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 (and one on paternity leave), 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

Q4 2020

Highlights from company engagements

We engaged with **Nokia OYJ** and **Nintendo Co Ltd** on **supply chain labour risks and policies and practices**. Through this engagement, we aim to ensure that the companies' approaches to supply chain labour rights are in line with best practice, particularly given allegations from a 2020 Australian Strategic Policy Institute report linking the companies to the use of forced labour of Uyghur people at a Chinese supplier. Nokia noted they had followed up the allegations made in the report and had been in close dialogue with the suppliers mentioned. There had been an audit completed and no evidence of the allegation was discovered. The company has clear requirements on their Tier 1 suppliers and these cascade to those suppliers further down the supply chain. They also have clear policies regarding modern slavery and human rights. Nintendo had investigated the allegations with their suppliers and had also not found evidence of the allegations. We are satisfied with the policies and processes in place by both companies, however, will continue to monitor the companies given the seriousness of the allegations of forced labour.

We met with **Betsson AB** and **Kindred Group** to follow up on our dialogue regarding **responsible gambling**. The aim is to ensure strong programmes and measures to prevent gambling addiction and to prevent minors from gambling. Betsson appear to have made significant progress in the last two years on responsible gambling (and sustainability in general). The company claim that they are on par with the industry leaders. However, Betsson still need to make further improvements in transparency regarding sustainability (annual reports, website, MSCI ESG/Sustainalytics). The company express ambitions of improved reporting already for the FY 2020 (to be published in the spring of 2021). Kindred look to be an industry leader in the field of responsible gambling. They are working hard towards the target of no revenues from harmful gambling by 2023. While they mentioned this represented a considerable challenge, it was an issue the company believed was of the highest importance. They aim to be even more transparent about the processes to achieve this going forward. Our dialogue with these companies will continue during 2021.

The aquaculture companies **Salmar ASA**, **Bakkafrost P/F** and **Mowi ASA** were engaged with as part of our **proactive engagement on sustainable oceans**. Salmar emphasised the need to developing better metrics and related targets related to climate change, freshwater and fish welfare (also for cleaner fish such as lumpfish and wrasse). In regards to Bakkafrost, gaps include ensuring that operations in Scotland meet the standards of operations in the Faroe Islands, a greater focus on climate-related issues and alignment with the recommendations from the Task Force on Climate-related Financial Disclosures (TCFD), improved measurement and reporting of climate-related metrics and targets, sustainable food and fish welfare. Mowi is considered the industry leader in terms of sustainability and has improved its practices since our last meeting. Positively, the company now has an approved Science-based Target (also covering scope 3). However, the company agreed with us that there is still room for improvement regarding sustainable feed, fish welfare and full TCFD aligned reporting (preferably including a 1.5C scenario). We will continue to follow-up the companies on these gaps moving forward.

We have engaged with cocoa companies through investor collaboration for several years. In Q4 we spoke with **Nestle** and **Mondelez** to learn how they are progressing on issues of child labour and living wages. In the meeting with Nestle the company elaborated on the study with KIT Royal Tropical Institute, which is to be published during 2021 and aims to identify practices deployed by successful cocoa-growing farmers. The company also presented a new project introduced in two cocoa cooperatives where Nestlé will pay an extra bonus for farmers adhering to good practices, such as pruning of cocoa trees, coverage of Child Labour Monitoring and Remediation Systems (CLMRS), deployment of other means of income besides cocoa, and planting of shade trees at their farm. In the call with Mondelez the company presented a preview of a new report with Wagening University on living income and what is required to close the living income gap in cocoa. We will follow up with the companies in April/May 2021, focusing on the roll-out of CLMRS, living income and more broadly what the future of cocoa farming would ideally look like, ensuring resilient farming practices and farmers.

Voting

In 2020, we voted at 248 company general meetings, of which 153 were in Norway and 95 internationally. Of these, we have voted against management's recommendations at 37 general meetings in Norway and 38 internationally. We voted at 27 shareholder resolutions on topics related to social factors (including gender equality and human rights due diligence) and 14 shareholder resolutions on environmental issues (including climate change and biodiversity). In total we have voted at more than 2200[1] resolutions, whereof 100 were shareholder resolutions.

