



Asset Management

# Responsible Investment Policy

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## 1. Introduction/ Purpose

Managing risk is the backbone of our business, and identifying and quantifying environmental, social and governance risk (ESG) has always been an integral part of our business practice. We believe that active and responsible ownership can contribute to transition and value creation through better allocation of capital.

In conducting our investment activities, SpareBank 1 Forsikring must always act in a manner that is consistent with our statement relating to sustainable investment and with our fiduciary obligation to maximize the long-term risk-adjusted net return. We must invest with an understanding of the future and sustainable development for the environment and society at large. By this, we mean development that meets the needs of the present, without compromising the ability of future generations to meet their needs. As future-oriented investor, this has always been our perspective.

This Investment Policy sets out the principles and strategy that govern our investment process. We are committed to conducting our business with respect for all fundamental and internationally recognized treaties and declarations: the Universal Declaration of Human Rights of 1948, the International Labour Organization's (ILO) conventions, international humanitarian law, and of course the UN Principles for Responsible Investment.

This document is to confirm that SpareBank 1 Forsikring does not intentionally contribute to human and labour rights violations, climate and serious environmental damage, corruption, or other actions that violate international standards.

The Responsible Investment Policy outlines our approach to:

- Environmental, social and corporate governance (ESG) integration
- Active ownership and engagement
- Reporting

## 2. Scope and Responsibilities

This policy applies to all our portfolios and all parties that are involved with the investment decision-making process.

The Chief Investment Officer is responsible for the implementation of this policy.

## 3. Approach

We are a signatory to the Principles for Responsible Investment, where we have committed to implementing the six principles of ESG integration:

1. We will incorporate ESG issues into investment analysis and decision-making processes
2. We will be active owners and incorporate ESG issues into our ownership policies and practices
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest
4. We will promote acceptance and implementation of the Principles within the investment industry
5. We will work together to enhance our effectiveness in implementing the Principles
6. We will each report on our activities and progress towards implementing the Principles

Capital engagement, dialogue and active ownership are our guiding principles for how to mitigate climate change and reaching the UN's sustainability goals. We are committed to doing what we can to support the UN's sustainability goals, and we do not see that there is a conflict of interest between this perspective and achieving long-term financial returns.

We believe in being active owners and require our managers to have due regard to relevant recognised standards. All our external managers are signatories of UN PRI as a minimum. Furthermore, we expect them to demonstrate that the principles of responsible investment are complied with in practice. We can therefore delegate much of the day-to-day environmental, social and governance activities to our managers, but with robust oversight, dialogue and transparency between both parties.

We strongly believe that sustainability risk should be a natural part of the risk- and investment-management process, and we do not accept this as being a separate activity by our managers or by ourselves. We have close cooperation with our managers on a variety of ESG issues, and we prefer an open, change-driven process rather than predefined criteria and/or an exclusion list. Sustainability is one of many factors to consider in asset management, and the most important challenges will vary and change over time.

All of the existing and potential managers are expected to have sustainability high on their agenda. Our experience is that most asset managers have invested considerable resources in improving their routines and processes in relation to this type of risk. Through our fund ownership, we can say that our portfolios benefit from more than 100 dedicated people who work on sustainability issues every day, in addition to the PMs in charge. In our opinion, the real strength of our "external" ESG team is that the majority of ESG analysts have many years of investment experience (as former PMs or financial analysts), which enables them to adopt an integrated approach in evaluating (and engaging in) material ESG issues with a holistic view from an investment perspective.

Even though sustainability themes have been a key feature in our portfolios, we have stepped up our efforts in terms of resources, system support and analytical tools. This has given us a better understanding of the quality of our portfolio as well as potential problem areas. With this, we can work more systematically and purposefully on these issues in our manager dialogue. At the same time, we acknowledge the fact that today's quality of data is not good enough for decision-making, but can be used carefully as a monitoring tool. The data is typically static and backward-looking, without the capacity to monitor future change, which must be the purpose of responsible investments.

We have established a process of monitoring external managers' level of integration of ESG including their active ownership, and we have developed internal scorecards for monitoring ESG risks based on inputs from public sources in a more systematic way. We continuously evaluate managers and our portfolio composition, and we will not hesitate to withdraw the mandate from a manager if we are dissatisfied with their understanding of future sustainability risks.



