Sustainable ship recycling

For 30 years plus, more than 75% of all vessels reaching end-of-life have been dismantled on three beaches in Southeast Asia – with large negative impacts on the environment, workers, and local communities. The methods used are typically called beaching. In the basic form of beaching, ships are run ashore on beaches and dismantled without the use of fixed installations for collection and handling of dangerous and dirty waste.

Looking more closely at the main shipbreaking places in Southeast Asia, the practices in Bangladesh (Chittagong) are often horrifying and include prevalent use of the worst forms of child labor, while the standards might be slightly better in Pakistan (Gadani), although still often dirty and dangerous. However, there are some signs of improvement in India (Alang) at selected yards.

One attempt to introduce sustainable shipbreaking practices is the Hong Kong Convention adopted in 2009 and ratified by a few countries including Norway. But many argue that it is necessary to look at the even higher standards developing in the EU – including the EU list of approved ship recycling facilities. A few yards in Alang are actually attempting to get on the EU list, and it will be very interesting to see how this develops. Furthermore, some shipping companies have adopted ship recycling standards that are described as “Hong Kong plus”, for example Maersk and Stolt-Nielsen Ltd (which in the last few years have recycled several ships in Alang). Note that there is considerable debate about whether these standards are sufficiently demanding in their real life application.

From a shareholder/investor point of view, shipbreaking can be considered a material ESG factor for certain sectors – mainly shipping (and the financing of it) as well as some oil services sub segments. At the very least, there are ethical and reputational aspects to consider for a company.

DNB Asset Management (DAM) has worked on promoting sustainable shipbreaking for several years, and it has been a prioritised engagement topic in 2017. In this work, DAM has used several approaches including direct contact with selected engagement targets, collaboration with other investors, the use of external engagement experts (service providers), contact with shipping associations, and discussions with NGOs. In engaging with companies, there have been three key topics:

- Are the recycling policies and practices truly “Hong Kong plus” (the yards used should preferably qualify to be on the EU list of approved ship recycling facilities)
- Are the policies and practices broad (including end-of-life responsibility, long term chartered ships and J/Vs)
- Are the policies and practices transparent (including the use of high quality independent external audits)

Although the main aim for DAM is to contribute to better recycling standards, we have also excluded some of the worst offenders from the investment universe of DNB. These companies are deemed to be in serious violation of human rights, labour rights, or doing grave harm to the environment. DNB excluded four shipping companies in early 2018 for those reasons, a practice similar to the actions of NBIM/SPU. When examining each shipping company’s policies and practices, it was especially important to look at the following aspects:

- The past pattern of behavior, especially whether the company has knowingly contributed to ship breaking (beaching) at the worst places.
- The risk of future violation. Are there any signs of improved standards and practices? Is the company open to dialogue (with major stakeholders and/or concerned investors)?

In conclusion, promoting sustainable ship recycling is a dynamic process. For example, there appears to be some signs of improved practices in Alang, India. We hope Maersk and Stolt-Nielsen will (continue) to be a driver for improved standards there – and that has been one of the main aims of engaging with these companies for the RI team. In addition, we have excluded some companies contributing to the worst cases of unsustainable shipbreaking.



# Company dialogue and other stories from 2017

DNB Asset Management has in its engagement strategy defined three long-term focus areas: climate change, water and human rights. Additionally, certain thematic engagements are annually devoted special attention in the engagement strategy. In 2017, these areas were corruption, fracking and methane, supply chains in emerging markets, and sustainable shipbreaking. Throughout 2017, we have been engaging with companies discussing issues related to our long-term focus areas and the thematic engagement topics for 2017.

2017 started with the exclusion of an additional 15 coal companies from the investment universe of DNB, due to breach of the coal criterion in the responsible investment guidelines; "mining companies and power producers which themselves, or entities they control, derive 30 per cent or more of their income from thermal coal, or base 30 per cent or more of their operations on thermal coal, may be excluded from the investment universe. In addition, emphasis shall be placed on forward-looking assessments of the companies, including any plans which will reduce the share of their income or operations derived from thermal coal and/or increase the share of their income or operations derived from renewable energy sources".

As part of our thematic engagement we had in February two dialogues with Wilmar International Ltd. due to possible use of child and forced labour in the supply chain of palm oil production and the company's management of indigenous peoples' rights. Wilmar is a major buyer of palm oil and an important company to engage with. The challenges facing the supply chain of palm oil production are significant, have been well known for years and affect many stakeholders. Wilmar's work towards a more sustainable palm oil production is showing progress, but still requires support from the company and the industry in general to tackle the challenges. We continue to follow up on Wilmar's progress.

