Responsible and Sustainable Investments

DNB Asset Management exercises special care with respect to transactions and acts which represent a risk of being involved in:

- unethical conduct,
- the infringement of human or labour rights,
- corruption
- causing harm to the environment.

Our Group Standard for Responsible Investments also states that DNB will not invest in companies that are involved in the production, storing or trading of anti-personnel landmines, cluster weapons or nuclear weapons or the production of tobacco or pornography. The Standard builds on international norms and standards including the UN Global Compact, UN Guiding Principles on Business and Human Rights, the G20/OECD Principles of Corporate Governance, and the OECD Guidelines for Multinational Enterprises. In addition, companies which derive 30% or more of their revenues from oil sands, or mining companies and power producers which themselves or through entities they control derive 30% or more of their income from thermal coal, or base 30% or more of their operations on thermal coal, may be excluded from DNBs investment universe. Furthermore, companies which either extract more than 20 million tonnes of thermal coal or with power generating capacity of more than 10000 MW from the combustion of thermal coal, may be excluded from the investment universe or placed under observation. Emphasis shall be placed on forward-looking assessments of the companies 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.

DNB is also a supporter of investor initiatives including:

The United Nations (UN) supported Principles for Responsible Investment (PRI), is an investor initiative in partnership with the UNEP Finance Initiative and the UN Global Compact and sets forth six principles for how to invest responsibly. DNB has been a signatory since 2006.

The UN Environment Programme Finance Initiative (UNEP FI) is a global partnership between the UN and the financial sector and seeks to improve the understanding of the impact of environmental and social considerations on financial performance.

Resources and Processes

DNB Asset Management has a dedicated responsible investment (RI) team consisting of five full time employees, who work closely with the portfolio managers and the companies we invest in. The team analyses companies using research from external consultants as well as performing in-house research.

DNB's Committee for Responsible Investments has been established to administer and follow up the Group Standard for Responsible Investments. The RI team gathers, processes, reviews and presents ESG research to the Committee for updates, discussion, and/or decision.

Active Owners

The RI team's work is focused around four pillars: active ownership (using tools such as screening, dialogue, engagement and voting), exclusions, standard setting and ESG integration of material risks and opportunities. Where active ownership does not lead to an acceptable solution, the company will be excluded from further investment until it has implemented adequate measures to remedy the situation.

Sustainability-themed Funds

Additional exclusion criteria and/or positive selection criteria are utilised for our sustainability-themed funds, thereby extending beyond the scope of the Group Standard for Responsible Investments.

More information, including annuals reports, quarterly reports and expectations documents can be found on our website.

Meet the Team

Janicke Scheele, Head of Responsible Investments
Janicke has worked in Norwegian and global capital markets since 1989. She has experience with analysis, portfolio management, and strategic and tactical asset allocation.

Karl Høgtun, Senior Analyst
Karl has worked in Norwegian and global capital markets since 1990. He has experience as an Analyst, Portfolio Manager, Head of Equities and Head of Nordic Equities.

Hanne Rasch Rognmo, Analyst
Hanne has an MA in International Environmental Policy from the Middlebury Institute of International Studies at Monterey, California. She has previous experience as an Environmental Consultant in Avinor and as a Group Trainee in DNB.

Henry Repard, Analyst
Henry has an MSc in Environmental and Sustainable Development from the University College London and has previous experience as an Analyst at CDP and KLP Asset Management.

Laura McTavish, Analyst
Laura has an MSc in Carbon Finance from the University of Edinburgh and previous experience as an Analyst at Trucost (part of S&P Global).

DNB Asset Management

Q1 2020

Company engagements

As part of our thematic focus on emerging markets supply chains, we have developed a framework for engaging with companies within the textile industry. In Q1 we engaged with **Nike** to learn how the company manages risks and opportunities in its operations. Though the company has a good overall ESG score, it faces some risks within its supply chain with regards to raw material sourcing and human rights issues. Thus, living wages and modern slavery issues were discussed – we encouraged the company to set concrete targets and to work through sector collaborations to leverage their influence. On ESG opportunities, Nike described how they are designing more environmentally friendly products and taking a circular economy approach. The next dialogue will take place in H2 2020, where we intend to follow up on the company's progress within these key areas and understand how Nike plans to integrate the UN Sustainable Development Goals into its strategy.

