

Guidelines for sustainable distribution and recommendation of mutual funds at SpareBank 1 SMN

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Introduction

Integrating sustainability into the business is a strategic priority for SpareBank 1 SMN and is embedded in the group strategy for the period 2020-2023.

SpareBank 1 SMN aims to act in conformance with Norwegian law at all times. Our activities are governed by the principles enshrined in the following legislation: the Act relating to the strengthening of the status of human rights in Norwegian law (Human Rights Act), the Working Environment Act, the Personal Data Act, the anti-corruption legislation with associated conventions, the Anti-Money Laundering Act, the Taxation Act, the Equality and Anti-Discrimination Act, the Biodiversity Act, the Svalbard Act, the Convention on Wetlands of International Importance, the Pollution Control Act, the Accounting Act, the Animal Welfare Act and the Climate Change Act.

SpareBank 1 SMN has in place comprehensive procedures to combat money laundering and concealed ownership, and also wishes to promote responsible corporate governance among its business connections. 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.

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 SpareBank 1-alliansen. 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.

Objective of the guidelines

The guidelines shall:

- Guide the work done by the banks making up SpareBank 1-alliansen to ensure sustainable distribution of mutual funds.
- Ensure that the fund offering supports compliance with 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 SpareBank 1 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 by means of a comprehensive questionnaire sent to all managers of funds that are distributed on SpareBank 1's trading platform. The labelling will be updated on an annual basis.
- Foster SpareBank 1's ability to offer mutual funds that contribute to a positive change in ESG on the part of its customers. We shall aspire to provide information on the extent to which the respective funds contribute to positive change. The labelling scheme shall guide which funds SpareBank 1 recommends to its customers. The guidelines will put SpareBank 1 in a position to improve its communication of funds' ESG profile to its customers.
- Help to ensure that the financial advice provided by the banks in SpareBank 1-alliansen 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 challenges 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. Fund managers must update SpareBank 1 on how their ESG follow-up of investments is based on the reported data underlying the labelling scheme. This needs to be done as soon as possible after any anomaly is discovered, and at least once per year.

In the present guidelines SpareBank 1 distinguishes between the following requirements, expectations and challenges 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 halts 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.
- Challenges: Challenges faced are not a part of the basis for the labelling scheme at present but will be considered for inclusion at a later point in time.

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 portion 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 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.¹

SpareBank 1 calls on fund managers with which we have distribution agreements:

- 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 guidelines² on biodiversity and genetic engineering.

¹ 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.

² E.g. the UN Convention on Biodiversity and the associated Bonn Guidelines or Nagoya Protocol.

- To set goals for capital allocated to investments in industries that contribute to reaching the goals of the Paris Agreement.

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 pursuant to 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 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.

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

- Not to invest in undertakings that produce pornography.
- 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).
- To conduct due diligence in order to avoid being involved in the above and to rectify the circumstance if any breach comes to light, and calls on its business connections to do the same.

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. It calls on its 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 calls on 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 calls set out in these guidelines.

Recommendations of mutual funds

Specialists in investment units in the various SpareBank 1 banks make up a savings and investment committee within SpareBank 1-alliansen. This committee is responsible for drawing up, at least annually, mutual fund recommendations to customers. The main objective of this list is to facilitate customers' selection of sound, reassuring products. The review is based on analyses and absolute requirements as to characteristics that we consider central to mutual fund selection. The analyses take into account historical return and a competitive cost level measured against comparable funds. ESG/sustainability is also an important criterion. Funds must score 'C' or better in our ESG/sustainability assessment in order to be designated 'recommended funds.'

Roles, responsibilities and reporting

SpareBank 1 SMN is itself responsible for ensuring that these guidelines are complied with and followed up. The practical work of follow-up is entrusted to the savings and investment committee in SpareBank 1-alliansen on which SpareBank 1 SMN is represented. The guidelines are presented to the various fund managers by way of this 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 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 in information provided in the questionnaire. This must be done as rapidly as possible after any change is brought to light, and at minimum annually. The information provided by the fund manager in the questionnaire is the basis on which the sustainability of the manager's products is assessed, and for the labelling scheme for SpareBank 1 SMN's customers. The fund manager is accordingly responsible for ensuring that SpareBank 1 SMN's customers at all times have correct information on the sustainability of its mutual funds.