TRA

In focus / The search for clarity

In focus / The search for clarity In focus / The search for clarity In focus / The search

In focus / The search for clarity In focus / The search for clarity In focus / The search for

In focus / The search for clarity In focus / The search for clarity In focus / The search for clarity In focus / The search for clarity

Transparency


Photo: Colourbox.com

The pressure to meet sustainability commitments is rising exponentially. By now, we have little time left to take decisive action on many critical issues, such as keeping planetary temperature rise at manageable levels, preserving biodiversity and ocean health, and enabling incomes for people that can support dignified lives and social cohesion in our communities.

Sustainable investment is critical

Addressing these complex sustainability challenges successfully, requires governments, companies, civil society, and investors to work together. Naturally, investment and capital markets have a significant role to play in the equation. A massive mobilization of private sector capital is needed to shift companies and their activities towards entirely new systems of value creation that are aligned with sustainability.

Here, investment institutions such as us, employing our ability to direct capital towards reaching these sustainability goals, can be important actors in our collective struggle to achieve sustainability. For investors, that means both investing in solutions, as well as taking on stewardship responsibilities: engaging with companies to try to secure that they have — and comply with — credible transition plans.

Transparency the enabler

However, one of the important factors in this mobilization of capital is transparency: providing more clarity and insight into material aspects of companies' operations. Without greater levels of transparency than exist today in the financial sector, it will be difficult for investors to target capital in the right companies, for companies to understand investors' expectations and for asset managers to show investors a picture of what role their money really plays in the sustainability transition. This is why we have supported many efforts in the finance sector to increase corporate disclosure, such as the CDP and many others.

So this quarter, we touch upon some aspects of transparency, one of the most important tools we have as an asset manager for contributing to the achievement of sustainable outcomes.

Opinion

Disclosing political engagement

Why insights into lobbying on deforestation can help investors address financial risks

Text: **Tim Steinweg**,
Head of Stewardship-Nature
at PRI

Even with decades of research from academia and civil society, voluntary commitments by large corporations and collaborative action by investors, global deforestation rates have remained stubbornly high in 2023. However, missing the goals of the Glasgow Declaration of Forests and the Kunming Montreal Global Biodiversity Framework would pose substantial climate, biodiversity, and social risks. These include physical and transition risks that may be financially material to investors, as their ability to create long-term value is dependent on a wide range of ecosystem services.

Deforestation risks are systemic by nature. Universal asset owners may be exposed to the impacts of deforestation in other parts of their portfolio. For example, changing rainfall patterns caused by Amazon deforestation may reduce agricultural productivity in the south of Brazil at an estimated revenue loss of USD 186 million. Additionally, transition risks posed by regulatory changes to halt nature loss and deforestation could result in USD 150 million of value for unprepared companies in food supply chains.

Investors increasingly recognize that they cannot diversify away such systemic risks. Investor action on deforestation goes back some 15 years, and there is growing realization that public policies are a fundamental part of the solution.

Past deforestation trends illustrate how public policies can both drive demand for forest-risk commodities but also swiftly reverse deforestation trends. For example, EU's biofuel policies were a key trigger for the palm oil expansion in Southeast Asia, resulting in the clearing of millions of hectares of tropical forests. Government moratoria in Indonesia subsequently contributed to some of the lowest deforestation figures on record in recent years. In Brazil, the government implemented the Amazon moratorium in 2006 and witnessed a near-immediate drop in Amazon deforestation, followed by an uptick in rates and wildfires under the Bolsonaro regime. The Lula government is now making good strides in bringing back deforestation to less alarming rates.

Companies can influence these policy processes. Corporate engagement on environmental policy can play a critical role in helping governments create enabling policy solutions, but it can be a double-edged sword. Short term or narrow-sighted corporate political engagement, often represented by third-party organisations such as trade associations, can hinder policy action that aims to curtail deforestation. There are well documented examples of companies attempting to water down climate policies that could impact their business models, while ignoring the long-term impact of doing so. Research on climate lobbying has shown that there can often be misalignments between the companies' stated policy positions and the lobbying practices of the trade associations there are a member of.