We strive to continuously improve our process for extra quality assurance and reporting on ESG factors:

- Screening - screening of known ESG factors in the funds based on data input from Sustainability and NBIM's exclusion list
- Sorting - sorting and processing of data material from the above and other sources
- Evaluation - analysis and risk assessment, evaluation if something new should immediately be addressed with a manager
- Dialogue and follow-up - based on our assessment of material risk. We have a close and continuous interaction with our managers as they are part of our "investment team"
- Assessing the impact of cooperation and dialogue

#### Across asset classes

We incorporate ESG factors into our investment process across asset classes and investment styles.

**Active equity:** As an active and forward-looking investor, investing in sustainable business models is a prerequisite for securing long-term returns for our customers. We seek active managers who consider sustainability risk to be a natural ingredient of the investment thesis, ensuring the flexibility to invest in technological, regulatory changes and consumer trends; an active, future-oriented and dynamic approach rather than a static, backward-looking and passive approach.

For an active manager, we believe responsible investment is more about investing in sustainability trends and managing change, rather than avoiding certain companies on a predefined exclusion list. We believe that active managers in their daily decision-making are in a better position to influence current business practice as well as the future direction of companies and industries where there are sustainability issues. Active fund managers typically know their companies and management very well, and are in a better position to influence and impact on a higher strategic level through their ownership discussions.

Our managers have typically contributed to improvements in corporate governance practices and the process of managing social and environmental risks in many companies. Unlike passive managers, who are dependent on predefined exclusion lists to improve their ESG characteristics, the active manager should be ahead of the game, as they are investing in what they perceive to be future sustainable businesses. This approach takes more time and effort, but we firmly believe that engagement drives real and tangible change on the issues that are important to our clients and to us.

**Passive equity:** In our passive portfolios, we use index providers who exercise their ownership responsibility through exclusion lists and proxy voting, as these do not know the companies they invest in. We want to use managers who have expertise and knowledge of sustainability, and who have values and sufficient resources to exercise their ownership responsibility in a professional and responsible manner when problems arise in companies in which we have invested.

**Fixed income:** Our commitment and philosophy is the same for fixed income, but the methodology differs somewhat given the limited opportunity to change the strategic direction of the company.

**Real Estate:** Our real estate unit that manages commercial properties in Oslo works systematically to improve the indoor environment, reduce environmental risk, increase the use of resources and minimize the overall environmental impact the properties entail. We aim to provide a good indoor environment with a focus on indoor climate, and we facilitate tenants, suppliers and partners to take on a shared environmental and social responsibility. The work to improve and further develop our environmental initiative aims to reduce the impact our management and our buildings have on the environment. As an important part of the work to reduce the environmental impact of the properties, the real estate department is certified in accordance with the international standard ISO 14001.

#### ISO 14001



Our environmental work focuses on practical, cost-effective and realistic environmental goals. These environmental goals are divided into 10 categories with associated improvement areas and measurement criteria for monitoring the results.

So far, good results have been achieved for most areas and especially in the interior environment, energy and materials recycling. We are also clear on the importance of the environmental perspective to our suppliers.

## 4. Engagement - Active ownership

A special feature of our asset management is that we are independent and use external managers in our portfolio construction. These managers make the detailed decision and risk analysis about which companies to invest in. This gives us the flexibility to select optimal managers for each region and strategy. We assign great importance, time and energy to selecting a diversified group of high-quality managers with high alpha-capacity and profound understanding of the wide variety of risks, including ESG. With this, we have experienced that we can have a much larger impact than our size in isolation would suggest, as we are influencing larger pools of money than our own, via the external asset manager. We have a close relationship with our managers through our common goals, and see them as part of our investment team.

The priority issues for engagement are:

- Significant human rights abuses and child labour;
- Transition to clean energy and aligning policy to comply with the Paris agreement;
- Environmental damage;
- Culture of corruption.

To exclude a company with negative ESG issues is not usually a sustainable and constructive long-term solution, as the change of ownership in itself (often to less responsible owners) will not lead to an improvement in the actions of the company. We see exclusion as the last way out and prefer to use owner-engagement in order to influence a company in a more sustainable and responsible direction.

