DNB Asset Management

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

Q2 2020

Highlights from company engagements

In May, we met with energy company **Equinor** following media reports highlighting issues of possible misconduct, poor governance and unsuccessful investments in the company's US operations. The company claims to have rectified many of the shortcomings identified and stated that it will apply the "Norwegian model" of modest incentive systems/remuneration and strong governance to global operations moving forward. The company has also committed to frequent communication through more detailed quarterly reporting. In this regard, we have encouraged the company to include more details about its renewable energy investments. We will continue to follow up governance topics with the company in addition to our ongoing engagement on climate-related topics through Climate Action 100+.

Our **cocoa engagement** with **Nestlé, Mondelez, Cargill, Olam International, Lindt & Sprungli, Hershey** and **Barry Callebaut** continues in collaboration with other investors and our external engagement consultant. These companies have been prioritised for engagement due to their size and influence on global cocoa production. The overarching aim of the engagement is to reduce and prevent the use of child labour in cocoa supply chains. In April, we signed an investor statement on living wages in supply chains together with 36 other investors targeting these companies (in addition to 33 other companies within the food sector). Company reporting in May 2020 reveals that the engagement is having a positive impact, with companies showing improvement in three key areas – oversight over child labour and progression in terms of measures that prevent the use of child labour, facilitating education for children in cocoa producing communities, and living wages for cocoa farmers. We consider Nestlé and Lindt & Sprungli to be leading in their work in this area, whilst work remains for Barry Callebaut and Hershey. We will continue to engage with these companies on these topics.

We started the second phase of our **proactive engagement regarding data security and privacy** which will target six telecommunications companies. Through this, we aim to determine whether the companies implement best practice with regards to data privacy and security. The companies have been asked questions specific to the telecommunications sector, including questions on the use of consumer data, and location-based data. While all companies recognised the topic to be of very high importance, a range of approaches to manage these risks were presented, with potential improvements in these practices identified for some companies. This remains an ongoing engagement, as we are yet to have completed a discussion with four additional telecommunication companies. Following these final discussions, an assessment of all competitors and identification of best in class approaches will be undertaken. We will feed back to the company with recommendations regarding policies and practices – highlighting gaps compared to peers.

Voting

We have voted at **194 company general meetings** by the end of June, of which 119 were in Norway and 75 internationally. We have also had several company dialogues in association with our voting activity. Company engagement is an important aspect of our active ownership approach. Engaging pre and post general meetings and provides us additional information for basing voting decisions on that supplement our tailored analysis from our proxy voting advisor. So far this year, we have voted at five shareholder resolutions on the topic of climate change. Though climate is still an important focus of shareholder resolutions, proposals covering S topics have received increased attention as a result of COVID-19. So far, we have voted at nine company meetings on topics related to social factors. We expect this trend to continue throughout 2020.

The Norwegian Government Pension Fund Global (GPFG) recently published an asset manager perspective on shareholder proposals on sustainability. Within this, the GPFG highlights the needs for evaluations of "materiality, prescriptiveness and a careful consideration of company context" when voting on shareholder proposals, including those focusing on environmental and social aspects of companies' activities. It is also important that shareholder proposal do not seek to micromanage company boards. We support these views and practice this in our own approach.

Exclusions and reinclusions

During Q2 we have excluded eight companies from DNB AM's investment universe due to breaches of our coal criteria – **Shanxi Lu'an Environmental Energy Development Company Ltd, Shaanxi Coal Industry Company Limited, GD Power Development Co Ltd, Shenzhen Energy Co Ltd, Sasol Ltd, RWE AG, Glencore Plc and Anglo American Plc.** Moreover, we excluded **ElSewedy Electric Co** due to severe environmental harm, **Imperial Oil Ltd** due to unacceptable greenhouse gas emissions/oil sands, and **Centrais Eletricas Brasilerias SA (Electrobras)** due to its contribution to systematic human rights violations.

We have also reincluded several companies this quarter, due to positive developments in their business practices and/or model. **Drax Group and Drax Finco** are no longer deemed to be in breach of our coal criterion, **AECOM** no longer produces nuclear weapons, and **Texwinca Holdings Ltd** no longer breaches our standard in regards to serious human rights violations.

Standard setting

Sustainable oceans is one of our thematic focus areas and an important part of our engagement strategy towards companies. We have developed and published an expectations document on sustainable oceans. Global oceans cover 71% of the planet's surface and are an essential part of the biosphere, regulating the global climate by mediating temperature and driving weather changes. Ocean issues are also of importance for many other major global challenges including biodiversity, food security, human rights, pollution, urban development, and energy supply.

In May, we published a report where we have assessed the DNB Renewable Energy fund's potential avoided emissions and exposure to the UN Sustainable Development Goals. Our analysis shows that the fund has potential avoided emissions of 2,838 tCO2 per million Euros invested. The emissions avoided are five times greater than the fund's carbon footprint measured in scope 1, 2 and 3 emissions. The assessment also shows potential revenue exposure primarily to SDG 7 (affordable and clean energy), SDG 9 (industry, innovation and infrastructure) and SDG 11 (sustainable cities and communities), thereby reflecting the fund's climate and environmental objectives.

External providers generally have lower coverage of **ESG data for bond issuers** compared to equities. This is particularly true for Norwegian and Nordic issuers. We have therefore initiated a project together with DNB AM's fixed income team to assess and rate companies over time. The insights gained from this process will be used internally to fill gaps in current coverage, and to supplement external ratings where they are deficient. This information will be used in credit analysis and investment decision making in a more systematic way than before.

ESG trends

Many ESG topics are now being widely discussed in relation to the coronavirus and the current political landscape. Though the focus areas prioritised in our engagement strategy remain highly relevant, we are observing an increased focus within certain areas.

Diversity and inclusion have been pushed to the forefront as a result of the Black Lives Matter movement in the US and globally. Recent events highlight that direct and quantifiable financial performance are not enough, and companies are also expected to be good corporate citizens. In 2019 we developed and published our expectations document on gender equality and diversity, and our work in this area continues. Given that disclosure is a major challenge in regards to this topic, our primary approach focus on active ownership through dialogues and voting. We have also developed a framework for gathering data and tracking performance and progress over time.

Despite an increased focus on social factors, **environmental concerns remain**. In fact, some argue that the energy transition is receiving greater attention, with recovery packages and company strategies emphasising a greener post-COVID world.

A **holistic approach to ESG** that focuses on the connectivity between factors is becoming increasing important. This approach to ESG is not new to us. For example, in our climate change expectations we highlight the importance of delivering a just transition to the low carbon economy. In all our work, we strive to find the appropriate balance between all ESG factors.

International News

The **EU taxonomy** has now been adopted into European Law. The taxonomy is a classification system for sustainable economic activities. The legislation aims to boost private sector investment in such activities and contributes to the European Green Deal.

In May, the EU presented **"Next Generation EU", a 750bn Euro COVID-19 recovery package** to rebuild the economy. The European Green Deal is a key part of the recovery strategy, emphasising the circular economy, renewable energy, sustainable transport and logistics and a just transition towards the low carbon economy.