

Semi Annual  
Sustainability Report  
ODIN Fund Management **2020**



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# An unusual spring

We are leaving behind a turbulent first half of 2020. Covid-19 has left its mark on the world in recent months. What we experienced at the beginning of March, when Norway, together with most Western countries, shut down their societies to fight a pandemic is something we will be telling our grandchildren about.

This has major ripple effects. We did not know the extent of such a shutdown then, and nor do we know now. The world's financial markets were severely shaken, and the world facing its biggest recession since the 1930s. Even though the stock markets quickly recovered, there are large discrepancies between different sectors and even companies.

At ODIN, we notice this both in the portfolio companies and internally. The new normal is characterised by working from home, and as a result digitalisation has progressed rapidly. We have been in contact with our portfolio companies, especially when the market turbulence was at its peak in March, to reassure them that we are long-term owners.

Many people may have thought that ESG would become less important. But it might be now that we see which companies are well managed. The last couple of years the E in ESG has been the main focus, but lately the S is getting more and more attention. How are companies treating their employees in a crisis like this? How to balance employee considerations against other considerations are among the many challenges the companies might face.

We have talked to several of the companies we are invested in and the impression we are left with has been that the focus has been on providing security for their employees. We do not see that ESG has become less important, rather the other way around. We will see how things pan out in the autumn when economic activity hopefully picks up again. And if society is rebuilt to be better than it was.

ODIN turns 30 this year and we have spent time this spring assessing how we can improve our work on sustainability. This is why we have built a strategy for the coming years.

On the following pages you can read how we at ODIN work on sustainability and what we have done in the last six months.



*Bjørn Edvart Kristiansen*  
CEO



# Our approach

We are stock pickers, and selective in the choice of companies we wish to invest in. Sustainability criteria impact the companies' value creation over time, and assessments related to this are therefore a key element of all investment decisions, and also give the fund managers incentives to engage in active ownership. We signed up to the UN's Principles for Responsible Investment in 2012. This is based on our commitment to implement and report on how we include responsibility and sustainability criteria in our company and portfolio assessments. This also applies to fixed interest funds. We can summarise this in three parts;

## 1. Integration

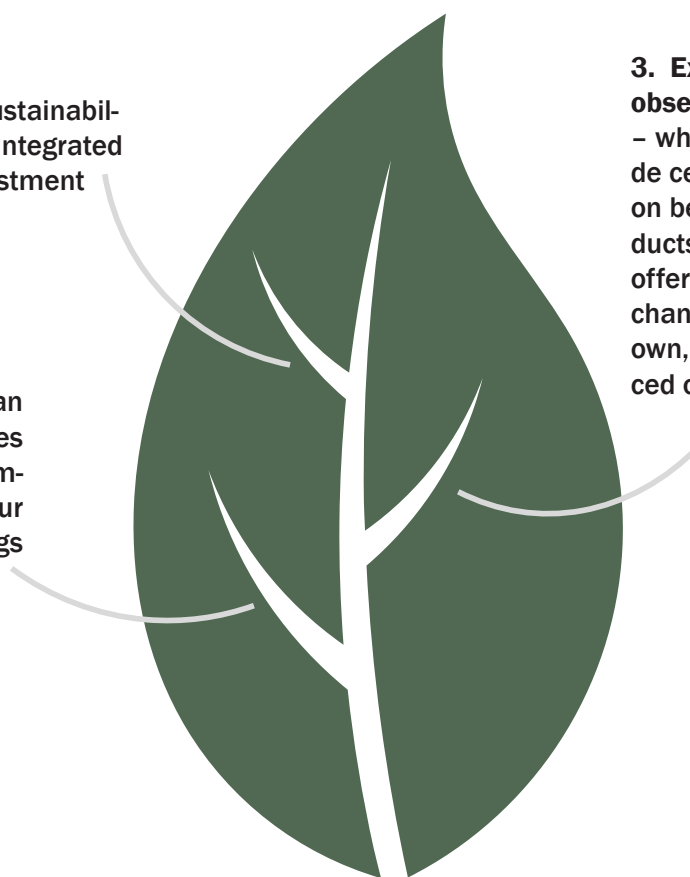
- which means that sustainability considerations are integrated into analyses and investment decisions

## 2. Active ownership

- which means that we are an active owner of the companies we are invested in through company dialogue and exercising our voting rights at general meetings

