

DNB Fund Nordic Equities – Investment policy

DNB Asset Management – General investment policy

Key priorities in the DNB Asset Management's responsible investment process are the issues of human rights, climate changes and water management.

As a part of its responsible investment process, DNB Asset Management (DNB AM) applies well respected international standards as a basis for screening, standard setting, exclusion processes, engagements, voting, and ESG integration. Examples of key international standards used are:

- The UN Global Compact¹
- OECD Guidelines for Multinational Enterprises²
- United Nations Guiding Principles on Business and Human Rights (UNGP)³
- United Nations Framework Convention on Climate Change (UNFCCC): Paris Agreement⁴
- The G20/OECD Principles of Corporate Governance⁵
- Principles for Responsible Investing (PRI).⁶

DNB AM has published several documents that applies to all funds managed by the company.⁷ One of the most important documents is the **DNB Group's Standard for Responsible Investments**⁸, which outlines exclusion criteria covered (see also the exclusion list published⁹):

- **UN Global Compact violations:** Companies may be excluded from the investment universe if there is an unacceptable risk that a company contributes to or is responsible for:
 - Serious or systematic violations of human rights, such as murder, torture, deprivation of liberty, forced labor, the worst types of child labor and other forms of exploitation of children.
 - Grave violations of individual rights in wars or conflict situations.
 - Serious violations of basic labor rights.
 - Grave harm to the environment.
 - Acts or omissions that on an aggregate company level leading to unacceptable greenhouse gas emissions.
 - Serious corruption.
 - Other particularly critical violations of basic ethical norms.
- **Controversial weapons:** Companies will be excluded from the investment universe if they themselves, or through the entities they control, produce weapons which through normal use violate basic humanitarian principles (shall not invest in companies that are involved in anti-personnel mines and cluster munitions, as described in the Anti-Personnel Mine Ban Convention and the Convention on Cluster Munitions, or in companies that develop and produce key components for weapons of mass destruction. Weapons of mass destruction are defined as NBC weapons - nuclear or atomic, biological, and chemical weapons). Note that other types of controversial weapons may also be covered by this definition.
- **Tobacco:** Companies will be excluded from the investment universe if they themselves or through the entities they control produce tobacco. In addition, note that the fund Nordic Equities will not invest in companies that derive a significant portion of revenues from the wholesale trading of tobacco.

¹ <https://www.unglobalcompact.org/what-is-gc/mission/principles>

² <http://mneguidelines.oecd.org/rbc-financial-sector.htm>

³ https://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf

⁴ <https://unfccc.int/resource/docs/2015/cop21/eng/10a01.pdf>

⁵ <http://www.oecd.org/corporate/principles-corporate-governance/>

⁶ <https://www.unpri.org/pri/what-are-the-principles-for-responsible-investment>

⁷ <https://dnbam.com/en/responsible-investments/guidelines-and-exclusions>

⁸ <https://www.dnb.no/portalfont/nedlast/no/om-oss/samfunnsansvar/2022/group-standard-dnb-responsible-investments.pdf>

⁹ <https://dnbam.com/en/responsible-investments/guidelines-and-exclusions>

- **Pornography:** Companies will be excluded from the investment universe if they themselves or through the entities they control produce pornography.
- **Coal and oil sand:** Companies which derive 30 per cent or more of their income from oil sands extraction, as well as mining companies and power producers which themselves or through entities they control derive 30 per cent or more of their income from thermal coal, or base 30 per cent or more of their operations on thermal coal, may be excluded from the investment universe. In addition, companies which either extract more than 20 million tons of thermal coal or with power generating capacity of more than 10000 MW from the combustion of thermal coal, may be excluded from the investment universe or placed under observation. In addition, emphasis shall be placed on forward-looking assessments of the companies, including any plans which will change either the level of thermal coal extraction or the level of power generating capacity derived with thermal coal, and/or reduce the share of their income or operations derived from oil sands or thermal coal, and/or increase the share of their income or operations derived from renewable energy sources.

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

DNB AM has also published several expectations documents, supporting the screening, standard setting, exclusion process, engagements, voting, and ESG integration for its investment management services:¹⁰

- Human rights
- Climate change
- Serious environmental harm
- Oceans
- Water
- Anti-corruption
- Responsible tax practices
- Gender equality and diversity
- Biodiversity

Furthermore, DNB AM has published two voting policies covering all managed funds:

- Global voting guidelines.¹¹
- Voting guidelines for the Norwegian companies.¹²

Additional Responsible investment criteria that apply to the DNB Fund Nordic Equities investment policy

Positive screening is utilised for the fund to include companies that have a positive environmental profile across the following themes: **Climate change; water management; energy efficiency; waste management; water and air pollution; deforestation; and biodiversity.**

The fund is required to maintain an average ESG-score above benchmark for the portfolio.

