storebrand

Solutions

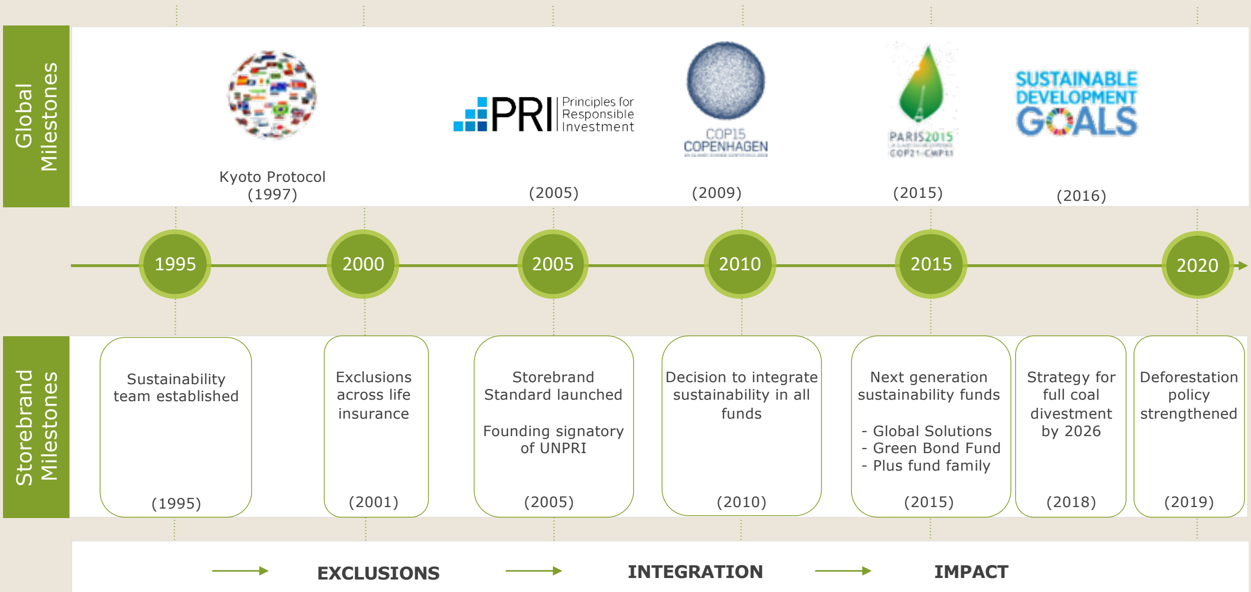
- Sustainable Investments

Spring
2020

Contents

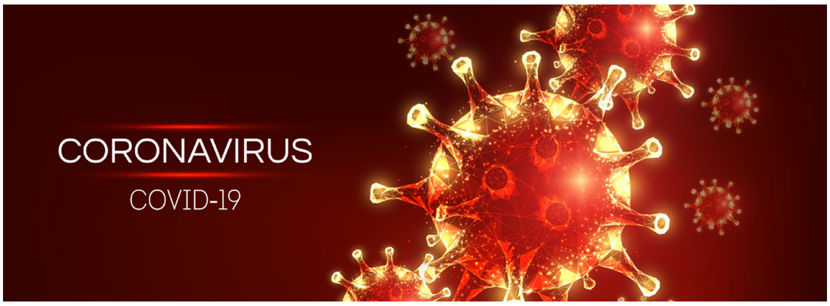
Editorial: Beyond the Corona crisis . . . 3
News to Note . . . 4
New EU Regulation to Transform Sustainability . . . 6
Storebrand's Sustainability Score . . . 8
Telenor – Connectivity for Reduced Inequality . . . 12
Active Ownership . . . 14

Published April 2020
Front page picture: Colourbox



Beyond the Corona Crisis

Matthew Smith
Head of Sustainable Investments



At a time of international unrest, both socially and financially, our first reactions are often short-term and driven by fear. With a previously unknown virus on the march and economic indicators nosediving at a rate not seen since the 1980's, we have witnessed the stockpiling of toilet paper and cans of beans, and huge stock market sell-offs. The problem with these actions is that while they may make sense on an individual level, collectively they make matters worse. Uncertainty can lead to anxiety and anxiety can lead to panic.

