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 tons of thermal coal or with power generating capacity of more than 10000 MW from the combustion of thermal coal, may be excluded from the investment universe, or placed under observation. 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 annual 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. She has led the Responsible Investments team since 2015.

Karl Høgtun, Senior Analyst
Karl has an MBA and an MIM. He 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 (where he managed an environmentally-themed fund).

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.

Ingrid Aashildrød, Analyst
Has an MSc and a CEMS MIM from The Norwegian School of Economics and The University of Sydney Business school. Previously worked as an ESG analyst at Nordea. Joined the ESG team in 2021.

Lise Børresen, Analyst
Has an MSc in Finance from The Norwegian School of Economics. Previously worked as an Investment Analyst at Gjensidigestiftelsen. Joined the ESG Team in 2021.

Q4 2021

Company engagements - Highlights

In Q4, we have held five collaborative meetings in relation to TCFD to understand companies' position on climate change and biodiversity and identify gaps to best practice. We were interested in getting insight into related governance, strategy, risk management and metrics, as well as supporting the companies in developing a climate related strategy. One of the companies we have engaged with is the construction company **Veidekke ASA.** Veidekke has progressed on climate related issues/TCFD since the meeting in 2019 and seems quite advanced. A Net Zero 2045 target was announced in 2021, aiming for SBTi-approval for 1.5 degrees. This is awaiting feedback. Veidekke is also stepping up the efforts on biodiversity. We suggested developing a policy for zero deforestation as part of a broader biodiversity policy, which the company will consider. Another company we have engaged with as part of the collaboration is **Norsk Hydro ASA**. The company seems well advanced regarding climate and environmental issues. The company is aiming for Net Zero 2050 and has a clear roadmap for handling biodiversity and waste issues.

Since we published the new expectation document on biodiversity in Q3, this has been an important tool when engaging with companies on the topic. As an example, we have engaged with chemical company **Solvay SA.** DNB Asset Management nudged the company on best practice by sharing our expectation document. Solvay SA will publish their own policy on biodiversity that will be available to investors after the yearly reporting in February 2022. We also challenged the company on its oversight of suppliers and sub-suppliers with regards to both biodiversity and water pollution.

Specifically on forest industry, we have engaged with forest companies **Stora Enso Oyj** and **Upm-Kymmene Oyj,** as well as with hygiene and health company **Essity Aktiebolag AB**, a large buyer of wood pulp. The two main goals of these engagements are to 1) address potential gaps to best practice on biodiversity in the forest industry, and 2) addressing potential gaps to ensure proper labour conditions for forest workers in the Nordics. With regards to biodiversity, Stora Enso and Upm-Kymmene have ambitious goals and seem well aligned with DNB Asset Management's expectations. However, for all three companies, we encouraged even more transparency on the handling of biodiversity challenges. Labour rights issues are known to be connected to supply chains in the forest industry. According to Stora Enso, there were big issues about ten years ago with contractors not paying their employees enough. This made the company strengthen their check-ups and routines and it has done so continually since then. We will continue to engage the companies, especially on biodiversity related issues.

We also met with photovoltaics company **Daqo New Energy Corp** after allegations of the company being directly involved in forced labor of Uyghur and other Muslim minority workers in plants in the Xinjiang region in China. The company is clear on not being involved in forced labour but admit to shortcomings in its supply chain management. The company has the ambition of adhering to international standards (not only local laws in China). We encouraged the company to share the conclusions from the third-party review when this has been conducted. We also urged the company to improve supply chain oversight, including labour rights requirements and supplier audits to ensure that commitments are being met.

Furthermore, we have conducted follow up meetings with diversified energy company **Enel SpA** and engineering company **Siemens Gamesa Renewable Energy Sa**, with regards to the companies' presence in Western Sahara. The meetings were initiated based on the recent ruling from the EU Court of Justice and a new report from Western Sahara Resource Watch (WSRW) questioning the legality of projects in Western Sahara, specifically related to questions on consent and "people of the territory". We have nudged the companies to be more transparent on how human rights due diligence and risk assessments are conducted. Furthermore, we request transparency on how free, prior, and informed consent from the people of the territory is achieved. We urge the companies to withdraw from the area if clarification and/or satisfactory resolution cannot be achieved.