Statoil ASA is one of the major Norwegian companies we follow closely. In February, we met with the CEO and IR to discuss the company's climate and environmental policy, and their work on wind power. A follow-up meeting was held in the second half of 2017 to continue the dialogue and discussion with Statoil regarding risk management of climate-related and environmental issues such as stranded assets, future operation in the arctic, water management and investments in renewable energy projects.

As an active owner, DAM is in dialogue with nominating committees and other corporate bodies before and after annual general meetings. This applies particularly to Norwegian companies, where we are frequently in contact with the Board of Directors, management and nominating committees both prior to and after

their AGMs. March and April are busy months when it comes to meetings and voting at AGMs. In 2017, DAM voted for all its holdings at Norwegian AGMs and has voted at selected meetings internationally, in total 128.

In March, another 10 coal companies were excluded from our investment universe for breach of the coal criterion in DNB's Guidelines for responsible investments. A total of 68 companies are currently excluded due to non-compliance with the coal criterion. Our practice of excluding companies on these grounds is in line with NBIM.

DAM has worked on promoting sustainable shipbreaking for several years, and in 2017, the topic was a prioritised engagement topic. In April, we had conference call with Maersk to follow up their change in shipbreaking practices over the last years. Later in 2017, we had a similar call with Stolt-Nielsen, discussing the ESG issues related to the practice of sending ships to recycling in India. Both companies have in the last few years recycled ships in Alang, India. They claim to have adopted a sustainable ship recycling standard called "Hong Kong plus", a higher standard for ship recycling. Additionally, we have had stakeholder dialogues with other investors, NGOs and companies to discuss the issue and how to work towards a more sustainable method for scrapping ships. The ultimate goal for our engagement is to encourage and influence companies towards a sustainable recycling practice in line with the higher standards in EU. Maersk seems to have become an international trendsetter, influencing the views of other ship owners, and is therefore an important company to be in dialogue with.

Corruption is another of the four thematic engagements. During spring, we focused on corruption in international companies such as Samsung Electronics, Petroleo Brasileiro SA (Petrobras), Eni SpA, Saipem and PetroChina Company Ltd. Furthermore, we engaged with several Norwegian companies on matters concerning corruption. Finally, we also looked at corruption in general in Brazil.

In June, Baharat Heavy Electrical Limited was excluded from DNB's investment universe due to grave harm to the environment through its operations close to the boarder of the world's largest mangrove forest protected under the Ramsar Conventions, Sundarbans.

The final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) were published in late June. DNB was one of more than 100 global companies that have provided statements of support to welcome the recommended disclosures and encourages other companies to do the same.



In September, DNB participated in the annual Nordic Sustainable Investment Forum meeting in Copenhagen together with Swesif, Dansif, Finsif and Norsif. The topics discussed included transition risk for oil and gas in a low carbon world, key considerations for due diligence under the OECD Guidelines for Multinational Enterprises and effects on the value and risk-return profile of the investors' portfolios.

In September, there was a change in the reason for excluding Raytheon Co. The former reason for exclusion was the alleged production of cluster munition. This is no longer the case as the production has ceased. However, the company is also involved in the production of nuclear weapons, and therefore the exclusion remain, but for a different reason.

Repsol visited us in September and we had a good meeting with the investor relations team. We discussed the Carbon Tracker's "2 degrees of separation" report that describes the transition risk for oil and gas companies in a low carbon world. We challenged the company on how they are working towards the 2 degrees alignment and the risk of not meeting the target. Methane emissions, a major part of the global greenhouse gas emissions, and reporting on their emissions has high priority for the company.

In October, we met with Yara ASA to discuss several ESG topics. Since early 2014, we have been following up on Yara ASA's anti-corruption measures. In the follow-up meeting carried out by the RI team in October 2017, the impression was that Yara's anti-corruption program is strengthened. However, with a strong presence in challenging countries in terms of corruption risk (Brazil, etc.) the anti-corruption work has to be pursued continuously. Other material ESG topics such as water stress and carbon emission were also discussed. Yara seems to have a fairly strong handle on ESG risks related to corruption, water stress and greenhouse gas emissions.

A follow-up meeting with Wilmar International Ltd. was held in November. The company updated us on their progress on the implementation of human and labour rights policies, and their work towards a more sustainable palm oil production.

