

ANNUAL REPORT RESPONSIBLE INVESTMENTS

2015

DNB

DNB Asset Management

Responsible Investments

Directors' report

2015 turned out to be a mixed year for global financial markets. Monetary policies continued to be quite stimulative in many countries, and interest rate levels were unusually low in a historical context. However, the Federal Reserve initiated the start of a US rate rising cycle in the latter part of 2015. The rate increase, falling commodity prices, currency volatility, and weaker economic growth signals put pressure on global equity markets. In addition, the weak commodity prices exacerbated the growth scare for several emerging markets such as China, Brazil, and Russia.

DNB Asset Management (DAM) is part of Wealth Management, a business area in the DNB Group, which experienced strong financial development in 2015. DAM's assets under management grew slightly from NOK 542 billion to NOK 552 billion in 2015. This was mainly due to market movements and currency effects (a weaker NOK).

The focus on sustainable investments and climate change is gaining traction in the global financial community. Global warming is one of the most serious threats to sustainable development. As coal emissions are one of the biggest contributors to climate change, DNB has decided to add new coal criteria to its guidelines for ethical investments.

The two 'green' funds: DNB Grønt Norden and DNB Miljøinvest performed very well, with a return of 25.5 per cent and 19.1 per cent, respectively.

The Nordic region has long been at the forefront of sustainable investments for fund managers. Norges Bank Investment Management (NBIM) has been a trendsetter both in Norway and Internationally. NBIM has long worked on issues associated with climate change, especially coal and greenhouse gases. Its work in this area, including clarifying guidelines and excluding companies, intensified in 2015 and into 2016. In parallel with NBIM, DNB Asset Management (and the DNB Group) spent considerable time on this topic in 2015. In early 2016, DAM finalised the new guidelines for climate and coal in its ethical platform (which all our funds need to adhere to).

FACTS

DNB Asset Management

DNB Asset Management (DAM) employed 158 people (FTEs) across five offices globally at the end of 2015. DAM managed over NOK 550 billion in fixed income, equities, hedge funds, and private equity – on behalf of institutional and retail clients. The DNB Group, as Norway's largest bank, aims to promote sustainable value creation by integrating ethical, environmental and social aspects into all business operations. In 2015, DNB once again qualified for inclusion in the Dow Jones Sustainability Index (DJSI), for the seventh year in a row.



A new team for responsible investments was put in place in late 2015/early 2016. One of the main changes was a consolidation of all the resources into one team, and in one location (Oslo), in close proximity to most of the portfolio managers.

DNB Asset Management will intensify its efforts in the environmental, social and governance (ESG) area in 2016. The new team for responsible investments will work closely with the portfolio managers to integrate ESG into the investment process.

Torkild Varran
CEO
DNB Asset Management

DNB's work with responsible investments – guidelines and strategies

“DNB wishes to operate in an ethically responsible and honest manner. We will facilitate and contribute towards sustainable development, because we know that you care!”

RUNE BJERKE, CEO, DNB GROUP

DNB has adopted high ethical standards for all investments. DNB's Ethical Investment Guidelines specify that DNB Asset Management will exercise special care with respect to certain transactions and acts, especially those which represent a risk of involvement in unethical conduct, infringement of human or labour rights, corruption or harm to the environment. These are standards that our clients attach great importance to and therefore apply to all investments made by DNB Asset Management and not only to specific ethical funds. In addition, all externally managed funds offered by DNB to its clients are screened, and DNB has an active dialogue with fund managers whose mutual fund portfolios include companies which DNB itself has excluded from its investment universe. The aim is to influence the funds to adopt a more sustainable and responsible investment practice. DNB shall not invest in or distribute external funds which include companies which themselves, or through units they control, produce weapons which, by normal use, breach fundamental humanitarian principles.

The investment considerations we make are based on international conventions/norms for the environment, human rights, labour rights and corruption. DNB will not invest in companies that are involved in the production of antipersonnel landmines, cluster weapons, nuclear weapons or the production of tobacco or pornography. As from January 2016, mining companies and power producers which themselves, or through entities they control, derive 30 per cent or more of their income from thermal coal, or base 30 per cent or more of their operations on thermal coal, may be excluded from the investment universe.

