Sustainability Report ODIN Fund Management 2020

Content

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2020 – a good year for sustainability

2020 undoubtedly became a different year. At ODIN, we took on a thorough and structured approach to sustainability, as we have also done in recent years. However, last year represented a further strengthening of this long-term, important work. We are proud to have finalized ODIN's sustainability strategy for the next few years. This dynamic document will be crucial for ODIN going forward.

Our sustainability strategy is a constant reminder that we should act as active owners. We take pride in our close relationship with the management in our companies, and we let our voices be heard to influence tasks and decisions related to sustainability. We strive to offer responsible products to our customers and communicate and report clearly, while increasing our knowledge and making even more sustainable choices as a business. Regarding the latter, we have, among other things, improved waste sorting and prepared carbon accounts. We have also committed to compensating for our emissions and will perform climate compensation for the year 2020.

During the year, we created expectation documents to ensure that we clearly communicate what we expect – related to sustainable efforts – from the companies we invest in. In 2020, we also employed more talented people, who will help us become even more sustainable in everything we do. With all of these various sustainability measures in mind, it is fair to say that 2020 marked an increased focus on sustainability for ODIN.

Finally, we have also continued our work to select solid companies, while following up on the companies we are already invested in. In this report, you will find further information about how we work on sustainability and what we have done in the past year.

Bjørn Edvart Kristiansen
CEO

How ODIN works on sustainability

At ODIN, we are stock pickers, which means that we are selective in choosing the companies we wish to invest in. Different sustainability criteria affect companies' value creation over time. Consequently, assessments linked to sustainability are key elements of all investment decisions. Therefore, our fund managers work closely with the management of our companies, setting requirements and asking key questions about how they conduct their work on sustainability. In practice, we exercise an active ownership, using our voice to impact and ensure that sustainability is high on the agenda. We signed up to the UN's Principles for Responsible Investments in 2012. The principles reflect our commitment to implement and report on how we include accountability and sustainability in our company and portfolio assessments. This commitment also applies to our fixed-interest funds.

Our work on sustainability can be summarised using three main categories:

1. 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 fund management department, which includes a thorough sustainability assessment. 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. Furthermore, we regularly review our portfolios. In order to make good assessments, access to information is essential and we utilize information from several sources. We make use of publicly available information, such as annual reports and NGO reports, 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 extensive company database and analysts, as well as analysis related to product involvement and events.

2. ACTIVE OWNERSHIP is about using our voice as shareholders, both through voting at general meetings and through continuous dialogue with the companies we invest in. We also participate in nomination committees. The goal is to create awareness and influence companies to strengthen their sustainability work. In this way, the companies can become even better equipped to deal with the various issues they face, which will also benefit their 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, in which we receive voting proposals based on sustainability considerations. In dialogue with the companies we are invested in, active ownership is typically linked to specific events, reporting or themes that we focus on. We will immediately enter into dialogue in the event that anything happens in the companies we have invested in. 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, majority owners of the companies we invest in. Our voice is heard and we make sure to use it. In the companies in which we are minority owners, we often benefit from collaborating with other investors.

3. EXCLUSIONS AND OBSERVATION are the means we use if something occurs in our companies that may be in violation of our guidelines.

As an active fund manager, we take a company-focused approach to the composition of our portfolios. This is why we do not have a great need for exclusion lists for companies we do not wish to include in our portfolios. Simply put, 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. Sustainability criteria play an important part here. At the same time, there are certain sectors and individual companies that we avoid, based on the products they offer and/or the company's behaviour. We make assessments on the basis of our own criteria and the Government Pension Fund Global (SPU) criteria. We also follow the GPFG exclusion list and companies excluded by the GPFG are removed from our investment universe.

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 relate to human rights, labour rights, the environment and anti-corruption. We have also created documents describing our own expectations for the companies we invest in.

You can find a full overview of our funds on page 6.

How ODIN works on sustainability

We exclude companies that have more than:

0% of revenue related to controversial weapons (weapons that violate fundamental humanitarian principles through their normal use)

5% of revenue related to tobacco production

5% of revenue related to pornography

5% of revenue related to oil sands extraction

5% of revenue related to thermal coal extraction or which bases on a significant part of its operations on thermal coal

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

Human rights

Principle 1: Companies shall support and respect the protection of internationally proclaimed human rights
Principle 2: Make sure that they are not complicit in human rights abuses

Environment

Principle 7: Companies shall support a precautionary approach to environmental challenges
Principle 8: Undertake initiatives to promote greater environmental responsibility
Principle 9: Encourage the development and diffusion of environmentally friendly technologies.

Labour rights

Principle 3: Uphold the freedom of association and the effective recognition of the right to collective bargaining
Principle 4: The elimination of all forms of forced and compulsory labour
Principle 5: The effective abolition of child labour
Principle 6: The elimination of discrimination in respect of employment and occupation

Anti-corruption

Principle 10: Companies shall work against corruption in all its forms, including extortion and bribery.

