

Guidelines for responsible distribution of mutual funds at SpareBank 1 SMN

Updated January 2024¹

Introduction

SpareBank 1 SMN's societal role is to stimulate the sustainable development of our region. This is laid down as a strategic priority and is an integral aspect of the group strategy for the current period. The group's sustainability strategy is designed to render our financial goals achievable and to create value for our customers, owners and employees through being a:

- Driver for the green transition
- Partner for the inclusive development of society
- Guide for a responsible business culture

Sustainability is integrated into all business lines and support functions in the group. The operational work on sustainability is divided into three areas:

- Day-to-day operations
- Customer offering
- Community dividend

SpareBank 1 SMN views sustainability both as a financial risk and a business opportunity. Members of the group management team have responsibility for achieving strategic sustainability goals in the areas for which they are responsible. Other roles and responsibilities in this work are described in the document "Sustainability policy at SpareBank 1 SMN". The group's sustainability efforts are regularly reviewed by the bank's board of directors and by the management boards of the group's subsidiaries. Relevant steering documents are publicly available in our Sustainability Library at smn.no/barekraft.

SpareBank 1 SMN is in continuous dialogue with an ever wider network of stakeholders to identify material themes for our impact, financial risks and new business opportunities. This is all part of our effort to ensure a coherent, long-term approach to our value creation for equity certificate holders, customers, employees and the community.

SpareBank 1 SMN does not itself engage in the management of mutual funds but distributes funds from various providers.

SMN's mutual fund offering is developed and revised in collaboration with other banks in the SpareBank 1 Alliance. SpareBank 1 SMN does however make independent choices and is responsible for ensuring that the mutual funds we offer our customers are both suitable and in compliance with applicable laws and guidelines, including the present guidelines.

¹ The guidelines are revised at least once annually together with SpareBank 1's mutual-fund labelling scheme.

All employees who provide advice to customers, or are otherwise involved in our asset management business, are required to be familiar with our principles and to read through our guidelines annually.

Objective of the guidelines

The guidelines:

- Guide the work done by the banks making up the SpareBank 1 Alliance to ensure the responsible distribution of mutual funds.
- Ensure that the fund offering supports SpareBank 1's ambition of sustainability.
- Guide product approval processes and product governance, including periodic product revision which alongside financial criteria encompasses environmental, social and governance criteria, hereafter termed ESG criteria.
- Enable the SpareBank 1 banks to label funds based on ESG criteria. The labelling must be clear to the customer and provide good information on how the fund includes ESG factors in its investment process. The labelling is based on data gathered from all managers of funds that are distributed on SpareBank 1's trading platform, through Morningstar's database for financial data and analysis. The labelling will be updated on an annual basis.
- Foster the SpareBank 1 banks' ability to offer mutual funds that contribute to a positive change in ESG compliance on the part of their customers². We aspire to provide information on the extent to which the respective funds contribute to positive change. The labelling scheme guides which funds SpareBank 1 recommends to its customers. The guidelines put SpareBank 1 in a position to improve its communication of funds' ESG profile to its customers.
- Ensure that the financial advice provided by the banks in the SpareBank 1 Alliance is compliant with Norwegian legislation implementing Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (the Disclosure Regulation) and Regulation (EU) 2020/852 on the establishment of the framework for a classification (taxonomy) system for sustainable activities (the Taxonomy Regulation).

Requirements, expectations and recommendations for providers of mutual funds to be distributed by SpareBank 1

All mutual fund managers are required, as a prerequisite for distribution of their funds through our channels, to confirm in writing that they are familiar with and abide by our guidelines. SpareBank 1 requires transparency with regard to how sustainability risk is dealt with by fund managers, see also the Disclosure Regulation.³ SpareBank 1 recommends all fund managers

² In this context reference is made to the double materiality principle where a positive impact is related to funds able to make a positive contribution to the community and sustainability.

³ Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (the Disclosure Regulation).

with which we have a distribution agreement to complete the European environmental, social, and governance template (EET)⁴ for all products distributed by SpareBank 1.

Fund managers are also on request required to update SpareBank 1 on their ESG follow-up of investments through product approval and ongoing product management.

In the present guidelines SpareBank 1 distinguishes between the following requirements, expectations and recommendations for external fund managers of funds that are distributed via SpareBank 1's trading platform:

- **Requirements:** After conducting a process as described in the section on roles and responsibilities, SpareBank 1 will halt new sales of mutual funds that do not meet these requirements.
- **Expectations:** These expectations form the basis for the labelling scheme and SpareBank 1's list of recommended mutual funds.
- **Recommendations:** Recommendations are not a part of the basis for the labelling scheme at present but will be considered for inclusion at a later stage.

ESG factors will be given weight in combination with financial criteria when the SpareBank 1 banks draw up their lists of recommended funds.

Environment

SpareBank 1 expects fund managers with which we have a distribution agreement:

- Not to invest in mining companies or power producers a sizeable portion⁵ of whose revenues derives from thermal coal or which base substantial portions of their business on thermal coal.
- Not to invest in companies that could damage [UNESCO World Heritage sites](#), contribute to the loss of globally threatened species and loss of important ecosystems, contribute to deforestation, contribute to serious pollution, or which contribute in other ways to severe environmental damage.
- Not to invest in companies which through their acts or omissions at the aggregate corporate level cause unacceptable levels of greenhouse gases.⁶
- To state whether they use an EU Climate Transition Benchmark or an EU Paris-aligned Benchmark index (applies to climate-related funds)⁷

SpareBank 1 recommends fund managers with which we have distribution agreements:

⁴ FinDatEX

⁵ Here reference is made to the definition posted by NBIM (Norges Bank Investment Management): <https://www.nbim.no/no/organiseringen/styringsmodellen/retningslinjer-for-observasjon-og-utelukkelse-fra-statens-pensjonsfond-utland/>

⁶ Companies in this category have significantly higher emissions, and significantly higher emissions per produced unit, than comparable companies. They also lack concrete, credible and timed plans to reduce emissions more rapidly and by a wider margin than comparable companies with a view to reducing emissions to the level of those companies. If evidence is produced that a company engages in active lobbying in favour of climate regulations, this shall be taken into account in an overall assessment.