DNB has also developed specific guidelines for government bonds.

DNB has a Committee for Ethical Investments that implements and monitors the ethical guidelines. If a company has been identified to be involved in controversial weapons, tobacco or pornography, as mentioned above, all holdings will be sold and the company will be excluded as a possible investment. If companies are considered to violate other parts of the guidelines, we primarily try to influence the companies by actively exercising ownership rights, but we also exclude companies on these grounds.

In DNB Asset Management, we have products for clients who wish to have further exclusionary screening, among others DNB Global Etisk and DNB Barnefond. These funds also exclude companies that are

involved in the production of alcohol, weapons or gambling. Furthermore, DNB Renewable Energy and DNB ECO Absolute Return invest in companies that can provide solutions to the challenges of climate change. The funds invest in companies involved in solar, water and wind power, but also in companies that promote more efficient use of electricity, such as more efficient power transmission and electrical batteries. We also offer funds that exclude direct exposure to fossil energy and have a clear sustainability focus, so DNB Grønt Norden focuses on Nordic companies with a positive environmental profile.

DNB Asset Management devotes considerable resources into ensuring that its responsible investments are of high quality, and in late 2015, all resources were gathered in Oslo, close to the fund managers. We also use two external service providers who screen and rank companies based on sustainability issues. One of these providers also helps DAM with its shareholder dialogue to encourage companies to improve their sustainability performance.

Active ownership engagement in DNB

To ensure compliance with the Ethical Investment Guidelines, DNB Asset Management acts as an active owner and regularly engages in constructive dialogue with the companies it invests in. The objective is to influence companies to change their practices for the better. The reason for engagement is often specific concerns related to environmental issues, social issues, business ethics or corporate governance. The topics for engagement could also be a need to improve companies' general performance or processes within sustainability.

Active ownership engagement is also one of the bearing principles in the UN-backed Principles for Responsible Investment (PRI), which DNB Asset Management has committed to by signing the principles as early as 2006. We also participate in collaborative engagements with other investors in the UN PRI.

Which specific companies DNB Asset Management chooses to engage with is also discussed in the Committee for Ethical Investments. The level of engagement is decided by the severity of the suspected breach, our ownership status in the company and the likelihood that our engagement will have a positive impact on the situation.

We also work with proactive engagement to improve sustainability work in our investee companies. These dialogues may focus on a specific issue or raise the general level of awareness of sustainability issues. We sometimes approach several companies within a specific industry to discuss an industry-specific topic. During 2015, we worked mainly with two such industry-specific engagements: sustainable palm oil and healthier food (see page 6).

The objective of running industry-specific engagements has been to increase knowledge internally in DNB about the environmental and social challenges for companies in specific sectors to gain a better basis for our investment decisions and influence companies operating in these industries in a more sustainable direction.

Qualitative dialogues with companies are very resource and time-consuming, but in our experience, this type of engagement is effective and will continue to be a priority for DNB.

In 2015, DNB's sustainability analysts held 27 company meetings with the primary aim to discuss various sustainability issues (see

page 5). Through GES Investment Services, our external engagement service provider, DNB has been in dialogue with 103 companies concerning suspected breaches of international conventions or otherwise ethically doubtful actions. These dialogues follow structured processes with clear targets for the desired outcome.

VOTING

In certain situations, in cases with significant public interest or of special interest to fund unit holders, DNB announces its decisions regarding voting at companies' annual general meetings. Voting records are published on dnb.no ¹.

In 2015, we voted at 72 AGMs or extraordinary shareholders meetings. At 16 AGMs, we voted against management on at least one item. We also served on the board nomination committee of a Norwegian company.

SCREENING OF EXTERNALLY MANAGED FUNDS

In 2015, DNB screened more than 100 externally managed funds in order to ensure that all funds we offer to clients are compliant with DNB's Ethical Investment Guidelines. We were also engaged in dialogue with several fund management companies to discuss their practices within responsible investments.

