

## The Transparency Act – a review of Formue

*This due diligence assessment applies to the 2022 reporting year based on supplier information collected in the first half of 2023.*

*The report concerns Formue AS and all the underlying companies in the group, including Formue Norway AS and Formue Sverige AS (collectively referred to as "Formue").*

Formue is a privately held financial life management company with 400 employees in 25 offices in Norway, Sweden and Denmark. The Group has approximately NOK 150 billion under advisory services and management for clients. Clients' capital is invested through external managers in listed equities, bonds and in alternative asset classes such as hedge funds, private equity and real estate. In this way, capital is spread across many different funds across asset classes, sectors and geography. To best meet our clients' holistic needs, Formue has experts in the fields of tax, law, pensions, accounting, retirement planning, sustainability and art. The specialists are integrated into the customer relationship depending on the needs of the customer.

Formue has established a sustainability committee and three subcommittees responsible for incorporating sustainability into our own operations, in our investments and in the work we do with our clients. The sustainability committee reports to the corporate executive committee and the board, and meets at least quarterly. Formue has established processes and governing documents that guide how we work with human rights and decent working conditions.

Formue uses the following governing documents:

- Sustainability Policy
- Sourcing Routines
- Diversity and inclusion policy
- Accounting and reporting policy
- Investments policy

The company has an internal whistleblowing channel where all employees can report matters such as breaches of laws, internal guidelines or ethical guidelines. The whistleblowing channel is managed by the company's human resources department.

Formue reports annually to the company's largest owners on our efforts to safeguard human rights and good working conditions, and we continuously develop our commitment to the supply chain.

### **Integration and anchoring of transparency and sustainability in Formue's business concept**

Formue's business concept Financial Life Management is based on the trust of our customers. Trust requires transparency at all levels, both with ourselves and with our suppliers. Our suppliers are people who provide us with services. We are never better than the people we surround ourselves with, this applies to both customers and suppliers.

Our suppliers can be divided into two groups:

- Fund managers who deliver investment products to our clients, the largest part. Total capital is NOK 150 billion.

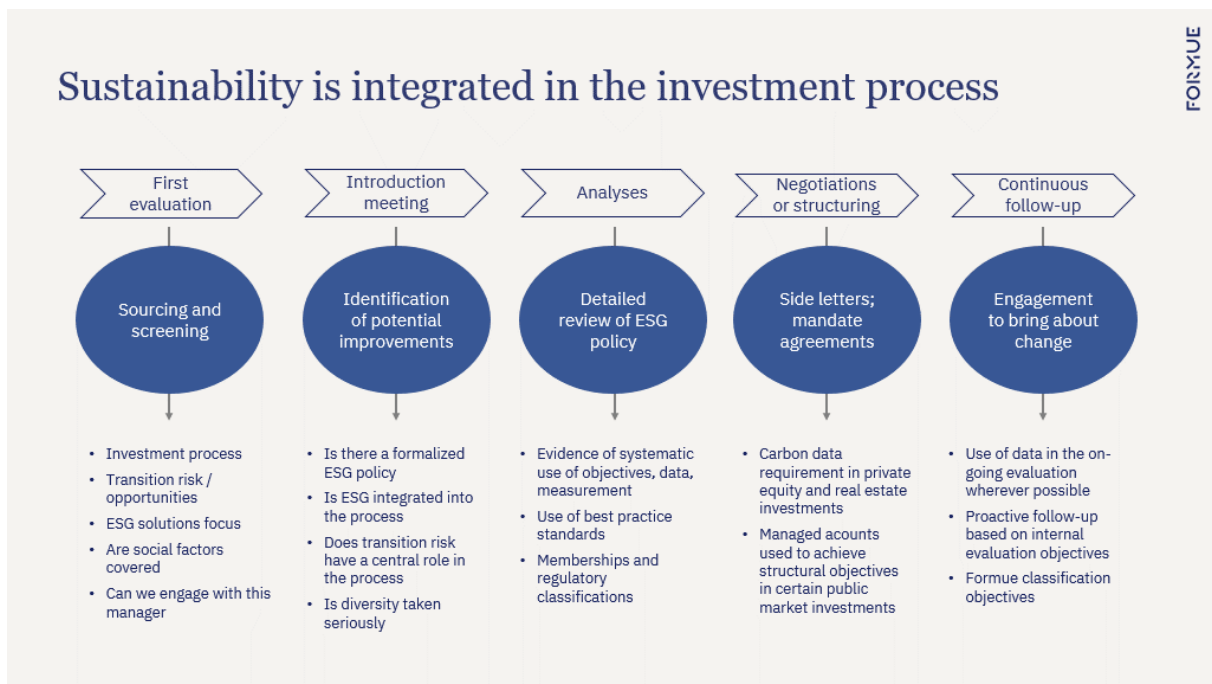
- The service providers to us as a company, the smallest part. Our total annual purchases are approximately 250 million NOK.

### Investigations and influence in the fund manager selection process

Formue does due diligence and follow-up of the fund managers we employ to ensure that sustainability risks are assessed appropriately.

We influence the managers to put in place clearly formulated principles for good governance (in line with the OECD principles) and to respond to our annual reporting questionnaire (sent to all operational and investment providers). We do not invest with fund managers whose processes and portfolio is assumed to violate UN norms and conventions.

