Semi Annual Sustainability Report ODIN Fund Management 2021

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First half-year 2021

We are well into the corona year of 2021 and an ever-increasing number of people are gaining fully vaccinated status. Society is in the process of reopening and optimism is rising, although it is probably too early for celebrations given that the Delta variant is spreading. It will be interesting to see how the situation develops, even with a large proportion of the population vaccinated.

When the pandemic struck the world last year, many were uncertain what impact it would have on the focus on sustainability – after all, it was conceivable that the crisis would overshadow everything else and lessen the focus on sustainability. Last year, despite the crisis, it became clear that the opposite was true. The focus on sustainability has continued into 2021.

The pandemic has reminded us that the future is unpredictable. We do not know what and when things will happen, but good preparedness, clear leadership and well-established systems for risk management provide a much better basis for manoeuvring at times of great uncertainty. For companies, it is all about good management and governance – the ability to focus on the main risk factors while remaining flexible in periods of uncertainty. This is directly transferable to sustainability. Today, companies are exposed to risks from various quarters, and this requires management teams and boards to look far ahead when devising strategies. Companies that do not embrace this will face difficulties going forward with respect to their ability to both retain talented people and attract new ones, and with respect to complying with the legal requirements and reporting required by the authorities. The work on sustainability will also impact companies' reputations and ability to attract both customers and investors.

That is why sustainability assessments are a key part of our investment process. In the first half-year, we continued to monitor companies we already own while simultaneously analysing new investment opportunities. We have maintained dialogues with many of our companies and have voted in general meetings. This report summarises our work in the first half-year.

Bjørn Edvart Kristiansen
CEO

ODIN and sustainability

At ODIN, we are stock pickers, which means we are selective when it comes to choosing which companies we want to invest in. Different sustainability criteria affect companies' value creation over time. Consequently, assessments linked to sustainability are key elements of all investment decisions. This is why our fund managers work closely with the management of our companies, set out requirements and ask questions about our companies' work on sustainability. In practice, we exercise active ownership and we use our voice to have an influence and ensure that sustainability considerations are higher 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 – sustainability considerations are integrated into ODIN's investment decisions.**

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

3. **Exclusions and observation – reject certain companies based on behaviour and/or the products/services they offer. If behaviour/products change in companies we own, the company is put on an observation list.**

INTEGRATION means, among other things, that we carry out sustainability analyses of the companies we invest in. Every company we invest in is presented to the fund management department and this process 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 equipped to deal with it. We also regularly review our portfolios. Good assessments require access to good information, and we make use of information from multiple sources. These include publicly available information, such as annual reports and NGO reports, as well as 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 provides us access to its extensive 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 continuous dialogue with the companies we invest in. We also participate in nomination committees. The goal is to create awareness and encourage companies to improve their work on sustainability. In this way, the companies can become even better equipped to tackle the various issues they face, which also benefits their shareholders. We try to vote in all of the general meetings of the companies we invest in. To do this as effectively as possible, we make use of the services of ISS Proxy Voting Service from which we receive voting suggestions based on sustainability considerations. In our dialogue with the companies we invest in, active ownership is typically linked to specific events, reporting or themes that we focus on. If anything happens in the companies we invest in, we will immediately initiate a dialogue. If we see no 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.

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 as much need for lists of companies we wish to exclude from our portfolios. Simply put, this means that all the companies we invest 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 pro-

file and future prospects. Sustainability criteria have an important part to play here. At the same time, there are certain sectors and individual companies that we avoid, based 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 (GPFG) 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 drawn up documents describing our own expectations for the companies we invest in.

You will find a full overview of our funds on the following page.

We exclude companies with more than:

0% of revenue related to controversial weapons (weapons whose normal use breaches human rights)

5% of revenue related to tobacco production

5% of revenue related to pornography

5% of revenue related to oil sands

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

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

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

Anti-corruption

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

Overview of our funds

EQUITY FUNDS

ODIN Norden	B	
ODIN Norge	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 D E 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.