## 3. Exclusions and observation

- which means that we exclude certain companies based on behaviour and/or the products/services the company offers. If behaviour/products change in the companies we own, the companies are placed on the observation list



### INTEGRATION

means, among other things, that we carry out sustainability analyses of the companies we invest in. All companies we invest in are presented to the other fund management, and a sustainability assessment must also be included here. In other words, we consider the risks and opportunities associated with sustainability, as well as how the board and management are put together to deal with this. Beyond this, we regularly review our portfolios. In order to make good assessments, access to information is essential and we use information from several sources. We use publicly available information such as annual reports, NGO reports and the like, but also information from meetings with company management representatives from relevant companies

and from analysts. We also use external research firms for objective assessments of companies. We currently use the research firm Sustainalytics which gives us access to their company database and analysts, as well as analysis related to product involvement and events.

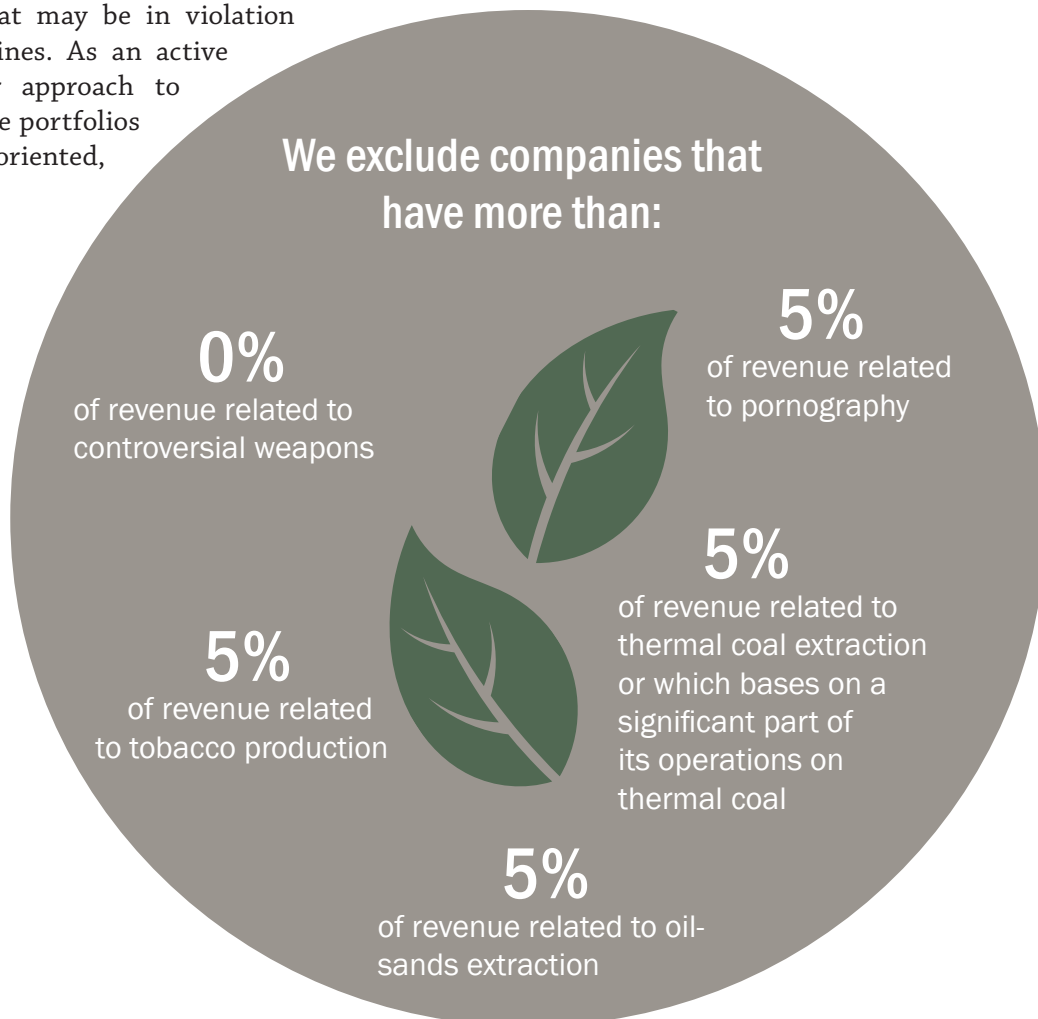
**ACTIVE OWNERSHIP** is about using our voice as shareholders, both through voting at general meetings and through dialogue with the companies we invest in. We also take part in nomination committees. The goal is to create awareness and positively influence companies. In this way, the companies can be better equipped to deal with the various issues they may face, which will also benefit the shareholders.

