



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. She has led the Responsible Investments team since 2015.



Karl Hagtun, 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).



Hanne Rasch Rognmo, Analyst

Hanne has an MIA in International Environmental Policy from the Middlebury Institute of International Studies in 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).



Q3 2020

Highlights from company engagements

We've had a long-term engagement with **Bayer** on product safety and quality. The goal of this engagement is for the company to demonstrate robust systems for identifying and communicating potential side effects of its products to regulators, health care professionals and patients. It should also seek third-party assurance of product safety and quality in regard to its management of customer complaints. The engagement has been productive with the company having shared details of its product control protocol and the main regulators it complies with in Q3. It has settled the majority of its cases on this topic. Moving forward, we will look further into how potential side effects will be communicated effectively and how the company addresses and manages customer complaints.

We have engaged with **Epiroc** based on the company's decision to take over a contract that is associated with the extraction of non-renewable natural resources in Western Sahara. We have had three company dialogues where the goal was that the company either withdraws from the region or does not renew the contract and that it implements human rights due diligence processes. The company has had ongoing dialogue with the Moroccan state-owned mining company OCP. OCP owns four mines, one of which (Bou Craa) is located in Western Sahara. Epiroc has now decided that it will no longer deliver products and services to the Bou Craa mine. The company will continue to be in business with OCP, but not in regards to this mine. We have also been in dialogue with the NGO Western Sahara Research Watch, which has also confirmed this development. We now consider this case to be resolved. However, human rights are still an important topic for Epiroc. Moving forward we will continue to engage with the company to learn more about its human rights due diligence processes in high-risk countries.

We followed up with **China Longyuan** on the topics of corporate governance and its anti-corruption policies and practices. Positively, the company already delivers on the HKEX's new ESG reporting requirements (effective starting July 2020) and will seek to exceed this reporting in line with international shareholders' expectations. We also received clarity around oversight, scope of employee training and external verification of China Longyuan's anti-corruption work. We re-emphasised our expectation that Remuneration and Audit Committees should be fully independent and that the company should set measurable objectives for implementing its Board diversity policy and reporting on this progress. The company does not have plans to sell or close coal-generating assets but has concrete plans to increase its capacity within wind and solar moving forward. We support plans to increase the share of renewables but highlighted that divesting from coal would increase the company's attractiveness towards international investors and that we expect them to do so.

Our engagement with **Danske Bank** on Anti Money Laundering (AML) continued with a meeting in Q3. The Board has oversight over AML and has established a Conduct and Compliance Committee. AML issues are discussed at almost all Board meetings, covering events, processes and significant transactions. The company also has an AML initiative that aims to move from a manual process to an automated process. This will require investments in new technology. Creating cultural change is also vital, with Danske Bank addressing transparency and improving its whistleblower processes, mandatory

training for all employees and additional tailored training towards more high-risk employees, and integrating aspects of corporate culture into remuneration schemes. Moving forward, we seek significant improvements in the company's AML practices stemming from its AML initiative and cultural improvement processes. Moreover, we highlight that best practice includes achieving external verification of Danske Bank's risk management and compliance processes.

Our **collaborative and proactive Taskforce on climate-related Financial Disclosures (TCFD) engagement** with Norwegian companies continued in Q3. We had suggested to the Norwegian investor group that phase three of this engagement should focus on Nordic banks and insurance. In Q3 we had meetings with **DNB ASA** and **Gjensidige Forsikring ASA**. The DNB Group is advanced in its work with integrating climate-related risks and opportunities into governance, strategy and risk management processes, and reports on metrics and targets. It also reports to the CDP and has achieved a high score (A) over the past few years. Conclusions from an ongoing climate risk project will be discussed by the company's Board towards the end of 2020. This work is likely to lead to further clarification around the Group's climate strategy and related metrics and targets. Gjensidige Forsikring is also advanced in its TCFD-aligned reporting and CDP reporting. Its work with climate-related risks and opportunities is particularly advanced in the insurance side of the business, where it has focused on physical risk. It has conducted scenario analysis and aims to publish the results of this work in early 2021.