DIRECT COMPANY DIALOGUE IN 2015

In 2015, we met with 27 companies. 22 of these meetings were with Nordic companies and five with global companies. ²

Subject	Number of meetings
Waste and emissions	–
Labour standards	–
Local communities/indigenous rights	1
Bribery and corruption	3
Human rights	1
Other social issues	16
Other environment issues	6
Total number of meetings	27

EXCLUDED COMPANIES IN 2015

Companies that are in breach of DNB's Ethical Investment Guidelines and show no willingness to change their practices can be excluded from our investment universe. As at 31 December 2015, DNB had excluded 72 companies that were assessed to be in breach of the Group's guidelines. ³

Exclusion criterion	Number of companies
Anti-personnel mines (land mines)	1
Cluster weapons	6
Nuclear weapons	14
Environmental aspects	17
Labour rights	1
Human rights	9
Pornography	2
Tobacco	22
Total number of excluded companies	72

1) www.dnb.no/privat/sparing-og-investering/fond/slik-forvalter-vi.html.
 2) Table externally verified by EY as part of DNB's Annual Report (including CSR) 2015. www.dnb.no/portalfront/nedlast/no/om-oss/resultater/2015/annual-report-dnb-group-2015.pdf
 3) Table externally verified by EY as part of DNB's Annual Report (including CSR) 2015. www.dnb.no/portalfront/nedlast/no/om-oss/resultater/2015/annual-report-dnb-group-2015.pdf

DNB engaging companies on healthier food

In recent years, there has been a steady rise in the consumption of sugar, contributing to an increasingly obese global population. Obesity is one of the fastest-rising health concerns in modern times and the prevalence of obesity has more than doubled since 1980⁴. According to WHO, up to 50-60 per cent of all adults will be overweight by 2030. The consequences of widespread obesity problems weigh heavily on countries' healthcare budgets. Research estimates the direct and indirect costs of obesity as being up to 5 per cent of global GDP, each year⁵. The pressure on governments and authorities to deal with these problems will continue to grow, and we believe that we will see further regulatory measures and stricter industry standards in the future.

Sugar is nowadays not only a sweet treat once a week, it is an ingredient in many food items such as sauces, bread, cereals, yoghurts, and ready-to-eat meals. Added sugar is difficult to spot on product labels as it can be listed under several different names. Sugar is widely thought to be as addictive as tobacco and alcohol.

Food producers are blamed for contributing to obesity by promoting unbalanced diets and overconsumption, due to the high supply of energy-dense and processed food. Due to rising health concerns and consumer awareness, the food industry faces future regulation and tax imposition which could reduce revenues and margins. However, food producers can also be key actors in tackling the problem and could respond to the changing behaviours and health concerns by offering new products lower in added sugar to gain market share in a developing segment.

The food industry is an important business sector both globally and in the Nordic countries, and DNB holds shares in several food companies. In a long-term perspective, DNB would like to see the food industry and our investee companies offer products with a higher nutritional value. Just as we believe that companies should disclose information on their supply chain management and their emissions of greenhouse gases; companies should attach greater importance to their health and nutrition footprints in their core business.

DURING THE SUMMER OF 2015, DNB INITIATED DIALOGUES WITH FOOD COMPANIES WITH THE AIM TO MAKE COMPANIES:

1. Adopt strategies to reformulate their nutritional profiles such as reducing sugars and artificial additives, increasing the share of wholegrain etc. and introducing less-calorie products and natural sweeteners.
2. Adopt better nutritional labelling to communicate nutritional values so that customers can make better-informed decisions.
3. Introduce new healthy product lines and increase the promotion of these.

4) www.who.int/mediacentre/factsheets/fs311/en/

5) Morgan Stanley Research, August 2015

Company dialogue and other stories from 2015

In **January 2015**, DNB's SRI team visited Norsk Hydro's aluminium plant at Karmøy, Norway. The prime focus of the visit was energy efficiency. Aluminium production is a very energy-intensive process, but due to hydroelectric power, and Norsk Hydro's efficient production methods, the Karmøy plant is the most energy-efficient aluminium plant in the world. Hydro is aiming to "turn their leading CSR position into a competitive advantage" and to be carbon neutral in 2020. To achieve this, the company aims to improve efficiency in all parts of the aluminium life cycle.

