



# CARNEGIE FONDER

RESPONSIBLE INVESTMENT

## SECTOR DEFINITIONS

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## **INTRODUCTION**

Carnegie Fonder invests for the long term in well-managed, sustainable and attractively valued companies. Through active management, we seek companies that demonstrate responsibility in relation to environmental aspects, human rights, social aspects, labour law and anti-corruption in their production as well as the products and services offered.

As one aspect of this, we avoid investing in some industries. The reasoning behind this position is that we see no long-term benefit to sustainability or society in them and do not wish to support them or profit by them. All funds avoid companies doing business in controversial weapons, alcohol, pornography, gambling, tobacco and coal mining. Most of our funds also exclude conventional weapons, oil and gas.

It can sometimes be difficult to draw the line. In this memo, we define our boundaries for various sectors and provide cases for discussion. We internally assess every holding and relay on Sustainalytics for assistance.

## 1. CONTROVERSIAL WEAPONS

*Production: 0% of turnover*

*Distribution: 0% of turnover*

Companies that, regardless of the share of turnover, are assessed as being involved in some way in producing, distributing and/or supplying entire or critical parts of controversial weapons. Controversial weapons include anti-personnel mines, nuclear weapons, cluster munitions, chemical and biological weapons and weapons that contain white phosphorus or depleted uranium.

**Case:** Rolls Royce

Rolls Royce was flagged by Sustainalytics as involved in the manufacture of controversial weapons because the company manufactures components for a submarine that can be armed with nuclear missiles. The components are not, however, considered customised or critical to using the weapon according to Sustainalytics, and Carnegie Fonder agrees with this conclusion. Consequently, the company is investable.

## 2. CONVENTIONAL WEAPONS

### 2.1. WEAPONS FOR CIVILIAN USE

*Production: 5% of turnover*

*Distribution: 5% of turnover*

We exclude companies that generate more than 5 percent of turnover from the production or distribution of assault weapons or key components of assault weapons for civilian use. The production and distribution of non-assault weapons for civilian use, which mainly consist of hunting rifles and airguns, are not excluded.

### 2.2. MILITARY CONTRACTS

*Production: 5% of turnover*

*Distribution: 5% of turnover*

Companies that produce products and services for customised military weapons systems and/or built-in components. The definition of weapons includes but is not limited to bombs, missiles, fighter aircraft, tanks and warships, and companies that can be considered as supplying critical components to the same. Examples of such components include missile guidance systems and launch pads. We have not, however, chosen to exclude customised non-weapons-related products and/or services. This applies as long as the company is not involved with customers in addition to national armed forces.

**Case:** Mildef

Mildef manufactures rugged electronics, including laptops, displays, etc., that tolerate extremely harsh environments. National armed forces and the defence industry are the largest customer segment. The largest individual customer is the Swedish Armed Forces. As the products are not weapons per se, but rather electronics, we consider the company investable.

## 3. PORNOGRAPHY

*Production: 0% of turnover*

*Distribution: 5% of turnover*

Pornography is material that depicts sexual situations or events in an explicit and provocative manner. Distribution refers to active distribution to media companies, for example, that own and operate cable, satellite and online channels on which pornographic materials are actively distributed. Turnover from the distribution of pornography is considered marginal for the hotel, retail and telecom carrier industries and a result of passive distribution and is therefore not automatically excluded.

## 4. TOBACCO

*Production: 0% of turnover*

*Distribution: 5% of turnover*

Tobacco products refers to cigarettes, cigars, moist tobacco, pipe and chewing tobacco or specific components used in tobacco production, such as tobacco leaves and cigarette filters. This includes other nicotine-based addictive products, such as e-cigarettes. Distribution generally refers to wholesale operations. As a rule, Carnegie Fonder does not consider the manufacturing of packaging to be a critical component of the product.

**Case:** Holmen

Among many other products, Holmen's paperboard business manufactures paperboard used for cigarette packages. They do not specify the share of total turnover, but considering the diversified business, it is highly likely that it amounts to less than 5 percent of total turnover. Nor does Carnegie Fonder consider the package itself critical to the product but instead that it is a standardised product in the form of a paperboard package.