While stock market crashes and global pandemics can lead to the most extreme cases of collective madness, we should not lose sight of the fact that we are in the midst of a longer-term paradox. Continuing economic growth is based on the unsustainable use of natural resources, and these resources are finite. In the short-term, use of natural resources creates wealth and welfare, and provides us with a continually increasing living standard. However, in the medium to long-term, the increasing scarcity of these resources is likely to undermine financial markets and cause social instability. In our financial system, the natural world and its contribution to our economy remains undervalued and the effects of the destruction of natural resources are underestimated. The corporate and individual search for financial returns has eroded the collective value of nature. This is likely not only to negatively affect returns going forward, but with nature becoming unpredictable and destructive, the returns and the wealth we have built up over many years are also threatened. Entire regions of the world and entire industries stand to lose out if we do not mitigate our impact on the environment and adapt to a new warmer climate.

Ironically the coronavirus pandemic sweeping the world may provide the catalyst for a more rapid transition to a green economy. It has already demonstrated just how closely economic activity is coupled with environmental damage. China's economic downturn, linked to draconian but effective policies of social isolation, has drastically reduced air pollution to the extent that respiratory-related deaths in the country in 2020 are predicted to be 50,000-100,000 lower. In Venice, the absence of mass tourism has resulted in the usually murky and polluted canals clearing up, and the locals reporting seeing small fish for the first time in memory.

The challenge, of course, is to turn these short-term improvements into lasting ones. Looking into 2021 and beyond, a continuing low oil price may render many fields unprofitable and could well stimulate investment in the growing number of renewable energy alternatives. The forced travel bans and work from home orders could result in employees becoming more proficient in online communication and boost remote office solutions. Companies may well realize that reduced mobility increases productivity and lowers costs. But arguably the greatest opportunity lies in the public sector response to the crisis. Faith Birol, Director of the International Energy Agency (IEA), has already called on governments around the world to make sure stimulus plans address the essential task of building a sustainable energy future.

COVID-19 is undoubtedly the single most dramatic health and economic crisis since the Second World War. The crisis will at some stage pass, but not without us changing fundamentally. Our job as investors is to not only minimize the immediate negative financial effects, but to ensure that the investments we make on behalf of our clients contribute to an economic recovery that is stable and more sustainable in the long-term.
Stay safe, stay home and enjoy this edition of our Solutions magazine.

News to Note

Two CDP Europe Awards For Storebrand Asset Management

Two of Storebrand Asset Management's funds were recognized as top climate performers at the CDP Europe Awards in Paris. Storebrand/SPP Global Solutions was amongst the winners in the global equity category and SPP Emerging Markets Plus amongst the victors in the emerging markets category.

The ranking is based on new data from the climate rating for funds, Climetrics, launched by non-profit CDP and ISS-ESG in 2017.

Climetrics independently rates around 17,000 global funds based on a 5-leaf system using a best-in-universe approach.

The top five actively managed funds for each category were selected based on their underlying Climetrics score, chosen from hundreds issued with a '5-leaf' Climetrics rating in the European equity and global equity categories. The top five funds in the emerging markets equity class were also recognized.

> “-It is also a recognition of many years of hard work of the organization as a whole. The importance of investing in line with the UN Sustainable Development Goals is clear
>
> - Philip Ripman, Portfolio Manager of Storebrand Global Solutions

About the ranking:
The ranking is based on Climetrics' new underlying methodology, which is public. It measures the performance of a fund's holdings, its asset manager's governance of climate issues, and its investment policy, to help investors find funds well-positioned in the transition to a low carbon economy. To read more about the ranking, visit **https://www.cdp.net/en/investor/climetrics**

– There is rising global demand for action on climate change. Countries, municipalities and cities are increasingly asking for new investment solutions that align their capital with their overall climate commitments, Odd Arild Grefstad, CEO of Storebrand Group

Storebrand triples fossil free investment solutions

The Storebrand Group has almost tripled its Assets under Management (AUM) in fossil free investment solutions to EUR 26 billion at December 9, 2019 – or a third of total AUM. The Group's Swedish subsidiary, SPP, took the decision at the start of December to make all its funds fossil free.

Strong client demand

– The growth in our fossil free funds is a result of strong client demand and an increased allocation to fossil free solutions in our captive life insurance portfolios. Fossil free funds were initially niche but have grown to become an important building block in the sustainable investment strategies of many clients, says Grefstad.

Institutional investors are, so far, the largest group of investors in fossil free funds with demand strongest in the Swedish market, but Grefstad sees growing interest all over Europe.

Finance must play an active role

The finance industry plays a key role in moving capital in the right direction. Upcoming EU regulations will put further pressure on financial institutions to take an active role.

