



DNB Asset Management

Principal Adverse Impact Statement



Statement on principal adverse impacts of investment decisions on sustainability factors

Financial market participant: DNB Asset Management S.A. (DNB AM)
LEI: 549300BCCWSPNVNZVA32

Summary

DNB Asset Management S.A. (DNB AM) considers principal adverse impacts of its investment decisions on sustainability factors. The present statement is the consolidated statement on principal adverse impacts on sustainability factors of DNB Asset Management S.A.

This statement on principal adverse impacts on sustainability factors covers the reference period from 1 January 2022 to 31 December 2022.

This disclosure is applicable to DNB Asset Management S.A. and is required under the EU Sustainable Finance Disclosure Regulation (SFDR)¹. It describes how we consider principal adverse impacts (PAI) of our investment decisions on sustainability factors, as per Article 4 of the SFDR.

SFDR defines sustainability factors as “any environmental, social and employee-related matters, respect for human rights, anti-corruption and anti-bribery matters”. Principal adverse impact is generally understood as negative effects on these factors, that are caused by or directly linked to an investment decision.

In this statement, we describe how we have considered principal adverse impacts of our investment decisions in 2022, including targets set for 2023. The statement covers ten mandatory climate and other environment-related indicators and five mandatory indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters. In addition, we have chosen one additional environmental indicator related to investments in companies without carbon emission reduction initiatives, and one additional social indicator related to the share of investments in entities without a human rights policy.

DNB AM is continuously assessing potential adverse environmental, social or governance (ESG) impacts from activities in portfolio companies. For companies with heightened risk of potential adverse impact, our Responsible Investments (RI) team conduct an analysis of the risk and decide on any further action, such as engagement or recommendation to exclude the company.

In order to determine whether PAIs are considered in the investment management of a particular fund, please consult the pre-contractual documentation for that product.

¹ Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector.

Description of the principal adverse impacts on sustainability factors

DNB AM has gathered data and is monitoring the principal adverse impact associated with mandatory as well as additional indicators. The list (except for the mandatory indicators) will be reviewed annually and updated accordingly when access to, and quality of data, improves.

List of mandatory and additional PAI indicators as defined by the SFDR RTS, along with their respective impacts and associated actions.

Indicators applicable to investments in investee companies

Adverse sustainability impact indicator	Metric	Impact 2022	Impact 2021	Explanation*	Actions taken, and actions planned and targets set for the next reference period
CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS					
Greenhouse gas emissions	1. GHG emissions	Scope 1 GHG emissions	51 398 tonnes	N/A	<p>Principal adverse impact indicators related to GHG emissions primarily use data provided by MSCI ESG. Scope 1 and 2 emissions consists of reported or estimated data. Scope 3 only reflects estimated data, due to the lack of investee companies' disclosure on the metric as well as inconsistent reporting methodologies. Total coverage is 67.3%, 66.5% and 67.5% for GHG emissions, carbon footprint and GHG intensity respectively.</p> <p>Actions taken in 2022:</p> <ul style="list-style-type: none"> • More than 50 engagements with companies on the topic of climate change. A key discussion point was TCFD's recommendations and companies' actions to align with the market standard. Emission reduction target setting has been a key discussion point with companies throughout the year. • Participated in collaborative engagement activities on TCFD with Norwegian companies, with the ambition of encouraging best in class practice regarding climate in Norway. • Joined a Finance Norway initiated group of financial institutions to develop a market standard regarding GHG reporting in lending and investment portfolios in Norway, which will continue into 2023. • Developed a framework for assessing the quality of emission reduction targets, to measure and understand company progress over time. The framework was developed based on CA100+'s framework, and inputs from other sources including the CDP, TCFD, and the SBTi. <p>Targets* and actions planned:</p> <ul style="list-style-type: none"> • Increase the assets under management in sustainability-themed funds to 200 billion Norwegian kroner by 2025. • 50 percent of net inflows are targeted to be allocated to sustainability-themed funds by 2025. • Continued active ownership with emphasis on engaging the largest holdings in the most carbon intense sectors as well as the companies with the largest carbon footprint, regarding emission reduction and target setting, both in direct operations and in supply chains. • Continue work as part of Finance Norway working group developing a market standard regarding GHG emissions reporting in lending and investment portfolios in Norway. • Continued collaborations with investors groups for greater impact. • 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. <p>*DNB AM has developed additional targets for supporting the DNB Group target of net zero from lending and investments in 2050, which are currently pending internal approval prior to their public release.</p>
		Scope 2 GHG emissions	22 274 tonnes	N/A	
		Scope 3 GHG emissions	458 496 tonnes	N/A	
		Total GHG emissions	532 147 tonnes	N/A	
	2. Carbon footprint	Carbon footprint	192 tonnes per million EUR invested	N/A	
	3. GHG intensity of investee companies	GHG intensity of investee companies	418 tonnes per million EUR sales	N/A	
	4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	4.35 %	N/A	
	5. Share of non-renewable energy consumption and	Share of non-renewable energy consumption and	35.49 %	N/A	