We integrate sustainability into our investment decisions, and follow up with managers who we believe have opportunities for improvement in their processes for managing sustainability risk. By influencing managers to improve their sustainability process, we can also reduce the risk in our clients' investments.



Fund managers are classified according to their integration of ESG, based on a number of KPIs recorded in Wealth's CRM system. In meetings with fund managers, the most important KPIs that Formue uses to report and adapt to the Sustainable Finance Disclosure Regulation are discussed. We pay special attention to:

1. GHG-related Principal Adverse Impacts (PAI)
2. What share of the portfolio that has set an approved Science Based Target (SBTi).

By working to improve the overall PAI score, and maximize exposure to SBTi-approved companies, the sustainability risks associated with global warming should be reduced. For non-environmental factors (such as human rights and gender equality), we rely on good governance to indicate risk reduction.

## **Surveys of service providers to us as a company**

In the same way as with our asset management process, we have a systematised and centralised follow-up of suppliers who provide services to us as a company. Our largest suppliers (which account for over 50% of our total purchases) must conduct a sustainability survey, focusing on, among other things, human rights and decent working conditions. The survey is carried out both before the supplier relationship is started and in annual follow-up. We find that the information from the surveys provides good management information on how potential suppliers handle sustainability, including human rights. This information is weighted when assessing new suppliers.

All our major suppliers are of significant strategic and operational importance to us. We work so closely with them that we have sufficient insight into how they safeguard working conditions in their own operations, so that we can make an overall assessment of the risk of human rights violations. Going forward, we will expand insight down into the value chain, such as employee relationships at subcontractors to portfolio information systems, data developers or hardware.

### **Supplier sustainability survey**

For the year 2022, we have conducted a sustainability survey among our most important suppliers (both managers and those who provide services to Formue) to map and improve our work with sustainability throughout the value chain of Formue. The survey was sent to all fund managers, to all suppliers who provide services for more than 1 MNOK, and suppliers who provide services for less than 1 MNOK but where we consider the industry or service to have a high inherent risk of human rights violations and decent working conditions. We received responses from 73% of fund managers and 75% of surveyed providers who provide services to us, accounting for 58% of the dollar value of our total purchases in 2022.

The survey included questions on four overarching themes:

- Climate and environment
- Ownership and governance
- Human rights and decent working conditions
- Equality and diversity

Of our issues related to human rights and decent working conditions, we have obtained the following results from both fund managers and suppliers who provide services to us as a company:

- 40% have policies for both their own business and their supply chain
- 48% have guidelines, but only for their own business
- 11% have no established guidelines
- For suppliers that have established guidelines on human rights and decent working conditions, 57% follow the OECD Principles for Multinational Enterprises
- 71% have a formalized process for identifying, mitigating and addressing human rights violations
- Of suppliers that do not have a formalised process, 23% plan to establish this during 2023.
- 97% offer wages, benefits and working conditions in line with regulations, industry standards and international standards
- 85% have established a whistleblowing system
- 90% have an anti-corruption policy
- 66% measure employee satisfaction

- One supplier has been involved in serious human rights violations through its own operations or supply chain over the past year. This concerns a large US investment bank.

The results of our survey show that many suppliers work actively to maintain a good and safe workplace. More than four out of five respond that they offer pay and working conditions in line with industry standards, have established whistleblowing systems, anti-corruption policies and guidelines on human rights and decent working conditions.

### **Room for improvement among our suppliers.**

We encourage all our suppliers to establish guidelines for human rights and decent working conditions, both for their own operations and value chain. From the survey, we see that 11% of suppliers lack guidelines on this, which we will follow up in the dialogue with suppliers going forward. We also encourage all our suppliers to have a formalised process for identifying, mitigating and addressing human rights violations. As the results show, 29% do not have it in place, and among those, only 23% plan to have it in place by 2023. This is an area we will prioritise in our dialogue with our suppliers.

We know of only one company, among our suppliers, that has been involved in serious human rights violations through its own operations or value chain. This is a major U.S. bank, where there is an ongoing legal process involving potentially serious matters. Formue's involvement is with a subsidiary on the management side, and as far as we are aware, this supplier relationship is not directly relevant to the ongoing case. We are nevertheless following this matter closely, and will consider concrete measures in relation to our supplier relationship once the details of the case have been made public.

As many companies lack a formalised process for identifying, mitigating and dealing with human rights violations, we cannot rule out that there have been more human rights violations in our value chain. At the same time, most suppliers who provide services to us as a company are located in the Nordic region and follow ordinary rules and requirements for labour rights. We therefore consider the likelihood of human rights violations related to our direct suppliers to be low.

The greatest risk, as we see it, lies down the value chain, where our suppliers may purchase goods and services from industries and countries that have an inherently higher risk of human rights violations. For example, there may be a risk that our purchases of hardware have violations of human rights back in the value chain when producing minerals and metals. For the time being, we cannot rule this out, but will intensify our efforts to map employee relationships backwards in the value chains where there is risk.

### **Follow-up of suppliers to eliminate or reduce the risk of negative effects and actual or foreseeable effects of this follow-up**

We give suppliers with proven deficiencies one year to engage, show a willingness to change and start the change process. In the event that suppliers are unwilling to work with us within one year, we make it clear that this will be considered when renewing any contracts. In general, our suppliers experience a are willing to engage in both dialogue and change.

For further questions about our due diligence assessments, please contact [service@formue.no](mailto:service@formue.no)