Overview of our funds

EQUITY FUNDS

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

BONDFUNDS

ODIN Likviditet	B
ODIN Norsk Obligasjon	B
ODIN Europeisk Obligasjon	B
ODIN Kreditt	B

BALANCED FUNDS

ODIN Aksje	B
ODIN Horisont	B
ODIN Flex	B
ODIN Konservativ	B
ODIN Rente	B

INSTRUMENTS

1. **Integration** – which means that sustainability considerations are integrated into ODIN's investment decisions.

2. **Active ownership** – which means that, through dialogue with company management and exercising our voting rights at general meetings, we are an active owner of the companies we are invested in.

3. **Exclusions and observation** – which means that we reject 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.

SUSTAINABILITY

A B C E D F

Sustainability score: Very good
The fund achieves a top score for active ownership and exclusion of sectors, but misses out on one point for social utility.

4 out of 5 points

- Fossil-free

The labelling scheme has been developed for the funds offered by Spare-Bank 1 and will show the sustainability grading of the funds, based on a points score. A fund can achieve a total of five points across the three criteria: negative screening, positive screening and active ownership. The fund labelling work is performed by a neutral third party: The Governance Group.

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What have we done in 2020?

As previously mentioned, the year 2020 involved an escalation of our sustainability work. We have been working on strategy, structure and internal reporting, as well as maintaining our focus on the companies we invest in.

Despite the fact that 2020 became the year in which travel and physical meetings had to be less of a priority, we did not have any less contact with the companies we own. If anything, the opposite is true. Our dialogue with these companies naturally moved from the physical to the digital meeting space. The dialogue with corporate leaders in the spring largely concerned Covid-19. How would the lockdown of society impact the companies financially and how did the companies ensure a safe work situation for employees? As a long-term shareholder, we encouraged, among other things, cuts in dividends and a focus on strengthening balance sheets.

The annual general meeting season was also somewhat different in the past year. Some of the spring's annual general meetings were postponed, but we were pleased that the vast majority were instead conducted digitally. Throughout the autumn, it became evident that the pandemic would last for some time and it was important that the companies prepared for everyday life to remain competitive. It is satisfying to observe that most of our companies have performed well throughout the year.

In addition to dialogue and active ownership, we are also committed to identifying great companies with the benefit of displaying long-term trends. Our portfolios include many companies that each contribute to a better future. But even great companies can improve and we are active owners in these companies. With regard to fixed interest, an increasing number of green bonds are being issued and this is a great way to directly contribute towards positive change. We have increased our focus on green bonds.

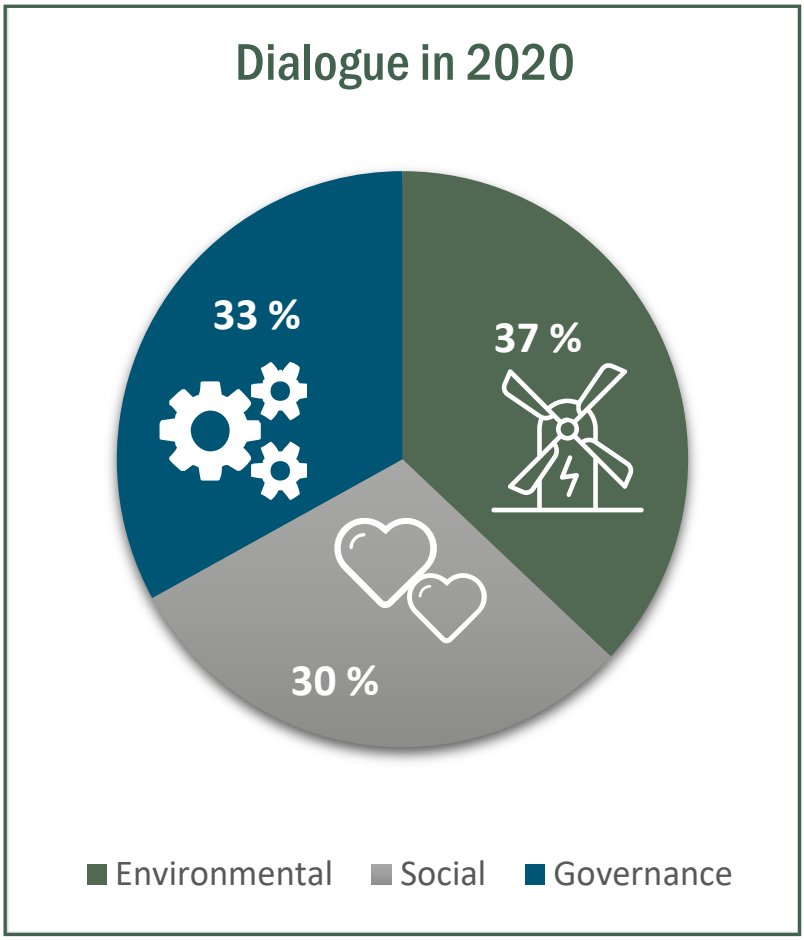
In the following section, you will find examples of dialogues we have entered with our companies in 2020, as well as an overview of how we have voted at general meetings.