– We need to do our part in providing the market with an intelligent range of sustainable solutions. That includes broad-based sustainable index funds, specialist fossil free strategies and active funds investing in solution companies. These all represent important building blocks in a sustainable investment strategy, Grefstad says.

New EU Regulation to Transform Sustainability

Robert Vicsai
Director Institutional Clients, SPP Funds

The group's work began in 2017 in the wake of the Paris Agreement and so far, it has led to three legislative proposals and a fourth that is under development.

The EU's plan on Financing Sustainable Growth:

- Reorienting capital flows towards sustainable investments
- Mainstreaming sustainability into risk management

Actions:

- Establish EU Sustainable Taxonomy
- Create Standards and Labels
- Foster Investment in Sustainable Projects
- Incorporate Sustainability in Investment Advice
- Develop Sustainability Benchmarks
- Integrate ESG Ratings and Market Research
- Clarify Institutional Investors' and Asset Managers' Duties
- Incorporate Sustainability in Prudential Requirements
- Strengthen Sustainability Disclosure and Accounting
- Foster Sustainable Corporate Governance

Total global capital in sustainable investment has increased by 34 percent since 2016. Today, more than $30 trillion is managed under the criteria that include some form of consideration for environmental, social and economic factors. Europe accounts for the largest share with $14.1 trillion http://www.gsi-alliance.org/wp-content/uploads/2019/03/GSIR_Review2018.3.28.pdf

When the EU signed the Paris Agreement on Climate Change and the UN Agenda 2030 for Sustainable Development, it started to work for a more sustainable economy and a more balanced societal development. The UN Agenda 2030 and its implementation are therefore also at the heart of the EU's capital market union. The goal is to contribute much-needed capital in the fight against climate change by mobilizing the financial sector.

Utilizing the strength of the EU financial sector

Already today we see clear signals that climate change has become a threat to financial stability. Its effects have, among other things, led to floods, erosion and drought, which has had major economic consequences. The risk, if we continue to turn a blind eye to global warming, is that many of today's investments will become meaningless. If, on the other hand, the EU's financial sector succeeds in its goal of channeling more capital into sustainable investments, the region has the potential to become a world leader in this area. Increased funding for sustainable investments can also lead to positive effects on economic growth and jobs.

To promote this development, an action plan for a sustainable financial market in the EU was developed. An expert group was appointed by the European Commission in June 2018, called the Technical Expert Group (TEG), has since produced a package of measures to implement the action plan. The aim is to secure capital flows that will enable us to achieve the climate goals in the Union and at the same time promote the development of the market for sustainable investment.

Three legislative proposals and a further one in progress

Of the major measures that the expert group is working on, three have become their own legislative proposals, and another is under development:

1. EU taxonomy, a unified classification system

The EU taxonomy is a classification system that makes it possible to determine whether an economic activity is environmentally sustainable. The taxonomy has six environmental goals:

- Climate Change Mitigation;
- Climate Change Adaptation;

- Sustainable Use and Protection of Water and Marine Resources;
- Transition to a Circular Economy, Waste Prevention and Recycling;
- Pollution Prevention and Control; and
- Protection of Healthy Ecosystems.

The European Commission, with the help of the multi-stakeholder platform it will establish during 2020, will gradually identify economic activities that can be described as 'sustainable', considering current market practice and existing initiatives. The purpose is to help economic operators and investors make informed investment decisions based on the framework's clarifications. The taxonomy is also the basis for future standards and ratings for sustainable financial products.

2. Investors' obligations and disclosure requirements
This regulation is designed to clarify how institutional investors such as asset managers, insurance companies and pension funds as well as investment advisors should integrate environmental, corporate social responsibility and corporate governance objectives into their decision-making processes. These goals must then be reported openly in order to prevent "greenwashing". According to the regulation, asset managers and institutional investors must be able to show how their investments consider such targets and report on how they meet them.

- **Improved consumer advice on sustainability in finance**
  This proposal is under development and more information is expected in 2020, but the goal is to develop a framework for how best to integrate environmental, corporate social responsibility and corporate governance into the advice offered by investment firms and insurance distributors to individual clients. This should also be harmonized with MIFID 2 and the Insurance Distribution Directive (IDD) regulations.

3. Reference values for low carbon dioxide emissions
This regulation proposes a new type of reference values for low carbon dioxide emissions, a type of "low carbon dioxide" version of the standard index and a reference index for positive carbon dioxide effect. With this new standard, investors can be offered improved carbon footprint information for an investment portfolio. It allows portfolios to better align with the Paris Agreement's goals of limiting global warming to below 2° C.