We aim to vote at all general meetings of the companies we are invested in. To implement this in the best possible way we use services from ISS Proxy Voting Service, where we receive voting recommendations based on sustainability considerations. In dialogue with the companies we are invested in, this is typically linked to specific events, reporting or themes that we focus on. If something happens in the companies we are invested in, our first act will be to enter into dialogue. If we do not see an ability or willingness to change, we will sell our shares in the company. As a result of our concentrated portfolios, we are in many cases major owners of the companies we invest in and our voice is heard. In cases where we are not major owners, we often cooperate with other investors.

and in principle we do not have as much need for exclusion lists of companies we do not want to end up in the portfolios. This means that all the companies we are invested in are thoroughly analysed and selected after a lengthy process. A number of companies will be excluded as a result of a comprehensive assessment of the company's risk profile and future prospects where relevant sustainability criteria play an important role. At the same time, there are certain sectors and individual companies that we avoid based on ethical considerations, based on the product they offer and/or the company's behaviour. We make the assessments on the basis of our own criteria and the Government Pension Fund Global (SPU) criteria. We also follow the SPU exclusion list and the companies excluded by the SPU are removed from our investment universe.

**EXCLUSIONS AND OBSERVATION**

are the means we use if something appears in companies that may be in violation of our guidelines. As an active manager, our approach to assembling the portfolios is company-oriented,



*(Some funds exclude additional categories)*

# Our approach

## BEHAVIOUR-BASED

Companies will also be excluded or placed on the observation list in the event of suspected serious and systematic violations of generally accepted norms. We expect the companies we invest in to act in accordance with the principles of the UN Global Compact. These principles concern human rights, labour rights, the environment and anti-corruption:

The companies we invest in should act in line with the principles of the UN Global Compact:



- 1 Support and respect the protection of internationally proclaimed human rights
- 2 Make sure that they are not complicit in human rights abuses
- 3 Uphold the freedom of association and the effective recognition of the right to collective bargaining,
- 4 The elimination of all forms of forced and compulsory labour
- 5 The effective abolition of child labour

- 6 The elimination of discrimination in respect of employment and occupation
- 7 Support a precautionary approach to environmental challenges
- 8 Undertake initiatives to promote greater environmental responsibility
- 9 Encourage the development and diffusion of environmentally friendly technologies.
- 10 Work against corruption in all its forms, including extortion and bribery.

A further specification of criteria is available in our guidelines.

# Collaboration and development

Work on sustainability and responsible investment is a continuous process, and it is useful to work with other investors to improve our sustainability efforts. This is why we participate in various forums for knowledge exchange, and we are members of Norsif, Swesif and Nues, among others. Internally within the company, it is also important to renew knowledge, and at regular intervals we include external experts who can give us deeper insights into relevant topics. It is also very useful to meet NGOs who are experts in different topics, so that we can be clearer in the expectations we set for our companies.

Through membership in PRI, we have the opportunity to team up with other investors to influence companies and focus on certain topics.

As part of our work, we set up an ESG committee in 2019. This consists of ODIN employees across departments and offices where the purpose is to reach good solutions, answer questions from customers in different segments and make sure that we can be at the forefront. In 2020, we will continue to work on the sustainability strategy and the ESG Committee will play a key role in this work.

**Ane Serine Rongved**

Head of sustainability

**Bjørn E. Kristiansen**

Acting CIO

**Dan Hänninen**

Director of institutional clients

**Harald Nissen**

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**Jessica Walter**

Marketing manager, ODIN Fonder

**Jonathan Schönbäck**

Senior portfolio manager

**Mariann Stoltenberg Lind**

Senior portfolio manager

**Tomas Hellström**

CEO, ODIN Fonder



**ESG  
Committee**

# Overview of our funds

## EQUITY FUNDS



ODIN Norge				
ODIN Norden				
ODIN Sverige				
ODIN Europa				
ODIN Global				
ODIN Emerging Markets				
ODIN USA				
ODIN Eiendom				
ODIN Small Cap				

## BALANCED FUNDS



ODIN Aksje				
ODIN Horisont				
ODIN Flex				
ODIN Konservativ				
ODIN Rente				

## BONDFUNDS



ODIN Likviditet			
ODIN Norsk Obligasjon			
ODIN Europeisk Obligasjon			
ODIN Kreditt			