If engagement activities are not achieving positive results, we will exclude the company (and the fund manager), provided that:

- there is a material breach of Responsible Investment standards relative to our investment policy
- there is a lack of response to our attempts to engage, and/or the difficulties of engagement with the company do not justify the level of resources required
- the manager reveals a lack of understanding of the severity of the sustainability risk

## 5. Exclusion and ethical filters

A number of key principles underpin SpareBank 1 Forsikring's investment policy. We take international and Norwegian laws to be a reflection of those principles, as mentioned in the Introduction.

It is of fundamental importance that companies we invest in follow international laws and conventions. Therefore, SpareBank 1 Forsikring has no tolerance for companies involved in the production of:

- Biological weapons (Biological and Toxin Weapons Convention 1972)
- Chemical weapons (Chemical Weapons Convention 1997)
- Anti-personnel mines (Anti-Personnel Mine Ban Convention 1999)
- Cluster mines (Convention on Cluster Munitions 2008)
- Nuclear weapon outside NPT-treaty (Non-Proliferation Treaty 1968)

Apart of this, SpareBank 1 Forsikring does not employ a predefined exclusionary approach that avoids certain sectors entirely or uses filters based on ethical values, but rather a continuous evaluation of a company's performance and potential on ESG issues overtime. We acknowledge that there are diverse individual views as to the content of ethical investment principles, and that these will vary a great deal depending on culture, religion and political conviction. Distinguishing between companies in legitimate businesses and those acting unethically is therefore inherently subjective and creates a lot of moral dilemmas: how strictly should you adhere to the value set? Should the decision be made in an absolute or relative perspective? Can these decisions be made while maintaining our fiduciary duties? We therefore endeavour to only exclude activities/companies that are working contrary to Norwegian and international laws and UN conventions.

## 6. Climate

Climate change is currently the most important risk facing our economy and ecosystem. We recognise that long-term climate change will dramatically change the environment upon which our societies and all economic activities depend. Ignoring this will lead to catastrophic results and consequences for life on Earth, and the other sustainability goals will be impossible to achieve.

Therefore, climate change is one of the key ESG engagement themes for our portfolio and our investment managers. Their responsible investment team engages with many companies on this topic.

### TCFD reporting

Improved understanding of climate-related risks and opportunities is key to delivering on the Paris 2-degree agreement. We recognise the importance of reliable, consistent and comparable information about climate-related risk and opportunities that all companies face. Robust disclosure plays a critical role in enabling financial markets to price risk correctly. It also helps ensure the efficient allocation of capital. We strongly support the TCFD initiative as it has the power to increase transparency, which makes markets more efficient. Rather than focusing too much on reporting quantitative data, however, we see the strategic discussion from board/management regarding how their company is challenged or revitalised by the Paris accord as the most important and relevant piece of information in the TCFD disclosure. We have also been in touch with all our managers to ensure they excel in their work on helping and encouraging companies to implement a climate-related disclosure framework in order to understand how climate change can affect their business.

### Climate Action 100+

Several of our external managers have signed up for the global investors' initiative Climate Action 100+ (launched in December 2017). They actively participate in the engagement under this initiative, and they also report to us on the progress made.

## 7. Collaboration and investor initiatives

Beyond the commitment to integrating ESG and publicly reporting on our progress, we actively collaborate with peers, investors and other relevant initiatives in order to share and spread knowledge about responsible investment and engagement, and to promote transparency and standards. We are an active member of Norsif (Norwegian Forum for Responsible and Sustainable Investment), which is an independent association for managers, capital owners, service providers and industry organisations with responsibility and interest in this area.

Our managers have close partnerships with leading industry associations, disclosures and standards bodies, and non-profit organisations in order to shape the latest approaches to the integration of ESG in financial strategies and processes.



## 8. Voting

Voting and stewardship process are delegated to managers. We acknowledge that voting is a part of responsible investment, but we would like to stress that we expect our managers to engage with companies before voting. We demand high standards in stewardship from our managers. Voting reports are included in their reports to us.

## 9. Reporting

We are committed to being open and transparent with regards to how we work and how we incorporate ESG in our responsible investment decisions and activities. As a UN PRI member, we regularly report and publicly disclose our approach, activities and progress for sustainable investment.

Sparebank1 Forsikring strives for continuous improvement in all areas, especially regarding environmental, social and governance performance.



Sustainable returns for  
a sustainable future.