AGCM's policy for Sustainable Investments

Principal adverse impacts on sustainability factors

AGCM considers principal adverse impacts of investment decisions on sustainability factors[1]. It is an important part of AGCM's investment analysis and the company takes several measures to analyse investments' impact on sustainability factors. AGCM reviews on an ongoing basis how the portfolios managed by the company adhere to international norms such as the Ten Principles of the UN Global Compact as well as OECD's guidelines for multinational companies.

AGCM publishes regularly which measures are taken to consider adverse impacts on sustainability factors (see "Policy for identifying and prioritizing principal negative impacts on sustainability factors" below).

Integration of sustainability risks in the investment process

Sustainability risks[2] can have a substantial negative impact on the return on assets in the AGCM funds. Negative climate impact, social aspects and corporate governance aspects represent pervasive sustainability risks which can result in a substantial loss of the assets of the AGCM funds. These risks are difficult to overview and quantify. AGCM strives to reduce the impact of sustainability risks by employing a risk-based approach in the investment analysis and in the coverage of the funds' holdings. AGCM considers the identified sustainability risks before investment selection and throughout the holding period.

Sustainability risks are extensive and the below description only represents examples of risks which AGCM considers in the investment analysis.

Allegations of corruption, bad labour conditions or negative climate impact can entail a reputational risk which leads to impaired commercial opportunities. A tarnished reputation can have a negative influence on possibilities to forge partnerships with leading companies, win new customers or contracts as counterparties avoid being associated with poor reputation. The employment of child labour affects the company's image among consumers who may opt out of its products. If the company's products are not aligned with a circular economy, they risk being perceived as inferior and experience lower demand.

Corruption can lead to shareholder values being detracted without their knowledge. It can further lead to litigations with resulting damages and management's loss of focus and reduced productivity.

Companies' carbon dioxide emissions have an impact on global warming and the consequences on the environment are far-reaching. Global warming can lead to sudden risks such as fires on property or work environment, draught or flooding which hamper corporate activity. It can be very costly for companies to restore damaged capital and the possibilities to insure against such incidents may be inadequate.

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[1] Environmental, social and employment related aspects, respect for human rights and combatment of corruption and bribes.

[2] An environmental, social or governance related event or circumstance, which if occurred, would have a real or potential significant negative impact on the value of the investment.

Pollution may entail an increased risk of illness or impaired health which can have a negative effect on the staff's work ability.

To exert influence despite the relatively small size of the funds, AGCM cooperates with an external investment consultant to join forces with other investors. In case of the emergence of a controversial situation involving a fund company, AGCM will take measures to influence management through pooled engagement services provided by the external ESG investment consultant. The engagement is done through a written inquiry addressed to the management and progress on the matter is reviewed periodically. AGCM incorporates voting at Annual General Meetings as an integral part of the Sustainable Investment policy and it is done through proxy voting with the assistance of the ESG Investment Consultant. AGCM evaluates on an ongoing basis how to respond to dynamic sustainability challenges.

Policy for identifying and prioritizing principal negative impacts on sustainability factors

AGCM's policy for identifying and prioritizing principal adverse impacts on sustainability factors is based on international norms for the environment, human rights, working conditions and anti-corruption. These principles are stated in the UN's declaration and conventions and the implications for corporations is summarized in the Ten Principles of the UN Global Compact as well as OECD's guidelines for multinational companies.

AGCM supports and is a signatory to the UN-backed principles for Responsible Investments, UNPRI. Furthermore, AGCM avoids investing in companies which are involved in controversial weapons, including anti-personal mines, cluster weapons, chemical weapons, biological weapons and nuclear weapons outside of the non-proliferation agreement.

In addition to these principles, AGCM's policy is to avoid investments in companies with significant operation within manufacturing and distribution of military equipment, tobacco, alcohol, pornography or gambling. The definition of significant is 5% of more of the company's turnover excluding pornography where there is a zero tolerance for production and 5% for distribution. AGCM does not invest in companies which own fossil fuel assets for commercialization. Companies within the energy sector must focus on environmentally friendly technology.

In addition to the knowledge the investment staff receives from the coverage of the fund companies, AGCM cooperates with an external supplier of ESG research and data for screening of compliance with international norms, controversial weapons and sector screening (military equipment, tobacco, alcohol, pornography or gambling). This enhances AGCM's knowledge about the investments regarding the above aspects further and enables the exclusion of companies which don't meet the sustainability criteria already in the selection phase. Fund holdings are screened at least on a semi-annual basis and the result is reported to the CEO and CIO who have online access to the screening results and the timeline of the issues in question.

Reporting of AGCM's integration of Responsible Investments and stewardship is done by the CEO to the board members and reviewed in a board meeting on an annual basis.