What we have done so far this year

Our work on sustainability increased significantly in 2020. We worked on strategy, structure and internal reporting, as well as maintaining our focus on the companies we invest in. In the first half-year 2021, we continued to build on the dialogue with our companies.

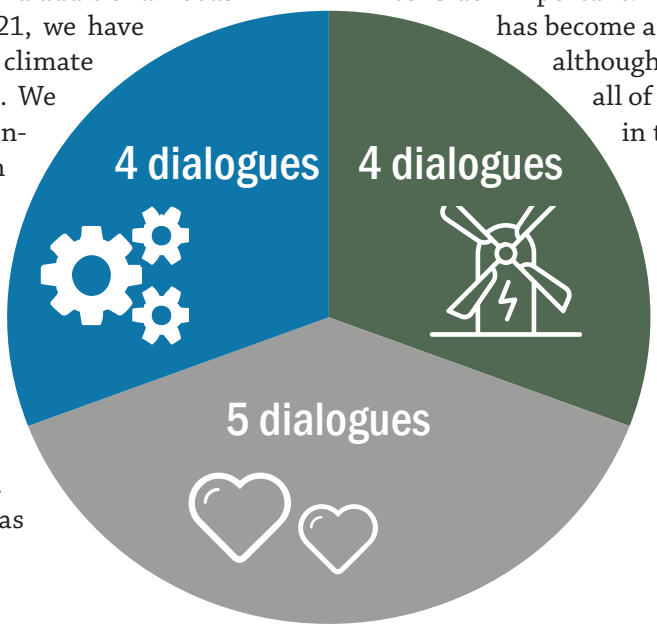
For the 2021 annual cycle we have chosen the topics of modern slavery, board composition and climate risk. This means that we will review our portfolios with an extra focus on these topics and also improve our in-house knowledge. As mentioned, we have maintained a dialogue with some companies on these topics in the year to date, but we will continue to review our companies in relation to these topics during the autumn.

Spring is the peak season for general meetings and even though there will be some general meetings in the autumn the majority are held in spring. Over the course of the first half-year 2021, we cast 3,512 votes at 192 general meetings.

Company dialogue

The dialogue we had with our companies in the first half-year has naturally been influenced by the pandemic, although much of the dialogue has also been related to our annual cycle. In recent years, we have chosen three topics each year that we afford additional focus throughout the year. In 2021, we have focused on modern slavery, climate risk and board composition. We screen our portfolios to identify the risk associated with these topics and initiate a dialogue with companies that are particularly exposed.

During the first half-year, we noted 13 dialogues with companies related to sustainability matters. These dialogues are defined as instances where we contact a company to make requests or discuss sustainability topics. We also include those instances where contact was initiated by companies wanting to get feedback from shareholders on what they consider important. At the same time, sustainability has become a part of most company meetings, although it is important to note that not all of the meetings have been included in this overview.



On the following pages, you will find examples of the dialogues we have entered into with our companies in 2021, as well as an overview of how we have voted at general meetings.

Environment and climate

The challenges associated with the 'E' in ESG concern the environment and climate. Given the urgency of taking steps to cut global carbon emissions, this is the sustainability topic that receives the most attention by far. New EU regulations are on the way that will specify companies' contributions to cutting carbon emissions to the atmosphere and their contributions to finding new green solutions. Here there are both sources of risk and opportunities for companies across industries. We want our companies to make clear assessments of their impact on the climate and environment.

It is pleasing to see that companies are generally becoming better at reporting on sustainability, in terms of their carbon footprint as well as other ESG factors of significance to the company. An increasing number of companies are also committing to the Science Based Targets Initiative (SBTi) – which means that their targets for cutting emissions must be in line with the Paris Agreement's target of 1.5 degrees Celsius. This is another thing we frequently discuss with the companies we invest in. This commitment and the subsequent reporting enable both the management and other stakeholders to monitor a company's progress.