### OVERVIEW OF THE SUSTAINABLE MANAGEMENT TOOLS USED IN THE VARIOUS FUNDS:



#### Integrates ESG

- Screening
- Important in the investment process



#### Eliminates

- Controversial weapons, tobacco, pornography, coal & oil sands
- systematic and serious violations of the norm



#### Dialogue

- Proactive and reactive dialogue with companies



#### Active ownership

- Votes at general meetings
- Participation election committee



#### Eliminates fossil energy

- Companies that extract oil, gas and coal







# Our work so far this year

Despite the fact that the last six months have been rather unusual, we have not lost focus on the companies. Quite the contrary. However dialogue with the companies has transitioned from physical meeting rooms to digital platforms. Dialogues in recent months have largely been related to Covid-19 and how the lockdown of society has affected the companies, both in financial terms and with regard to the situation of their employees. Some AGMs this spring were postponed, but the vast majority took place digitally. Throughout the first half of the year, we have continued to work on ODIN's approach to sustainability internally. As a result of regular meetings of the ESG committee and board meetings, we have set out ODIN's sustainability strategy for the coming years.

As previously mentioned, we have spent a great deal of time at AGMs and engaged in dialogue with the companies that we are invested in - especially when the turbulence was at its peak. As long-term shareholders, we encouraged cuts in dividends if needed and a focus on strengthening balance sheets. The primary focus of these companies during this period, beyond ensuring the safety and security of their employees, has been to prepare themselves to weather future storms. As an example, American Home Depot spent \$850 million on measures to support employees and limit the spread of infection in response to the pandemic. Home Depot has 416,000 employees, and it is well established in the company's

culture that a safe and enjoyable working day for the employees is absolutely essential for the company to succeed in the long run.

We have been engaged in dialogue with several companies this spring, and we have participated in multiple stakeholder analyses on behalf of the companies that we are invested in. These are surveys carried out by companies on their stakeholders - which includes anyone with an interest in the company (shareholders, employees, customers, suppliers, etc.). This provides the company with useful insight into what the different groups prioritise, and can be used when preparing strategy, during risk assessment and while evaluating future opportunities, etc. We believe it is a positive action for companies to carry out stakeholder analyses on a regular basis, and we feel that it is an important task for us as a shareholder to dedicate time to this.

We have also been in touch with several of the companies that we are invested in to request data relating to carbon emissions. We have encouraged those that do not report on this to start doing so, and we have also urged those that do report to use the same reporting standards, so that we can more easily compare figures across companies. It is gratifying to see that we have already achieved breakthroughs with some businesses, while we are continuing to engage with others.

## General meetings and electoral committees

Over the course of the first six months of this year, we have cast 2,675 votes at 182 AGMs. This amounts to a voting rate of 90 per cent. The reason for the lower percentage is our new fund ODIN Small Cap. We unfortunately were not set up correctly with our service provider who casts the votes on our behalf, which has caused some votes to be rejected. Fortunately our votes not being registered has not been decisive in the wrong direction. Of the votes we have cast, we voted against the company's recommendations on 93 occasions. These include proposals related to incentive programmes, management and board remuneration issues and the election of board members.

As an example, we again voted this year for the shareholders proposal that Facebook elects an independent chairman. We think it is unfortunate that Mark Zuckerberg is both CEO and chairman. Facebook has become an

important global media player, with the power to influence the outcome of political elections around the world. Their role brings a great responsibility and it is therefore important that the company has a board that can, and dares to, challenge and guide the company's management in matters concerning Facebook's role in political elections. Privacy is also an area where Facebook has made unfortunate decisions in the past and where the board has an important role to play. We believe that the board of Facebook would have worked better if it had been led by an independent chairman of the board, even though Zuckerberg formally holds all the power given his ownership interest in the company.

In addition to voting at general meetings, we are members in several nomination committees. The task of a nomination committee is to nominate the company's board. This is an important task that we perform together

with other major shareholders in the companies. As of 30 June 2020, we sit on the following nomination committees. XXL, Multiconsult, Kongsberg Gruppen, Protector Forsikring, AQ Group, Beijer Alma, Byggmax, Addnode, Biotage and Adlife.