By calling for clear and constructive measures to ensure Responsible Political Engagement (RPE), the initiative aims to contribute to a global policy landscape that is conducive to halting deforestation

Similar practices in deforestation-related policies could delay a company or sector transitioning towards more sustainable patterns of production, thus impacting its long-term viability and risk-return profile. In addition, reputational risks may heighten for companies with policy engagement positions that conflict with their own sustainability commitments. By disrupting efforts to halt and reverse biodiversity loss by 2030, companies risk imposing legal and reputational risks and long-term costs on investors and beneficiaries. On the other hand, businesses committed to reversing and halting forest loss could leverage their influence to advocate for policies conducive to the achievement of the GBF.

Spring, PRI's new stewardship initiative for nature, aims to apply investor stewardship tools to improve corporate political engagement on nature. By calling for clear and constructive measures to ensure Responsible Political Engagement (RPE), the initiative aims to contribute to a global policy landscape that is conducive to halting deforestation. To be responsible when engaging policy makers, requires companies to make a public commitment to align their political engagement with the Global Biodiversity Framework; to be transparent and consistent in their policy positions across jurisdictions; and to take corrective action when lobbying done on their behalf conflicts with these objectives. Spring is supported by a Signatory Advisory Committee, consisting of dedicated investors including Storebrand, and intends to launch in full later this year.

Note

This is an opinion by an external contributor, providing an expression of views held by them and the organisation they represent

PRI report 2023

Independent review of sustainable investment practices

Storebrand ASA has been a signatory of the Principles for Responsible Investment (PRI) since 2006. From 2019, Storebrand Asset Management has been a PRI signatory in its own right.

As a PRI signatory, we report annually on an extensive set of indicators related to our responsible investment practices. These disclosures are reviewed by the PRI and analyzed in an assessment report. The report shows the asset manager's scores for the individual indicators, grouping them into modules that together help to provide a perspective on specific areas, such as "Policy, Governance and Strategy", "Listed Equity" or "Fixed Income".

The PRI Assessment Report provides a robust and neutral basis to review our practices, relative to our peers and to what PRI considers to be best practice. We use PRI assessments to learn and improve. For example, based on our most recent PRI Assessment Report, we recently changed our voting procedures: now we disclose all our voting choices publicly five days in advance of shareholder meetings.

In the spirit of transparency, we publish our self-disclosed PRI Transparency Report as well as the Assessment Report produced by PRI. Clients deserve clarity about how we invest their capital and how we stack up against our peers. See below for the Summary Scorecard, and the full reports can be accessed on our website.

We now pre-disclose our voting decisions

Votes are made public five days before AGMs

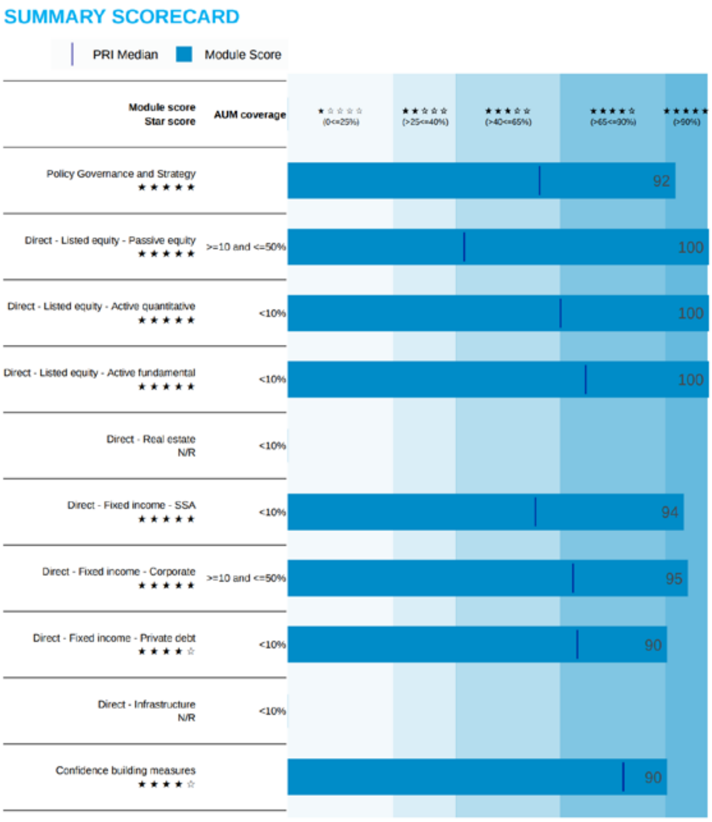
As of Q1 2024, we have changed our procedures, and will now pre-disclose our voting decisions, five days in advance of shareholder annual general meetings (AGMs).