Climate risk is another related topic and one of our three topic areas this year. We will spend some time on assessing climate risk in the companies we own. The companies will be affected to varying degrees by the transition to a low-emission society. Energy-intensive industries based on fossil energy will experience higher costs in line with stricter regulations and a greener system of taxes and duties. Producers of fossil energy will see less demand for their products over time. On the other hand, companies that can contribute solutions that cut our energy consumption will see a brighter future.

Climate risk is not static, rather it is a factor that companies can themselves affect through innovation and their ability to adapt and change.

In the Paris Agreement, the countries have drawn up a plan for how climate emissions will be reduced to zero by 2100.

Social conditions

Just as we expect companies to focus on their impact on the environment and climate, we also expect them to focus on how they affect people and society. No companies are perfect, and they will all face challenges to varying degrees, but it is important that companies take a clear stand in relation to what is considered acceptable and what is not. But what happens when the definition of okay and not okay varies from country to country? We thoroughly review our funds to find any discrepancies. In our experience, companies with particularly complex value chains are especially challenging.

As we mentioned in the annual year report, last year we were in contact with Yara concerning its use of a supplier in Belarus. The case involved the employees' right to strike and generally poor working conditions at Yara's subcontractor. We expressed our concern and the company provided quick feedback and also published a statement on its website. Yara has always been clear about what it requires of its subcontractors, and since Yara is the subcontractor's largest single customer, it has a lot of influence. In January, it announced a partial victory in the matter as the employees that had previously been dismissed were able to return to work. We have continued to follow the case and contacted Yara again this spring. This is a challenging case where we are using our voice as a shareholder to ensure that the company improves the situation. We continue to monitor the case closely.

Just over a year ago, we met with the Norwegian Support Committee for Western Sahara to learn about the issues related to companies' presence in occupied Western Sahara. We wrote about our work on this in last year's sustainability report. Of our portfolio companies, Swedish Atlas Copco and German Continental had activities in the region at the time. The former exited the region in 2020. In February this year, Continental also announced that it has not renewed its conveyor belt delivery contract with OCP, Morocco's state-owned mining company. Although we have a small voice globally, we spend time on influencing and dialogue with the companies associated with such things and other ESG-related issues.

As mentioned earlier this year, ODIN is particularly focusing on modern slavery, an umbrella term that refers to various situations in which people are grossly exploited. For our companies with their decentralised business models, this requires good policies and procedures that reduce the risk of such types of incidents.

In our opinion, the British health and safety conglomerate Halma is a positive role model with its clear focus and collaboration with the NGO Stop the Traffic. Halma has more than 7,200 employees in over 40 companies operating in more than 25 countries. The group does not have a centralised purchasing department, which makes its supply chains complex and fragmented. It solves the challenges presented by this by requiring all of its companies to conduct semi-annual internal control processes that confirm that they have operated within the framework of the group's procedures and guidelines for vital human rights and ethical conditions, including modern slavery. As far as we are aware, there are no controversies or cases of modern slavery in our companies, although some have a way to go in terms of risk management and surveying subcontractors. We will continue to monitor the companies' work on this front going forward.

Governance

When we are assessing a company, its governance is a very important factor in our analysis. Governance is about the ability of the board and management team to make good, long-term choices. Like much else, this is, to a large extent, about how incentives are structured. This concerns both those who work for the company and those who manage the company. In many ways, governance forms the core of our ESG work. That is why we are focused on exercising our voting rights at general meetings, why we participate in nomination committees and why we are an active owner in our companies.

The first half-year has seen the general meeting season, during which we saw the typical issues related to remuneration, board composition, etc. The latter is one of our three focus areas this year, and we will continue to talk to our companies about this throughout the autumn.

One central point of good corporate governance is that the management team and board make decisions that are in the best interests of shareholders.

In April, DNB announced that it wanted to acquire its competitor Sbanken and it placed a bid for Sbanken at around 30 per cent above the share price. Sbanken is a very well positioned bank with high customer satisfaction and good profitability. It has a market share for mortgages of around 3 per cent in Norway, and also has a strong position in the savings market. DNB received early acceptance from the largest shareholder, Altor, subject to certain conditions. We considered DNB's offer too low and declined it. As of April, the situation remained open, and several interested parties reported their interest in the bank.