	renewable energy consumption and production	non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage of total energy sources			and production. The aggregate is measured as the weighted average share of non-renewable consumption and production of investee companies. Total coverage is 53.5 %.	
	6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector	Sector A: 0.31 Sector B: 0.69 Sector C: 0.37 Sector D: 1.31 Sector E: 0.93 Sector F: 0.10 Sector G: 0.03 Sector H: 2.98 Sector L: 1.00	N/A	MSCI ESG is the primary data source on companies' energy consumption intensity. The aggregate is measured as the weighted average energy consumption intensity per sector. The weighted average is computed on the basis of each investment's market share of all investments with data held in the corresponding sector. Coverage for sector A to sector H and L is 21%, 95.75%, 82.75%, 85.75%, 93.25%, 4.75%, 75.75%, 65.5% and 79.5% respectively.	
Biodiversity	7. Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas	0.00 %	N/A	<p>MSCI ESG is the primary data source on biodiversity data. The aggregate reflects the sum of weights of investee companies with negative impact on biodiversity. DNB AM uses the MSCI ESG definition which states that a company is considered to have negative impact on biodiversity if the company has operations located in biodiversity sensitive areas and is also involved in controversies with severe impact on the environment. Given the lack of investee company disclosure, the share of investments reflects the minimum portion of companies in the portfolio having negative impact on biodiversity. Total coverage is 67.5 %**.</p> <p>Actions taken in 2022:</p> <ul style="list-style-type: none"> • Extensive engagements conducted, both alone and in investor collaborations (FAIRR-four initiatives, Responsible Mining, Mining & Tailings Safety Initiative, the Investor Working Group for a Deforestation-free Automotive Industry). • Active member of The Finance for Biodiversity Pledge initiative, especially regarding engagements and knowledge sharing. • Joined the UNEP FI Sustainable Blue Economy Initiative. • Became a partner of Partnership for Biodiversity Accounting Financials (PBAF). • Nature Action 100: Committed to participate in the company engagements, the active part of the engagement will take place in 2023 <p>Targets and actions planned for 2023:</p> <ul style="list-style-type: none"> • Further progress on the commitments (goals, metrics, engagements, reporting, knowledge sharing) through the Finance for Biodiversity Pledge. • Work to further integrate the reporting requirements and standards in line with best practice according to the TNFD framework. • Participate in work groups and use PBAF as an aid in implementing the TNFD framework. • Take active part in the company engagements organized through Nature Action 100. • Concrete targets and metrics related to biodiversity are awaiting the completion of the TNFD framework. Once the TNFD framework and recommendations are launched, we will begin working on setting concrete targets related to biodiversity. 	

Water	8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average	0.01 tonnes per million EUR invested	N/A	<p>S&P TruCost is the primary data source on companies' emission to water. The ratio is measured as a weighted average tonnes of emissions per mEUR invested. Total coverage is 29.00%.</p> <p>Actions taken in 2022:</p> <ul style="list-style-type: none"> • Engaged with companies within the textile industry on water related issues • Participated in the Mining and Tailings Safety Initiative. The Initiative has been expanded to also cover biodiversity which is closely linked to the topic of water. The investor collaboration has developed engagement guides in 2022 and mapped further engagements for 2023. • Engaged with companies through FAIRR working groups relating to meat sourcing and sustainable aquaculture. • Signed investor letter for Business Coalition for a Global Plastic Treaty that signaled the support of a global treaty ahead of UNEA in 2022. <p>Targets and actions planned for 2023:</p> <ul style="list-style-type: none"> • Continued participation 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.
Waste	9. Hazardous waste and radioactive waste ratio	Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average	2.20 tonnes per million EUR invested	N/A	<p>S&P TruCost is the primary data source on companies' hazardous waste and radioactive waste. The ratio is measured as a weighted average tonnes of emissions per mEUR invested. Total coverage is 31.25%.</p> <p>Actions taken in 2022:</p> <ul style="list-style-type: none"> • Increased attention on issues related to hazardous chemicals. • Supported the ChemSec Investor Initiative on Hazardous Chemicals by signing an investor letter to several companies in this industry. • Endorsed the Business Coalition for a Global Plastic Treaty, working for a legally binding and ambitious treaty to reduce plastic production through circular economy methods, circulate all plastics that cannot be eliminated, and finally prevent and remediate the hard to abate micro plastics leakage into the environment. <p>Targets and actions planned for 2023:</p> <ul style="list-style-type: none"> • Continued support of the ChemSec Investor Initiative on Hazardous Chemicals • Engage with companies on the alignment to the ambitions of the Global Plastic Treaty coalition.

INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS

Social and employee matters	10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	0.01 %	N/A	<p>MSCI ESG is the primary data source. The aggregate is measured as the sum of weights of investee companies subject to violations of the UNGC principles or the OECD Guidelines for Multinational Enterprises. Considering the incomplete data coverage, the share of investments reflects the minimum portion of the portfolio subject to violations. Total coverage is 67.5%. Note that DNB AM conduct internal research or use complementary data sources where data from MSCI ESG is missing, to ensure no investments are made in companies that violate global international norms and standards. This is in line with requirements from the Group Instruction. All investments are screened on a continuous basis.</p> <p>In cases where companies are suspected of acting contrary to the Group Instruction, we will encourage them to correct their actions. DNB AM prefers to promote best practice over exclusions, but when active ownership does not lead to an acceptable solution, a company may be excluded from further investments.</p>	<p>Actions taken in 2022:</p> <ul style="list-style-type: none"> • Exclusion of seven companies considered to have violated norms-based criteria. Among these exclusions, three companies were found to have caused environmental harm, while four companies were found to have violated human rights. <p>Targets and actions planned for 2023:</p> <ul style="list-style-type: none"> • Continued screening and exclusion criteria connected to verified violations. • Continued engagement with companies with verified or alleged violations of UNGC principles.
	11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	33.71 %	N/A	<p>MSCI ESG is the primary data source. The aggregate is measured as the sum of weights of investee companies that have no evidence of mechanisms to monitor compliance with UN Global Compact and OECD Guidelines for Multinational Enterprises. Considering the incomplete data coverage, the share of investments reflects the minimum portion of the portfolio. Total coverage is 67.5%.</p>	<p>Actions taken in 2022:</p> <ul style="list-style-type: none"> • The absence of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises is seen as a deviation from best practices and serves as a basis for initiating engagement. In 2022, over 100 engagement dialogues related to human rights and labour rights with various companies were conducted, either directly or together with other stakeholders and investors. <p>Targets and actions planned for 2023:</p> <ul style="list-style-type: none"> • Continued active ownership towards companies with lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises

	12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies	1.26 %	N/A	<p>MSCI ESG is the primary data source for companies' unadjusted gender pay gap. The aggregate is measured as the weighted average gender pay gap. Note that company reporting on gender pay gap is somewhat limited, but we expect this to improve over time and as required by regulation.</p> <p>Total coverage is 14.25 %.</p>	<p>Actions taken in 2022:</p> <ul style="list-style-type: none"> • Social aspects, including Diversity, Equity and Inclusion (DEI), has been a central topic both within our engagements and our voting activity. • The importance of DEI in shareholder resolutions has been considerable, and DEI is also an important consideration in numerous votes on board composition (under ordinary voting items). These shareholder resolutions are typically asking for more transparency on issues such as diversity in the workplace, gender/racial pay gap, and efforts to prevent discrimination, abuse, and harassment. In 2022, we supported several shareholder resolutions on the topic, which gained majority. • Updated the voting guidelines in 2022 (ahead of the 2023 voting season), placing greater importance on promoting board diversity. For large companies in developed markets, DNB AM expects a minimum of two members from each gender to be represented on the Board. DNB AM considers at least 40 percent representation of each gender on the board to be best practice. <p>Targets and actions planned for 2023:</p> <ul style="list-style-type: none"> • DEI, including gender/racial pay gap, is an area we will be developing further within the focus area of human capital, that is a new thematic focus area for 2023.
	13. Board gender diversity	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members	24.65 %	N/A	<p>MSCI ESG is the primary data source for companies' board gender diversity. The aggregate is measured as the weighted average gender pay gap. Total coverage is 69 %.</p>	
	14. Exposure to controversial weapons (anti - personnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons	0.00 %	N/A	<p>MSCI ESG is the primary data source on companies' exposure to controversial weapons. The aggregate is measured as the sum of weights of investee companies with exposure to controversial weapons. Considering the incomplete data coverage, the share of investments reflects the minimum portion of the portfolio with exposure to controversial weapons. Total coverage is 75.2 %. Note that DNB AM conduct internal research where data from MSCI ESG is missing, to ensure no investments are made in companies that produce controversial weapons. This is in line with requirements in the Group Instruction.</p>	<p>Actions taken in 2022:</p> <ul style="list-style-type: none"> • Screening and strict exclusion criteria. <p>Targets and actions planned for 2023:</p> <ul style="list-style-type: none"> • Continuous screening and strict exclusion criteria. • No investments in companies that themselves or through the entities they control produce weapons which through normal use violate basic humanitarian principles. DNB 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). The same applies to non-detectable fragments, incendiary weapons, and blinding laser weapons. Note that the list is not exhaustive.