Key takeaways
These legislative proposals show that the EU is now taking the issue of sustainable development seriously and the European Commission is keen on the EU's financial sector to lead the way towards a greener and cleaner economy. The framework that has been put in place is also based on strict scientific thresholds that will gradually be adapted based on technological advances, new science or other relevant developments. The requirements are tough for some sectors and companies but it's clear that the taxonomy will become a useful tool for investors. That said, it is still a limited framework. The taxonomy currently meets only the lowest level of social guarantees and does not consider any conflict between economic, environmental and social interests. The EU believes that this work will be done later, but the exact timing or what it will look like, is uncertain.

At the same time, the new regulations signal that a generational shift is underway and that sustainability issues are required to be considered in all decision making and will have greater prominence in the corridors of power. Investors need to think about consequences outside the usual financial framework.

> It can no longer be just about economic value creation and it must be supplemented with smaller efforts such as recycling during the weekends or Scandinavian 'flight shaming'.

It is increasingly about changing the whole system from the ground up and ending financing activities that do not promote a sustainable world. In other words, the demands that are now being made are absolute and it is no longer enough to make relative improvements to the current situation.

Storebrand's Sustainability Score

– Our Guide to Sustainable Investing

Lars Qvigstad Sørensen
Portfolio Manager

Environmental, Social, and Governance (ESG) investing is becoming increasingly important for investors' portfolio decisions. Since 1995, Storebrand has been a pioneer in sustainable investing, with an ongoing commitment to thought leadership in this space.

ESG investing is a rapidly changing field. What was considered best practice last year may not be sufficient this year. This is due to new insights in e.g. climate science, the availability of new data, and not least the Sustainable Development Goals (SDGs) as a unifying principle. We have 10 years left to fulfill the SDGs, which target global sustainability by 2030.

As part of our ongoing efforts to invest sustainably, Storebrand has launched a new and improved sustainability score.

Methodology

Storebrand's sustainability score gives equal weight to ESG risk and SDG opportunities. The ESG risk component, sourced from Sustainalytics, uses its new ESG risk rating. The SDG opportunities component is further split into two: products and services, and operations. The main contribution (40%) to SDG opportunities derives from the proportion of a company's revenues that is aligned with attaining the SDGs. A company's score on this metric is determined by in-house analysis supplemented with data on green revenues from FTSE. As an example, a company that produces wind turbines, e.g. Vestas Wind Systems, will have 100% of its revenues classified as green, thus receiving a maximum SDG products and services score. A smaller contribution (10%) to SDG opportunities derives from the SDG operations score, which is determined by a company's gender diversity rating as reported by Equileap. The weighting of the overall score is therefore constructed as depicted in Figure 1.

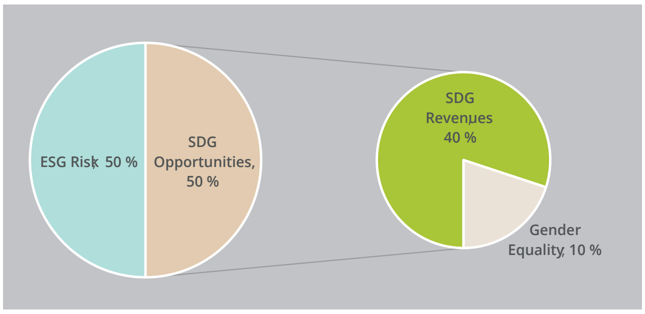


Figure 1: Weighting of Storebrand's Sustainability Score

Application

The Storebrand Standard comprises a list of companies that have been excluded from Storebrand's investment universe because they contribute to serious violations of human rights and international law. The exclusion list currently consists of 193 companies, which have been assigned a sustainability score equal to zero.

There are two main applications of an ESG score with respect to security selection:
- **Screening:** The negative screen ensures zero investments in excluded stocks.
- **Tilting:** Stocks with good ESG scores receive an increased weight, and stocks with weaker ESG scores receive a lower weight compared to a benchmark such as the MSCI World Index.

Storebrand Global ESG implements both negative screening and tilting. It follows the Storebrand Standard screen, as do all our funds, which means that it has zero investments in excluded companies. Furthermore, we impose a portfolio-level ESG score constraint, thus allowing an optimizer to overweight the best ESG stocks and underweight the worst. The optimizer will endeavor to replace benchmark stocks

Storebrand Global ESG integrated the updated sustainability score in its investment process from the beginning of 2020.