We believe it is important to fight these fights, and as an active manager with relatively large ownership stakes our voice is very important. ODIN Norden, with its 4.8 per cent stake in Sbanken, only accepted the bid after DNB extended its bid deadline twice and eventually increased it by 5 percent. The acquisition must be approved by the Norwegian Competition Authority and the Financial Supervisory Authority of Norway.

Corporate governance is one area we are very interested in. One of the underlying themes is how the dynamic and cooperation between the chair of the board and CEO work. There are some examples in the funds where the CEO also serves as the chair of the board. Generally, this is not a practice that we are a big fan of as it can result in conflicts of interest, among other things. When a single person holds both titles, all of the big decisions are in their hands. This can make it difficult for the board to objectively assess performance and carry out control processes. By maintaining separate roles, the CEO can focus on the day-to-day running of the company while the chair and the board can oversee and objectively assess the management team's work. On the other hand, there are no rules without exceptions. We have seen several examples where such a structure is appropriate and highly productive. These often involve early-stage companies or where the founder of the company is still an active leader of the business.

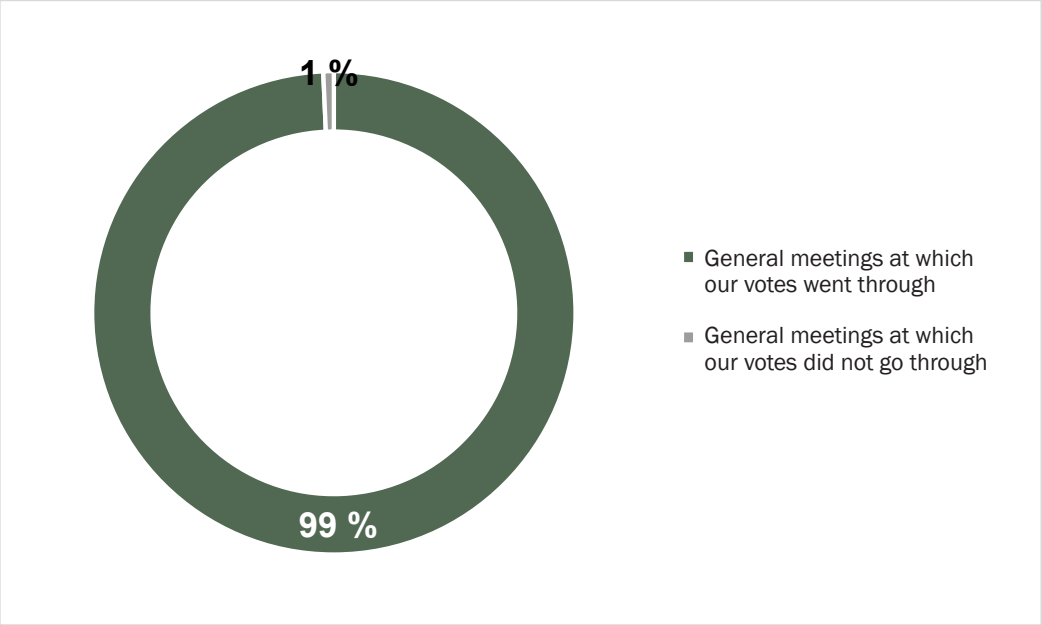
In the past few years, we have discussed this topic with two of our French companies that operate with the same person in the roles of chair of the board and CEO: the service company Teleperformance and the kitchen appliance manufacturer Groupe SEB. Indications from our meetings with the companies this year indicate that they are now choosing to take several shareholders' signals into account and will separate the roles in the near future. We welcome this.