Company dialogue in 2020

The dialogue we have led in 2020 has been clearly influenced by the pandemic, but is also clearly related to our annual cycle. In recent years, we have selected three topics that we pay special attention to throughout the year. In 2020, these topics were workers' rights, conflicts of interest and carbon reporting and KPIs. The most important sustainability considerations naturally vary by geographical location and between different industries and companies. For this reason, the concept of sustainability is very broad and the annual cycle provides a great opportunity to learn more about the topics and address them with the companies concerned. It also ensures that there is a balanced distribution of topics relating to the environment/climate (E), society (S) and corporate governance (G).

As mentioned, we have maintained a close relationship and dialogue with several of our companies in 2020. Much in the same way that we reach out to the companies, the companies also reach out to us. Among other things, we participated in multiple stakeholder analyses on behalf of the companies that we are invested in. These are surveys the companies conduct with their stakeholders, i.e. shareholders, employees, customers, suppliers and so on. They provide companies with useful insights into what the various groups think are important and can, among other things, be used in the development of strategy, for risk assessments and to identify new opportunities. We believe it is good for companies to conduct stakeholder analyses on a regular basis and feel that it is important for us, as a shareholder, to spend time on this.

Throughout the year, we have recorded 27 dialogues with companies in relation to sustainability matters. These are dialogues where we specifically contact a company to make requests or discuss sustainability topics. We are also including those instances where contact was initiated by the companies to obtain feedback from shareholders on what we consider important. At the same time, sustainability has become a part of most company meetings, but it is important to note that not all of the meetings have been included in this overview.



Environment and climate

Climate change and global warming has been hot topics for several years. This focus will only increase going forward, as these topics are receiving attention as the starting point for the forthcoming EU regulations on sustainability. For us, this will affect our companies and provides both opportunities and challenges. Something we have worked on for a number of years is using our voice as a shareholder to request better reporting on the companies' climate impact. This relates to emissions from the companies, both in connection with production and support functions.

It is great to see that the proportion of companies that make reports is increasing year by year, but we have not yet reached our goal and we continued to request this from the companies in 2020. We have strongly encouraged those that do not report on this to start doing so and we have also urged those that already report to use the same reporting standards so that we can compare figures across companies more easily. We believe that this is an important job and something we will continue in 2021.

Throughout the year, we have also entered into dialogue with companies that operate within emission-intensive sectors. This includes the cement producer Corp Moctezuma, which we have been invested in for a long time through the fund ODIN Emerging Markets. In a meeting with management, we raised questions about what they are doing to reduce their emissions, since the cement industry accounts for major carbon emissions in the production line. Management explained that they are working on making improvements to the production process and are looking at alternative energy sources, as well as the opportunity to capture and use the emissions in other products. Often, the problem is that alternative input factors may result in lower quality and it still remains very expensive to capture emissions using e.g. carbon capture. Nevertheless, as a major shareholder, we think it is important to ensure that the issue is on the agenda. Even though it may not result in immediate changes to operations, it will most probably be taken into account when long-term strategies are drawn up.

As part of our annual cycle, we have looked at both the companies' carbon footprint and their environmental impact, but it is just as important to assess their improvement objectives. It is great to see that several of the companies that have started reporting on non-financial factors are setting clear objectives as to where they should be heading in future.

Plastic waste has been given a lot of attention in recent years. Our impression is that the companies we own within FMCG (FastMovingConsumerGoods) take their responsibility linked to plastic packaging and their carbon footprint seriously. Globally, 360 million tonnes of plastic are produced each year. The companies in this sector are, unfortunately, one of the major contributors. Through ODIN Europe, we are invested in Unilever, Henkel and Reckitt Benckiser.

This year, Unilever announced that it will replace 100 per cent of carbon from oil in its products with renewable or recycled carbon. Products such as OMO, Sunlight, Cif and Domestos will therefore have a much more sustainable brand. In our opinion, this initiative helps consolidate the company's position as well ahead when it comes to sustainability. The company's products will be carbon-neutral (NetZeroEmissons) by 2039.

Henkel has set a target of reducing its carbon footprint by 65 per cent by 2025 and 75 per cent by 2030. This will be achieved through improved energy efficiency and increased use of electricity from renewable sources. The goal is to become climate-positive by 2040. When it comes to the use of plastic in packaging, all plastic will be recycled or reusable by 2025. Reckitt Benckiser has the same target.

The companies have taken great strides this year. We will continue to raise the topic at meetings with the companies.

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Society

In the same way that companies can have a positive and a negative impact on their surroundings when it comes to the environment and climate, it is also important to look at how they affect people and society. Few companies are perfect, but it is important that companies take a clear stand in relation to what is considered acceptable and what is not. Precisely what is considered acceptable and not acceptable varies from country to country. It is important to screen the portfolios to identify any specific non-conformities, even though this can be challenging for companies with particularly complex value chains. In order to place additional focus on this, labour rights was a topic in last year's annual cycle. To learn more about this topic, we invited an expert from the Norwegian Confederation of Trade Unions' International Department. It was extremely useful to have specific examples linked to advice about how we should proceed to identify non-conformities and which questions we should raise to follow up on such matters.

