



# Solutions

Spring  
**2018**

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## Storebrand Asset Management – A sustainable platform for value creation

Storebrand's goal is to offer simple and sustainable solutions. For several decades, we have been trailblazers within sustainable investments and have actively worked with companies in which we invest both our own capital and that of our customers. We believe that organisations that integrate environmental, social and good corporate governance considerations in their business activities will be part of creating better returns over time, both through reducing risk and creating new opportunities.

Storebrand is regularly ranked as one of the world's most sustainable companies within finance and by overall score by Corporate Knights' ranking of the world's 100 most sustainable companies. This focus is further reinforced by integrating sustainability into all parts of the value chain.

Today Storebrand Asset Management is the largest private asset manager in Norway and provides a broad range of services within investments to over 250 institutional clients in the Nordic region managing Euro 75 bn across all asset classes.

Editorial:

# Never let a Good Crisis go to Waste



Matthew Smith  
Head of Sustainable Investments



As winter thaws into spring and spring turns to summer it is often a good time to reflect on the direction of societal changes occurring around us. Development figures for 2017 have been rolling in over the past few months, giving us a quantitative indication of the progress being made on key issues such as climate change, inequality and consumption of materials. Unfortunately, the results have been far from uplifting.

One of the more sobering figures to come out has been that on Global CO2 emissions. After holding steady for 2015 and 2016, they again rose in 2017, demonstrating once again the enormity of the task facing the international community if we are to limit temperature rises to 2 degrees over pre industrial levels. There has been no lack of attention on the issue, no lack of urgency on the part of the international community and no lack of scientific consensus on the reasons for climate change. Still emissions continue to rise.

Similarly, 2017 marked yet another year of sharp increase in plastic production, which has now doubled since 1998. Of all the plastic ever made only 12% has

been recycled with 79% ending up in landfills or the natural environment. Yet we continue to make more, every day and every year, and the consequences for marine life in particular become ever clearer. On inequality, despite repeated attempts to break the glass ceiling, figures from the Global gender Gap report 2017 show the global gender income gap is actually widening. In the face of these developments, it is of course easy to lose hope. For investors questions may arise as to the accuracy of development forecasts and if the economy really is going through a meaningful green transition at all. If the ruling paradigm continues to be business as usual, aren't there considerable financial risks associated with investing in sustainability? Paradoxically the deeper the environmental and social problems the world is facing the greater the comparative advantage can be for companies attuned to a long term perspective and capable of providing solutions to our most pressing dilemmas.

Sustainable solutions are not merely good for the world, they are also good for the companies that bring them to market. Renewable energy is quite simply a better product than fossil fuel alternatives. Cleaner, soon to be cheaper, and less resource intensive. If CO2 emissions continue to rise, national regulation will also need to come sooner and heavier than expected, with obvious advantages for renewable energy producers.

The plastic catastrophe in our oceans can only be solved by better design, use and recycling of plastics on land. Companies that deliver these solutions stand to gain through a rapid expansion of the market, and an increased investment appetite from cities struggling with waste management. On Gender, fresh research from a range of credible and respected sources shows that companies with a high proportion of women in leadership positions consistently outperform their competitors. Add to this that the opposite is also true, companies with low representation of women perform poorly, and the widening income gap can actually result in a greater comparative advantage for companies where Gender Equality is the norm.

So while economic and social development may not always move as rapidly as we would like, and sometimes even in the wrong direction, there is no doubt as to the end game. The greater international cooperation over the last couple of years, illustrated by the Paris Agreement and the UN Sustainable Development Goals, is sure to move the world in a more sustainable direction. The lower we stoop before the green transition occurs, the swifter and more dramatic the change must be. For investors, it has always paid to be ahead of the curve and opportunistic in trying times. Or as Winston Churchill so clearly put it – Never let a good crisis go to waste.

Good reading!



# Sustainable Development Goals (SDG)



The sustainability team at Storebrand Asset Management (from left): Sunniva Bratt Slette, Philip Ripman, Tulia Machado Helland, Matthew Smith og Karin Gjerde-Meyer.