Indicators applicable to investments in sovereigns and supranationals

Adverse sustainability impact indicator		Metric	Impact 2022	Impact 2021	Explanation*	Actions taken, and actions planned and targets set for the next reference period
Environmental	15. GHG intensity	GHG intensity of investee countries	2.14 tonnes per million EUR GDP of investee countries	N/A	MSCI ESG is the primary data source on GHG intensity of investee countries. The aggregate is measured as the weighted average GHG emission intensity of investee countries. Total coverage is 1 %. Due to the calculation being based on total AUM, which includes all asset classes, the coverage is low. Coverage within the sovereign and supranationals asset class is 100%	<p>Actions taken in 2022:</p> <ul style="list-style-type: none"> Gathered data to make calculations on the carbon intensity of our government bonds. Engaged with companies regarding their GHG emissions reduction targets, which will impact the overall carbon intensity of the countries in which they are based. <p>Targets and actions planned for 2023:</p> <ul style="list-style-type: none"> The carbon intensity of countries will be driven by the ambition of the countries to reduce emissions as part of their Nationally Determined Contributions under the Paris Agreement. As we have a negligible ability to influence countries' pledges and the targets set, we prioritize engaging with companies regarding their GHG emissions reduction targets.
Social	16. Investee countries subject to social violations	Number of investee countries subject to social violations (absolute number and relative number divided by all investee countries), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law	0 countries 0.00 %	N/A	MSCI ESG is the primary data source on companies' subject to social violations. The aggregate is measured as the sum of weights of investee countries subject to social violations. Considering the incomplete data coverage, the share of investments reflects the minimum portion of the portfolio subject to social violations. Total coverage is 0 %. This is due to the calculation being based on total AUM, which includes all asset classes. Coverage within the sovereign and supranationals asset class is 100% All investments into sovereign debt securities are screened for sanctions outlined by the United Nations Security Council.	<p>Actions taken in 2022:</p> <ul style="list-style-type: none"> Screening and strict exclusion criteria. Targeted engagements towards companies operating in high risk regions and areas. <p>Targets and actions planned for 2023:</p> <ul style="list-style-type: none"> Continuous screening and strict exclusion criteria on social 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, grave violations of individual rights in wars or conflict situations, serious violations of basic labour rights or other particularly critical violations of basic ethical norm. The list is not exhaustive). Develop country risk assessment tool to guide engagements with companies operating in high risk markets.

Other indicators for principal adverse impacts on sustainability factors						
Additional climate and other environment-related indicators						
Adverse sustainability impact	Adverse impact on sustainability factors (qualitative or quantitative)	Metric	Impact 2022	Impact 2021	Explanation*	Actions taken, and actions planned and targets set for the next reference period
Indicators applicable to investments in investee companies						
CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS						
Emissions	4. Investments in companies without carbon emission reduction initiatives	Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement	20.36 %	N/A	MSCI ESG is the primary data source on companies without carbon emission reduction initiatives. The aggregate is measured as the sum of weights of investee companies without carbon emission initiatives. Considering the incomplete data coverage, the share investments reflect the minimum portion of the portfolio without carbon emission initiatives. Total coverage is 67.5 %.	See PAI 1-6
Additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters						
INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS						
Adverse sustainability impact indicator	Adverse impact on sustainability factors (qualitative or quantitative)	Metric	Impact 2022	Impact 2021	Explanation*	Actions taken, and actions planned and targets set for the next reference period
Indicators applicable to investments in investee companies						
Human Rights	9. Lack of a human rights policy	Share of investments in entities without a human rights policy	6.0 %	N/A	MSCI ESG is the primary data source on companies without a human rights policy. The aggregate is measured as the sum of weights of investee companies without human rights policies. Considering the incomplete data coverage, the share of investments reflects the minimum portion	Actions taken in 2022: <ul style="list-style-type: none"> • Lack of a human rights policy is considered a deviation from best practices and serves as a basis for initiating engagement. Within the human rights topic, the RI team conducted over 100 engagement dialogues with various companies in 2022. • Engaged with companies operating in high-risk areas, including China, Belarus, and the Middle East and North African region.

					of the portfolio without human rights policies. Total coverage is 67.5 %**.	<ul style="list-style-type: none"> Engaged with companies operating in high-risk sectors such as textile, tech, and solar. Expanded our engagements with PRI and signed up as an early member of PRI Advance. Targets and actions planned for 2023: <ul style="list-style-type: none"> Participate in PRI Advance. Develop country risk assessment tool to guide engagements with companies operating in high-risk markets. Further expand engagements on human rights supply chain due diligence. Continue engagements with the investor collaboration KnowTheChain.
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* Our calculation methodology is based on a best effort approach and current interpretation of the regulation. The methodology might be adjusted ahead of the next annual report.

For PAI indicators where data coverage is below 100%, the reported aggregates could undermine the adverse impact of the investments. Note that calculations are made for DNB AM's total AUM. We do not receive principal adverse impact data on all assets under management, such as cash and instruments used for hedging purposes. Thus, data coverage will never reach 100 %. While missing data of investee companies and countries could be assumed to be equal to the average PAI value of all investments (normalizing weights), the insufficient data coverage of certain principal adverse impact indicators would generate inaccurate normalized aggregates. As a result, portfolio weights are not normalized where the underlying investments lack data. However, each reported aggregate is complemented with the data coverage of each PAI.