We have begun this new procedure as part of our commitment to transparency towards clients, for its signaling effect towards companies, and to maximize the potential influence of our decisions on other shareholders.

There is some evidence of the potential value of pre-disclosure in rallying votes for change. One of these is in a recent research study[1] published by the European Corporate Governance Institute that analyzed voting by Norges Bank Investment Management (NBIM), which runs the Norwegian sovereign wealth fund and is the world's largest single shareholder. The study found that NBIM's pre-disclosures of its votes led to an average increase of 2.7 per cent in shareholder votes "against" management recommendations.

To see all our voting choices, including advance notification of decisions for all upcoming meetings over the upcoming five-day period, please visit our [proxy voting dashboard].

→ **For the full details, please read our [PRI Assessment Report] and Public Transparency Report, published in December 2023, or visit our [Storebrand Asset Management document library].**



References

[1] "Leading by Example: Can One Universal Shareholder's Voting Pre-Disclosure Influence Voting Outcomes?"


Photo: Colourbox.com

A transformed EU reporting landscape

The EUs push for sustainability puts pressure on companies to provide more information about what they are doing, and for investors to explain the sustainability exposure of their investments

At the beginning of last year, the EU took a big step towards realizing continental ambitions on sustainability when the new EU Corporate Sustainability Reporting Directive (CSRD) was enacted. The new law sets in motion a series of requirements for companies that will result in much greater transparency before. To project the impact of the CSRD, it may be helpful to take a quick look back in time, to the goals and ambitions that gave rise to the new directives.

EU Green Deal set the compass

The roots of the CSRD lie in the **European Green Deal**, aapproved by the European Council in 2020. This comprehensive set of policy initiatives aimed to secure Europe's fitness for the future, in a world increasingly shaped by the commitments enshrined in the "Paris Agreement": the 2015 global treaty on climate change.

Related regulations

CSRD
(Corporate Sustainability Reporting Directive)
New EU regulation requiring large companies to regularly publish reports on impact of their corporate activities on society and the environment. It helps investors, consumers, policymakers, and other stakeholders evaluate large companies' non-financial performance. CSRD applies to all large and listed companies in the EU, and to some non-EU companies that operate in the EU.

CSDDD
(Corporate Sustainability Due Diligence Directive)
The Corporate Sustainability Due Diligence Directive (CSDDD) will require large companies operating within the EU to integrate risk-based due diligence into their operations to protect the environment, society and their suppliers.

SFDR
(Sustainable Finance Disclosure Regulation)
New EU rules requiring asset managers to disclose their ESG risk, policies and results. It aims to provide investors with greater levels of comparability and ESG transparency, by increasing information available about the potential positive and negative impacts of their investments and related ESG risks.

EU Taxonomy
A classification system applicable in the EU, that helps companies and investors identify "environmentally sustainable" economic activities to make sustainable investment decisions. It focuses purely on standardising definitions and classifications but does not mandate any performance levels.

Taking a holistic approach, the EU committed itself to the Green Deal, which encompassed policies across all sectors and issues, including for example climate, the environment, energy, transport, industry, agriculture and sustainable finance. Addressing these areas individually as well as in relation to each other, the Green Deal treats sustainability, economic competitiveness, and human development as interlinked goals.

If successful, the European Grean Deal will make the continent more competitive, setting it on track to reaching climate neutrality by 2050, while ensuring broad prosperity for its citizens.

CSRD setting the stage through disclosures

Next, the EU moved on to develop a legislative and regulatory landscape that would be consistent with, and enable, the goals and objectives and policies detailed in the Green Deal. This is where the **Corporate Sustainability Reporting Directive** (CSRD) came into play.

Adopted in 2021 and enforced since January 2023, the CSRD builds on, but extended well beyond, a previously existing set of regulations: the Non-Financial Reporting Directive (NFRD). The objective of the CSRD is to enable better decisions on sustainability by improving and making public, the facts around non-financial aspects of businesses.

The CSRD does this in two ways. The first dimension is the nature of the disclosures. Now companies are required to report on a wide range of environmental, social, and governance (ESG) matters, such as climate change, biodiversity, human rights, diversity, and anti-corruption. The reporting covers not only the impacts of the company's own activities, but also those of its value chain, including suppliers and customers.

CSRD introduces a set of mandatory reporting standards, based on existing international frameworks, that specify what information to disclose, how to measure and calculate it, and how to present it. The standards have been developed by the European Financial Reporting Advisory Group (EFRAG), in consultation with various stakeholders. The second dimension is the scope of the disclosures — the number of companies that must disclose these non-financial facts. The CSRD applies to all large and listed companies in the EU, as well as some non-EU companies that operate in the EU.