We have also had several company dialogues in association with our voting activity. Engaging pre and post general meetings provides us with additional information for basing voting decisions and supplements our tailored analysis from our proxy voting advisor. This also strengthens the information basis for investment decision-making. Both engaging with companies and voting at shareholder resolutions are vital to being an active owner. In many cases, shareholder resolutions are withdrawn or rescinded on the back of successful engagement with investors.

Despite the coronavirus pandemic having catalysed an increased focus on social issues during 2020, climate-related issues have remained at the centre of environmental and social shareholder resolutions. During 2020 we have seen many shareholder proposals calling for Paris-aligned targets, with successes in Europe and Australia. Interestingly, the success of climate-related shareholder resolutions has reignited debate around the power of proxy voting advisors who advised support of important climate-related resolutions. In the US, however, the Securities and Exchange Commission (SEC) has continued to most block climate-related proposals. This has resulted in the growth of the trend related to targeting directors at climate laggards. It is anticipated that this trend will continue during 2021. Proposals related to the management of indirect emissions of banks and companies' climate-related lobbying activities are also set to continue to appear high on investors' voting agendas during 2021.

Developments in regard to social issues include increased support for diversity and human capital proposals, as well as increasing breadth of social proposals. Diversity is expanding to cover race/ethnicity in addition to gender, and lobbying spending related to diversity is also facing increasing scrutiny.

Finally, another major theme of the 2020 proxy season was the implementation of the EU Shareholder Rights Directive (SRD II) which led to an increase in say-on-pay votes. There have also been updates to corporate governance codes in several markets including Denmark, Italy, and Spain.

Standard setting

The final phase of our **ESG integration project with Norwegian fixed income portfolios** was completed. This project has covered bond issuers within the Norwegian banking, utilities, and real estate

[1] Based on voting for Norwegian-registered funds

sectors. Through this we seek to understand material ESG risks and opportunities that may impact credit assessments and investment decision making in a more systematic way than before. We also had our first dialogues (in collaboration with the Head of Fixed Income) with companies on the weaknesses uncovered by our assessments. Feedback from companies was that our framework captures the most important aspects of the Norwegian market per sector. The companies also responded that our assessments to be a fair reflection of the status of their sustainability work. Companies have welcomed dialogue on ESG and see this as an area where we have aligned incentives, as both parties wish to improve.

We have joined the **UNEP FI TCFD Investor Pilot Project Phase II**, which will commence in 2021. During Phase I, we collaborated with 19 other international investors to further develop a methodology and tool for scenario analysis together with the consultant Carbon Delta (since acquired by MSCI ESG). During the next phase of the project new climate risk assessment methodologies and sector-specific risks and opportunities will be explored.

International News

During Q4 the fate of the **US Presidential election** became known. We expect to see greater climate leadership from the US with Biden as President. His team have already signalled plans to re-enter the Paris Agreement, target net zero emissions by 2050, reverse some of the Trump administration's environmental regulations and focus strongly on domestic decarbonisation.

The **UK's Ten Point Plan** for a Green Industrial Revolution was also announced this quarter. This is the UK's plan to deliver net zero emissions by 2050 and created up to 250,000 British jobs. The plan covers clean energy, transport, nature, and innovative technologies.

In November the **EU released its drafts for the upcoming delegated acts** defining the official metrics and thresholds for the Taxonomy. Importantly, these now **included proposed criteria for shipping**, a sector previously not covered by the EU taxonomy. This is a crucial development particularly for Norway, where the shipping sector is highly important sector. DNB AM is now preparing to report portfolio taxonomy-alignment. However, as of today, there is still lack of data availability and quality. In 2022, companies subject to the Non-Financial Reporting Directive will be required to report on the share of their turnover, capex and opex that is taxonomy aligned, which will improve data availability in certain markets.