The calculations exclude all investments in Contract for Differences (CFDs) from the numerator as these financial instruments are primarily used as short exposure to the underlying investments. Other derivatives with short positions are not included in the numerator, however the denominator includes all investments.

** The percentage of the portfolio with data coverage includes investee companies that are found to not disclose exposure. The result "Not disclosed" consists of investee companies not disclosing exposure or investee companies disclosing to not have exposure.

Description of policies to identify and prioritise principal adverse impacts on sustainability factors

Methodology to identify and prioritize principal adverse impact

[The DNB Group Instruction for Responsible Investments](#) forms the basis of our work. The instruction seeks to ensure that DNB does not contribute to human or labour rights violations, corruption, serious environmental harm and other actions which may be perceived to be unethical. The instruction covers all asset classes and financial investments throughout the Group. DNB's Committee for Responsible Investments implements and monitors the [Group Instruction](#). It is owned by the Leader for Corporate Responsibility & Public Affairs and approved by the Group Chief Executive Officer of DNB Bank ASA. The last version of the [Group Instruction](#) was approved in November 2022 and is available on our website.

Identifying principal adverse impact

Reducing adverse impacts of our portfolios is an integral part of our work with responsible investments in DNB AM. The starting point for reducing negative impact is identifying principal adverse impacts of investment decisions on sustainability factors. Our main tools for identification of adverse impact are screening and active ownership.

The RI team works closely with all portfolio managers and key portfolio management teams have their own dedicated ESG analyst. 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 or alerts on potential and realized breaches in international norms and standards.

The purpose of the screening is to uncover potential breaches of the [Group Instruction](#). The identification of negative impact intends to take into consideration the likelihood of events, the degree of severity, as well as whether the consequences are irreversible. Based on the screening, and in-house research, we highlight potential negative impacts to the portfolio managers in addition to the portfolio managers receiving alerts on controversial issues directly.

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

DNB AM's active ownership practices are further elaborated in section 4 on engagement policies.

Prioritizing principal adverse impact

The prioritization of mitigation of principal adverse impact is based on the [Group Instruction](#) for Responsible Investments and our engagement strategy. Our engagement strategy is outlined in the [DNB AM Annual Report on Responsible Investments](#) (page 38), and further detailed in section 4.

Supporting the active ownership prioritization and process are our long-term and thematic focus areas. Our long term focus areas are climate change, water, biodiversity (including deforestation) and human rights. In addition to the long-term focus areas, our engagement strategy consists of selected shorter-term thematic focus areas, which are human capital, oceans and health and sustainable food

systems. These focus areas are determined based on their significance, possibility to engage with companies on these topics, and potential to make a difference in terms of sustainability and returns. The focus areas are the backdrop of our engagement activities, and we set goals and measure achievements for each of the areas (see [DNB AM Annual Report on Responsible Investments](#) from page 40).

The DNB AM focus areas were also the starting point for selecting the additional PAI indicators. The selected additional climate and other environment-related indicator chosen is "Investments in companies without carbon emission reduction initiatives". This is related to our focus area on climate change. The additional indicator on Social and employee-matters, respect for human rights, anti-corruption and anti-bribery matters is "Lack of a human rights policy". This is related to our focus area on human rights.

Our prioritization methodology for engagements is described below in section 5.

Data Sources

For the fiscal year of 2022, we have aimed to use company reported data on PAI indicators. The reported data varies significantly between PAI indicators, with regards to data quality and data coverage. In the absence of sufficient coverage, reported data has been supplemented by estimated data from external providers. Furthermore, DNB AM's RI team has collected company reported data where external data providers lack coverage or where PAI indicator appears incorrect according to company reports.

Data are delivered from our vendors primarily on a daily basis via FTP delivery. The information is then read and input into DNB AM's internal data systems, where they are processed and aggregated. Aggregated data on fund- and DNB AM level, as well as data on company level, is available in our internal systems for portfolio managers and the RI team. Our priority for 2023 is to increase the quality of ESG data, and specifically data on principal adverse impacts, in our front office system.

We expect improvements in the quantity and quality of the data going forward, especially following the application of the expanded scope of sustainability reporting obligations for investee companies as is expected under the Corporate Sustainability Reporting Directive (CSRD). DNB AM aim for continuous improvement in our PAI monitoring and reporting by assessing our data providers as well as engaging with companies to encourage them to improve their reporting in this area.

