

ESG Risk Assessment of Companies

Examples of our ESG Risk Assessment of Companies

We assess material Environmental, Social and Governance (ESG) risks in all our holdings and look at exposure to risk as well as mitigation of those risks.

These are a few examples of themes covered in our risk assessment:

Environmental Management Systems, including biodiversity

We measure how strong environmental systems companies have, through indicator such as the following: Identification of products, activities and services that have significant impacts on the environment, compliance with environmental regulations and commitment to environmental protection, commitment to use natural resources or energy more efficiently and reduce emissions, releases and waste, training and awareness programs for employees, environmental performance records and a commitment to report regularly on environmental performance, internal and external audits, monitoring and measurement, and corrective actions to stimulate improvement. We look at carbon intensity and whether the company monitor and measure GHG and non-GHG air emissions, and if they have reduction targets and initiatives to reduce GHG and non-GHG air emissions.

In addition, we look at if companies have a formal commitment to minimize impact on biodiversity or consider biodiversity in planning, including a formal commitment to "no net loss" or having a "net positive impact". We also assess if companies are reporting on biodiversity impacts, engage with local residents or biodiversity experts, have targets related to biodiversity, and if they implement a best-practice mitigation hierarchy.

Water risk

We monitor a company's water stewardship in several different ways, e.g. through information about its water intensity is relative to the industry median, policy commitments an initiative to reduce water use and water reduction targets.

We also measure how companies assess and mitigate water scarcity risk through detailed reporting on risks posed by water scarcity, integration of water scarcity into risk assessments and business strategy, reporting on water metrics and participation in relevant multi-stakeholder and industry initiatives. Companies are also measured on their commitment to environmental protection and to reduce emissions, releases and waste, as well as policy commitments and initiatives to reduce, reuse or recycle effluents.

Gender Equality

We measure if companies have a policy that reference ILO conventions, show commitment to ensure equal opportunity and have committed to eliminate discrimination.

Our assessment also includes indicators like initiatives to support a diverse workforce, training and guidance regarding diversity, targeted recruitment, and commitment to provide comparable wages for comparable work and to close the gender pay gap, and disclosure of the company's global average gender pay gap, initiatives to close the gender pay gap, monitoring and measurement of such targets as well as quantitative targets and deadlines.

Companies receive a higher score the more gender balance they have in the workforce, senior management, among executives and in the Board of Directors. For example, in order to receive full score, companies need to have 40-60% participation of women in all the named categories. They receive half score if they can only show 30% participation and no score below 30%.

In addition, companies are also measured on whether they have a policy that prohibits all forms of violence in the workplace, including verbal, physical and sexual harassment, and if they have commitments to ensure diversity in the supply chain.

Supply Chain Management

Companies are measured on how well they integrate environmental, social and governance criteria in their supply chain and procurement policies. Companies are specifically measured on indicators such as monitoring of supplier's environmental performance, engagement with suppliers to improve environmental performance and reporting of environmental issues in the supply chain and if the company's suppliers have received external certification such as ISO 14001. We also look as if compliance with environmental standards are included in legally binding agreements with suppliers.

These are specific indicators used for assessing how a company handle **Human Rights** in the Supply Chain:

Board-level responsibility for supply chain management including systematic consideration of suppliers' social performance during procurement, compliance with social standards included in legally binding agreements with suppliers, regular training programs for suppliers on labor rights issues and regular internal supplier audits. This should also include second-tier suppliers.

Policies should be addressing:

- Health and safety
- Minimum living wages
- Maximum working hours
- Freedom of association and the right to collective bargaining
- Child labor
- Acceptable living conditions
- Non-discrimination and commitment to ensure diversity
- Corporal punishment/ disciplinary practices
- Forced labor

Regarding minimum living wages, companies are assessed following several criteria and the assessment is guided by the [Clean Clothes organization](#) definition. A worker should be able to afford: food, rent, healthcare, education, clothing, transportation and savings.

Animal Protein

We are currently developing how companies contribute to an ambitious, time-bound shift from animal protein to plant and alternative proteins in order to decrease animal protein consumption.

So far our data providers cover this issue for restaurants and food retailers but not for meat producers. The score the companies receive on this issue is part of the Sustainability score assigned to a company.

We do work with this issue via FAIRR, see details below:

[FAIRR's Sustainable Proteins Engagement](#) is the first and largest global investor engagement focused on encouraging global food companies to develop a global, evidence-based and board-endorsed approach to transition protein portfolios away from an over-reliance on animal proteins and towards diversified and sustainable alternative protein sources.

This requires companies to:

- Evaluate their current exposure to animal proteins and the risk profile of these supply chains.
- Assess the strategic implications of growth plans (through scenario analysis) that rely more heavily on animal proteins.
- Commit at the highest level to transitioning their global business model to less resource-intensive food products.
- Develop a cross-functional strategy (involving R&D, marketing, sustainable sourcing) to undertake a transition.

Animal Welfare

For companies where animal welfare is material, we measure if the company has an animal welfare policy and program. The animal welfare policy should include commitments to raise animals in a responsible manner, commitments to minimize the use of antibiotics and growth hormones and to ensure ethical standards for animal transportation. The policy should include a commitment to implement ethical standards for animal slaughtering as well as be applicable to contractors. The animal welfare program is based on Policy and programs for animal welfare and animal testing based on the World Organization for Animal Health (OIE) criteria covering the Five Freedoms of animals. It measures among others:

- Training and awareness program for employees and/or suppliers
- Incident investigation and corrective actions
- Operating guidelines for animal slaughtering
- Targets or deadlines to improve animal welfare
- Managerial responsibility for animal welfare
- Operating guidelines for animal transportation
- Operating guidelines to ensure good housing conditions

- Operating guidelines to ensure good health conditions
- Monitoring to ensure compliance with company's animal welfare standards

Food

For companies where it is relevant, we measure if they have Sustainable food programs, food & beverage sustainable initiatives, sustainable products and services as well as nutrition and health programs. Relevant indicators are identification of products and ingredients that have potential significant impacts on nutrition and health (following the WHO recommendations), activities and programs to introduce healthier products or product innovation and membership of selected sustainability related industry initiatives such as The Global Food Safety Initiative, The Roundtable on responsible Soy, Palm Oil and Cacao, and Organic Trade Association which promotes organic food without the use of toxic and persistent pesticides and synthetic nitrogen fertilizers, antibiotics, synthetic hormones.

ESG reporting

As part of the corporate governance evaluation of companies, they are assessed on the quality of their ESG reporting, and if they have received a verification of their ESG report. We look at if companies are reporting in accordance with the GRI standards and to what degree, or whether the company is conducting Integrated Reporting with reference to the International Integrated Reporting Council (IIRC).

As part of our deforestation policy and the need for more disclosure on deforestation related indicators, we work closely with CDP and encourage companies we are invested in to report to CDP Forest Program. Currently, the number of companies reporting is low.

Risk Reporting and Compliance

Companies are measured on how transparent they are in reporting on selected qualitative aspects in systematic risk management. The indicator draws on the disclosure recommendations of the Enhanced Disclosure Task Force (EDTF) of the Financial Stability Board (FSB). Companies are also assessed on the following compliance indicators:

- Managerial responsibility for compliance
- Customer due diligence related to illegal activities before starting a relationship
- Enhanced customer due diligence for clients operating in high risk countries
- Operating guidelines for reporting suspicious transactions
- Training for employees on anti-money laundering and terrorist financing
- Training on avoiding tax evasion facilitation
- Training on international sanctions compliance
- Monitoring existing business relationships
- Incident investigation and corrective actions
- Reporting of irregularities

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