In Q4, we initiated a follow up meeting with computer company **Western Digital Corporation** on questions regarding board composition and corporate governance. The dialogue was initiated based om shortcomings identified by ISS. The company provided a sound explanation of the points raised by ISS regarding the long-term incentive plan (LTIP), and why the items identified were either not relevant or were already addressed. We were satisfied with the company's approach. The company has a well-developed process for determining executive compensation, using multiple quantifiable metrics. In addition, it allows for differentiation between executives based on individual contributions. The company also outlined the rationale for selection of the two new board candidates, including the change in the lead director in 2022. The company indicated that they are interested in adding board experience in the area of consumer products, and this may form a key component in the next round of selection. We will follow up with a meeting in Q1 2022 to discuss other ESG topics not covered in this meeting – specifically labor standards, climate targets and suppliers.

On the topic of responsible tax practices, we have engaged with transport and logistics company **DSV Panalpina A/S**. DSV seems to have sound ambitions regarding "responsible taxation". The company aims to comply with all tax legislation, and do not engage in aggressive tax planning or tax havens. However, occasionally offshore company constructions are inherited through mergers and acquisitions. In 2016, DSV took over a holding structure which included companies in British Virgin Islands. The companies are part of a structure that is almost cleaned up, and DSV expect that these companies will have been liquidated before the end of 2022 We will continue to engage the company on responsible taxation.

Voting

Although Q2 is the primary voting season, we have voted at 36 company general meetings in Q4, **totalling 324 general meetings in 2021.** We have **voted against companies' recommendations at 132 meetings** (on at least one item) on issues such as board composition, remuneration (executive management/board), capital structure, and shareholder resolutions. Voting is an important tool in our active ownership. DNB AM has taken a more comprehensive approach on shareholder resolutions in 2021. We have voted on **shareholder resolutions in 94 general meetings** (a total of 228 resolutions). Some central topics that were emphasized in 2021 were executive compensation, climate change and lobbying.

Exclusions and re-inclusions

In Q4, one company was re-included in the investment universe. **Hanwa Corp** was excluded from DNB's investment universe in 2008 due to the production of cluster munition (controversial weapons). As the company no longer have any activities related to the production of cluster munitions, the grounds for exclusion no longer exist.

Four companies were excluded from DNB's investment universe based on the criterium of unacceptable risk that the companies contribute to serious environmental harm, outlined in DNB Group's Standard for Responsible Investments: **China Traditional Chinese Medicine Holdings Co, China Grand Pharmaceutical and Healthcare Holdings Ltd, Tong Ren Tang Technologies Co Ltd, Beijing Tong Ren Tang Chinese Medicine Co Ltd**. The risk is connected to the companies' use of ingredients based on body parts of threatened animal species in its production of Traditional Chinese Medicine (TCM).

In line with our expectation document on biodiversity, we expect that companies avoid contributing to reductions of any endangered species, according to the IUCN Red List of Threatened Species. We assess that there is an unacceptable risk that the excluded companies contribute to irreversible environmental damage in terms of biodiversity loss. Neither of the companies have reported on plans to substitute ingredients based on threatened species. It is considered that the practice is likely to continue because formula compositions and quality standards must be strictly kept in compliance with the requirements of the Chinese Pharmacopoeia.

Standard Setting

Biodiversity has been an important topic for standard setting in Q4, after we launched the new expectation document on the topic in Q3. The document outlines our expectations towards companies on biodiversity, including deforestation. As part of our engagements on the topic, we have started testing and using the document by asking companies for feedback on whether the document is relevant, and what may be potential gaps to the company's practice. Biodiversity will continue to be a focus area in our work in 2022. During the spring, we will follow the second part of the UN Biodiversity Conference (COP15). The conference is planned to be held in-person in China, and the goal is to conclude negotiations and decide on a new Post-2020 Global Biodiversity Framework.