Unfortunately, when it comes to labour rights, there are big differences depending on where in the world we are and we pay particular attention to challenges in emerging markets. Over the years, we have reached out to several of our companies and 2020 was no different in this regard. We contacted the Indian company Garware Technical Fibres, among others, to learn more about the working conditions of their employees. The company produces nets that are used in everything from football goals to fishing nets. As an Indian company that is highly reliant on manual labour, it is important to be aware of the conditions under which employees work. The company provided thorough answers and was able to document proper working procedures and safety in the workplace. The company has also been certified by GPTW (Great Place to Work India).

We have also engaged in dialogue with the disposable glove manufacturer Hartalega. In December, at the company's largest competitor Top Glove, poor working conditions were identified, as well as virus outbreaks, resulting in several factories being temporarily shut down by the authorities. No similar reports were issued in connection with Hartalega and our impression is that the company is among the best in class when it comes to working conditions for its employees. We reached out to the company and quickly received a thorough response from management, including descriptions of procedures and measures they had implemented in order to prevent outbreaks.
Major international companies that operate in emerging markets have a special responsibility to ensure that they set the same requirements in these markets as they do in their domestic markets. They have a presence in many countries and there could be complex structures involving subcontractors and subsidiaries. During the year, we were also in contact with Yara concerning their use of a supplier in Belarus. Employees of the supplier were banned from work after having participated in strikes and the working conditions were unacceptable. We contacted the company in order to express our concerns and to learn how the company was handling the matter. Yara responded quickly and emphasised that they had raised the issue with the supplier and that they felt they would have the best opportunity to positively influence the situation by engaging in dialogue with the parties involved. Since then, the company has published a statement on its web pages and they have been clear about what they require from their subcontractors. As Yara is the subcontractor's largest individual customer, they have great influence. In January, they announced a partial victory in the matter as the employees that had previously been dismissed were able to return to work. We will continue to follow the matter.

Throughout the year, there was also a focus on unethical marketing of infant formula. This campaign has been running for several years and the companies involved include the British company Reckitt Benckiser and the Vietnamese company Vinamilk. It is important for us to note that the campaign is linked to the marketing practices of companies that sell infant formula and not that infant formula as a product should be avoided. We reviewed the companies' public information linked to the marketing of infant formula and we have also contacted the companies concerned. We think it is good to challenge companies about their practices and that we and other investors can influence companies to improve. We contacted both of the companies about the above and primarily asked for a policy relating to marketing practices. Reckitt has published a new policy on the topic but we will follow up further on the matter.

There are also things we need to keep an eye on back here at home. In recent years, there has been a lot of negative

Society

publicity relating to working conditions at XXL. The Norwegian Labour Inspection Authority has pointed to the use of temporary employees and other deficiencies related to HSE. We have engaged in a constructive dialogue with the company on these matters and XXL has also been in close contact with the Norwegian Labour Inspection Authority. At one point, the Norwegian Labour and Welfare Administration (NAV) withdrew from its collaboration with XXL until the matters had been brought to order. The news that the matters had been brought to order and the case had been closed by the Norwegian Labour Inspection Authority came in November and it was good to see at the start of 2021 that XXL had once more been approved for collaboration with NAV.

HSBC bank is one of the issuers in the fixed-income fund ODIN Kreditt. We contacted the bank as a result of the news that they would lend their support to the controversial new security act that many feared would curtail the democratic rights of the citizens of Hong Kong. Several protests were held against the new security act and we questioned why the bank supported the act. The matter was discussed in a meeting with representatives of the bank and they also explained the challenges associated with the matter and how it is not black and white. The question is how it will be implemented in practice and the bank focused on supporting regulations that would create stability in Hong Kong. We understand that this is a difficult situation for HSBC. They need to balance the interests of the Chinese authorities, as Hong Kong and China are very large markets for them, and they also need to protect democracy and freedom of expression as a company registered and listed in the UK. From ODINs point of view, we not only see ESG risks associated with the matter, but also business risks resulting from restrictions in China when, for example, complying with the US authorities' sanctions lists. Among other things, it has been reported that HSBC has refused to allow Hong Kong's Chief Executive Carrie Lam to have an account with the bank. At the same time, there are reputational risks for the bank in Europe and the USA if it supports the Chinese security act in Hong Kong. With this as a backdrop, we have chosen not to increase our exposure to HSBC and will also not do so in future.

Corporate governance

Governance is an extremely important factor when we assess a company. Corporate governance is about the ability of those who actually manage the company to make good long-term choices. Like much else, this is largely about incentives and how the structure has been configured. It applies both to those working for the company and those who manage the company. This has been an important area for ODIN for a number of years. It is therefore important to us to exercise our voting rights at general meetings, we participate in nomination committees and we are an active owner in our companies. As part of being an active owner of the companies we invest in, we often participate in stakeholder analyses. The companies for which we have participated in such analyses include XXL, Ahlstrom-Munksjö, Bouvet and Axfood. We have also discussed the companies' incentive programmes ahead of general meetings, particularly for companies of which we are a major owner. We have also put pressure on companies, typically smaller companies that do not have nomination committees, to show that this is something we consider it important for them to establish. We also participate in multiple nomination committees, which is time-consuming but has great value for both the fund manager and the company.