The UN's Sustainable Development Goals (SDGs) are global guidelines to end poverty, protect the planet and ensure that all people enjoy peace and prosperity. The SDGs have sound global backing both on a company and state level, since all UN's 193 nations and thousands of businesses have contributed to shape the goals. Given the wide global support, the SDGs have become increasingly important for companies' strategy and investment priorities. Storebrand have decided to include the SDGs in our sustainable investments strategy towards 2030. Our analysis led to three categories of the goals: Investable business models, key enablers and fundamental outcomes. The first is product oriented, with many measurable and company-specific sub-indicators. Secondly, the enablers are important tools to achieve the first category, but more operationally oriented. These goals include anti-corruption in goal 16 and gender equality in goal 5. The third category, fundamental outcomes, is more state oriented and less directed at companies' products or operations. However, if companies operating in the two first SDG categories have

sound management in line with the sub-targets and indicators, there will be a positive effect also in the third SDG segment.

### Example of SDG quantification

To enable the integration of the SDGs in financial analysis, there is a need to quantify the sub-targets and indicators of the most financially relevant SDGs. An example of such targets and indicators are shown below for SDG number 7, energy. SDG 7 has targets 7.2 on renewables and 7.3 on energy efficiency with respective indicators 7.2.1 and 7.3.1. These are both relevant and measurable,

and have consequently gotten their own key performance indicator (KPI) developed internally as a part of Storebrand's sustainability rating. A thorough assessment has been performed to adjust our in-house sustainability rating to include the most financially relevant targets and indicators in the final score. The newly adjusted sustainability rating will allow an optimization of company selection in alignment with the SDGs. It will be implemented across all asset classes before summer 2018.



Gender:

# Gender Equality is Profitable

Many studies show that companies with a higher proportion of women on the board of directors are more profitable. Storebrand takes these findings seriously when investing its clients' pension funds.



Senior Sustainability Analyst  
Tulia Machado-Helland

Fifteen years have passed since the Norwegian Parliament, Stortinget, adopted a law requiring public companies to maintain certain gender balance in their boardrooms. Despite decades with focus on achieving equal pay and general gender equality in the workplace, we still have a long way to go. Two years ago, the United Nations launched the 2030 Agenda for Sustainable Development. The agenda is a plan, supported by all 193 member states, that contains 17 sustainable development goals covering a range of critical environmental and social issues. The fifth of these goals is "gender equality". So what's the status of gender equality? And let's consider what this has to do with your pension.

## Over 200 years to close the gender gap

According to the World Economic Forum (WEF) it will take 217 years before women and men reach equality. The last 10 years have shown no progress, and last year the gender gap worsened for the first time since the WEF started recording the situation in 2006.

At Storebrand we have a dedicated team of sustainability analysts who work to analyze how sustainable the companies our investment managers invest in are. When we are to find current and future financial winners, we also look at the UN's Fifth and

Eighth sustainability goals, which deal with gender equality and decent jobs respectively. We have investigated whether there is a correlation between corporate performance and the number of women at different levels in companies. The findings were rather interesting.

## Integrated gender equality

According to McKinsey, Ernst & Young (EY), Catalyst, MSCI and RobecoSAM there is a strong correlation between the profitability of a company and its gender equality culture. The strongest correlation for performance is to be found when women are at 20 per cent or more at the decisionmaking level. It is that which is most correlated with higher performance. Having said that - it does not necessarily help just to place some women into leadership positions on the organization chart. Quotas alone, without a gender equality culture in the company, does not lead to equally good results. The

reports suggest that when there is a good gender balance throughout the company, there is also an increased likelihood of generating better than average results.

## Gender Equality is sustainable

Storebrand's sustainability team takes these studies seriously and companies that can demonstrate a good gender equality are accorded a higher sustainability score.

We believe that gender equality at the workplace has a positive impact on corporate performance, which in turn can give better returns on investment for our clients's pension funds as studies by MSCI and Thomson Reuters show. However, at the end of the day, we do not just invest in more gender equal companies because is more profitable but because this also leads to a more fair labor market for women. This is also very important for us.



