



Investing responsibly

Norges Bank Investment Management





**Our mission is to
safeguard and build
financial wealth for
future generations**

Investing responsibly

The 20-year history

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Ownership for future generations

Norway's sovereign wealth fund is valued today at more than 1 trillion dollars. This is the story of how we became the single largest shareholder in the world and how we manage the responsibilities that come with ownership.

Starting out in 1998, we decided to spread our investments thinly across the world's financial markets. Diversifying our investments would reduce financial risk, keep our stakes low in each company and limit our influence. Our approach was to invest in the world as it was, but we soon realised that there were some companies in which we should not invest.

This is the story of how we restricted our investments to be consistent with Norway's international obligations (landmines from 2001), the values held by most Norwegians (human rights from 2004) and long-term risks to sustainable growth (climate change from 2010). These restrictions contribute to the legitimacy that is fundamental when managing savings for future generations.

This is the story of how we evolved from a reluctant to an active owner. At the beginning, the idea was simply to buy a slice of global financial markets. Our intention was not to exercise any influence over companies. Ownership turned out to be a greater test for the fund than the volatility of equity markets. We faced the challenge of how to be a good owner at the 9,000 companies in which we were invested. We developed clear principles and a systematic approach to our ownership. We support companies by default, as we have a common interest in long-term value creation. By being transparent and predictable, we aim to build trust and be a welcome investor in the world's markets.

This is also the story of how we moved from standards to expectations. Existing standards often lacked the detail or clarity we needed for our ownership. Over the last decade, we have published our own expectations of companies and positions on governance. We aim to strengthen companies through better governance and to improve their management of long-term risks.

Finally, this is the story of how we moved from words to numbers. We are a fund for future generations, and we need to understand the long-term risks to which our investments are exposed. Even with the best standards, we still need hard numbers to manage these risks. We ask companies to explain how they manage long-term risks and encourage them to provide more numbers. The development of sustainability data will make companies more accountable over time.

In the course of 20 years, we have become a global leader in responsible investing. Along the way, we have learned lessons and adjusted our course. I am proud of what we have achieved over the last two decades, and I am convinced the fund will continue to evolve to safeguard the interests of future generations.

Oslo, 28 August 2020



Yngve Slyngstad

Chief Executive Officer

Norges Bank Investment Management



Ownership with a purpose

Our mission is to safeguard and create value for future generations. Our ownership activities support this mission by contributing to the long-term financial performance of our investments and market outcomes that are both efficient and legitimate.

The fund established its first dedicated ownership team back in 2005. The view was that the long-term financial soundness of the fund was a genuinely concern, given the needs of future generations. The focus then, as now, was to concentrate ownership work on issues that would support the long-term interests of the fund. The future value of the fund depends on the value created by the companies in which we invest.

Our work covers a wide range of activities. As an investor in more than 9,000 companies in more than 70 markets, we work systematically and prioritise. We focus our work on the largest holdings and on issues where we can achieve results beyond single-company outcomes. We work with standard setters to promote efficient and well-functioning markets. We work with companies to support value creation and responsible business conduct. We take a principles-based approach, using the best available data to make decisions, and are transparent about our activities.

I have had the privilege to be part of the fund's responsible investment activities for the past three years. Even during that time, there have been significant developments in public

expectations, market standards and company practices that have shaped and developed our ownership work. We have better data. We have increased company interaction. We are more transparent about our voting. We engage more systematically with standard setters. And we have broadened and clarified our expectations of companies. Looking back over the 20-year history of the fund's responsible investment activities, the road to where we are today has had some twists and turns, but the direction of travel is clear. We need to continue to adapt and improve our responsible investment activities in our mission to safeguard and create value for future generations.

Oslo, 28 August 2020



Carine Smith Ihenacho

Chief Corporate Governance Officer



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Investment

The fund is a financial tool for government savings, but its investments in global markets are often held up against the values shared by most Norwegians.

The fund was set up to help finance the Norwegian welfare state for future generations. To achieve this, the fund invests surplus wealth from domestic petroleum production in the global securities market. Investments are spread widely across markets, sectors and companies to reduce risk and capture global growth.

This means that the fund – and by extension the Norwegian population – owns a slice of most listed companies in the world. This slice has grown with the overall size of the fund. Today, it is the single largest owner in the world's stock markets with an average stake of 1.5 percent in every listed company.

Ownership comes with both rights and responsibilities. The fund's investments are held up against Norwegian values and, more specifically, Norway's international obligations.

Successive governments, with broad parliamentary support in the Storting, have maintained that the fund is a tool for the state's financial saving and that it should have only one, financial goal. At the same time, the government has recognised that there are limits to what the fund should own, and has laid down ethical guidelines. A formal mechanism for exclusion ensures that the fund is not invested in companies whose products or behaviour are considered grossly unethical.

