Montréal Carbon Pledge

Carbon Footprint of equity funds

Climate change poses a great global challenge, and represents serious financial risks and opportunities. Greenhouse gas emissions from human activitites, is determined to be extremely likely to be the dominant cause of warming since the mid-twentieth century. Scientific evidence shows that the effects of climate change will impact people globally in terms of access to water, food production, health, and the environment, and will be intensified if the rate and scale of climate change is not managed. At the same time, companies will be faced with physical, regulatory, and other transitional risks related to climate change which may impact several important aspects of an organisation's financial position. It is for these reasons that climate change is a key focus within responsible investments.

The Paris Agreement, signed in December 2016 will require countries shift financial flows towards low emissions and climate-resilient developments 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 measuring and publicly disclosing the carbon footprint of investment portfolios.

As part of efforts to reduce exposure to companies with high climate risk, in 2016 DNB Asset Management began measuring the carbon footprint of equity funds. DNB Asset Management reports the carbon footprint of our equity funds using the 'carbon intensity' metric, which is the measure of a company's greenhouse gas emissions relative to the company's revenues. This is one of several factors that provide insight into a 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, an estimated figure for the company produced by MSCI ESG has been used. In calculating the portfolio footprint, the average figure for companies in the portfolio with emissions data is used. 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. Indirect emissions associated with purchased goods and services that fall in under Scope 3 are not included due to lack of reported data from companies. For avoided emissions, which refer to emission reductions resulting from a specific product, methodological and data gaps have prevented the widespread inclusion as part of the carbon footprint process.

There is significant uncertainty surrounding data on greenhouse gas emissions. This is due to both the regional variations in practices for reporting emissions, which have been shown to vary considerably between markets and companies of different size, and from the use of estimated figures when companies do not report emissions. Despite these uncertainties, DNB is of the opinion that greenhouse gas emissions are an important factor to include in the analyses of companies' climate risk and impact.

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 excludes 99 companies for environmental and climate reasons, with 22 companies due to serious environmental harm, including companies associated with the production and operation of palm oil plantations, and 73 companies which have breached our criteria on thermal coal. In 2018, the scope of exclusions was expanded to include oil sands, resulting in the exclusion of 4 companies. In addition to exclusions, a pillar of our active ownership work is to engage in dialogues with companies in our holdings and in relevant benchmarks in order to influence them in a positive direction regarding environment, climate, and social and governance issues.

For a full overview of excluded companies see: https://www.dnb.no/en/about-us/exclusions.html

Results 2018

The graph below shows 29 equity funds and their respective indices where reported and estimated data on greenhouse gas emissions for more than 75 per cent of the funds' investments are specified. These funds represent about 96 per cent of the total market value of all of 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 2018 and shows that compared with the respective indices, the majority of the funds had a lower or equal carbon footprint.

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 features several carbon-intensive companies; therefore, Norwegian funds often have a higher carbon footprint. Additionally, at the time of the reporting the funds had a tactical overweight in energy which may explain the higher carbon intensity relative to the benchmarks. Emerging market funds also have a relatively high carbon footprint, which is attributable to the higher average carbon intensity of companies in some sectors, relative to developed market competitors. Sector funds within finance and health care have a low carbon footprint due to the low-carbon-intensive sector they operate in.

All of our funds and investments follow our Standard for Responsible Investments. For customers seeking funds with an enhanced ESG profile, they can choose to invest in specific ESG-funds. These include our global low-carbon equity fund, DNB Global Lavkarbon, which has an environmental profile and invests in companies with low-carbon intensities, whilst maintaining an average industry-adjusted ESG score higher than its benchmark; DNB Grønt Norden, which utilizes positive selection focusing on Nordic companies with a positive environmental profile; and DNB Miljøinvest/DNB Renewable Energy which are funds that invest in companies that have a positive environmental impact and invest in companies that provide solutions to the challenges of climate change, such as renewable energy and/or energy efficiency.