# The Name is Bond. Green Bond

Green bonds is a rising champion for sustainability in fixed-income investments through exponential growth and significant momentum. Due to increased transparency and broad investor interest, green bonds have sailed up as a favored tool for financing sustainable projects.

## Exponential growth

The green bond market has grown rapidly for the past decade. Compared to the modest 2 bn USD in the launching year 2005, Climate Bonds Initiative has estimated it to pass the 250 bn milestone this year. International push for standardization helps to mature the market further. An example is the EU's announced standard, EU Green Bond, outlined by the High-Level Expert Group on Sustainable Finance. To accelerate the market growth further, former UN climate chief Christiana Figueres recently challenged both cities, governments and large companies to issue green bonds to finance their infrastructure projects.

## Wanted: Green bond issuers

Lack of green bond issuances is a challenge for investors seeking sustainable investment opportunities. Since green bonds should be treated exactly as vanilla bonds when it comes to financial requirements, portfolio managers depend on a minimum range of selection. Given the need of diversification to ensure risk reduction, abundance of green bond issuers would be preferable. Both the public and private sector could benefit from financing projects through green bonds. With ambitious climate targets and sustainable projects to finance, one might as well broaden the investor base, increase market transparency and contribute to sustainable market growth.



## SPP Green Bond Fund

SPP Green Bond Fund is an actively managed fixed income fund. The fund invests in companies and projects that have a clear positive impact on the environment and on society. The investments vary from renewable energy, waste management to water treatment and drinking water supply.

With over 3.7 SEK billions (\$462m) in assets under management, Storebrand's green bond fund, SPP Green Bond Fund is the world's largest dedicated green UCITS bond fund in the world. The fund has outperformed its competition since its' launch in 2015 making it the best and the largest green bond fund in the world. The fund's financial performance is key to making it easier for fund investors to replace their traditional bond funds with green ones. With a green bond fund outperforming all of its traditional bond funds competitors in the fund's Morningstar category there are no arguments left for not investing in green bonds. The fund is structured as a traditional bond fund

to assure a low level entry to green investments and to easily fit traditional investment portfolios. By promoting the value of sustainability, and showcasing how finance can be instrumental in changing the course of the world, we can provide investors with long-term returns and contribute to the global sustainability goals.

**A green bond is a debt security which is issued to raise capital specifically to support sustainable projects. Verification of the projects' sustainability levels by a third party contributes to increased transparency. Such second opinions and impact reporting enables investors to manage the environmental footprint of portfolios.**

Now that we have a three year history and can showcase good results over time the barrier to green investments is further lowered



Helena Lindahl  
Portfolio Manager

### Fully invested in green

The fund is fully invested in labeled green bonds linked to businesses and projects that have a clear positive impact on the environment and society. The investments vary from renewable energy, waste management to water treatment and drinking water supply. "Now that we have a three year history and can showcase good results over time the barrier to green investments is further lowered"

### Fund facts

Launch  
Benchmark  
AuM  
Currency  
Management fee (TER)  
Portfolio manager  
ISIN

### SPP Green Bond Fund

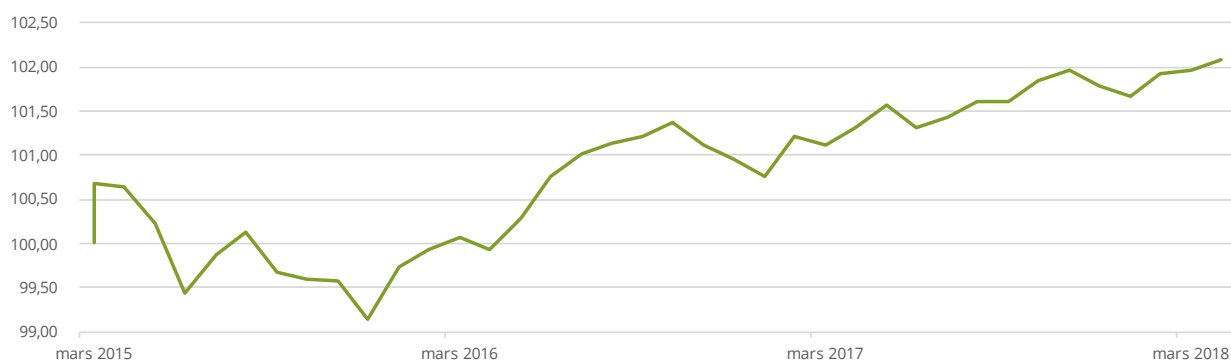
2 March 2015  
OMRX Mortgage Bond All Index  
MSEK 3 717  
SEK  
0.3 percent p.a.  
Helena Lindahl  
SE0006763967