General meetings and electoral committees

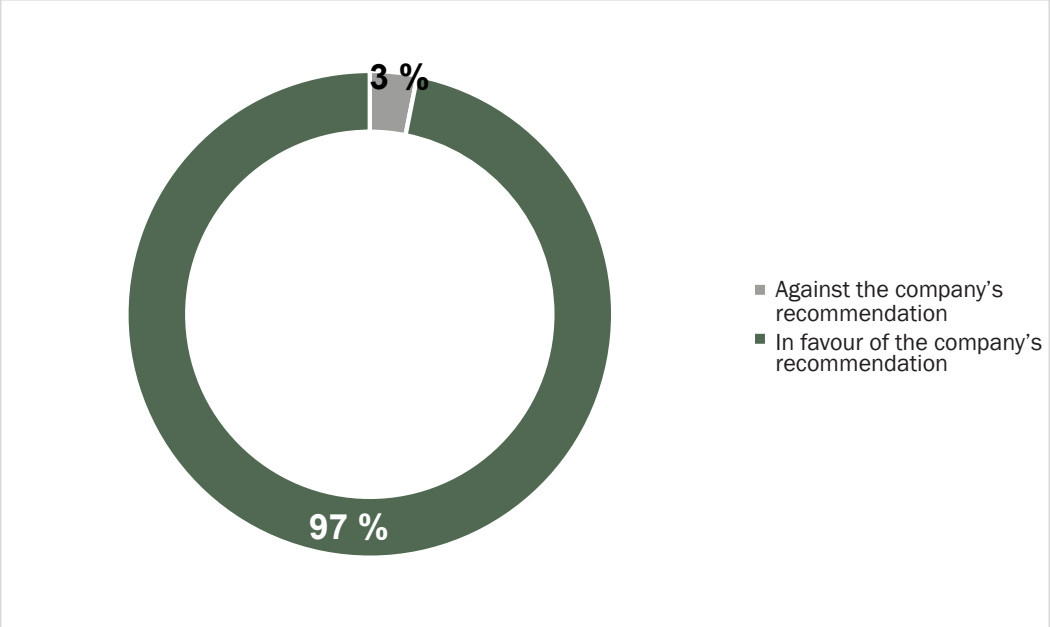
Over the course of the first half-year 2021, we cast 3,512 votes at 192 general meetings. This represents a voting rate of 99.3 per cent. Of the votes we have cast, we voted against the company's recommendations on 110 occasions. These typically included proposals related to incentive programmes, management and board remuneration issues, and the election of board members.

We are also represented on several nomination committees. The task of a nomination committee is to select the company's board of directors. This is an important task that we undertake together with other major shareholders in the companies. As of 30 June 2021, we are represented in the following eleven nomination committees: Multiconsult, Kongsberg Gruppen, Addnode, AQ Group, Byggmax, Addlife, Beijer Alma, Biotage, CTT, Munters and Dustin.

Total number of general meetings



Distribution of votes



Observation list

The observation list consists of companies for which sustainability risks that must be investigated further have been identified. 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 2021.

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.