134 companies were excluded from investment at the end of 2019, amounting to the equivalent of 243 billion kroner or 2.4 percent of the value of the fund. The restrictions ensure that the fund can enjoy broad legitimacy among the

Norwegian population and remain aligned with Norway's international obligations. The cost of restricting ownership has been accepted as necessary to maintain this legitimacy.

On three occasions, the government has mandated special allocations to environmentally friendly investments. The purpose of the allocations has been to yield environmental benefits, such as climate-friendly energy, improving energy efficiency, and management of waste and pollution. These environment-related mandates have the same risk and return requirements as the overall fund.

We had 79 billion kroner invested in 77 companies and green bonds under dedicated environment-related mandates at the end of 2019, amounting to 0.8 percent of the value of the fund. In 2019, the government decided to add renewable energy infrastructure to the fund's environment-related mandates.



Limits to investment

There are companies in which the fund does not want to invest, such as those that are not aligned with Norway's international obligations or violate fundamental ethical norms. We can also divest from companies whose business model we do not consider sustainable in the long term.

From the outset, the fund's investment strategy was based on extensive diversification of its holdings to optimise the relationship between expected return and risk. Norges Bank emphasised this point in its investment advice to the Ministry of Finance on 10 April 1997: "Equity investments should be spread among many different markets, and over a vast number of individual equities in each market. Based on this strategy, even a Petroleum Fund which is considerably larger than today would only own small stakes in each enterprise's equity."

Norges Bank already foresaw that the investment strategy would need to accommodate investment restrictions of a political nature for individual companies. "This strategy will make it possible to set certain types of restrictions concerning those companies in which the fund shall not invest due to political considerations." Norges Bank cautioned that negative screening would be challenging and costly. "Experience shows that it has been extremely difficult to establish clear-cut criteria which safeguard all considerations." Restrictions would increase administrative expenses, especially if they were "unclear or unusual". "Any restrictions must be set by the political authorities and be taken into account when establishing benchmark portfolios for the purpose of comparison."

This approach was supported by the Storting. The majority of the parliamentary finance committee agreed that the fund should act exclusively as a financial investor. Acting as a financial investor was in this context understood as investing in companies to maximise the fund's financial return without interfering in the running of the companies.

Shortly after the 1997 election, the newly established coalition government under Kjell

Magne Bondevik had announced that it wanted the fund to consider environmental and human rights issues in its investments.

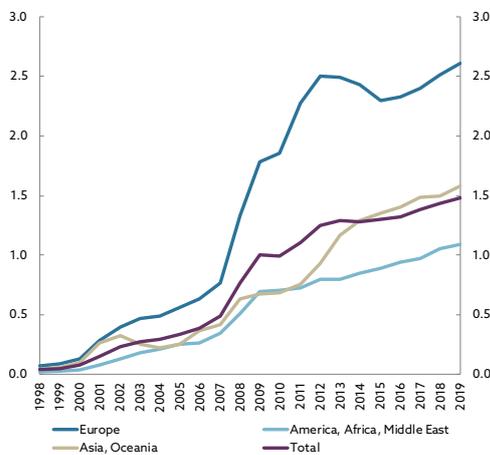
Norges Bank cautioned that it had not considered “the practical problems involved in drawing up an unambiguous, consistent set of rules” or the effectiveness of such rules for the objectives the political authorities “are trying to attain”. Having studied other funds, Norges Bank identified “three viable approaches”: to limit the investment universe by means of ethical criteria, to invest in unit trusts with ethical criteria, or to “convince enterprises” by using voting rights.

In line with earlier advice, Norges Bank emphasised that ethically motivated universe

restrictions must be set by the Ministry of Finance and reflected in the benchmark index, since they could impact performance measurement. Refuting claims that ethically screened portfolios would perform better, Norges Bank stated that empirical studies were inconclusive. Since expected risk would be higher, “the result could be a lower net return for a given level of risk”.

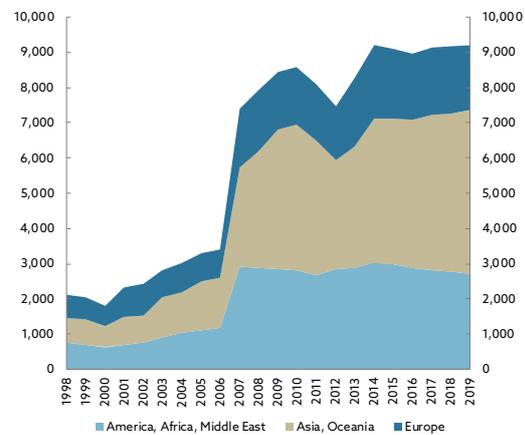
Following Norges Bank’s advice, the government reported to the Storting that it had not yet found ways to formulate ethical guidelines with the clarity, consistency and practicality required. The government would, however, continue its work to establish environmental considerations as a basis for investment strategy.

Chart 1 Investment. The fund’s holdings in equity markets. Percentage of market value of equities in the benchmark index. As at 31.12.2019.



Source: FTSE Russell, Norges Bank Investment Management.