Lars Qvigstad Sørensen
Portfolio Manager

possessing weak ESG fundamentals with stocks that possess better ESG fundamentals but are otherwise similar. This means the optimizer will seek alternatives in the same country, sector, and with the same style characteristics.

This can be illustrated by considering the largest underweights and overweights in **Storebrand Global ESG**. Figure 2 shows that the fund allocates a higher weight than the benchmark to the stocks with superior sustainability scores. The cluster of stocks with ESG scores equal to zero and negative active weights are benchmark stocks excluded by the Storebrand Standard, with Johnson & Johnson the largest excluded benchmark stock.

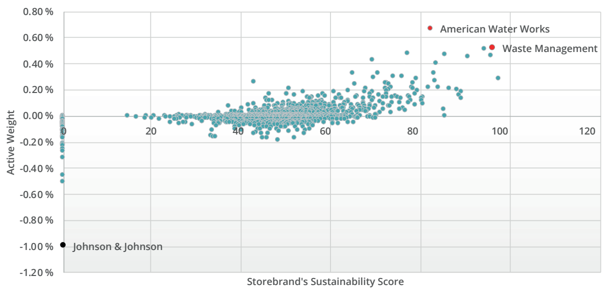


Figure 2: Scatter plot of Storebrand Sustainability Score and Active Weight

One might wonder why we do not invest only in the companies with top sustainability scores. Figure 3 shows that there is a trade-off between the sustainability score achieved and the tracking error (risk) incurred by doing so. An enhanced index fund has a limited risk budget, and hence cannot deviate too far away from the benchmark. The green dot shows that the fund currently has a tracking error just less than 55 basis points and a sustainability score equal to 63, significantly above the benchmark's score of 50. Achieving a score of 70 would require an ex ante tracking error of 1.1%, which is deemed unacceptably high for an index near fund.

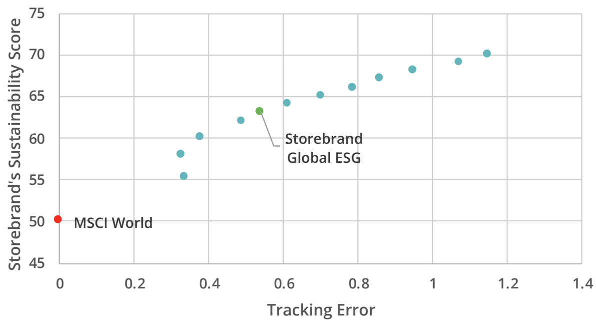


Figure 3: Trade-off between Tracking Error and Sustainability Score

The tracking error limitations notwithstanding, the fund does allow a meaningful overweight in the most sustainable companies.

photo by Master Wen on Unsplash

Performance

Storebrand Global ESG integrated the updated sustainability score in its investment process from the beginning of 2020. Prior to that, the old score was used. The fund aims to have a sustainability score above 60, where the benchmark has a score around 50. Since the implementation, relative returns have been positive. As Figure 4 shows, the fund has outperformed the MSCI World Index by 32 basis points year to date (1.1% annualized). This is consistent with the current outperformance of ESG stocks in general.

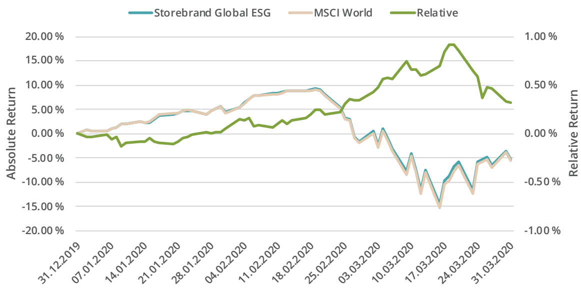


Figure 4: Performance Storebrand Global ESG First Quarter 2020

Figure 5 details the stocks that contributed most positively and negatively to active returns and their corresponding active weight. American Water Works and Waste Management, both with high sustainability scores, contributed most positively. On the flip side, some of the companies excluded by the Storebrand Standard performed well last quarter, such as Johnson & Johnson, yielding a negative contribution to active returns.