One issue that gained a lot of focus throughout the year was the acquisition of Ahlstrom-Munksjö. The company falls under ODIN Sverige and is a Finnish-Swedish company that makes many different specialist fibre-based products. The company has been part of the portfolio for some years and has been an improving case that has developed in the right direction. Bids for the company were received in September from, among others, the private equity firm Bain Capital, which was collaborating with the main owner Ahlstrom Capital. We felt that the price they were offering was too low and had doubts over the fact that Ahlstrom family members had received an offer to exchange their privately owned shares in Ahlstrom-Munksjö for shares in Ahlstrom Capital, which would continue. This offer was not extended to other shareholders and violated the principle of equal treatment of shareholders. We fought this case on behalf of the minority owners through dialogue with the bidders, other minority owners, specialists in the area, the Finnish Financial Supervisory Authority, Aktiespararna in Sweden and Finland and the Swedish and Finnish media. The goal was not to stop the acquisition, but to ensure that the company was not bought out at too low a price with the help of unlawful methods. The case ran until this February, when, unfortunately, it became known that the bidders had gained over 90 per cent of the shares and the case was lost. We feel this is regrettable, but at least we sent a clear signal that we do not believe this is acceptable and that ODIN will not remain passive in situations such as this.

During the year, we engaged in several situations in which we were bondholders in companies that applied for easing in loan agreements as a result of financial difficulties. In those cases where we felt that the companies' requests for easing were unreasonable, we fought for our own interests and those of other bondholders. As an example, for the company MPC Container, we succeeded in negotiating an agreement that we were able to accept, given the situation. The agreement was much better than the company's original proposal, which had been accepted by several large Nordic bondholders. It should be noted that it was predominantly the international bondholders that resisted together with us.

In another case, relating to the oil company OKEA, we were unfortunately not successful with all of our requests. Here, there was sufficient majority among the bondholders that had already accepted the company's proposal, which we considered surprising and unfortunate. We were called rebels when we opposed OKEA's proposal, which involved letting the bondholders absorb the downside while the company's shareholders benefits from the upside. We take that as a compliment. Unfortunately, a sufficient number of bondholders agreed to share the downside, while the shareholders were left with the entirety of the upside. We believe that this is not good enough, particularly for bondholders who claim to focus on ESG.

Good corporate governance is a fundamental prerequisite for the company to create value over time. We therefore invest time in both assessing and influencing the companies we are invested in, in order to facilitate this.

General meetings and electoral committees

In 2020, we cast 3,311 votes at 242 annual general meetings. We gave instructions regarding 3701 votes at 268 general meetings, but unfortunately not all of the votes went through. This amounts to a voting rate of 90 per cent. The reason for the lower percentage is our new fund ODIN Small Cap, where we unfortunately were not set up correctly with our supplier who delivers votes on our behalf, which caused some votes to be rejected. Thankfully, the fact that our votes were not registered has turned out not to be decisive. Of the votes we have cast, we voted against the company's recommendations on 133 occasions. These include proposals related to incentive programmes, management and board remuneration issues and the election of board members.

As an example, we also voted this year for the proposal from a group of shareholders 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.

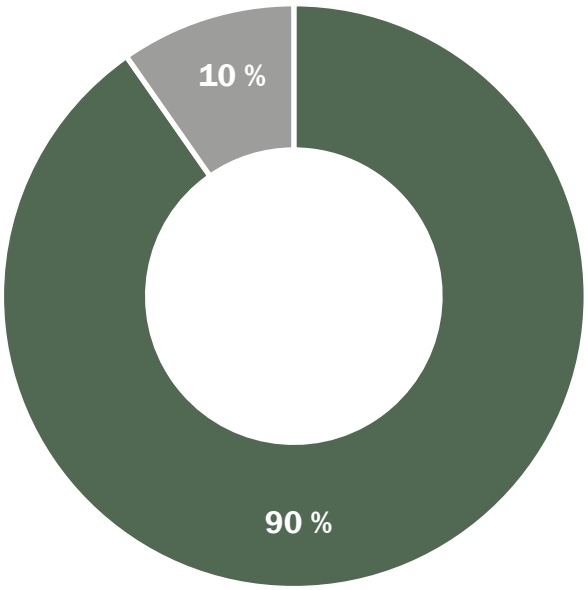
In addition to voting at general meetings, we also sit on several nomination committees. The task of a nomination committee is to choose the company's board. This is an important task that we perform together with other major shareholders in the companies. As of 31.12.2020, we were on the following nomination committees: Multiconsult, Kongsberg Gruppen, Addnode, AQ Group, Byggmax, Addlife, Beijer Alma, Biotage, CTT and Munters.

Through the nomination committees and general meetings, we also review the companies' incentive programmes. This is also something we bring up with the management of the company when we meet them. We believe that incentive programmes 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 maximise the value per share over time. At the same time, we emphasise that the focus on ESG factors does not conflict with this objective, in fact the opposite is true.

We are therefore concerned that, as far as possible, incentives are designed in such a way that management think like investors and have incentives that emphasise value creation. To reduce the risk of conflicts of interest, we are actively looking for companies in which we can invest together 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, of which three members are included in management, think 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 like investors and owners at 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.