We had a follow-up engagement with the seismic company **PGS ASA** on climate-related governance, strategy and reporting in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). During the meeting, we learnt that various climate scenarios are considered in the PGS' Board's annual strategy meeting. Furthermore, in discussions between the Board and management, long-term climate change scenarios spanning over 20-30 years and the consequences of this on capital expenditure decisions for seismic vessels has been a focus area. In regards to climate opportunities, PGS has worked on a Blue Sky Initiative since our last meeting. Through this, the company hopes to generate one to two viable ideas for new business areas. PGS has also initiated a broader ESG/sustainability process internally, and will develop more metrics and set more targets. It will also develop new reporting formats (and decide whether to use the TCFD framework). We will continue to engage with the company, with the aim of seeing TCFD-aligned reporting including scenario analysis, and the completion of the Blue Sky Initiative to capitalise on climate-related opportunities.

We engaged with **Lynas Corp** on its management of biodiversity risks and opportunities. The company was flagged for its poor score on biodiversity and land-use. However, through this engagement, we learnt that the company's biodiversity work includes ISO 14001 certification (environmental management system) of its operating sites, defining key environmental focus areas per site, conducting company impact assessments and decommissioning and rehabilitation programmes. Moving forward, we will target more detail around the specifics of these programmes.

We also note positive developments on two Climate Action (CA) 100+ engagements we are supporting – **Equinor and RWE**. We had a meeting with **Equinor's** CFO following the announcement of its new climate strategy in February. The company has committed to producing less oil and gas by 2050 and reducing emissions across its value chain, but is not currently in a position to quantify the total decline and commit to net zero emissions by the second half of the century across scopes 1, 2 and 3. Nevertheless, we welcomed the positive announcements on net carbon emissions for their operations by 2030, almost zero emissions for their Norwegian assets by 2050 and the 50% reduction of carbon intensity across the value chain by 2050. These commitments actually exceed the content of the joint statement in terms of enhanced targets and coverage of scope 3 emissions. The company also intends to become a major player in offshore wind and offshore floating wind by 2030. We are expecting the company to disclose more information on an updated scenario analysis later this year. Further deliverables related to the joint statement on executive pay and lobbing should also be announced at Equinor's ESG event (currently postponed due to coronavirus) and/or the next AGM. In a meeting with **RWE's** Chairman of the Supervisory Board, we learned about the company's plans to phase out coal by 2028 in line with the German government's plan (the company will receive compensation from the government for this). The company also has plans to close hard coal plants outside of Germany which, in some cases, will be converted into biomass. There is, however, no current discussion to ring-fence the spin-off of lignite or coal-fired assets, due to the sensitivity of this topic in Germany. This may be reviewed in time, but would need to be agreed with the German government. The company is looking into setting a Science-Based Target. RWE could not tell us whether they will conduct a global review on lobbying activities at this point in time. We will continue to engage with the company on these topics.

We engaged with **Volkswagen** on its testing of vehicles for emissions compliance, remuneration, climate change and the TCFD recommendations, company culture and governance. Significant progress has been demonstrated in the company's testing in the US, which has not returned adverse results, and a potential conflict of interest was removed. The company has been rolling out its "Together for Integrity" strategy to address its corporate culture, and has covered about half of employees to date. Given the size of the company, we recognise that this will take time. However, board independence continues to pose a challenge, though the company has been open by sharing this concern with the Executive Committee. Moreover, allegations of collusion to delay clean technology are still under investigation by the European Commission and an increasing number of people are being charged by the Braunschweig prosecutor. Though there has been progress, confirmation from the Independent Compliance Auditor will be required before the change objective is considered reached.

Voting

We have voted at **32 company general meetings** by the end of March in the run up to the primary voting season in April/May. We voted against companies' recommendations at eight meetings on issues such as remuneration, deforestation impacts in supply chains, lobbying and human rights risks assessments.

COVID-19 is beginning to impact the proxy voting season, with adjourned or cancelled meetings, and many general meetings now taking place electronically. We are closely monitoring such impacts and are adapting to these where possible.

Exclusions

During Q1 we have excluded five coal companies from DNB AM's investment universe, **Shanghai Electric Power Company Ltd, Inner Mongolia Mengdian Huaneng Thermal Power Corporation Limited, Gulf Energy Company, PT Persuahaan Listrik Negara** and **Tuscon Electric Power.** These companies were determined to be in breach of our coal criteria. We did not have any ownership in these companies in stocks or bonds prior to exclusion.