← **If successful, the European Grean Deal will make the continent more competitive, setting it on track to reaching climate neutrality by 2050, while ensuring broad prosperity for its citizens.**

Yes, CSDDD isn't perfect — but it's still a great start

Text: **Kamil Zabielski**, Head of Sustainable Investment

The soon-to-be approved EU Corporate Sustainability Due Diligence Directive could mark a turning point in business accountability

On March 15th, EU member states gave the green light to the EU's Corporate Sustainability Due Diligence Directive (CSDDD, or CS3D), after weeks of intense negotiations. The road to agreement wasn't easy, though. It took some serious back-and-forth and compromises to get there

Unfortunately, the final version of the directive ended up being watered down and limited in scope, as it only applies to companies that have both a turnover above 450 million euros and over a thousand employees. By this criterion, the directive applies to just about 0.05% of European businesses — a microscopic percentage.

There was significant and diverse opposition to some of the originally proposed provisions of the directive. Among the key opposition, were some larger countries such as Germany and Italy, which expressed concern that the regulations would excessively burden businesses, particularly small and medium sized ones.

Still, it's a win that we now have a law in place, holding the biggest companies with global footprints accountable for preventing, mitigating and remedying human rights and environmental abuses within their supply chains. There are also some potentially positive side effects, as the requirements that the largest companies must live up to now will raise both awareness levels of smaller companies, as well as the standards practiced by the many suppliers which they have in common with the largest companies.

Storebrand's and the Nordics' perspective

Since 2019, we began supporting an investor initiative led by the Investor Alliance for Human Rights requesting EU Human Rights regulation regarding supply chains. We also supporting these initiatives in other European countries, including Norway. The initiative is still active: the latest investor statement was distributed and presented to several members of the EU Parliament and the European Council, asking for an ambitious and effective European directive on corporate sustainability due diligence that would also cover the financial sector, in February this year before it was voted on.

We have supported investor statements requesting national human rights due diligence in Switzerland and the UK too. Neither of these countries are part of the EU and thus it is important that national regulation covers the same issues as the EU directive. For us as investors, it is important to create a level playing field for all companies. This means that the larger the number of countries requiring this type of due diligence from companies, the more likely it will be that companies pay attention to these issues.

In Norway, the Transparency act was passed in 2021, entering into force in July 2022 with the first

What's the CSDDD?

The Corporate Sustainability Due Diligence Directive (CSDDD) law will require human rights diligence for the largest companies, making them responsible for environmental and human rights violations within their operations and those of their suppliers.

CSDDD will apply to:

- **EU-based companies employing over 1,000 people and with a global turnover over €450m.**
- **Non-EU based companies that generate over €450m turnover in the EU, with no minimum threshold for number of employees.**

Initially approved by the European Council on March 15th, 2024, a final vote in April at the European Parliament **is needed to enact the directive**.

required reporting date already in June 2023. The law applies to around 9000 Norwegian companies or companies providing good or services in Norway. In 2019, Storebrand joined the KAN (Koalsjion for ansvarlige næringsliv, which translates in English as "Coalition for a Responsible Private Sector"), where, as investors we shared our views with civil society and companies, regarding the importance of such a law for investors. We also have given feedback to policymakers, via our Norwegian finance industry association (Finans Norge) and in panels organized by the coalition where Norwegian authorities were invited to discuss the bill.

There isn't a uniform Nordic position on due diligence, as the stance varies across borders. Sweden's government took a negative stance to CSDDD, first signalling that they would even vote against, but ended up abstaining from voting. In contrast, Norway has been ahead of the game in terms of due diligence requirements, with the **Transparency Act (Åpenhetsloven)** already being enforced since early 2022. Norway's Åpenhetsloven covers companies with more than 50 employees and with a turnover of over 70 million NOK, which is estimated to cover around 9000 companies. Hence, Norway requires more companies to do due diligence than the entire EU combined.

For the past few weeks, we at Storebrand have been publicly voicing our support for the directive. In November last year , we participated in a communique urging the Swedish government to play a proactive role in the trilogue negotiations. Storebrand advocated for the inclusion, rather than exclusion, of the financial sector in the CSDDD, to advance sustainable finance and aligning investments with broader societal and environmental goals. In February this year, we also participated in a joint public statement along with several Nordic businesses, such as Ericsson, IKEA, Axfood and Telia, urging the governments to support the CSDDD [2].