Sending letters to company management or boards is a way to express our concerns on key risks and encourage the companies in question to act on a specific matter. Often, this is a starting point for further dialogue. In collaboration with other investors, we **wrote to 50 of the largest chemical producers globally to request that the companies reduce their hazardous chemical footprint.** We see the production of hazardous chemicals as a key risk for the chemicals sector. According to the WHO, 2 million people died due to exposure to hazardous chemicals in 2019, compared to 1.6 million in 2016. Hazardous chemicals are also key drivers of biodiversity loss[1], so we want to support a transition towards safer chemicals. Specifically, we asked for 1) increased transparency, 2) time-bound commitment to phase out hazardous chemicals from production, and 3) plans to shift towards a circular strategy with associated time-bound, measurable targets.

In Q4, we also joined a group of investors on sending a letter to 25 companies in the semiconductor supply chain. The goal was to encourage the companies to take a leadership position in the development of best practice around **the sourcing of minerals in the semiconductor supply chain.** Specifically, the letter asked the company to develop and invest in technological solutions to improve traceability, possibly blockchain. It also asked for improved transparency and reporting on minerals from mine to product, as well as efforts to reduce demand for new materials by improving recycling initiatives.

International News

The EU taxonomy became law in July 2020, but legislators left important details to be resolved through so-called delegated acts – secondary legislation meant for technical issues that is not subject to the same degree of ministerial and parliamentary oversight. **The Delegated Act on climate mitigation and climate adaptation arising from the Taxonomy Regulation** passed through the final stages of the political negotiations 9th of December and will become EU Law from January 2022. The act lays out the technical screening criteria – the benchmarks that define if an economic activity delivers a substantial contribution to the objective of climate mitigation or adaptation. Major financial actors and businesses in the EU will be required to report on their alignment with the criteria of the Taxonomy Delegated Act under disclosure regulations. A second delegated act for the remaining objectives will be published in 2022.

An ongoing debate connected to the EU Taxonomy is whether natural gas and nuclear activities should be recognised as "green" activities. On the last day of 2021, **The European Commission proposed plans to label some natural gas and nuclear power as green.** The Platform on Sustainable Finance group of advisors to the EU on the Taxonomy have until 12 January to respond to the draft delegated act. The Commission plans to formally adopt the act this month, to then send it to the European Parliament and Council of Member States for scrutiny.

The UN's 26th climate summit, COP26, resulted in a new climate agreement, the Glasgow Climate Pact. Almost 200 countries have joined the agreement. The final agreement gives reason for optimism by maintaining the goal of keeping global warming below 1.5°C. It also stressed medium-term 2030 goals, as opposed to previous emphasis on more long-term goals. In addition, fossil fuels are mentioned in the text for the first time, as the pact calls for a "phase down" of coal and a "phase out" of inefficient fossil fuel subsidies. Furthermore, important sector promises related to methane, coal, deforestation, and sustainable transport were made. However, most of these are voluntary commitments.

Another important outcome of the summit was that agreement was reached on Article 6 of the Paris Agreement rulebook. Thus, the last part of this rulebook is clarified. The new framework addresses issues around double counting of emission cuts and entails requirements that transferred carbon credits (carbon offsets) be marked. In total, the IEA estimates that the climate commitments reached at COP26 may limit global warming to 1.8°C, which is significantly lower than the forecasts of 2.7°C from before the climate summit. It is emphasized that these forecasts can only become a reality if all the commitments are delivered in full, and quickly. We believe the next 6-12 months will be crucial in assessing whether COP26 was a success.

We expect that the "phasing down" of coal will lead to faster development of renewable energy. However, an accelerated phasing out will probably also raise concerns about energy security and volatility. The phasing out of inefficient government subsidies for fossil fuels may affect the demand for oil in the medium term, but it will probably depend on how the word "inefficient" is interpreted.

[1] WHO 2016 The Public Health Impact of Chemicals, Knowns and Unknowns, 2021 Data Addendum https://www.who.int/publications/i/item/WHO-HEP-ECH-EHD-21.01. This includes lead and pesticides and is equivalent to 3.6% of all deaths globally.