International News

The EU's proposal for the first **European Climate Law** was announced in March, providing the legal translation of the EU's political commitment (the **European Green Deal**) to make its economy sustainable and achieve net zero greenhouse gas (GHG) emissions by 2050. The European Green Deal had proposed to increase the EU's 2030 target from 40% GHG emissions reductions compared to 1990 levels to at least 50% and towards 55% emissions reductions. However, the Climate Law proposal has committed to undertake an impact assessment of the scaling up of ambition first. The results of the impact assessment are due in September 2020. If it is assessed that the target will be increased, the additional emissions reductions for 2030 will not be included until June 2021, when the Commission will review and propose to revise relevant policy instruments to achieve the target.

There have also been developments in regards to the **EU Action Plan on Sustainable Finance** during Q1. The Technical Expert Group's (TEG) final report on the **EU taxonomy** came in March. The report presented the overarching design of the taxonomy, the technical screening criteria for 67 economic activities for the first two environmental objectives - climate change mitigation and climate change adaptation - and "do no significant harm" criteria for other environmental objectives. Recommendations for the tasks and functioning of the Platform on Sustainable Finance (due to replace the TEG) were also outlined. Moreover, the report provided guidelines on how companies and financial market participants should use the taxonomy in their disclosure obligations. One challenge for implementation will be that corporate disclosures may not be available for financial market participants to use in their 2021 disclosures, as companies will not be legally required to disclose until 2022. Furthermore, taxonomy regulation does not require companies to disclose the proportion of "transition" or "enabling" activities, but investors are expected to provide this breakdown. It is therefore hoped that this point will be clarified during the consultation on the review of the **Non-Financial Reporting Directive** which DNB AM has provided feedback on. The Commission will now bring the Taxonomy into legal effect in two phases. The first technical screening criteria will be adopted by the end of 2020 and enter into application by the end of 2021. The second set of technical screening criteria, related to the other four environmental objectives, is due to be adopted by the end of 2021 and enter into application by the end of 2022. The taxonomy will form the basis for many of the other action points. Action point 7 on **clarifying institutional investors' and asset managers' duties** will be important to us moving forward. This proposes harmonised rules for financial market participants and financial advisors on transparency with regard to the integration of sustainability risks and the consideration of adverse sustainability impacts in their processes and the provision of sustainability-related information with respect to financial products. Also, the TEG published its **EU Green Bond Standard Usability Guide** on the practical application of the EU Green Bond Standard which the Commission is considering establishing. The EU Green Bond Standard would be a voluntary label for bonds for issuers that wish to align with best practices in the market. The criteria would be based on the Taxonomy Regulation. We continue to follow how regulation develops on the action points of the EU Action Plan.

COVID-19, otherwise known as the novel coronavirus, has had implications for markets worldwide since January. In recent weeks, we have begun to see the social and economic impacts of the virus through social distancing, rescheduled/cancelled events and turbulent markets. Great uncertainty remains around which economic and political consequences the virus will have both in the short- and the long-term, but there is no doubt that it will affect society both locally and globally for some time after the situation stabilises. Many ESG themes are now being widely discussed in relation to the coronavirus. The environmental impact has been widely discussed due to the significant reduction in greenhouse gas emissions we are seeing. This effect is likely to be temporary. However, over 30 energy industry bodies have put forward a case to EU political leaders to build the European Green Deal into the economic stimulus package. Green technologies will be part of the solution, but are perhaps not given much credit in the current environment. Interestingly, the social impacts of the coronavirus are bringing social elements to the forefront of ESG discussions. Pressure on companies and workers is immense in such situations, resulting in layoffs, resignations and sick leave, in addition to extraordinary measures coming from government. Corporate responses and treatment of relevant stakeholders during this time will potentially have lasting implications for companies and their reputations. Moving forward, we may also see permanent changes including a greater focus on healthcare benefits (particularly for contract workers), increased utilisation of digital solution for education and work, which may subsequently result in reduced travel from employees. The supply chain disruption caused by the coronavirus has also catalysed discussions around Chinese supply chain dominance. In recent years, China has been reducing its reliance on foreign inputs whilst growing its exports of intermediate goods. Global manufacturing companies, on the other hand, have become increasingly dependent on intermediate goods from China. We may see greater focus on supply chain diversification as a result of the pandemic. However, it is too early to definitively conclude what the short- and long-term economic, social and political consequences of the virus will be, but it is certain that there will be many political and economic discussions both nationally and globally in the aftermath of the virus.