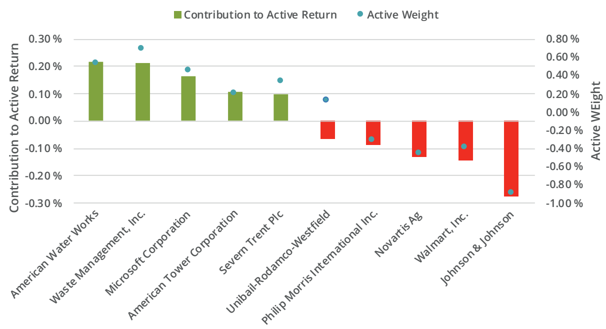


Figure 5: Contributions to Active Return and Active Weights

In summary, the positive contributions from ESG leaders outweighed the negative, producing this quarter's 32 bps excess return. While there is no guarantee that the most sustainable companies will continue to outperform, investing more in ESG leaders and less in ESG laggards will remain a priority for Storebrand's funds.

photo by Chelsea on Unsplash

Company Examples

A sample of companies with their sustainability scores is shown below. Three high performing companies are highlighted in green, while low scoring ones are shown in red.

Company	About	Sector	ESG Risk Score	SDG Score	Gender Equality Score	Total score
Vestas Wind System	Danish manufacturer, seller, installer, and servicer of wind turbines. Top performer across all indicators.	Industrials	Top 4%	Top 1%	Top 22%	100
Waste Management	American waste management and environmental services company based in North America. High overall performer.	Industrials	Top 7%	Top 1%	Top 23%	98.4
Xylem	Leading water technology company. Creates innovative technology solutions to meet the world's water, wastewater and energy needs. High score on all indicators.	Industrials	Top 15%	Top 4%	Top 20%	81.4
Saudi Electricity	Monopoly on the generation, transmission and distribution of electric power in Saudi Arabia. It scores poorly due to weak disclosure and management of carbon emissions, water use and community relations.	Utilities	Bottom 1%	Bottom 50%	Top 33%	17.7
Continental Resources	US oil and gas producer with operations in North Dakota. It uses the emissions intensive hydraulic fracturing method, causing large negative impacts on ecosystems. Conflicts due to operations near indigenous communities. Weak management of emissions and occupational health and safety.	Energy	Bottom 5%	Bottom 31%	Bottom 1%	14.9
China Northern Rare Earth Group	China-based company operating in non-ferrous metal smelting and rolling processing industry. It refines and sells rare earth minerals and resources. Very weak management of emissions, community relations and occupational health and safety	Materials	Bottom 1%	Bottom 24%	Bottom 13%	3.0

Three top and bottom performers applying the Storebrand Sustainability Score. The components – ESG Risk (weighted 50%), SDG (40%) and Gender Equality (10%) Score – are showcased as percentiles of the 3,943 companies that received a score (excluding companies on Storebrand's exclusion list). The three elements are weighted to give a total score with relative performance between 0 – 100, where 100 is best.

Solution Company Case Study:

Telenor – Connectivity for Reduced Inequality

Sunniva Bratt Slette
Sustainability Analyst

Telecom as an enabler

The telecommunication sector plays a significant role in shaping the global economy through the way people share information and knowledge. Access to affordable phone services paves the way for digital, social and financial inclusion, as well as health services and improved agriculture yields[1]. Furthermore, greater digital adoption improves the use and efficiency of central societal services. Access to the latest news, information and online education systems all contribute to the democratization of information. The telecommunications sector has a unique position to enable access to services, as well as the potential to raise employment standards across its supply chain. Figure 1 shows the rapid increase in global cell phone subscriptions.

Shaping the telecom landscape

In Norway, Telenor has shaped the telecom landscape through a business vision of connecting the many, not just the few. The Telenor Group has a strong presence in nine markets across Scandinavia and Asia. With its exposure to emerging markets, Telenor provides access to services that foster inclusion and empowerment. With a focus on sound governance, the company strives to influence and raise working conditions and operating standards.

Telenor's governance structure and systematic work to contribute to the UN Sustainable Development Goals (SDGs) caught the attention of Philip Ripman, Portfolio Manager of the Storebrand Global Solutions fund. The company's exposure to a sector in rapid growth and with significant potential to lift people out of poverty, has been a central reason for its inclusion in the sustainability-focused fund.

Connectivity is key to accelerate positive change. Telenor is committed to the UN SDGs, in particular to reduce inequality (SDG 10). Other SDGs in focus include access to health (SDG 3) and education (SDG 4), ensuring women's full and effective participation and equal opportunities (SDG 5), raising standards across the supply chain (SDG 8), and providing a legal identity for all (SDG 16)[2].