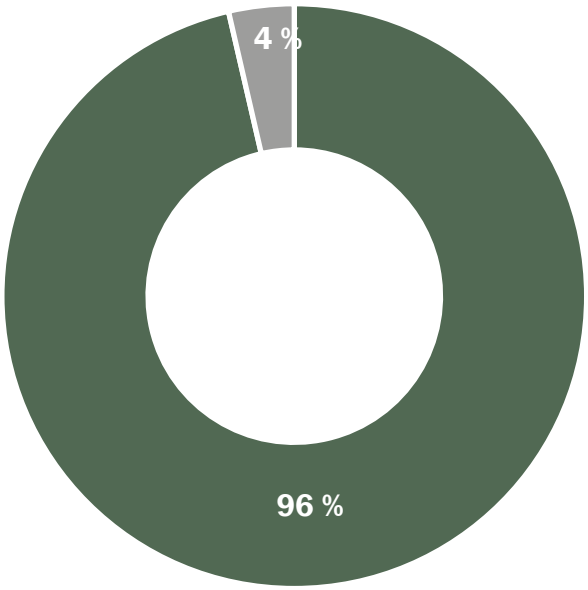
General meetings and electoral committees

Total number of general meetings



- General meetings at which our votes went through
- General meetings at which our votes did not go through

Distribution of votes



- In favour of the company's recommendation
- Against the company's recommendation

Photo: Lofoten - gettyimages

Observation list

The observation list consists of companies with sustainability risks in need of further investigation. Companies that are placed on the observation list typically remain there for some time. We have not made any changes to the observation list in 2020.

Wells Fargo remains on the observation list. The Fed has still not removed its 'asset cap,' which means that Wells cannot increase its assets above the levels they were at in December 2017. The bank has said that it is unlikely to have all Fed requirements in place before 2021. Nevertheless, we do believe that the bank is making progress and that there are major changes taking place internally, even if it is taking longer than we anticipated at the time of investing in the company.
A focus on anti-money laundering is not a new topic within the banking industry. The banks have had quite some job to do here but the majority are showing great progress in the area.

Danske Bank has not issued any major updates regarding the bank's work on improving anti-money laundering programmes since 2019. At the same time, the investigations into the bank in the USA, Denmark, France and Estonia are continuing and the outcome, in terms of the timing and size of any fine(s) remains uncertain. In December, the US Office of Foreign Assets Control (OFAC) announced that it was closing its investigation into the alleged violations of American sanctions without taking any action. In January 2021, Danish prosecutors dropped the charges against six former employees, as they were unable to find any evidence to justify the accusations pursuant to the Money Laundering Act.

With regard to Swedbank, investigations are still ongoing in the USA and Estonia. As of March 2020, Swedbank had identified 217 initiatives to improve AML deficiencies, of which 87 have been implemented. It is difficult to see the effect of this yet, due to the short period of time in which the initiatives have been in place. Unlike Danske Bank, Swedbank has chosen to continue its operations in Estonia.

Proper anti-money laundering procedures are essential for banks. It can prove very expensive to fall behind in this area, in terms of money, internal resources and reputational harm. We will continue to monitor the situation closely.

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
Exclutions 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 (CO2e 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 31 December 2020.

Carbon footprint (NOK)