How we address due diligence

Storebrand has been working on human rights and due diligence for many years. We have committed to adhering to international standards and guidelines, including the **UNGPs (United Nations Guiding Principles on Business and Human Rights)** and the **OECD Guidelines for Multinational Enterprises**. By implementing due diligence processes aligned with these frameworks, we acknowledge our responsibility to identify, assess, manage, and mitigate the risks of adverse impacts associated with its investments. Due diligence is not just about ticking boxes for us; it's about taking a hard look at the risks associated with our investments and addressing them.

In our view, due diligence is a crucial tool for creating a level playing field and providing stronger incentives for companies and financial institutions to consider environmental and social factors in their value chains. We believe that the CSDDD should not be seen as an additional burden, but rather complementary to existing regulations such as the Sustainable Finance Disclosure Regulation (SFDR), Corporate Sustainability Reporting Directive (CSRD), and the EU Taxonomy. For example, SFDR is a reporting and transparency requirement, not a due diligence requirement. SFDR means that we must disclose information related to our due diligence, not that we must conduct it.

How does due diligence for us as investors work and look like in practice? In line with the CSDDD, we take a risk-based approach, which means that we identify areas where the risks of harm are greatest and prioritize parts for due diligence based on this. If we find that we, through our investments, are linked to harm, we should try to influence to prevent or mitigate harm and adverse impact. This can be done through our investment decisions, through dialogue with companies, through participating in collaborations to gain more support for the issue, or through other means following our escalation process.

Due diligence is not just about ticking boxes for us; it's about taking a hard look at the risks associated with our investments and addressing them.

Supporting more constructive dialogue

We view this directive positively as it will now formalize the requirements and thus facilitate the dialogue that we have with companies. We have experience in discussing these issues with companies in their supply chains, ranging from forced labour, human rights in conflict areas to the rights of indigenous peoples. If we ourselves are expected to conduct due diligence, it can facilitate a better, more constructive, and more informed dialogue about these risks when we are forced to identify areas where we see a high risk of negative consequences.

Importantly, we acknowledge that many investors, including ourselves, already allocate significant resources to due diligence processes in line with international standards. The directive merely formalizes what responsible investors have voluntarily committed to. The foundations laid by the UNGPs, have now been formalized into actual law. CSDDD is not a new concept: it builds on the pioneering work of the late John Ruggie, an international relations and corporate responsibility expert, as well as the UNGPs, finally translating these international standards into national law.

References

[1] https://www.business-humanrights.org/en/latest-news/eu-danish-investors-call-for-inclusion-of-financial-sector-in-eu-due-diligence-directive/

[2] Nordic businesses call on their governments to support the Corporate Sustainability Due Diligence Directive — Business & Human Rights Resource Centre (business-humanrights.org)

CSRD and CSDDD: Where do we go from here?

The EU's new sustainability reporting directive could transform the landscape for sustainable business activities, through greater transparency, but appropriate due diligence still needs to be at the core

Kamil Zabielski
Head of Sustainable Investment

The CSRD may potentially have significant implications for the finance sector, as it will provide more and better information for investors to assess the sustainability risks and opportunities of portfolio companies, and to make informed decisions that align with their own sustainability preferences and goals. CSRD aims to improve the quality, consistency, and comparability of sustainability information disclosed by companies, and make it more accessible, predictable and useful for investors, consumers, regulators, and other stakeholders. The standards will hopefully lead to sustainability information that is more reliable, comparable, and verifiable, and that can be integrated with financial information.

It may also enable investors to better monitor and engage with companies on their sustainability performance, and to hold them accountable for their impacts. Moreover, CSRD may facilitate the development and growth of sustainable finance products and services, such as green bonds, ESG funds, and sustainability ratings, by providing a common and credible basis for their evaluation and verification.

Principle vs. practice

However, the jury is still out, so to speak, as to how the CSRD will be implemented in practice by companies, and how useful it will be to investors. The regulation has two mandatory KPIs (or ESRS) on General Information (ESRS 1) and General Disclosures (ESRS 2). The remaining 10 KPIs (5 Environmental KPIS, 4 Social KPIs and 1 Governance KPI) are voluntary and based on a materiality assessment by the company. If, for example, a company does not perceive the social KPI on affected communities (ESRS S3) as material for their business, they are not required to report on this, however they need to provide an explanation of the conclusions of its materiality assessment on this topic.