Note that there are several limitations to our methodology for identifying and prioritizing PAI. Firstly, our reported data relies on MSCI ESG, S&P Global Trucost and Sustainalytics, three of several data providers in the market. There may be variations in data and methodologies employed by different providers. This can result in discrepancies in the reported PAI across different sources. Additionally, subjective judgements play a role in the identification and assessment of PAI, introducing the possibility of biases and inconsistencies. Moreover, limitations related to data availability and potential delays in reflecting the most current assessments should be considered.

Engagement policies

We practice active ownership through voting and engagement with companies our funds invest in. Our overarching aim is to influence companies to improve their practices, thereby securing long-term shareholder value and mitigating ESG risks as well as the adverse impacts of companies, in the best interest of our clients.

Engagement

Active ownership through engagement intend to ensure that our investments are in compliance with the [Group Instruction](#). Our engagement strategy is outlined in the [Annual Report on Responsible investments](#) (page 38).

All the PAI indicators applicable for investee companies may be addressed in our engagement activities when considered material.

Engagements may either take place directly with companies, or as a collaboration with other investors, for example through our external service provider.

Engagement goals can be related to a specific incident (reactive), or they can aim to improve companies' general performance on sustainability-related processes and issues (proactive), which may otherwise lead to underperformance. This is consistent with the concept of double materiality, which speaks to the fact that issues or information that are material to environmental and social objectives may develop to have financial consequences over time.

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

Our engagement strategy centres on long-term and shorter-term, thematic focus areas. Our long-term focus areas rarely change as they are fully integrated into our way of working. Thematic focus areas, on the other hand, involves engagement with companies within defined areas of concern, that are more topical. Inputs to determining such focus areas include UN Sustainable Development Goals (SDGs), international initiatives, regulations, client's interests, media, and non-governmental organisations. Our approach to the different focus areas is further detailed in DNB AM's expectations documents, all publicly available in our [sustainability library](#).

Expectations documents are often the starting point for our dialogues with companies about relevant topics. The purpose of our expectations document is to define our expectations and criteria towards companies. The documents consist of descriptions of our interpretation of the [Group Instruction](#) and defines our expectations towards companies we invest in or plan to invest in, and further, describes how DAM assesses companies once an issue has occurred. They serve as the basis for communicating our expectations to companies regarding best practice in terms of sustainability. The documents are approved and owned by the Head of Responsible Investments and implemented by the RI team.

For an overview of how the different PAIs are related to our expectations documents, please see Table 4. Note that several indicators are also addressed in the [Group Instruction](#) as outlined in the previous section.

Table 4. DNB AM expectations documents with relevant PAI indicators

DNB AM expectations document	Relevant PAI indicators
Climate Change	<ul style="list-style-type: none"> PAI 1: GHG emissions PAI 2: Carbon footprint PAI 3: GHG intensity PAI 4: Exposure to companies active in the fossil fuel sector PAI 5: Share of non-renewable energy consumption and production PAI 6: Energy consumption intensity per high impact climate sector Additional PAI: Investments in companies without carbon emission reduction initiatives
Human Rights	<ul style="list-style-type: none"> PAI 10: Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises PAI 11: Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises Additional PAI: Lack of a human rights policy PAI 14: Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biofological weapons) PAI 16: Investee countries subject to social violations
Biodiversity (including deforestation)	<ul style="list-style-type: none"> PAI 1: GHG emissions PAI 7: Activities negatively affecting biodiversity-sensitive areas PAI 8: Emissions to water PAI 9: Hazardous waste and radioactive waste ratio
Water	<ul style="list-style-type: none"> PAI 8: Emissions to water
Sustainable Oceans	<ul style="list-style-type: none"> PAI 1: GHG emissions Additional PAI: Investments in companies without carbon emission reduction initiatives PAI 7: Activities negatively affecting biodiversity-sensitive areas PAI 8: Emissions to water PAI 9: Hazardous waste and radioactive waste ratio
Serious Environmental Harm	<ul style="list-style-type: none"> PAI 7: Activities negatively affecting biodiversity-sensitive areas PAI 8: Emissions to water PAI 9: Hazardous waste and radioactive waste ratio PAI 10: Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises
Diversity and Inclusion	<ul style="list-style-type: none"> PAI 10: Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises PAI 12: Unadjusted gender pay gap PAI 13: Board gender diversity
Responsible Tax Practices	<ul style="list-style-type: none"> PAI 10: Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises

How we prioritize our engagements is further dependent on the type of fund that have exposure to companies and/or sectors. We prioritize proactive engagements with companies that are part of actively managed funds, companies that DNB AM has a large holding in, or which DNB AM may have a large holding in in the future. For both passively and actively managed funds, incident-based engagements are conducted, when necessary, for example in connection to controversies.

DNB AM does not necessarily have to be a current holder of the companies addressed in engagements. However, we prioritise dialogues where we directly, or in collaboration with other investors, can have the greatest impact and contribute to positive change.

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

Voting

Our voting policy is to vote at all general meetings for Norwegian listed companies our funds are shareholders in. Furthermore, we aim to vote at general meetings of all listed companies we hold in our actively managed funds and all annual general meetings of listed companies where shareholder resolutions are brought forward. We engage with boards, management and nomination committees prior or in connection to such meetings.