### Returns

	Fund	Benchmark	Excess
12 months	0,76 %	0,51 %	0,25 %
3 years p.a.	0,48 %	0,21 %	0,27 %

As per 30 April 2018

SPP Green Bond Fund since inception



Past performance is no guarantee of future returns. Future returns depend on the market, fund manager skill, fund risk level and costs, among other things. The performance may be negative due to losses and it may vary considerably within periods. Unit holders' realised gains or losses will therefore depend on the actual timing of subscriptions or redemptions.

# Making Sense of Carbon Footprints



Sustainability Analyst  
Sunniva Bratt Slette

With increased international efforts to reach the Paris Agreement, carbon footprint reduction is a high priority for governments, investors and companies across industries.

To be able to measure and manage the carbon footprint of our investments, Storebrand joined two international initiatives in 2015; the Montréal Pledge (<http://montreal-pledge.org/>) and the Portfolio Decarbonisation Coalition (PDC, <http://unepfi.org/pdc/>). These initiatives focus on reporting on and lowering the carbon intensity of our equity investments.

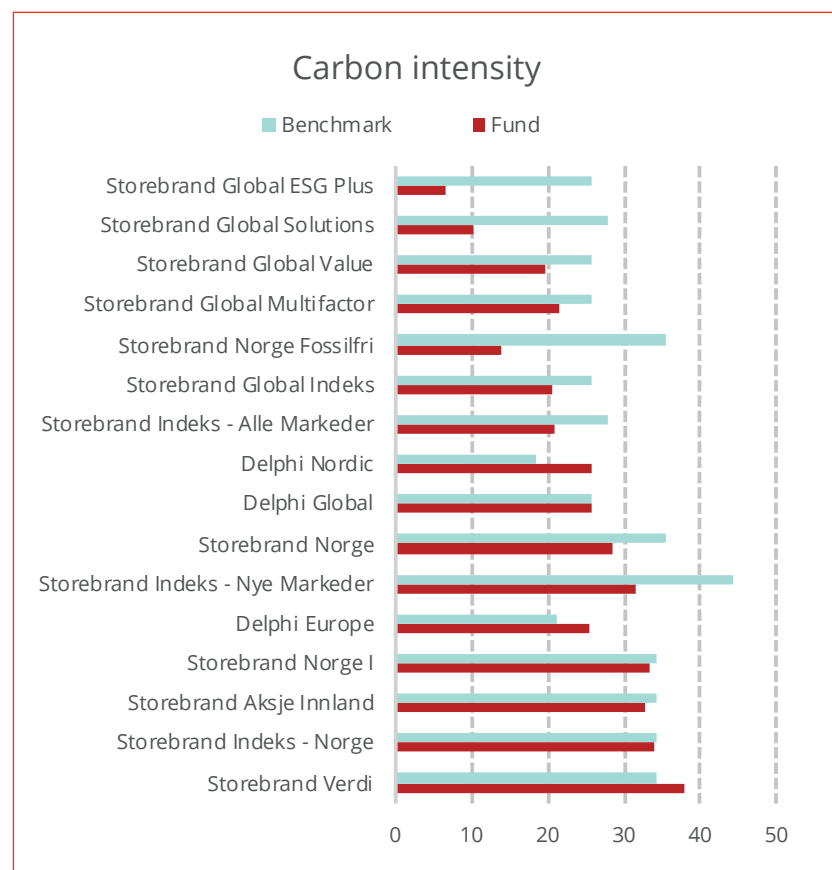
## Method of Calculation

Carbon intensity is a method to measure climate impact. The Carbon Intensity is a measurement of the carbon dioxide released by a company in relation to the revenue of the company. This indicates how carbon efficient the company is. The carbon intensity of a portfolio is thereby calculated as the weighted average of the carbon intensity of each company's carbon intensity. The carbon exposure of the fund measures how exposed its portfolio is to carbon intensive companies.