Emerging market supply chains is another one of four thematic engagements we have devoted special attention to throughout 2017. During fall we enhanced our focus on combatting child labour in the cocoa industry. Together with other investors we signed an investor letter. The letter and a report on investor expectations and corporate good practice regarding child labour in the cocoa industry were sent to the major companies in the industry: Nestlé, Lindt & Sprungeli, Mondelez, Cargill, Barry Callebaut, Olam and Hershey's. In December we were in dialogue with, Nestlé, Lindt & Sprungeli, Mondelez, ILO and International Cocoa Initiative to follow up on the use of child labour in the cocoa companies with an aim of changing the industry practices. For almost two decades, the industry has been talking about ending child labour and improving the conditions for cocoa farmers. Now, there is finally a momentum in the industry for a shift in the right direction, which will affect millions of people Ghana and the Ivory Coast.

# Collaborative engagement through working groups

The United Nations-supported Principles for Responsible Investment (PRI) initiative is an international network of investors working together to put the six principles for responsible investment into practice<sup>4</sup>. DNB has been a PRI signatory since 2006. As a PRI signatory we incorporate environmental, social and governance factors in our investment and ownership decisions.

Collaborative engagement is one of the tools we use as active owners. DNB Asset Management participates in three working groups coordinated by PRI. The three working groups are all a part of our work on climate change, but also include other important responsible and sustainable issues such as human rights and environment.

## **PRI working group on sustainable palm oil**

The PRI Investor Working Group on palm oil was formed back in 2011 with the aim of supporting the development of a sustainable palm oil industry. The development of palm oil plantations is linked to significant negative social and environmental impact including widespread deforestation, increased greenhouse gas emissions, social conflicts and damage to ecosystems. Initially, the group focused on buyers of palm oil, but since 2013 it has redirected its attention to palm oil growers, traders and processors. The objectives of the engagement are to:

- Improve transparency and quality of disclosure related to land ownership, and use and level of RSPO certification.
- Achieve full commitment by companies to no deforestation, no development on peatlands, and no human rights violations throughout entire supply chains.
- Improve the traceability of CSPO throughout companies' supply chains in a way that supports a fully segregated supply chain.
- Encourage yield/land efficiency methods to support production growth with reduced need for further plantation expansion.

## **PRI Methane Engagement Group**

DNB Asset Management, led by the responsible investments team, participates in the PRI Methane engagement group. The collaborative engagement on methane risk started in 2017 and has the following objectives:

- To strengthen investors understanding of methane risk exposure in global portfolios.
- To understand what is best practice in managing methane risks and to transfer these learnings across companies.
- To encourage energy and utility companies to improve their management and reduction of methane emissions and to strengthen disclosure of their progress.

Methane risk is carbon risk, and benchmarking methane management will help us as an investor to assess how prepared operations are for a carbon constrained world. The benchmark research aims to identify whether the target company list of 42 companies within the oil and gas sector is adequately disclosing the companies' methane emissions and how they are managing methane risks.

## **PRI working group Climate Action 100+**

The Climate Action 100+ is a five-year investor-led initiative, starting in the beginning of 2018, to engage more than 100 of the world's largest corporate greenhouse gas emitters. The working group seeks enhanced disclosure in line with the FSB Task Force on Climate-Related Disclosure.<sup>5</sup> The objective of the engagement is to:

- Implement a strong governance framework.
- Take action to reduce greenhouse gas emissions across their value chain in accordance with the Paris Agreement's goal.
- Provide enhanced corporate disclosure in line with the final recommendations of the Task Force on Climate-related Financial Disclosure.

4) Unpri.org, Principles for Responsible Investments, <https://www.unpri.org>

5) «The FSB Task Force on Climate-Related Financial Disclosures will develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers and other stakeholders», Task Force on Climate-Related Financial Disclosure, <https://www.fsb-tcfd.org>



# Measuring the greenhouse gas emissions of mutual funds relative to reference indices

As part of efforts to reduce exposure to companies with high climate risk, in 2016, DNB started to measure the carbon footprint of all equity funds. Carbon footprint, also called carbon intensity, is the measurement of a company's greenhouse gas emissions relative to a company's turnover, and is one of several factors that says something about a company's climate risk and impact. After identifying the carbon risk in the portfolios, there are several ways of reducing the risk.