## 5. CANNABIS

*Production: 0% of turnover*

*Distribution: 5% of turnover*

We exclude the production and distribution of cannabis for recreational use and have a restrictive stance on companies involved in medical cannabis.

## 6. GAMBLING

*Production: 5% of turnover*

*Distribution: 5% of turnover*

Companies that generate more than 5 percent of turnover from producing or supplying commercial gambling in the form of casino-like operations or other games for money. Companies that generate more than 5 percent of turnover from products necessary for design, development of software or platforms for commercial gambling are also excluded.

**Case:** Nordic Entertainment

In the course of its business, Nordic Entertainment receives advertising revenues from companies covered by the above. At mid-year 2019, total advertising revenues were 26 percent of turnover, of which commercial gambling accounted for 21 percent of that portion, which means that the company has a total exposure of about 5 percent of total turnover. The company is thus not excluded.

## 7. ALCOHOL

*Production: 5% of turnover*

*Distribution: 5% of turnover*

We define alcoholic beverages as beverages containing more than 2.25 percent alcohol.

## 8. FOSSIL FUELS

Carnegie Fonder takes environmental and climate risks associated with extraction, refining and power generation from fossil fuels very seriously. Carnegie Fonder divides fossil fuels into three subgroups, coal, oil and gas.

### 8.1. COAL

Companies that generate more than 5 percent of their turnover from extraction, purpose-built transport, 5 percent from refining and/or 5 percent coal-fired power generation. Nor do we invest in companies that generate more than 50 percent of their turnover from services\* provided to the coal industry.

### 8.2. OIL

Companies that generate more than 5 percent of their turnover from extraction, purpose-built transport (such as oil tankers and pipelines), 5 percent from refining and/or 5 percent oil-fired power generation. Nor do we invest in companies that generate more than 50 percent of their turnover from services\* provided to the oil industry.

### 8.3. GAS

Gas companies that generate more than 5 percent of their turnover from extraction, purpose-built transport (such as LNG tankers and pipelines), 5 percent from refining and/or 5 percent natural gas-fired power generation. Nor do we invest in companies that generate more than 50 percent of their turnover from services\* provided to the gas industry.

#### **\*) Services**

Examples of services include repairs, shipping, transports using non-purpose built infrastructure (such as trains and power grids). We do not exclude manufacturing companies whose products are based on fossil fuels, such as plastic, synthetic rubber or steel.

## 9. HANDLING OF OTHER CONTROVERSIAL SECTORS

### 9.1. PALM OIL

There are significant risks associated with the production and handling of palm oil. Risks include destruction of rainforests, converted farmland, poor working conditions and high saturated fat content in the end products. WWF does not, however, advocate boycott of palm oil, but rather certification via the Roundtable on Sustainable Palm Oil, RSPO, which includes stakeholders across the entire supply chain. We have chosen to not exclude palm oil as an economic activity, but carry out in-depth analysis to ensure a sustainable approach with regard to producers and the supply chain. We study a company's exposure and attitude towards

sustainability through 69 quantitative and 21 qualitative data points and questions in our THOR ESG analysis tool. This includes dependency and the management of controversial resources, the company's history in relation to controversies and the company's sustainability-related culture. By means of this investment process, in which the ESG analysis is an integrated part, we also identify unsustainable approaches in companies with links to palm oil.

## 9.2. GMO

Increased yields of crops and cultivated land are an important prerequisite for feeding a growing population and eliminating hunger. GMO - genetically modified organisms - have an important role to play here, but biodiversity must also be protected. We study a company's exposure and attitude towards sustainability through 69 quantitative and 21 qualitative data points and questions in our THOR ESG analysis tool. This includes dependency and the management of controversial resources, the company's history in relation to controversies and the company's sustainability-related culture. By means of this investment process, in which the ESG analysis is an integrated part, we also identify unsustainable approaches in companies with links to GMO

## 9.3. USURY

Sustainability is often a matter of setting boundaries. This applies particularly to lending operations, which in their natural form involve traditional banking business. But there are lending businesses that, while they operate within the bounds of the law, target vulnerable people who lack access to the banking system and offer them loans at unreasonably high rates of interest. This type of activity has ESG-related and financial risks to which we do not want to be exposed.