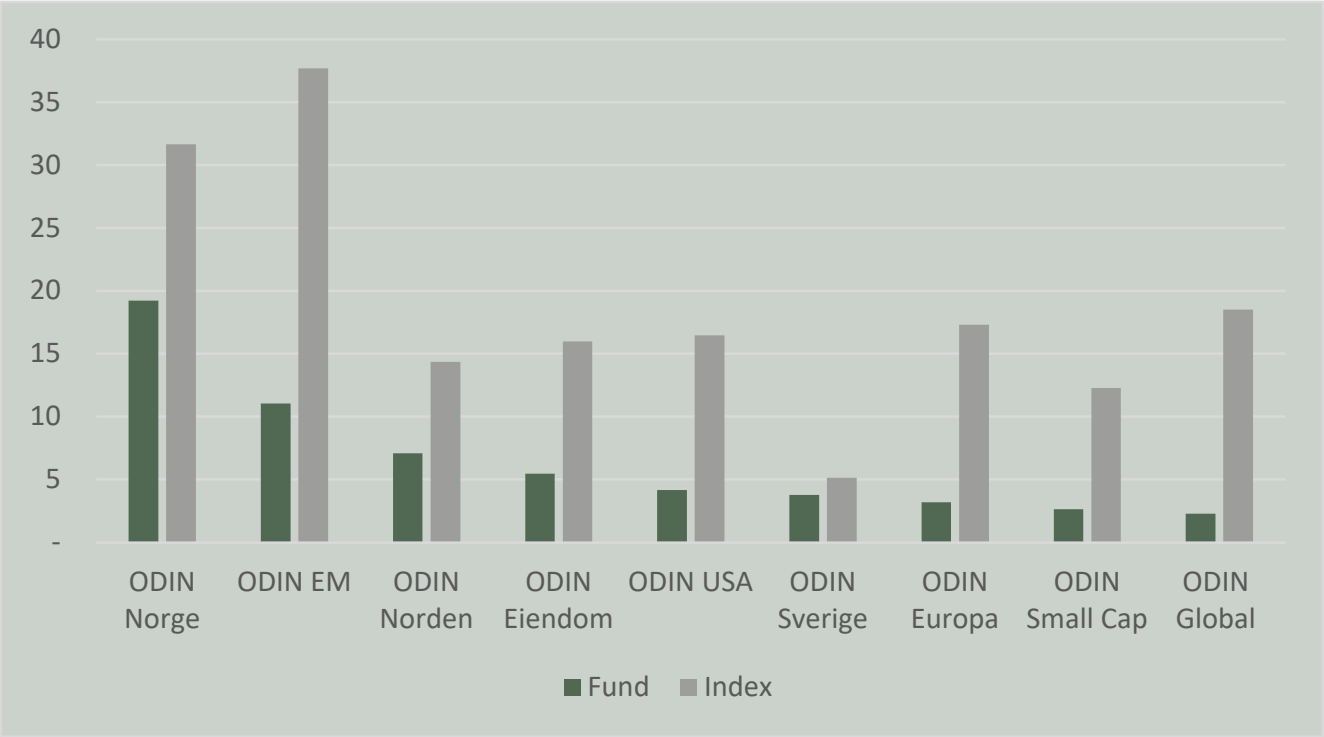
Watchlist			
Date	Company	Fund	Cause
04.07.2018	Danske Bank	ODIN Kreditt, ODIN Europeisk Obligasjon	Money laundering accusations
11.09.2018	Wells Fargo	ODIN USA	God business practice
22.03.2019	Swedbank	ODIN Kreditt	Money laundering accusations
14.11.2019	DNB	ODIN Kreditt/ODIN Europeisk Obligasjon/ODIN 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 in these circumstances we have to estimate it based on comparable companies. We report our funds' carbon footprints in order to encourage companies to measure their own emissions and set clear targets for cutting them from current 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 are indirect emissions (Scope 2), 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 2021.

Carbon footprint per 30.06.2021(NOK)



Solution-oriented companies

Volution Group – ventilation systems for greener buildings in Europe

Some 40 per cent of the EU's energy consumption and 36 per cent of the EU's CO2 emissions can be traced to heating and operating buildings. If we are to have any hope of achieving the target cuts in emissions outlined in the Paris Agreement, we must put in place regulations and technical solutions that will allow us to reduce the energy consumption of buildings.

To reduce the amount of energy we use to heat buildings, buildings need to be better insulated. Better insulation requires modern ventilation. We can no longer just open the window or let fresh air seep in through small cracks in the insulation. Modern ventilation with heat recovery lets us continuously replace the air inside a building with fresh air from outside, but without us releasing the heat from the building.

New building regulations requiring ventilation with heat recovery are already in place in several European countries. In other countries, new regulations are on the way. We therefore expect significant growth in demand for modern ventilation solutions. In order to capitalise on this trend, ODIN Global has invested in the UK Volution Group. Volution sells ventilation products in a number of European countries and Australia under a number of different local brand names. These are brand names that installers know well and that they trust. The strength of the market position of Volution's products is evident from the company's profitability, which is well above the industry average.

The market for ventilation products in Europe is highly fragmented and consists of many small companies with strong local market positions. Volution has acquired several of these companies and aims to continue consolidating the industry through acquisitions. This provides Volution with access to strong local market positions, while allowing them to realise synergies within R&D and input purchases, which they organise centrally.