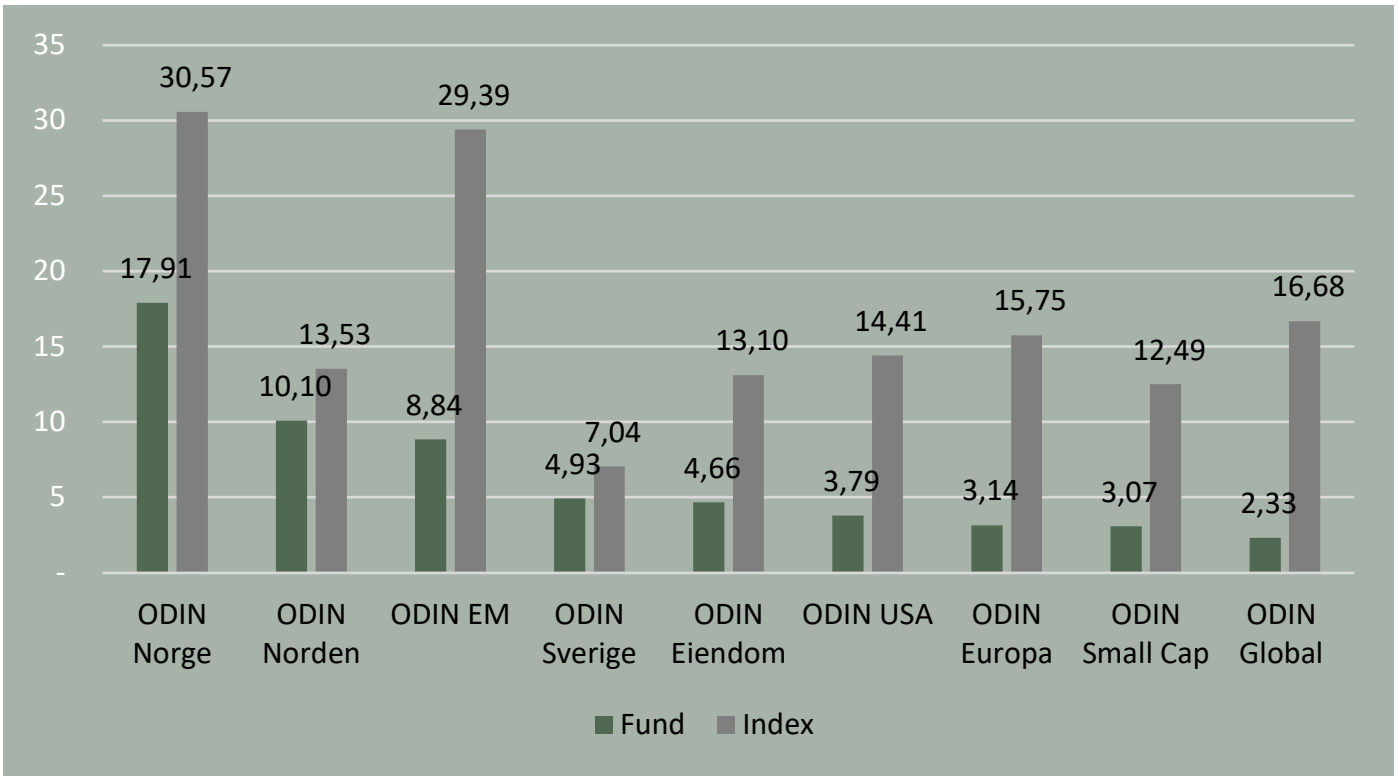


Photo: Finland - gettyimages

Heading towards a greener planet

How to make green investments? The sustainable finance taxonomy is the EU's fast track to reaching the climate targets set down in the Paris Agreement. We are doing our bit to influence the companies we own.

One fundamental principle of the management of ODIN's funds is that sustainability and returns go hand in hand. By this, we mean that the best conditions for good long-term returns can be found in the companies that have a business model and culture that takes into account environmental challenges and social issues linked to their business. We are referring to companies that are willing to ask the hard questions in order to identify problem areas and thereby find new and better ways to do things. At ODIN, we invest a lot of time and effort in identifying these companies. We also spend time influencing the companies we own. All companies have the potential for improvement and, by influencing these companies to become better, we, as financial players, can contribute to a better world.

Green technology is necessary for the transition but does not necessarily provide good returns adjusted for risk.

Sustainability is a broad term that encompasses many things. An area that rightly receives plenty of attention is the role companies play when it comes to reducing the world's overall carbon emissions. Everyone has to contribute here and each and every company must have a plan for how they can reduce their carbon footprint over time. Technology will play a key part in the transition to a zero-emission society. 2020 was a year of strong returns for companies that develop and commercialise green technology. We have also seen stock exchange listings for a significant number of new companies within renewable energy. Some people are even talking about a bubble for green shares.

Bubble or no bubble, many of these companies develop technology that will be crucial when it comes to meeting the targets set down in the Paris Agreement. However, this does not mean that all of these companies will provide strong returns over time or that there are no risks associated with investing in the companies. There are parallels between what we can see in green technology today and what we experienced during the dot.com bubble around the year 2000. Even though the products and technology developed by green companies are likely to become a completely natural part of the economy in future, much in the way most internet-based services are today, the conditions for profitability are not yet necessarily fully present within green technology. High levels of capital are currently being injected into green technology, which is pleasing, but the development of profitable business models will take time. In the meantime, investments in green technology will be linked to significant risk and will require meticulous analyses in an attempt to identify the winners among the many companies that claim to offer the energy solutions of the future.

Green investments are more than just green technology.

Fortunately, you do not have to invest exclusively in green technology to contribute to greener and more sustainable economic development. As already mentioned, it is essential that 'ordinary' companies contribute to reducing their carbon footprint and, by investing in these companies and influencing them to do more to reduce their emissions, you will also be contributing. There are also a number of companies developing technology that will be required to develop the solutions for renewable energy. And in the digital world of today, you can invest in software and internet-based business models that create value for society with minimal carbon emissions.

The sustainable finance taxonomy is the EU's fast track to reaching the climate targets set down in the Paris Agreement.

Even though we find that many companies are taking climate challenges seriously, it will take more of both the carrot and the stick to reach the climate targets set down in the Paris Agreement. Fortunately, EU politicians are conscious of their responsibilities. The EU's plan for sustainable finance and the so-called taxonomy are just around the corner. The EU's ambitious plan for a green economy will not only set out requirements for companies but also for us investors. Tough requirements are being implemented with regard to reporting and transparency in relation to the sustainability strategies of financial players. This will make it clearer which funds have well-founded and not least well-functioning sustainability strategies and which ones are greenwashing. We are well under way in adapting to the requirements that will be issued by the EU. Regulations such as these often result in a great deal of debate and disagreement and also some unintended consequences, but we are convinced that our shareholders will receive new and improved information and that our sustainability strategy will become even better as a result of this process.

There is no doubt that the taxonomy is a game changer that will accelerate the shift to a green economy. Those who consider the green transition to be simply the latest 'in thing' will have to think again.