Through the nomination committees and general meetings, we also review the companies' incentive programs. This is also something we bring up with the management of the company when we meet them. We believe that incentive programs are particularly important to ensure that conflicts of interest do not arise. Conflicts of interest between shareholders and management are a recognised challenge that can arise if sensible incentive structures have not been established that ensure overlapping interests between shareholders and the management of a company. At ODIN, we are concerned with reducing the risk of such conflicts of interest. We want the companies we own to make decisions that overlap with the interests of the shareholders. More specifically, we want management to aim to maximize value per share over time. At the same time, we emphasize that the focus on ESG factors does not conflict with this objective, in fact we believe the opposite to be true.

We are therefore concerned that, as far as possible, incentives are designed in such a way that management thinks like investors and has incentives that emphasise value creation. To reduce the risk of conflicts of interest, we are actively looking for companies where we can invest with families or other key people who have a significant stake in the company. We believe this means that the management thinks like investors to a greater extent because they are investors and we are thus in the same boat.

A good example of such a company is HEICO, which, among other things, supplies parts to the aerospace industry. The Mendelson family thinks like investors because they themselves are investors and own more than 15 per cent of the company. It is not just the Mendelson family who think as investors and owners in HEICO. The employees do so too. The employees own about 10 per cent of the company. The reason is that HEICO matches employees' contributions to their own pensions up to a certain percentage. This scheme, combined with the fact that the company has delivered a good return over time, means that the employees experience greater ownership and commitment to the company because they are shareholders.

Watchlist			
Date	Company	Fund	Cause
04.07.2018	Danske Bank	ODIN Kreditt, ODIN Europeisk Obligasjon	Money laundering accusations
11.09.2018	Wells Fargo	ODIN USA	God business practice
22.03.2019	Swedbank	ODIN Kreditt	Money laundering accusations
14.11.2019	DNB	ODIN Kreditt/ODIN Europeisk Obligasjon/ODIN Norge/ODIN Norsk Obligasjon/ODIN Likviditet	Money laundering accusations
19.11.2019	SEB	ODIN Kreditt	Money laundering accusations
Exclusions list			
Date	Company	Fund	Cause
01.02.2019	Fortive Corp.	ODIN USA	Involved in nuclear weapons