We study a company's exposure and attitude towards sustainability through 69 quantitative and 21 qualitative data points and questions in our THOR ESG analysis tool. This includes dependency and the management of controversial resources, the company's history in relation to controversies and the company's sustainability-related culture. By means of this investment process, in which the ESG analysis is an integrated part, we also identify unsustainable approaches in companies with lending tools.

# 10. INTERNATIONAL NORMS

Carnegie Fonder does not invest in companies that have been proven in a serious or systematic way to violate international conventions and norms concerning labour law, human rights, the environment and corruption, and that have not been judged as showing sufficient willingness to change in order to address the problems.

Norms that are given special consideration are the UN Global Compact and the OECD Guidelines for Multinational Enterprises (see Appendix 1). This includes companies that have either been identified as "non-compliant" in the Sustainalytics Global Standards Screening, or companies that have otherwise been brought to the attention of Carnegie Fonder.

The main rule is that new investments in such companies are not allowed. Departures from the rule may be allowed if Carnegie Fonder, in dialogue with the company or through other trusted sources, is able to determine that the company in question can show a credible plan for correcting the problems that led it to be flagged.

Investment decisions must be approved and documented by the Carnegie Fonder Responsible Investment Board. When new incidents occur in current investee companies, Carnegie Fonder initiates a dialogue with the company. If the company produces a plan for correcting the problems within a reasonable timeframe, the holding may be retained. What is considered a reasonable timeframe varies according to the nature and complexity of the incident, but we do want to see willingness to change and a clear plan to correct the problem within 24 months. Investment decisions must be taken and documented by the Carnegie Fonder Responsible Investment Board. If the company is assessed as being unwilling to change, a controlled divestment of the holding must begin within three months.

The process for these dialogues is as follows:

1. The fund manager seeks further information and discusses the holding with the Responsible Investment Board.
2. The fund manager contacts the company to discuss our concerns.
3. The CEO of Carnegie Fonder makes more formal contact with the CEO or board chair of the holding
4. We contact other shareholders to initiate joint shareholder engagement.
5. If the response is unsatisfactory and the company does not demonstrate willingness to change, we may decide to divest the holding.

The time it takes to carry out these types of processes varies, depending upon the nature of the issue, the size of our holding and where the company is based geographically. Each case is unique and is evaluated individually. Ongoing reactive dialogues are reported on Carnegie Fonder's website within three months of the date we became aware of the incident, including our assessment of the situation, the steps we have taken and what we expect the company to do to resolve the incident.

Our definition of "problem solved" varies from case to case, but we generally want to see that the company has taken appropriate steps to prevent further incidents. This could involve, for example, replacing senior management personnel, implementing new procedures or refusing to accept the type of customers/contracts that led to the incident. Depending on the nature of the issue, the time it takes for the company to actually implement its changes may vary. Companies could, for example, be bound by contracts that must be fulfilled, own polluted land that must be restored, or be involved in an ongoing investigation.

The "solution" is typically that an incident is not repeated, but that is difficult to measure and set a deadline for.

The decision to close an incident as resolved is taken by the Responsible Investment Board.

All suspicions of violations of the norms mentioned above are followed up and analysed. For the Carnegie All Cap fund, our assessment of the suspicious situation and the actions we want to see is published on our website within three months of the date we received the information. This includes companies that have either been identified as "watch list" in the Sustainalytics Global Standards Screening, or companies that have otherwise been brought to the attention of Carnegie Fonder. The process for these is the same as described above.