Pioneering efficiency

Fredrik Thoresen, Portfolio Manager of Storebrand Vekst and Storebrand Norge, highlights Telenor as a leader in spectrum utilization, driven by the need to accommodate large subscriber bases with limited spectrum resources in emerging markets. He believes that the lean organizational structure and cost savings enabled by establishing a joint procurement office in Singapore has yielded a 30% price reduction on infrastructure investments for the entire Telenor group. This amounts to NOK seven billion for the past few years[3]. Synergies include volume discounts and group standardized solutions that enable efficient deployments of network technology across the group's footprint.

Telenor's operations in emerging markets have provided both challenges and opportunities for growth. Thoresen elaborates that running the company's operations efficiently in developing markets provides important learnings for their operations in Northern Europe. Success in low

> Telenor is a leader in deploying spectrum efficient networks, a scarce resource in a wireless connected world, benefiting both shareholders and society
>
> - Fredrik Thoresen, Portfolio Manager of Storebrand Vekst and Storebrand Norge

[1] https://www.telenor.com/wp-content/uploads/2019/03/The-Mobile-Effect-How-Connectivity-Enables-Growth-vF.pdf
[2] https://www.telenor.com/wp-content/uploads/2019/04/Telenor-Sustainability-Report-2018-Q-397c7a029c6faae8a8c13018cc1229bb.pdf
[3] https://www.dn.no/telekom/telenor/telekom/sigve-brekke/telenor-kutter-3000-ansatte/2-1-765713?utm_source=newsletter&utm_medium=email&utm_content=dn&utm_campaign=2020-03-03&deliveryName=DM34996

cost countries requires an optimized cost structure, which also provides higher margins in high cost countries.

Base station opportunities

In 2018, approximately 90% of Telenor's total energy use originated from operating its mobile networks[4]. Base stations are required to operate the communication network, and off-grid base stations are often necessary in emerging markets. The use of diesel to run these base stations is both costly, logistically challenging and emissions intensive. To mitigate the downsides of diesel, renewables could substitute or complement the fuel. A study by Hashimoto et al. of Japanese islands showed that wind-photovoltaic (PV) off-grid base stations required a three-day backup battery in order to maintain zero hours of service outages[5].
The immediate market for the renewable energy-powered base stations is upgrading the existing off-grid base stations. The value of this market has been estimated at USD 50 billion[6]. In 2018, Telenor's Asian operations consumed around 70 million litres of diesel to power base stations in off-grid areas or areas with unreliable on-grid power[7]. Telenor had installed solar energy solutions for 2,500 base stations in its Asian operations by 2018, and targeted expansion with 1,150 more in 2019[8].

Storebrand Sustainability Scores – Selected Telecom Companies

Telecom Company	ESG Risk score	SDG Score	Gender Equality Score	**Storebrand Sustainability Score**	**About**
Vodafone	17.6	50.0	67.5	77.7	UK-based multinational telecommunications company with 444 million customers. It predominantly operates services in Asia, Africa, Europe, and Oceania.
Telenor	20.0	50.0	62.9	74.9	Norwegian multinational telecommunications company with 186 million customers and operations in Scandinavia and Asia.
Orange	20.5	50.0	62.4	74.4	French multinational telecommunications corporation with 266 million customers worldwide.
Bharti Airtel Ltd	26.2	50.0	20.7	64.0	Indian global telecommunications services company with 303 million subscribers. It operates in 18 countries across South Asia and Africa.

Table 1: Storebrand's Sustainability Score (0-100, where 100 is the best score) developed by Storebrand's Quantitative Investment and Sustainability teams. The score comprises data from Sustainalytics (ESG Risk Score), FTSE Russel (Green Revenues, part of the SDG Score), and Equileap (Gender Equality Score), as well as internal analysis of solution companies. See more about the score in the previous article.

[4] *https://www.telenor.com/sustainability/reporting/*
[5] *Hashimoto, S.; Yachi, T.; Tani, T. A new stand-alone hybrid power system with wind generator and photovoltaic modules for a radio base station. In Proceedings of Telecommunications Energy Conference, 2004. INTELEC 2004. 26th Annual International, 19–23 September, 2004; IEEE: pp. 254–259.*
[6] *Jarahnejad and Zaidi (2018), Exploring the Potential of Renewable Energy in Telecommunications Industry http://www.diva-portal.org/smash/get/diva2:1224115/FULLTEXT01.pdf*
[7] *https://www.telenor.com/wp-content/uploads/2019/04/Telenor-Sustainability-Report-2018-Q-397c7a029c6faae8a8c13018cc1229bb.pdf*
[8] *https://www.telenor.com/wp-content/uploads/2019/03/Sustainability-Report-2018-Q-918631c419f04609b09e01f8b7f85636.pdf*