## Visualization of carbon footprint

In 2018, visual marking of our fund's carbon footprint will be rolled out. The first stage of the pilot project was completed in the first quarter of 2018, with the carbon footprint cal-

culations for both equity investments and fixed-income. The next stage is testing of the visual carbon footprint of all Storebrand's funds. For investors that seek to reduce the carbon footprint of their investments, the labelling of fund's carbon intensity could be a good tool of guidance. Sound management requires performance measurement and informed decisions. Visualized carbon intensity is a good start for taking steady steps towards the targets of the Paris Agreement.



The bar graph indicates the carbon intensity for a selection of Storebrand and Delphi funds compared to their relevant benchmarks (measured by tons of CO2 per million nok sales revenue).



Storebrand Global Solutions:

# Global Issues need Global Solutions



Portfolio Manager  
Philip Ripman

Condemnation, exclusion or sanctions will likely not solve the global sustainability issues. Neither will the dialogue track. Only real solutions will bring the world forward.

A common approach to meet sustainability challenges is the strategy of condemning damaging behavior. To some extent, sanctions from industry agencies are useful to limit adverse activities from companies. Investment managers have long been known to exclude companies from their investment universe, thus acting as an invisible hand that sets the standard for what is acceptable. Storebrand emphasizes on dialogue with its investment universe, encouraging improvements at all levels of their business. But neither will

this solve the world's sustainability challenges, only great ideas providing real solutions will.

### Identifying the pionéers

Storebrand Global Solutions has the ambition to find just such companies. The fund invests in sustainable companies that we believe are well positioned to solve the challenges related to the UN's sustainability goals. Of course, the fund also refrains from investing in companies with adverse activities, but this is merely a consequence of its ambition. The fund's major

strategy is to select the good ones, rather than unselect the bad ones.

### Outperforming solutions

Not only has investors benefitted from the strategy in real terms, by the harvesting of nearly 17 percent a year during the last five years (as at 1 May). The fund has also outperformed its benchmark, both when considering the five- and three year returns. We are confident that companies offering great solutions to the world's sustainability issues, will become future winners – our job is just to find them.

### Fund facts

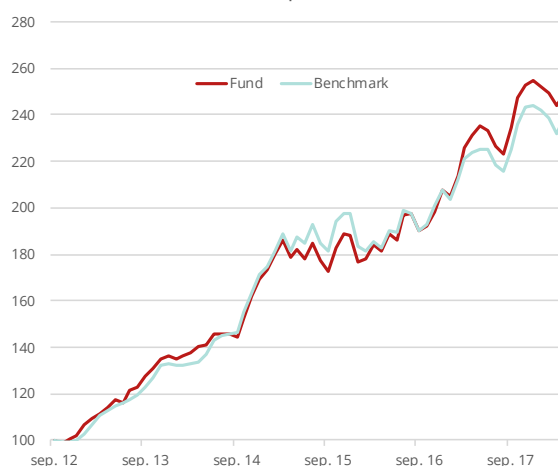
Launch	1 October 2012
Benchmark	MSCI All Countries
AuM	MNOK 2 500
Management fee (TER)	0,75 percent p.a.
Minimum investment	NOK 100
Portfolio manager	Philip Ripman
ISIN	NO0010657273

### Storebrand Global Solutions

Returns	Fund	Benchmark	Excess
5 years p.a.	16,9 %	16,2 %	0,7 %
3 years p.a.	11,7 %	9,6 %	2,1 %

As per 30 April 2018

Storebrand Global Solutions since inception (nok)



As per 30 April 2018

Past performance is no guarantee of future returns. Future returns depend on the market, fund manager skill, fund risk level and costs, among other things. The performance may be negative due to losses and it may vary considerably within periods. Unit holders' realised gains or losses will therefore depend on the actual timing of subscriptions or redemptions.