## 11. EXCLUSIONS IN EACH FUND

Fund	Norms and shareholder engagement							Weapons		Fossil fuels		
	Norm-based exclusion	Shareholder engagement	Pornography	Tobacco	Cannabis	Alcohol	Gambling	Controversial	Conventional	Coal	Oil and gas extraction	Oil and gas refining, power generation, distribution, services**
D&G Aktiefond	X	X	X	X	X	X	X	X	X	X	X	X
Carnegie All Cap	X	X	X	X	X	X	X	X	X	X	X	X
Carnegie Corporate Bond	X	X	X	X	X	X	X	X	X	X	X	X
Carnegie Fastighetsfond Norden	X	X	X	X	X	X	X	X	X	X	X	X
D&G Global All Cap	X	X	X	X	X	X	X	X	X	X	X	X
Carnegie Global Resilient Small Cap	X	X	X	X	X	X	X	X	X	X	X	X
Carnegie Global Quality Companies	X	X	X	X	X	X	X	X	X	X	X	X
Carnegie High Yield	X	X	X	X	X	X	X	X	X	X	X	X
Carnegie High Yield Select	X	X	X	X	X	X	X	X		X		
Carnegie Indienfond	X	X	X	X	X	X	X	X	X	X	X	
Carnegie Investment Grade	X	X	X	X	X	X	X	X	X	X	X	X
Carnegie Likviditetsfond	X	X	X	X	X	X	X	X	X	X	X	X
Carnegie Listed Infrastructure	X	X	X	X	X	X	X	X	X	X	X	X
Carnegie Listed Private Equity	X	X	X	X	X	X	X	X	X	X	X	X
Carnegie Micro Cap	X	X	X	X	X	X	X	X	X	X	X	X
Carnegie Obligationsfond	X	X	X	X	X	X	X	X	X	X	X	X
Carnegie Small & Micro Cap	X	X	X	X	X	X	X	X		X	X	X
Carnegie Småbolagsfond	X	X	X	X	X	X	X	X		X	X	X
D&G Småbolag	X	X	X	X	X	X	X	X	X	X	X	X
Carnegie SPAR Balanserad	X	X	X	X	X	X	X	X	X	X	X	X
Carnegie SPAR Global	X	X	X	X	X	X	X	X	X	X	X	X
Carnegie Spin-Off	X	X	X	X	X	X	X	X	X	X	X	X
Carnegie Strategifond	X	X	X	X	X	X	X	X	X	X	X	X
Carnegie Strategy	X	X	X	X	X	X	X	X	X	X	X	X
Carnegie Sverigefond	X	X	X	X	X	X	X	X	X	X	X	X
Carnegie Total	X	X	X	X	X	X	X	X		X		
Carnegie US Small & Micro Cap	X	X	X	X	X	X	X	X	X	X	X	X

\*) The 5% turnover limit generally applies. As regards fossil fuels, we also invest selectively in "transition cases".

\*\*) 5% from purpose-built transport (such as oil tankers and pipelines), 5% from refining and/or 5% from oil-fired power generation. Nor do we invest in companies that generate more than 50% of turnover comes from services provided to the oil or gas industry, such as repairs, shipping, transports using non-purpose built infrastructure (such as trains and power grids). We do not exclude manufacturing companies whose products are based on fossil fuels, such as plastic, synthetic rubber or steel.

## APPENDIX 1 - INTERNATIONAL NORMS

### UN GLOBAL COMPACT

Carnegie Fonder has signed the UN Global Compact and we urge our holdings to do the same. Carnegie Fonder requires investee companies to comply with the Ten Principles of the UN Global Compact and this is verified jointly with Sustainalytics on an ongoing basis.

Carnegie Fonder's holdings must:

#### Human rights

Principle 1: Support and respect the protection of internationally proclaimed human rights within their sphere of influence.

Principle 2: Make sure that they are not complicit in human rights abuses.

#### Labour

Principle 3: Uphold the freedom of association and the effective recognition of the right to collective bargaining.

Principle 4: Eliminate all forms of forced and compulsory labour.

Principle 5: Abolish child labour.

Principle 6: Eliminate discrimination in respect of employment and occupation.

#### Environment

Principle 7: 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: Work against corruption in all its forms, including extortion and bribery.