⁷ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02016R1011-20220101&qid=1665051810035>

- To work purposefully to reduce their burden on the climate and environment in keeping with the Paris Agreement, preferably by setting measurable goals with a view to reducing emissions in the portfolio.
- Not to invest in companies whose activities have substantial negative consequences for wetlands listed in the [Convention on Wetlands of International Importance](#) or [vulnerable natural areas/protected areas listed by the International Union for Conservation of Nature \(IUCN\)](#).
- Not to invest in companies that harm threatened plant and animal species, including animal species on the [IUCN's Red List of Threatened Species](#), but to show consideration for them and minimise encroachments on the environment.
- Not to invest in companies that breach international guidelines⁸ on biodiversity and genetic engineering.
- To set goals for capital allocated to investments in industries that contribute to reaching the goals of the Paris Agreement.
- To show a thorough understanding of the principle of double materiality. This involves a close assessment of how investments impact the community, with particular emphasis on environmental and societal materiality. At the same time we recommend fund managers to ensure investment sustainability based on a particular awareness of vulnerability to climate risk and natural risk (financial materiality).

Social

SpareBank 1 requires fund managers with which we have a distribution agreement:

- Not to invest in companies which, either themselves or through entities they control, invest in controversial weapons contrary to the provisions of the Government Pension Fund Global (also known as the oil fund). The funds' portfolios are screened against the oil fund's exclusion list under the criteria of nuclear weapons manufacture and the government bond exemption. The screening takes place at minimum annually through the product revision and as part of the process of approving new products.

SpareBank 1 expects fund managers with which we have a distribution agreement:

- Not to invest in companies involved in serious violations of human rights, worker rights or the Geneva Convention, and to enshrine this precept in their own guidelines.
- Not to invest in companies that fail to respect territorial rights, and/or use natural resources without respecting the rights of the local population and indigenous peoples to give their free, prior and informed consent (FIPC).
- Not to invest in companies that manufacture tobacco or tobacco products.
- Not to invest in companies that are complicit in, or responsible for, serious violations of individuals' rights in war or conflict situations.
- Not to invest in companies that sell weapons to states in armed conflict which use the weapons in ways that constitute serious and systematic violations of international law.
- Not to invest in companies that lack an equality, diversity and inclusion policy.

SpareBank 1 recommends fund managers with which we have a distribution agreement:

⁸ E.g. the UN Convention on Biodiversity and the associated Bonn Guidelines or Nagoya Protocol.

- Not to invest in undertakings that produce pornography.
- To conduct due diligence assessments in accordance with the UN Guiding Principles on Business and Human Rights and the OECD Due Diligence Guidance for Responsible Business Conduct, in order to avoid being involved in breaches related to the above-mentioned injunctions, and to rectify the circumstance if any breach comes to light that involves companies in the portfolio.

Governance

SpareBank 1 expects fund managers with which we have a distribution agreement:

- To have signed up to the UN Principles for Responsible Investment and to report on compliance.
- To engage in active governance.
- To have zero tolerance for corruption, economic crime and tax evasion in their own business and in companies they trade with or invest in, and to have in place sound procedures for exposing and dealing with such matters. To call on their own business connections to do the same.
- Upon suspicion of corruption, to contribute to full openness on the part of the company and to assist investigation of the matter.

SpareBank 1 recommends fund managers with which we have a distribution agreement:

- To strive for openness and transparency with regard to their own business, including ownership, investments, financial information such as tax payments, business connections, national and international lobbying activities, etc.
- To document their follow-up of circumstances that breach our requirements, expectations or recommendations set out in these guidelines.

Roles, responsibilities and reporting

SpareBank 1 SMN is itself responsible for ensuring that these guidelines are complied with and followed up. Senior investment personnel in the respective SpareBank 1 banks make up a Savings and Investment Committee in the Alliance. The practical work of follow-up is entrusted to this committee.

SpareBank 1 SMN's expectations and recommendations set out in these guidelines are communicated to mutual fund managers by way of publication on webpages and by way of information to fund managers through the Savings and Investment Committee.

Should the Savings and Investment Committee discover – through the questionnaire to the labelling scheme, the annual revision process or by other means – that fund managers are in breach of the requirements of these guidelines, the matter will initially be taken up with the fund manager concerned. The Savings and Investment Committee will thereafter monitor the fund manager to check that it takes purposive action to bring the matter into line with the guidelines. Inasmuch as the SpareBank 1 banks are not fund managers themselves, this will often be done on a cooperative basis by a number of actors. In cases where SpareBank 1 SMN does not consider a fund manager to have taken satisfactory measures within a reasonable space of time, the bank will halt new sales of products of the mutual fund concerned.

It is the fund managers' responsibility to update SpareBank 1 on any changes or errors in the information provided through Morningstar. This must be done as rapidly as possible after any change is brought to light, and at minimum annually. The information provided through Morningstar's database is the basis for ESG assessment of fund managers, and for the labelling scheme to which SpareBank 1's customers have access.