# The Analyst's Corner: Smart Sustainable Cities



Sunniva Bratt Slette  
Sustainability Analyst

Cities have evolved for centuries, but were not scaled for multi-million citizens. Urbanization combined with shortage of infrastructure is a big deal for many communities, and the issue keeps getting bigger. This has led to the concept of smart cities and communities.

## Mini-CV: Sunniva Bratt Slette

Sunniva joined Storebrand Asset Management's sustainable investments team in 2017. Her specialty areas are SDG 11 Sustainable Cities and Communities, carbon footprint, green bonds and solution stocks. She has a MSc in Industrial Economics and Technology Management (NTNU, 2016 and Aju University in South Korea, 2014). Sunniva has previously worked for the strategic research area NTNU Sustainability, with particular expertise in climate finance (2016 — 2017).

solutions", which means integrating natural materials and vegetation in urban environments. Examples are open water canals and urban greening that delays the surface water following unusually heavy rainfall. Green walls, green rooftops, parks and road vegetation also mitigate air pollution, remove CO<sub>2</sub>, stabilize temperature and produce oxygen.

### What are the main prerequisites in order for communities to become sustainable?

The key is to integrate circularity in all the resource streams and systems we depend on to function as a society. Just like nature, human communities need to be organized as an ecosystem to maintain its ability to renew vital resources. Areas like energy, water, food, waste, transportation – they can all be viewed as systems that need to be managed sustainably. Data management and connectivity is a key to connect people with the necessary technology.

### Which obstacles do you see in transforming today's cities and communities to environmental "lighthouses"?

Cities that grew organically without the consideration of smart urban planning is a large issue for cities

worldwide. The combination of large scale urbanization and the lack of appropriate infrastructure to match the inflow of people presses the surrounding natural resources beyond its limits. One solution to this obstacle is the phenomenon "nature-based

### Urban planning (engineering) vs citizen's attitudes (what is more important in achieving sustainable societies)?

I think urban planning is an absolute prerequisite, while citizen behavior is also important. Consider an example from the transport sector; 95 percent



*The smart city Songdo in Korea combines cleantech with nature-based solutions. The image shows an electric boat with a solar panel rooftop. The lake functions as a leisure area in one of the city's many parks, but also as a buffer zone for surface water storage to avoid flooding after heavy rainfall.*



Songdo has the world's highest concentration of certified green buildings, automatic waste and water treatment, renewables and sensors to optimize consumption and distribution of resources



of Seoul's inhabitants use public transport to work, in contrast to only 5 percent of workers in Atlanta (USA). Consumer behavior is very rational: The fastest, most convenient and cheapest mode of transport wins. Therefore, urban planning must offer desirable options that make sustainable solutions attractive.

**As a former student in South Korea you have likely acquired an Asian perspective on sustainability. In what ways does it differ from the European/American perspective?**

I found Korea to be exceptionally far ahead when it comes to urban planning. To structure cities with several million inhabitants requires discipline and optimization on many levels. In particular, densification of built environment, a highly developed public transportation system and integration of technology in everyday life. To a large degree, Koreans would go ahead and test new technology.

**Let's say you were to build a new suburb from scratch – what's the biggest catch?**

I think the biggest catch when designing a new suburb is also the biggest advantage: You depend on high interdisciplinary engagement across sectors to design a suburb sustainably. While I lived in Korea, I did witness the construction of Songdo, a multi-million smart city that was built from scratch. Songdo has the world's highest concentration of certified green

buildings, automatic waste and water treatment, renewables and sensors to optimize consumption and distribution of resources. Around 40 percent of the area is reserved for green public spaces. After completion, I think the biggest catch of constructing a new city or suburb is the vacuum in-between the building construction and the vibrant charm of humans owning the city – not vice versa.



In this publication we have sought to ensure that all information is correct, but make reservations that errors and omissions may have occurred. The statements in the publication reflect our view as at 16 May 2018.

All images except the following are retrieved from Colorbox

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