Investor collaborations through letters are also a tool that we use in our active ownership approach. This quarter we participated in the UN Principles for Responsible Investments' (PRI) letter to the major soy trader operating in South America regarding their no-deforestation policies, progress, and disclosure as well as a letter towards mining companies on water management. We also participated in Access to Nutrition Index's letter towards companies on the ethical marketing of formula milk.

Voting

We have voted at **220 company general meetings** by the end of September, of which 134 were in Norway and 86 internationally. We have also had several company dialogues in association with our voting activity. 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.

The 2020 AGM season has been characterised by a number of firsts, including virtual meetings and a record number of shareholder proposals receiving majority votes. Human rights due diligence proposals have done particularly well this proxy season. We voted for a proposal at Amazon's AGM on conducting human rights impact assessments on high-risk commodities. This proposal did not receive a majority vote but received an unprecedented 39% of supporting votes. Pre-covid-19, human rights-related proposals have typically received 20% support. We have voted at 25 shareholder resolutions on topics related to social factors (including gender equality and human rights due diligence). At the same time, despite the increased focus on social issues, climate and the environment are still an important focus of shareholder resolutions. So far this year, we have voted at 12 shareholder resolutions on environmental issues (including climate change and biodiversity). In total we have voted at more than 2000¹ resolutions, whereof almost 100 were shareholder resolutions.

Exclusions

During Q3 we have excluded three companies from DNB AM's investment universe due unacceptable risk for violation of human rights – **Formosa Chemicals and Fibre Corp, Formosa Taffeta Co Ltd and Page Industries**. None of these companies were included in any active portfolios at the time of their exclusion.

¹ Based on voting for Norwegian-registered funds

Standard setting

We have completed **ESG assessments for Norwegian banks that issue bonds** and which are included in our fixed income portfolios. In this process, we have developed a framework for understanding material ESG risks and opportunities. This work has been a collaborative effort between the ESG team and the Head of Fixed Income. This information will be used in credit analysis and investment decision making in a more systematic way than before.

The ESG team has also **contributed at several seminars** this quarter. We presented DNB AM's approach to the Sustainability-related Disclosures regulation at a seminar hosted by the Norwegian Mutual Funds Association. At the PostTrade360 conference in Oslo we presented on ESG integration. Finally, we participated in a panel discussion hosted by the Association of the Luxembourg Fund Industry covering the EU taxonomy and ESG integration.

International News

The European Commission presented its increased **target to reduce greenhouse gas emissions by 55% by 2030** (compared to 1990 levels). Ambitious action will be required from all sectors of the EU economy to deliver on this target. In particular, this will require increasing the renewable electricity production, investments in the renovation wave to support energy efficiency, and a strengthening of the EU Emissions Trading Scheme (EU ETS).

China announced its ambition to achieve peak emissions by 2030 and carbon neutrality before 2060 to the UN General Assembly at the end of September². According to Bloomberg, this move could lower projects of global average warming by 2100 by between 0.2 to 0.3C.

The EU's draft **regulatory technical standards** under the **Sustainability Finance Disclosures** were out for consultation this quarter. There has been wide-spread criticism of the proposed regulation. Stakeholders have expressed their concerns round the lack of access to relevant, publicly available and comparable data from companies, the complexity of the required information and data, and the tight timeframe for delivery. Some bodies, including EFAMA, have proposed to reduce the number of mandatory indicators for adverse sustainability impacts from 32 to six. In addition to this, 18 voluntary indicators have also been proposed.

An initiative to establish a **Taskforce on Nature-related Financial Disclosure (TNFD)** was announced in July. The initiative aims to develop a framework to guide nature-related financial disclosure by the end of 2022. Biodiversity is one of our thematic focus areas this year – this initiative highlights the data and reporting challenges associated with this theme.

² https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1817098.shtml