Active Ownership

Andreas Bjørbak Alnæs
Sustainability Analyst

Tulia Machado-Helland
Senior Sustainabilty Analyst

The Storebrand Group believes in exercising our rights as shareholders. We employ two main ways of doing this. Either through voting at shareholder meetings, or engaging – through direct dialogue – with the management and Board members of our various holdings. Both tools can be very effective in addressing concerns regarding environmental, social and corporate governance (ESG) issues. Combined they can strengthen each other and be an effective signal to companies on where we stand on various important issues. We therefore use both methods to influence companies' behavior.

Dialogue with companies can be exercised by expressing views, in writing or orally, to company management at all levels, advisers and the Board of Directors.

Cases for engagement:

- Serious or systematic breaches of human rights
- Corruption and bribery
- Serious environmental and climate damage
- Companies with a low sustainability rating in high risk industries

The company's strategy or results differ substantially from those previously communicated. Governance issues such as:

- Replacement of Directors
- Equity issues and dividend policies
- Remuneration of key personnel
- Transactions between related parties
- Diversity issues

In addition, we will also seek engagement with companies in relation to climate change. The Storebrand Group has signed the Montréal Pledge and the Portfolio Decarbonisation Coalition and is thus committed to reducing the carbon footprint of our investments over time.

Storebrand is in dialogue with our investee companies both individually and in collaboration with other investors. A summary of last year's engagement activities is shown below.

Engagement Case Study

Trust in the financial system is at the very core of our modern society. If banks and other financial institutions

		Number
Unique companies		408
Engagements		564

Theme	Number	Share
Environment	334	59 %
Social	134	24 %
Governance	96	17 %

Type	Number	Share
Individual	66	12 %
Collaborative	498	88 %

Response level	Description	Number
Level 1	Contacted, no reply	2
Level 2	Contacted,unsatisactory reply	26
Level 3	Contacted, satisfactory reply	16
Level 4	Contacted, improved business operations	3

are used as tools for criminal activity through money laundering this trust will quickly erode. In recent years major banks all over the world, including in Scandinavia, have been implicated in money laundering scandals. We expect all financial institutions to follow international rules and the recommendations from the Financial Action Task Force on Anti-Money Laundering (AML). We will cooperate with other investors, to improve the AML systems in banks we are invested in.

Swedbank

Swedbank is currently on Storebrand's Observation List, a status which represents ownership restrictions and intensive engagement activities. The company is under scrutiny for its alleged role in money laundering. Investigative reporters have analyzed leaked documents in transactions between Danske Bank and Swedbank accounts in the Baltics between 2007-2015, identifying suspicious transactions linked to 50 Swedbank customers totaling SEK 40 bn, and "high-risk non-resident" flows in Estonia totaling EUR 135 bn. In 2018, following the Danske Bank scandal, Swedbank conducted an internal investigation into SEK 95 bn in transactions, and expressed confidence in its Anti-Money Laundering (AML) and Know-Your-Customer (KYC) practices.

Swedbank has shown a willingness to address its shortcomings by overhauling its senior management, creating an Anti-Financial Crime unit and cooperating with the authorities, in particular by its recent decision to waive attorney-client privilege. Despite these developments, there is still uncertainty regarding the timelines and effectiveness of Swedbank's newly implemented AML systems and processes. The company is in the same sector and region as Storebrand, and we believe this will facilitate cooperation and effective engagement. We aim to have extensive contact with Swedbank on different levels for as long as the company is on our Observation List.

We have the following expectations to be fulfilled by Swedbank before the removal of investment restrictions will be considered:

- Implementation of a trustworthy and verified system for compliance with AML and KYC frameworks.
- Complete closure of non-resident portfolios and enhanced AML routines in high risk countries.
- Conduct a full and independent investigation of the issue.
- Start implementation of recommendations from external and internal investigations.
- Demonstrate that Swedbank's management and control mechanisms, such as AML governance and whistleblower channels, have improved.
- No further reports on shortcomings relating to Swedbank's AML governance for a sustained period of time.

Photo by Michael Longmire on Unsplash

Contact details

Primary contact details

Storebrand Asset Management AS
Professor Kohts vei 9
Postboks 484,
1327 Lysaker
NORWAY

Email: ik@storebrand.no

www.storebrandfunds.com
www.storebrand.no/en/asset-management