Volution has a strong product portfolio within heat recovery ventilation solutions, both for new buildings and for products that can be easily installed in existing buildings. We are already seeing Volution benefit from stricter building regulations, and new regulations that are planned to be phased in going forward will result in a further boost in demand for Volution. Combined with growth from acquisitions, and margin improvements as Volution scales up, this will result in strong profit growth for Volution going forward.

In addition to Volution helping to reduce buildings' energy consumption, the company is also working on cutting its own energy consumption and making production more eco-friendly. Some 56 per cent of the plastic used in production is recycled. The company's goal is to reach 90 per cent recycled plastic by 2025. Their newest factory in Reading, UK, which replaced two older factories, was built with solar panels and batteries in order to reduce energy consumption.

Volution's CEO owns a significant stake in the company. He has sat in the chief executive's chair since 2014 and has been an important contributor to Volution's strong financial history. He has built a company with a strong position in a growing industry.

Volution's strong performance and position can be acquired in the market today at what we consider to be an attractive price. The share is currently priced at 20 times expected earnings per share over the next 12 months. We think this is cheap for a company that will benefit from an absolutely necessary and irreversible trend towards a greener building stock in Europe.

Harald Nissen
Senior Portfolio Manager

An exciting time ahead

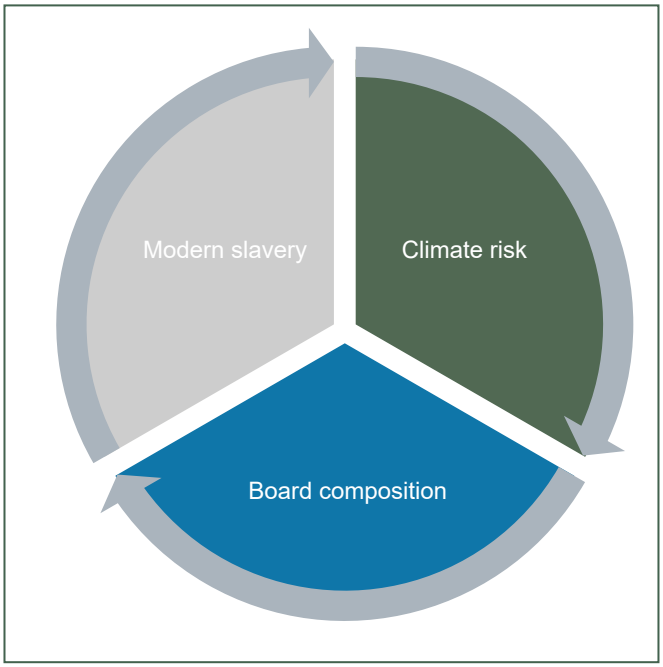
The new EU regulations and framework make high demands, both of us as managers and of the companies we invest in, says CIO Alexander Miller. (Photo: Anita Arntzen)

In recent years, we have seen tremendous acceleration in the work on sustainability, both among companies and in the financial services industry. This is a good thing! We look for companies whose management and board we trust to make the right choices that mean the company can continue on its good path. Going forward, there is little doubt that sustainability will be a very important brick to have in place in order to achieve this.

The new EU regulations and framework make high demands, both of us as managers and of the companies we invest in. This will provide us with a lot of useful information, although we must also be aware that it could likely result in information overload as well. We will spend time talking to our companies, both to encourage reporting, but also to understand what lies behind the figures.

We will continue using the annual cycle in 2021 and this year's topics are modern slavery, climate risk and board composition. In the autumn, we will focus on gaining further insight into these topics, as well as reviewing our portfolios with these points in mind.

The annual cycle 2021



ODIN Forvaltning, Fjordalléen 16, N-0250 OSLO,
Box 1771 Vika, N-0122 OSLO
Telephone: +47 24 00 48 00, Organisationsnumber: 957 486 657
ODIN Forvaltning AS is a company in the SpareBank 1 - alliance

ODIN

odinfundmanagement.com