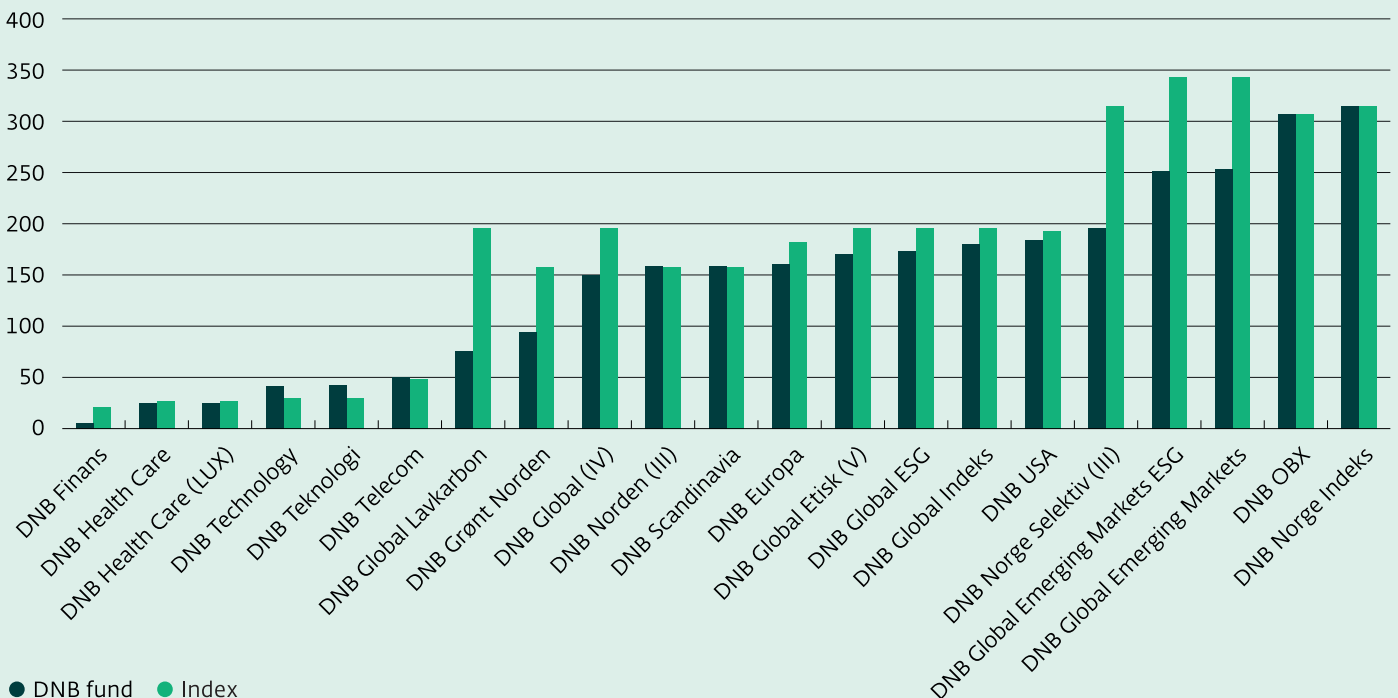
DNB uses information from MSCI ESG Research about companies' greenhouse gas emissions. The companies' carbon footprint is weighted by the respective holding in the portfolios and the same is done for the index. In the calculations, any cash in the portfolios is distributed proportionally between the other companies. For companies without emission data, the average figure for companies in the portfolio with emission data has been used in the calculation. DNB reports CO<sub>2</sub> equivalents that include Scope 1 and Scope 2 emissions, as defined by the Greenhouse Gas Protocol. Scope 1 includes direct emissions from sources that are owned or controlled by the organisation and Scope 2 includes indirect emissions associated with purchased energy. Indirect emissions

associated with purchased goods and services that fall in under Scope 3 are not included due to lack of reported data from companies. The method for reporting greenhouse gas emissions is under development and could be subject to change.

The graph below shows 21 equity funds and their respective indices where data on greenhouse gas emissions for more than 90 per cent of the funds' investments are specified. These funds represent about 80 per cent of the total market value of all of DNB's equity funds. Some funds are not included due to the lack of emission data. The graph is a snapshot of the portfolio as at 31 December 2017 and shows that compared with the respective benchmarks, the majority of the funds had a lower or equal carbon footprint.

There is great uncertainty surrounding data on greenhouse gas emissions. Practices for the reporting of such emissions vary considerably, while some companies do not report their emissions and estimated figures are used where data is missing. Despite the uncertainty, DNB is of the opinion that greenhouse gas emissions are an important factor to include in the analyses of companies' climate risk and impact.

*Tonnes of CO<sub>2</sub> equivalent for every USD 1 million of revenue*





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