Ane Rongved
Head of sustainability

Photo: Anita Arntzen

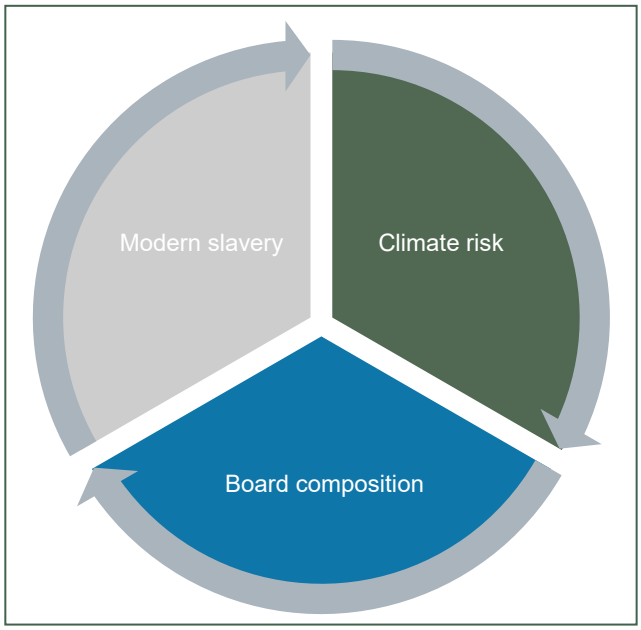
Looking ahead

The focus on sustainability in asset management is here to stay. At ODIN, we rely on our trusted, long-term investment philosophy. We identify strong companies with solid management and directors who are likely to make the right choices to allow the company to continue its positive journey. For us, as investors, this is about the long-term perspective and companies making choices with a long-term view.

At the same time, in recent years, more and more requirements have been placed on both us and the companies we invest in. Hence, it is important for us to be clear about how we work on sustainability. During the year, we have therefore created a strategy that runs from 2020 to 2022. The strategy is about continuing the great work, ensuring that our funds live up to the high standards we have set, improving communication and reporting and improving knowledge and other internal measures.

We will continue using the annual cycle in 2021 and this year's topics are modern slavery, climate risk and board composition. Throughout the year, we will involve external experts who can provide us with further insight into these topics and we will also review our portfolios with a focus on these topics.

Alexander Miller
CIO



ODIN's contribution

The companies we invest in should always act responsibly and seek to continuously improve. This also applies to ODIN itself as a company. ODIN is a company within the SpareBank 1 Alliance and has offices in Norway, Sweden and Finland. The headquarters are situated in Oslo and most of the company's employees are based here.

In order to ensure that we minimize our footprint, we have implemented a number of internal measures. We are committed to keeping carbon accounts for 2020 and to compensate for our carbon emissions. These accounts will be published by the end of March 2021. This entails being conscious of consumption, avoiding waste and using climate and eco-friendly solutions wherever possible.

Conscious consumption
- Power consumption
- Paper & printing
- Disposable equipment/cutlery
- Purpose of air travel

Use climate/eco-friendly solutions where possible
- All disposable equipment made from plastic and cardboard will be phased out in favour of recycled and reusable materials

Avoid waste
- Focus on minimising food waste, as well as plans for minimising packaging.
- All waste must be sorted.

Every year, we give Christmas gifts to a charitable cause. From the many outstanding initiatives and causes, we chose to give the 2020 Christmas gift to:

WWF, which is one of the largest environmental organisations in the world and that works with an aim of stopping the destruction of nature and creating a future in which humans live in harmony with nature. They focus on protecting the diversity of species and ecosystems on land and at sea, ensuring the sustainable use of renewable resources and fighting climate change and overuse of resources.

Care helps women create their own livelihoods and gain agency over their own money through savings and borrowing groups. CARE's philosophy is about creating lasting change in which communities have the opportunity to help themselves so that they become less reliant on support in future. We also contribute vital emergency assistance when disasters and urgent situations arise.

Sykehusklovnene (the hospital clowns) meet with children and adolescents in hospital. Relatives have said that these meetings cheer the children up and help them cope with the difficulties of hospital life. Parents also describe how increased self-esteem helps their children find new strength. Research also shows that laughter and enjoyment reduce pain, strengthen the immune system and reduce stress.

Hand in Hand - For several years, our Stockholm branch, ODIN Fonder, has been a supporter of Hand in Hand. Our Christmas gift helps many poor and vulnerable women access the tools they need to improve their lives. Investing in human skills provides a permanent way out of poverty. 2020 was the year in which many entrepreneurs worldwide experienced the toughest challenge of their lives. In Hand in Hand's countries of operation - India, Kenya and Zimbabwe - society was locked down almost completely, with curfews and strict restrictions. Transport and product flows came to a halt, borders and markets closed and many vulnerable micro-enterprises ceased to exist. These countries are now starting to open up again and the majority of Hand in Hand entrepreneurs have started to rise up and return again. Some have restructured their businesses. Others have attempted to find new ways of operating. The strong will and ability to adapt is impressive. The situation is hopeful but extremely vulnerable.

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