Inconsistencies

Another potential limitation is that some of the topics that are of focus for investors, and required by SFDR regulation, may not be fully harmonised with CSRD and therefore not reported on. For example, the KPIs on Biodiversity and Ecosystems (ESRS E4), or on workers in the value chain (ESRS S2) may be more challenging and/or costly for companies to evaluate and report on. This can lead to a data and information vacuum for investors that are wanting to report on risks to these indicators across their portfolios, or that need this information for identifying and targeting companies for engagement on these topics.

Finally, the CSRD should be viewed in light of the upcoming CSDDD. The scope of applicability of the CSRD is all large and listed companies in the EU (as well as non-EU companies that generate over 150 million Euro revenue). On the other hand, the scope of applicability of the CSDDD has been watered down, and is now more limited, applying to companies with a turnover above 450 million Euros and over a thousand employees.

Also dropped was the high-risk sector approach, which would have included companies that do not meet the revenue and employee criteria, but which operate in sectors recognised for having high human rights and environmental risks.

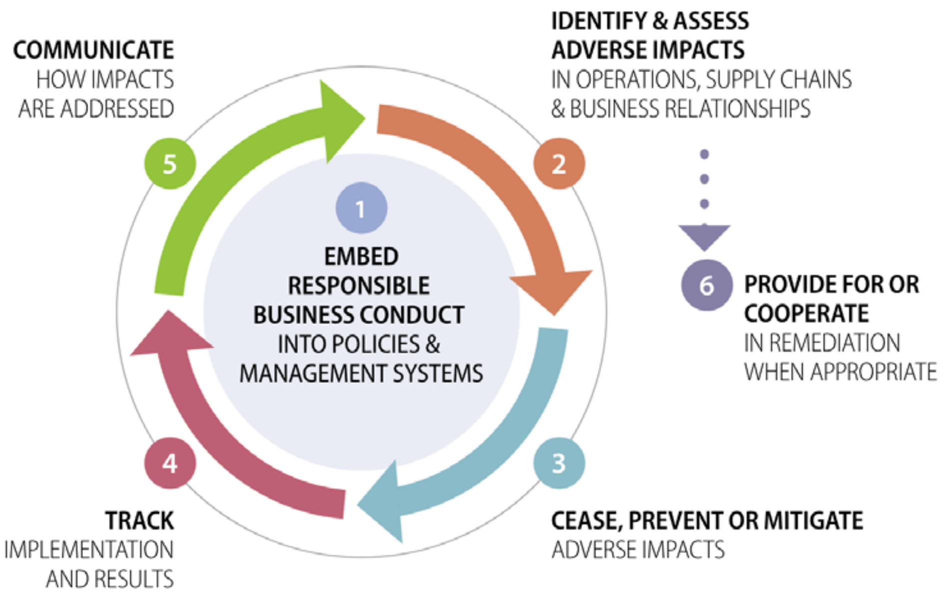
Consequently, CSRD will cover roughly 50,000 companies, while CSDDD will cover roughly 5500, a magnitude of order smaller.

Moreover, CSRD is a disclosure and reporting regulation, similar to SFDR, whereas CSDDD legally requires companies to investigate and address how their operations and supply chains impact the environment and human rights. The main objective is not reporting on status, but to take concrete action to stop harmful effects of its business activities. Regulations covering the broadest coverage of companies thus focus on disclosure of impacts, rather than mandating companies to take responsibility for their impact.

Viewed from the perspective of the widely accepted **OECD due diligence guidance for responsible business conduct**, the CSRD would require 10 times as many companies to take action on communication, the fifth stage of the process, compared to the number required to act on a much earlier-stage step, identifying & assessing adverse impacts, which as the second step should set the foundation for later stage steps such as communication and reporting.

Both the CSRD and CSDDD regulations serve important purposes for investors: however, the fact that the scope of the CSDDD is reduced to much fewer companies than the CSRD, implies that the compulsory due diligence requirements will cover fewer companies. This would impair the quality and comparability of the data reported under the CSRD; data that is important for investors to make informed decisions.

CSDDD compulsory due diligence requirements will cover fewer companies, and thereby impair the quality and comparability of the data reported under the CSRD; data that is important for investors to make informed decisions



← OECD recommended process on due diligence for responsible business conduct.

Photo: Organisation for Economic Cooperation and Development (OECD)