In **February**, the Finnish forestry company StoraEnso presented a major report on human rights risks across its organisation and supply chain. The company has previously been criticised for substandard policies and practices in China, Pakistan and Laos. The risk assessment was followed by an ambitious plan of action. Based on this risk assessment report, together with a new CEO and continued pressure from the investment community, we believe that StoraEnso will improve significantly.

During the spring, we met with four Nordic telecom companies to discuss their sustainability work: Tele2, TeliaSonera, Telenor and Millicom. The sustainability risks for these companies include privacy and integrity issues, as well as corruption. All companies have operations in countries where corruption is an issue. In recent years, Telia and Telenor have been accused of corruption in Uzbekistan, and Millicom has been accused of corruption in Guatemala.

In **September**, Shell announced that it will cease all offshore drilling in the Arctic. The company resumed drilling operations for oil and gas during the summer in the Chuchi Sea outside Alaska after receiving approval by the US government, but abandoned the project only two months later. The company cited insufficient findings of oil, too high costs in a low oil price world and an unpredictable regulatory environment. During the summer, DNB joined an international investor initiative to engage companies on the topic of Arctic drilling. Letters were sent to Statoil, Shell, ENI, BP and Exxon asking about the companies' risk management and H&S regarding the Arctic operations. The letters also question the economic viability of the projects with regard to the enormous potential fines and damages in the event of an accident.

Also in **September**, Volkswagen was caught in manipulating software in their diesel cars in order to comply with emission standards in the US. VW faces penalties of up to NOK 150 billion and with the initial 40 per cent stock price plunge, this makes comparisons with BP's Macondo disaster inevitable. The potential full scope of the damages is today indeterminable. DNB did not hold VW in any actively managed equity funds when the scandal hit, in part due to uncertainty surrounding the company's complex governance structure. The situation points towards both systemic issues related to environmental standards and to corporate oversight and culture.

In **November**, DNB joined several other investors in a letter to the Indonesian President. The letter emphasised continued investor support to the President's antideforestation agenda and urged the government to support companies which have put in place no-deforestation policies. DNB is also a member of the investor working group on sustainable palm oil within the UNPRI.

The Paris climate summit in **December** offered renewed hope of coordinated and meaningful global action on climate change. Two weeks of discussions and negotiations resulted in a deal, signed by the representatives of nearly 200 states, that sets a new and tougher objective to limit global warming to "well below 2 degrees above pre-industrial levels" (aiming at 1.5 degrees). The climate action plan requires that the signatory States set out their plans to avert climate change every five years, accompanied by an assessment of current progress reported based on a comparable standard. The deal thus represents a work in progress and a sensible foundation for international cooperation.

NORSIF

DNB has been a driving force in the establishment and development of the Norwegian Sustainable Investments Forum (Norsif). Norsif is an independent association of asset owners and asset managers, service providers and industry associations with interest in, and activities related to, responsible and sustainable investments.

Membership in Norsif does not commit individual members to any single understanding of, or strategy related to, responsible and sustainable investments. Members can, however, use Norsif as a forum to exchange information, ideas and experiences, and contribute to the development of a common understanding of best practice within the field of responsible and sustainable investments.

A case in point is a joint investor engagement with shipping companies in 2015: Norsif commissioned in 2014 a report showing that OSEBX is more carbon-intensive than other main stock exchanges indices. The maritime industry is not only one of the more carbon-intensive industries, but shipping companies are also scoring low on transparency/reporting. Three investor members of Norsif, including DNB, decided to enter into dialogue with selected shipping companies on this topic. The aim of the engagement has been to gain knowledge on how environmental risk is handled in each company, thereby showing these companies that investors are paying attention to their climate policies and practices.

In 2015, meetings were held with three shipping companies as part of this joint initiative.

PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI) INITIATIVE

The United Nations-supported Principles for Responsible Investment (PRI) Initiative is an international network of investors working together to put the six Principles for Responsible Investment into practice. Its goal is to understand the implications of sustainability for investors and support signatories to incorporate these issues into their investment decision making and ownership practices. DNB signed the principles as early as in 2006, the same year as the principles were launched.

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

Here for you. Every day.
When it matters the most.

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