Montréal Carbon Pledge
Carbon Footprint of Mutual Funds

Climate change poses a great global challenge and financial risks and opportunities. Greenhouse gas emissions from human activitites, primarily the burning of fossil fuels, have intensified the greenhouse gas effect and is causing global warming. Climate change is a key risk within responsible investments. The Paris Agreement signed in December 2016 will require countries to shift the financial flows towards low emissions and climate-resilient development in order to deliver on the goal of limiting the global temperature rise below two degrees Celsius compared to pre-industrial levels. DNB Asset Management signed the Montréal Carbon Pledge in 2017 and is committed to measure and publicly disclose the carbon footprint of investment portfolios.

As part of efforts to reduce exposure to companies with high climate risk, in 2016 DNB Asset Management started to measure the carbon footprint of equity funds. Carbon footprint, also called carbon intensity, is the measure of a company's greenhouse gas emissions relative to the company's revenues and is one of several factors that says something about the company's climate risks and impact. It provides us with a basis for the further assessment of climate-related financial risks.

Commitment to the Montréal Carbon Pledge

DNB Asset Management signed the Montréal Carbon Pledge in April 2017 (http://montrealpledge.org/). The Montréal Carbon Pledge is supported by the Principles for Responsible Investment (PRI) and the United Nations Environment Program Finance Initiative (UNEP FI). This is a commitment to measure and publicly disclose the carbon footprint of investment portfolios.

Method

DNB uses information from MSCI ESG Research about companies' greenhouse gas emissions. The companies' carbon footprint is weighted by the respective holding in the portfolios and the same is done for the index. In the calculation, any cash in the portfolios is distributed proportionately between the other companies. For companies without emission data, the average figure for companies in the portfolio with emission data has been used in the calculation. DNB reports CO2 equivalents that include scope 1 and scope 2 emissions, as defined by the Greenhouse Gas Protocol. Scope 1 includes direct emissions from sources that are owned or controlled by the reporting entity, and Scope 2 includes indirect emissions from consumption of purchased electricity, heat or steam. Emissions that fall under Scope 3, also referred to as "other indirect greenhouse gas emissions", are not included due to the fact that very few companies report Scope 3 emissions. The method for reporting greenhouse gas emissions is under development and could be subject to change.

There is great uncertainty surrounding data on greenhouse gas emissions. Firstly, practices for the reporting of such emissions vary considerably, while some companies do not report their emissions, and estimated figures are used where data is missing. Despite the uncertainty, DNB is of the opinion that greenhouse gas emissions are an important factor to use in analyses of companies' climate risk and impact.

Results 2017

The graph below shows 23 equity funds and their respective indices where data on greenhouse gas emissions for more than 75 per cent of the funds' investments are specified. These funds represent about 90 per cent of the total market value of all DNB's equity funds. Some funds are not included due to the lack of emission data. The graph is a snapshot of the portfolio as at 31 December 2017 and shows that compared with the respective indices, the majority of the funds had a lower or equal carbon footprint.

Portfolio adjustments due to environmental and climate reasons

As a step to reduce environmental and climate risks in the portfolios, climate and coal criteria were included in DNB's guidelines for responsible investments in 2016. DNB has excluded 90 companies for environmental and climate reasons, 22 companies due to serious environmental harm, including companies associated with the production and operation of palm oil plantations, and 68 companies which have breached our criteria on thermal coal. For a full disclosure on excluded companies see: https://www.dnb.no/om-oss/samfunnsansvar/ekskluderteselskaper.html

Carbon footprint

Funds with higher carbon footprints are generally more exposed to carbon intensive sectors, while funds with the lowest carbon footprint tend to exclude investments in carbon-intensive sectors. The Norwegian stock market has significant exposure to the energy sector, and is dominated by several carbon intensive companies such as Statoil, Norsk Hydro. Therefore, Norwegian funds often have a higher carbon footprint. Due to the exclusion of 154 companies by yearend 2017 from our investment universe, DNB Global Indeks has a lower carbon footprint compared to its respective index. Sector funds within finance, health care, technology and telecommunications all have a low carbon footprint due to the low-carbon-intensive sector they operate in. In 2017, DNB launched a global low-carbon equity fund called DNB Global Lavkarbon.