The fund has a low carbon mandate and does not invest in companies with direct exposure to fossil fuels like oil, gas, and coal, or with a high level of carbon emissions (scope 1 and 2). This means that the following companies are excluded from the fund's investment universe:

- **High intensity emitters of greenhouse gases** (tons CO₂e (scope 1, 2)/USDm revenues >3000). In addition, there is a requirement for the average intensity of greenhouse gas emissions of the portfolio to be well below the benchmark.
- **Large owners of fossil fuels - oil, gas, coal** (potential emissions > 25 million tons CO₂e – scope 1, 2).

¹⁰ <https://dnbam.com/en/responsible-investments/guidelines-and-exclusions>

¹¹ https://dnb-asset-management.s3.amazonaws.com/ESG-SRI-pdf/Guidelines_for_voting_globally_2019_Oct_17.pdf?mtime=20191025103801&focal=none

¹² [Microsoft Word - Voting Guidelines Norway ENGLISH 2019V \(dnb-asset-management.s3.amazonaws.com\)](#)

- **Oil & gas** (cut-off is generally 5% of revenues):
 - Extraction/production of oil & gas is excluded.
 - Suppliers to the production/extraction of oil & gas are excluded (exceptions may be given for companies in “transition” or “solution providers”).
 - Utilities that use oil & gas (exceptions may be given for companies in “transition”).

Note that these exclusions cover both unconventional and conventional oil & gas.

- **Coal** (cut-off is generally 5% of revenues):
 - Extraction/production of thermal coal is excluded.
 - Suppliers to the production/extraction of coal are excluded (exceptions may be given for companies in “transition” or “solution providers”).
 - Utilities that use coal (exceptions may be given for companies in “transition”).

In addition, the fund applies additional exclusion criteria (cut-off is generally 5% of revenues, except for nuclear energy):

- **Weapons:** Production and support. Note that controversial weapons are also covered in the DNB Group Standard for Responsible Investments (above), and that the fund will not invest in companies involved in producing weapons utilizing depleted uranium, or white phosphorus.
- **Gambling:** Production/operation and support.
- **Alcohol:** Production.
- **Nuclear energy:** Electricity utilities of which more than 30% of the power production is based on nuclear sources and/or constructing additional nuclear-based power production plants.

Further attention is given to other aspects of DNB AM’s responsible investment activities and recognized issues like:

- **Water use:** As mentioned above, the funds seek to include companies that have a positive environmental profile related to water management as well as water pollution. We have published three expectation documents that promotes high standards on water use, DNB AM engage companies on this issue, and we might exclude companies from our investment universe that misuse/pollute water:
 - **Water:** In this expectation document, we focus mainly on fresh water. We intend to provide guidance for companies on the topic of water and this guidance is directed at all companies in our investment universe with a reliance or impact on water, either directly or through their supply chains. In addition, these expectations inform how we engage with companies and how we assess companies once an issue has occurred.¹³
 - **Sustainable oceans:** In this expectation document the focus is on oceans (salt water). We expect companies to address oceans and sustainability in their governance structure and strategy, and report on relevant metrics and targets. Our expectations are directed at all companies within our investment universe.¹⁴

Serious environmental harm: This document is also highly relevant for the topic of proper water use (fresh water and salt water). We expect companies to understand their responsibilities, obligations, and risks regarding environmental issues (air, water, and soil) in business operations, including their supply chain and contracts with subcontractors. We expect companies to carry out an environmental impact assessment and integrate this in their business strategies, policies, procurement, and risk management, and lastly, that they disclose related material information.¹⁵
- **Biodiversity:** As mentioned above, the funds seek to include companies that have a positive environmental profile related to biodiversity. Protecting biodiversity is also a key element in all the three expectations documents described under “water use” above. Companies may impact biodiversity through their business activities. Moreover, companies’ dependencies on biodiversity

¹³ <https://dnb-asset-management.s3.amazonaws.com/ESG-SRI-pdf/Water-Expectations-document-2020.pdf?mtime=20201130095755&focal=none>

¹⁴ <https://dnb-asset-management.s3.amazonaws.com/ESG-SRI-pdf/Oceans-Expectations.pdf?mtime=20200518161117&focal=none>

¹⁵ https://dnb-asset-management.s3.amazonaws.com/ESG-SRI-pdf/Serious_Environmental_Harm_V2.0_2019.pdf?mtime=20191025103832&focal=none

may incur ecological risks to operations, liability risks, regulatory, reputational, market and financial risks. By recognizing and measuring these dependencies and impacts on biodiversity, companies may manage and prevent biodiversity-related risks and take advantage of new business opportunities. DNB AM has developed an engagement framework on biodiversity incorporating these elements, and we systemically engage companies on biodiversity issue – often as an integral part of other thematic engagements (such as sustainable palm oil, soy and cattle or sustainable oceans).