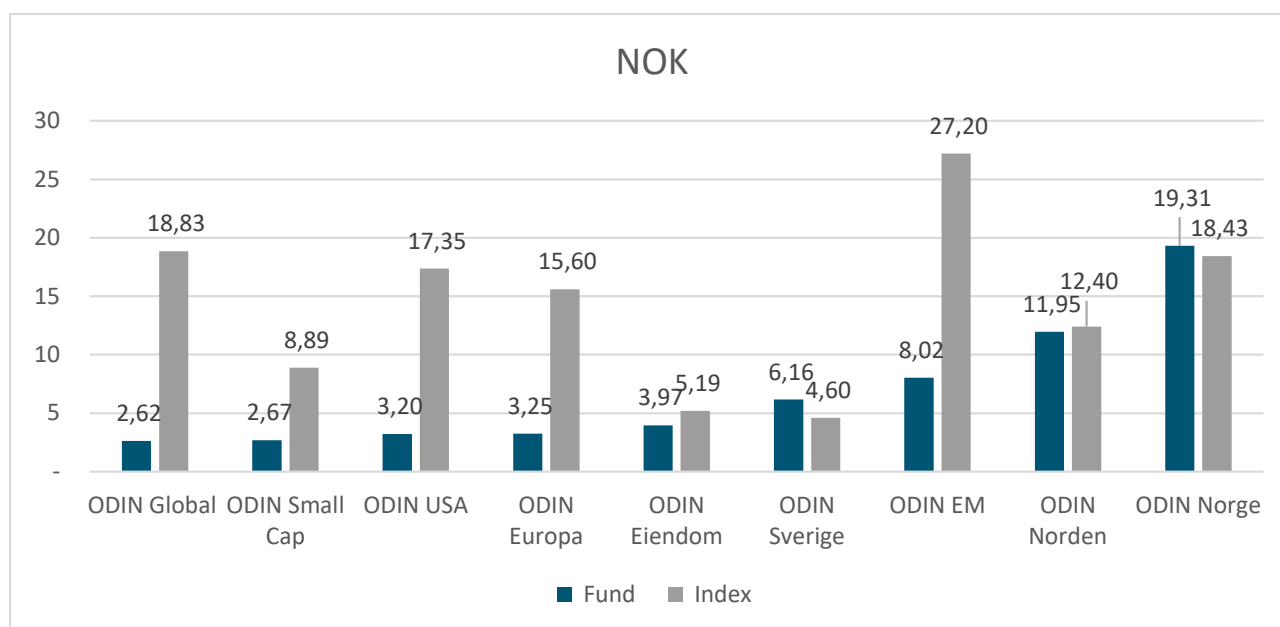
# Carbon footprint

Back in 2017 we started to measure the carbon footprint of our portfolios. The carbon footprint, here measured by carbon intensity, provides a picture at the fund level of the scale of the emissions from the companies in a given portfolio measured against the revenues. The lower the number, the better. Not all companies report their carbon footprint and we have to estimate this based on comparable companies. The reason for reporting the carbon footprint for our funds is to induce companies to measure their own emissions and set clear targets to reduce them from today's levels.

The carbon footprint is a way to measure the fund's exposure to emission-intensive companies. The carbon footprint shows the portfolio companies' emissions (CO<sub>2</sub>e

over one year) in relation to their turnover (annual turnover in the fund's currency), adjusted for portfolio weight. The calculations are not exhaustive because they do not include all indirect emissions. For example, the company's emissions associated with purchased electricity (which is a Scope 2 indirect emission) are included, but emissions associated with a subcontractor's purchased electricity are not included (Scope 3). We have based our reporting on the new guidance proposed by Svenska Fondbolagens Förening and used the research firm Sustainalytics to perform the calculations on our equity funds. The key figure being assessed is the fund's carbon intensity based on calculations made with the latest available data at 30 June 2020.

## The carbon footprint (NOK) for our equity funds per 30.06.2020









# Uncertain times calls for safe havens

We are leaving behind a challenging six months. Life was turned upside down at the beginning of March, and the time since has been characterized by uncertainty. This has also been reflected in the stock market, which has fluctuated significantly this spring. The stock markets fell sharply in late February and into March, but the rebound has been abnormally strong. Despite the pandemic's grip on the world, the stock markets, which in turn should reflect expectations for the future, have been surprisingly strong. It is particularly technology companies that have done well, but also 'green' companies have helped to drive the stock exchanges.

So-called green stocks, i.e. companies where the business model is linked to sustainability in one way or another, have had a strong development over a longer period. Critics have previously stated that when we have a downturn in the stock market, the green bubble will burst. A report from Morningstar, on the other hand, shows that green funds have both fallen less in value during the market turbulence, and had fewer redemptions than traditional funds. This is still a short timeframe, but it seems at least that green stocks have passed the first test. How should one consider this strong development in companies with a clear sustainability profile?

In uncertain times, it is normal for investors to move their money to safe havens. Gold is a good example of this. The uncertainty surrounding the excessive printing of money by the world's central banks has recently helped to raise the price of gold sharply.

We also see that investors flock to the companies that are considered safer investments. The crisis we are now experiencing has probably made investors even more aware of different types of risk. In normal times, it is easy to underestimate the risk associated with poor corporate governance. When companies are hit by a global crisis, such as a pandemic, it becomes clear which companies are well prepared and are able to navigate through uncertain waters, and which ones fall short. One is reminded that ESG risk is financial risk.

At the same time, investments in sustainable companies cannot be equated with a temporary investment of money in gold in anticipation of better times. The strong price development in companies with a strong ESG profile also testifies to the fact that the belief that these companies will be the future winners has strengthened. The market is now looking for companies that can help solve the global challenges we face. Stricter regulations will also make it difficult for those companies that do not take environmental and societal challenges into account, and the market is positioning itself for the flow of money to move from these to the well-run companies with sustainable business models.

It is also beginning to become clear that the pandemic will lead to some significant lasting changes. Some point out that the pandemic has shown that we "are all part of something bigger" and that our actions affect the outside world, and have generally become more aware of our own choices. We may be facing a change in society where we might not return to normal - that is, as things were before. In a survey conducted by YouGov, 2 out of 3 Norwegians believe that consumer behaviour has changed as a result of the pandemic. In general, many will support local businesses more, spend less cash and buy more environmentally friendly products. The digitalisation of society has also gained momentum, with potentially major implications for the transport needs of the future and the need for physical meeting and working places. These are again changes that are reflected in different companies' share prices.

At ODIN we are committed to investments in stocks and fixed income securities so we will not be making any investments in gold, but we hope to find "gold" in the well-run and sustainable companies in which we have invested. We are confident that we have invested in companies with strong leaders and strong corporate cultures, which will build value for shareholders, employees and society in general.





*Ane S. Rongved*  
*Head of sustainability*



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