Our voting policy is defined in our [global](#) and [Norwegian](#) voting guidelines, approved by DNB AM's board. The board grants authority to the CEO, who can further delegate authority to the RI team. The RI team then coordinate the voting policy. Global guidelines were last updated in December 2022, and Norwegian guidelines in December 2021.

Voting will primarily happen by proxy, but we will physically attend shareholder meetings in certain cases. Our proxy voting service provider, ISS, facilitates the voting process by providing both standard voting analyses, and analyses based on our own voting guidelines. These resources are used to inform our voting decision.

PAI indicators such excessive CEO pay ratio (PAI 8), unadjusted gender pay gap (PAI 12) and board gender diversity (PAI 13), in addition to PAI indicators related to greenhouse gas emissions, are addressed through our voting activities. DNB AM actively engage in voting on shareholder proposals and resolutions that specifically target these issues. By voting in favor of proposals that promote fair and equitable compensation practices, advocate for reducing gender pay disparities, and encourage diverse board representation, we signal our support for companies to take concrete actions in addressing these PAIs.

DNB AM disclose all our voting results publicly. Voting results are accessible on our website: [VDS Dashboard \(issgovernance.com\)](https://vds.dashboard.issgovernance.com)

Policy Adjustments

DNB Asset Management regularly evaluates the extent to which there has been a decrease in the principal adverse impacts. In cases where progress is insufficient, our engagement policies may be adapted in terms of engagement themes, selection of companies for engagement, and the overall engagement process, including escalation strategies and objective setting. Furthermore, if engagement efforts prove to be ineffective, DNB Asset Management can exclude companies from our investment universe.

References to international standards

In the next paragraphs, the internationally recognized standards with a concrete link to the Principal Adverse Impacts (PAIs) are outlined.

Paris Agreement

Link to sustainability indicators

- PAI 1: GHG emissions
- PAI 2: Carbon footprint
- PAI 3: GHG intensity
- PAI 4: Exposure to companies active in the fossil fuel sector
- PAI 5: Share of non-renewable energy consumption and production
- PAI 6: Energy consumption intensity per high impact climate sector
- Additional PAI: Investments in companies without carbon emission reduction initiatives

Methodology and data used

DNB AM strives to make a meaningful contribution towards the goals of the Paris Agreement, in alignment with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). As part of this, in 2021, the DNB Group announced the ambition to have net zero emissions from financing and investment activities by 2050. To achieve this, shorter term (2025) sub-targets for the financing of sustainable activities were set. This includes:

- Increasing total AUM in sustainability themed funds to NOK 200 billion by 2025
- In 2025, 50 per cent of net flows aim to go into sustainability themed funds

At a global level, to limit warming, net total GHG emissions emission must move to zero. To achieve this, the companies responsible for these emissions must reduce them. We will continue to utilize our role as an active owner and work with companies to reduce their emissions and target Net zero by 2050 within a recognized, scientifically developed carbon budget. Further details on the specifics of the targets are currently being reviewed internally and will be released in 2023.

DNB AM managed funds contain companies across all sectors, from those offering climate solutions to those in hard-to-abate sectors with high emissions. While DNB AM expect all companies to set emission reduction targets and make efforts to reduce emissions, the scale of emission reductions is dependent on the technological feasibility of the sector. For this purpose, assessments of the science-based emission reduction potential of companies are important when discussing the setting of targets.

To assess the alignment of the funds we manage, DNB AM measures the Weighted Average Carbon Intensity (WACI) daily. The data for these calculations are sourced primarily from MSCI ESG, and supplemented with other sources in situations where data is not available from the data providers. To promote transparency regarding carbon and the funds we manage, DNB AM have reported this data as part of annual reporting and Montreal carbon pledge disclosures since 2018.

To undertake the climate scenario analysis, DNB AM use the MSCI ESG CVaR assessment tool. The output is a forward-looking CVaR metric comprised of an assessment of policy risk, transition opportunities, and physical risks. The CVaR assessment aims to “measure the potential impact of different climate scenarios on individual securities’ valuation”, and provides a percentage value of the potential impact resulting from climate change under each scenario. These security level results are then aggregated up to the fund level to provide a fund level CVaR. Please see the Annual Report on Responsible Investments (page 83) for more information.

DNB AM's expectations towards companies as well as references to international standards on climate change is further detailed in our [expectations document on climate change](#).

UN Global Compact, OECD Guidelines for Multinational Enterprises and UN Guiding Principles on Business and Human Rights

Link to sustainability indicators

- PAI 10: Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises
- PAI 11: Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises)
- Additional PAI: Lack of a human rights policy

Methodology and data used

Engagement with companies and the exercise of ownership rights shall be based on international norms and standards, including the UN Global Compact (UNGC), and the OECD Guidelines for Multinational Enterprises, and be consistent with the United Nations Guiding Principles on Business and Human Rights.

