

## Arctic Asset Management - ESG executive summary

Through mutual funds and discretionary mandates, Arctic Asset Management (AAM) manages portfolios of Nordic equities, Nordic fixed income and Global Life Science. Arctic Asset Management believes strong performance depends on responsible investing. In our view, companies with a positive and improving impact on the environment, corporate governance and social responsibility, are more likely to provide excess returns to investors over time. We therefore analyze ESG issues and integrate sustainability in our investment process. Furthermore, analyzing a company's ESG factors is a central part of our risk analysis.

ESG and sustainability risks are integrated in the portfolio managers' fundamental investment process and company scorecards. Sustainability is evaluated in the same manner as the other elements we include in our fundamental company analysis. The process ensures that strong governance, a favorable environmental profile and social responsibility are rewarded in our investment decisions, through a higher company evaluation and score. Similarly, poor corporate governance, known environmental issues, and poor social responsibility makes initial investment less likely and may trigger a sale of existing holdings, bonds or equities.

All Arctic funds have been classified as **Article 8** funds under EU's Sustainable Finance Disclosure Regulation (SFDR). Article 8 classification means the funds do not have sustainable investments as their objective but promote environmental and/or social characteristics through a minimum proportion of sustainable investments, as defined by the SFDR. The sustainable investments:

- Contribute to an environmental and/or social objective, as defined by the SFDR Article 2 (17);
- Do no significant harm to other sustainability objectives; and,
- Have good governance practices.

The Article 8 funds consider the principal adverse impact (PAI) of investment decisions on sustainability factors (product level). Arctic Asset Management as a financial market participant does not consider principal adverse impact at the entity level. AAM has a proprietary Principal Adverse Impact database.

Bespoke mandates can be tailored to clients' specific sustainability requirements, whether these are specifically related to sustainability or not. The overriding principle of advice from Arctic Asset Management will however be governed by the same considerations as those governing the management of Article 8 funds.

The Investment Manager follows the Norwegian Government Pension Fund Global's socially responsible investments (SRI) policy by taking ethical, environmental and social issues into account in its management of the funds. In practice, this means that the Investment Manager invests with a view to:

- Promote good corporate governance and greater awareness of social and environmental issues;
- Promote sustainable development in an economic, environmental and social sense; and
- Avoid investments in companies which engage in grossly unethical activities.

As portfolio manager on behalf of active owners we vote and engage with the portfolio companies. We have an 'ESG Expectations' document which outlines our views and expectations to portfolio companies. We also have company 'Guidelines for engagement and the exercise of voting rights', developed in line with recommendations from EFAMA's Code for External Governance. We annually publish our implementation of the engagement policy.

The 2019 EBA Action Plan on Sustainable Finance has as a key objective to reorient capital flows towards sustainable investments. The 2015 Paris agreement has a goal of limiting the rise in average global temperature to well below 2 degrees, preferably to 1.5 degrees. AAM recognizes these policies are likely to affect the risk-reward of investments, and the flow of funds between companies and sectors.

AAM has been a signatory to the UN Principles for Responsible Investments (UN PRI) since 2016. In addition, AAM is a member of the following organizations:

- Norsif, the Norwegian financial industry forum for responsible and sustainable investments.
- CDP which runs a global disclosure system for GHG emissions and environmental data
- FAIRR, a collaborative investor network which examines the ESG risks for protein producers.

Companies should follow what we consider principles of good corporate governance. In Norway, these have been organized in guidelines from the Norwegian Corporate Governance Board (NCGB/NUES).