- **Elevated country risk:** Some companies operate in, or are listed in, countries with elevated risks regarding severe/systematic human rights abuses or other major wrongdoings. This may be caused by various factors including oppressive regimes, war/warlike situations, extensive use of death penalty, or widespread corruption. In the investment considerations, a key concern is whether a company may contribute to, or cause, these wrongdoings. Therefore, considerations of country risks are a part of DNB AM's processes for screening, standard setting, ESG-integration in investment management, engagement, and voting. See also again our expectation documents, particularly regarding human rights¹⁶ and anti-corruption.¹⁷

In assessing the country risk, and the implications for corporate risk, several different sources/tools may be utilized including:

- Providers of ESG-data and -analysis such as MSCI ESG Research¹⁸, Sustainalytics¹⁹, ISS²⁰ and Bloomberg.²¹
- NGOs and other sources/tools such as Amnesty International²², the Corporate Human Rights Benchmark²³, the UN Development Programme International Human Development Indicators²⁴, and Transparency International.²⁵
- **Taxation:** DNB AM seeks to promote responsible tax practice for the companies we invest in, and we have published an expectation document on this issue - which we use in our engagement towards companies. Some of the key principles promoted are:²⁶
 - Company tax arrangements and disclosure are key Board responsibilities.
 - The company should avoid aggressive tax planning.
 - The company should strive to follow the principle - "taxes should be paid where economic value is generated".
 - The company should have effective policies and practices for dealing with the risk of facilitation of tax evasion by employees or key business partners/customers.
 - The company should have a proactive and transparent relationship with tax authorities in all jurisdictions.
 - The company should strive for openness around their tax policies in general (especially in the case of complex and/or opaque company structures). Furthermore, multinational enterprises should also publish country-by-country breakdowns of how and where their business model generates economic value, and where that value is taxed and the amount of tax paid.
 - If requested, multinational enterprises should be prepared to publicly explain the business case for locating subsidiaries in the following:
 - "Closed" jurisdictions and/or significantly low-tax environments ("tax havens").
 - Countries where no local employees carry out business functions to any substantive degree or where the number of such employees is very low compared to the economic value generation attributed to that part of the business/country.
- The use of forward contracts on agricultural commodities may be controversial. It is not within the fund's mandate to use these derivatives.

¹⁶ https://dnb-asset-management.s3.amazonaws.com/ESG-SRI-pdf/Human_Rights_v2.0_2019.pdf?mtime=20191025103821&focal=none

¹⁷ <https://dnb-asset-management.s3.amazonaws.com/ESG-SRI-pdf/Corruption-expectations.pdf?mtime=20191025103701&focal=none>

¹⁸ <https://www.msci.com/research/esg-research>

¹⁹ <https://www.sustainalytics.com/about-us/>

²⁰ <https://www.issgovernance.com/about/about-iss/>

²¹ <https://www.bloomberg.com/europe>

²² <https://www.amnesty.org/en/who-we-are/>

²³ <https://www.corporatebenchmark.org/>

²⁴ <http://hdr.undp.org/en/countries>

²⁵ <https://www.transparency.org/en>

²⁶ <https://dnb-asset-management.s3.amazonaws.com/ESG-SRI-pdf/Tax-expectations.pdf?mtime=20191025103841&focal=none>

Investment borrowing and lending restrictions

DNB Fund Prospectus section 6. Investment Policies and Restrictions, disclose applicable investment instruments and techniques. DNB Fund Nordic Equities is an equity fund and will not take part in any securities lending or borrowing schemes, neither will it invest any of its assets in other UCITS or other UCIs.

Performance of controls

This Investment policy outlines Group, Company and Fund specific exclusion criteria for investments within defined sectors and industry groups. As part of the role as Investment manager DNB AM performs various controls to ensure compliance with its investment mandate on a frequent basis. To further secure that companies with the following commercial exposure: Coal, Unconventional Oil & Gas, and Power generation are not increasing their production capacity, a manual check will be performed twice a year. This check will include contact with companies with unsatisfactorily disclosure and will be conducted by DNB AM's responsible investments team.

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