Active ownership and ESG integration, including screening, as detailed in previous sections of this document, is conducted to uncover actual or potential breaches of the [Group Instruction](#) and internationally recognized standards and conventions. Companies that are in breach with our Instruction for Responsible Investments, and which show unwillingness to change, may be excluded from our investment universe.

Relevant data sources include the Sustainalytics Global Standards Screening and Controversy screening.

DNB AM's expectations towards companies as well as references to international standards on human rights is further detailed in our [expectations document on human rights](#).

Taskforce on Nature-related Financial Disclosures (TNFD)

Link to sustainability indicators

PAI 7: Activities negatively affecting biodiversity sensitive areas

Methodology and data used:

Managing the impact on biodiversity arising from our portfolio is an important part of our work on responsible investments. Some of the challenges for investors and companies in fighting biodiversity loss have been the local nature of biodiversity challenges, the lack of good data/metrics, no broadly accepted assessment tools, and no globally accepted reporting standards. TNFD is a key initiative that might help solve these challenges. The TNFD will complement the TCFD climate-related framework, to give companies and financial institutions a more complete picture of their environmental impact and opportunities. The final launch date is later in 2023, and DNB AM is working on how to use this framework optimally.

To ensure adherence to international standards on biodiversity, DNB AM has signed the Finance for Biodiversity Pledge, a multiyear global initiative. As part of this initiative, we are committed to work on many aspects of biodiversity including goal setting, development of metrics, engagements, collaboration, and progress reporting. To complement this work, we joined the UNEP FI Sustainable Blue

Economy Initiative, where the focus is on promoting “blue” healthy economy/ocean-related activities. Furthermore, DNB Group became a member of Partnership for Biodiversity Accounting Financials (PBAF). The PBAF will help DNB AM assess and disclose impact and dependencies on biodiversity related to investments. Several of the European Union’s regulatory initiatives, including the Taxonomy, CSRD and the SFDR, also contain biodiversity elements and metrics.

Relevant data sources include MSCI ESG.

DNB AM’s expectations towards companies as well as references to international standards on biodiversity is further detailed in our [expectations document on biodiversity and deforestation](#), which is closely linked to our expectations documents on water and oceans.

The G20/OCED Principles of Corporate Governance

Link to sustainability indicators

- PAI 8: Excessive CEO pay ratio
- PAI 12: Unadjusted gender pay gap
- PAI 13: Board gender diversity

Methodology and data used

The G20/OECD Principles of Corporate Governance is important in DNB AM’s capacity of shareholder. The principles establish recommended practices and expectations with respect to shareholder rights, the role of stakeholders, the responsibilities of the board of directors and disclosure.

DNB AM utilizes two sets of voting guidelines:

- [Global Voting Guidelines](#)
- [Norwegian Voting Guidelines](#)

DNB AM’s [Global Voting Guidelines](#) build on best practice within active ownership, including the G20/OECD Principles of Corporate Governance. The [Group Instruction](#) forms the basis for our approach to voting at shareholder meetings globally. DNB AM’s previously mentioned expectations documents also help to inform voting decisions.

Our [Norwegian Voting Guidelines](#) are specifically based on the Norwegian Code of Practice for Corporate Governance. The purpose of the Code of Practice is to clarify the respective roles of shareholders, board of directors and executive officers beyond the requirements of the legislation. The Code of Practice has been produced and published by the Norwegian Corporate Governance Board (NUES).

The voting guidelines are applied on a case-by-case basis to cater to the specific circumstances of individual companies. The purpose is to support long term shareholder value and to act responsibly on behalf of our unit holders towards individual companies, shareholder communities and the society as a whole.

Relevant data sources include ISS and MSCI ESG.

For information on our voting process, please see section “Engagement policies”.

Historical comparison

RTS Art. 10 is non-applicable as of 2023. Historical comparison will be provided from 2024.

Change log

Date	Version number	Comments / changes
10 March 2021	Version 1.0	<ul style="list-style-type: none">• First Principal Adverse Impact Statement published
30 June 2022	Version 2.0	<ul style="list-style-type: none">• Name of document changed from "Statement on Due Diligence Policy" to "Principal Adverse Impact Statement"• Updated structure of document according to SFDR RTS.
01 January 2023	Version 3.0	<ul style="list-style-type: none">• Minor changes to the text regarding specifying PAI considerations on product and entity-level.
30 June 2023	Version 4.0	<ul style="list-style-type: none">• Significant changes to align the document to SFDR regulatory technical standards ("RTS") requirements, as laid out in Annex 1 of the delegated regulation ("Delegated Regulation") supplementing Regulation (EU) 2019/2088. First reporting on PAI indicators on entity level for the reference period 01 Jan 2022 to 31 Dec 2022.

DNB