Chart 2 Investment. The fund’s holdings in equity markets. Number of companies in the fund’s equity portfolio, by region.



International obligations

Norway's international obligations provided the motivation for excluding the first company from the fund. In 1997, Norway signed the Anti-Personnel Mine Ban Convention which had been adopted at an international conference in Oslo. In the same year, the Norwegian Nobel Committee awarded its peace price to the International Campaign to Ban Landmines and its founder Jody Williams.

As part of its expanding global portfolio, the fund had investments in a company that produced anti-personnel mines. This sparked a public debate on the role of the fund and the chosen strategy to invest in all companies. Norway could not ban anti-personnel mines and at the same time invest in their production without exposing itself to accusations of hypocrisy and violating international treaty obligations.

International treaties

In the spring of 2001, the Stoltenberg government found that a mechanism to exclude individual companies was needed. The government explained that the public debate on the production of anti-personnel landmines by a company in the portfolio showed that "investments in some companies pose particularly difficult legal, ethical and political dilemmas". The government argued: "Such examples show that it is necessary to establish further ethical limits for the Petroleum Fund's activities." The government would therefore "initiate changes to the regulation on the management of the Government Petroleum Fund in a way that makes it possible, in very special situations, to exclude individual companies."

Norges Bank expressed satisfaction that its advice to establish a clear division of roles had

been observed: "The exclusion mechanism, as presented in the revised national budget for 2001, is consistent with the division of responsibilities agreed upon between the Ministry and Norges Bank. An implementation regime is described in which all decisions regarding exclusion are taken by the owner. It is not intended that the manager should take part by exercising his own discretion."

Furthermore, Norges Bank set aside its concerns about limitations on diversification, given that anti-personnel mines were the single focus of the proposal: "Norges Bank takes note of the owner's choice of criteria for excluding individual investments. The considerations emphasised in the revised national budget for 2001 are fully consistent with the advice provided earlier by Norges Bank. If there is only limited application of the exclusion mechanism, a deterioration in the trade-off between expected return and risk can hardly be invoked as an objection."

The government introduced several requirements that would define a future exclusion mechanism. First, the government was cautious about using the fund as an instrument for promoting other political objectives. Second, the exclusion mechanism should only be used to exclude individual companies in very special situations. Third, allegations of wrongful activity should not be accepted as fact before they had been substantiated through closer investigation.

The 2001 arrangement proved to be durable over the following two decades. To this day, the mechanism seeks to treat companies individually, to apply a high threshold for exclusions, and to require a high probability of future violations based on thorough, independent research.

Norges Bank suggested a number of modifications to the proposed mechanism. Several of these also became permanent features of the framework. Norges Bank objected to assessing companies on their ethical feasibility prior to investment. Norges Bank did not want to be responsible for anticipating which investments could potentially be in breach of norms. Eventually, the government agreed on a post-investment screening model.

Equally important, any restriction on the investment universe should also affect the benchmark. Norges Bank insisted that it must be given enough time to sell the shares before the exclusion was made public, so as not to impact the market to the detriment of the fund. Finally, Norges Bank wanted to be responsible for contacting companies to solicit information for an ethical assessment. Companies would not then have to relate to two different institutions representing the fund.

The government wanted to limit exclusions to cases where owning shares might be in conflict with Norway's obligations under international law. Two years later, the scope of exclusions was expanded significantly by adding ethical considerations. We will return to these exclusions in the next chapter.

Exclusion mechanism

In September 2001, the government formally established an exclusion mechanism for the fund. The Ministry of Finance could bar certain investments from the fund if they violated Norway's obligations under international law. A key part of the mechanism was the new Petroleum Fund Advisory Commission on International Law. This was the precursor of today's Council on Ethics.

In its first assessment, in early spring 2002, the Advisory Commission concluded "that even modest investments in the company Singapore Technologies Engineering can imply a violation of the prohibition against assistance in article 1 (1) (c) cf. (b) of the Mine Ban Convention". The assessment was in response to a request by the Ministry of Finance earlier that year to consider whether investments in the company could imply a violation of Norway's international obligations.

Based on the findings of the Advisory Commission, the Ministry decided to exclude Singapore Technologies Engineering from the fund's investment universe in April 2002. The assessment by the Advisory Commission laid the foundation for the future ethical exclusion mechanism of the fund. The conclusion that even modest investments could imply a violation demonstrated that each holding in the diversified fund required consideration of international law and ethics.

The Ministry of Finance explored further how the fund could fully adhere to Norway's international obligations. It reported to the Storting that it would investigate whether the fund had holdings in other companies producing anti-personnel mines. It also envisioned that investments in companies producing other kinds of weapons could be understood as violating the Biological and Chemical Weapons Conventions to which Norway was also party. The Ministry therefore suggested that the fund's holdings should be scrutinised systematically for producers of such weapons.

By the end of 2006, seven producers of cluster munitions and eight companies involved in the production of nuclear arms had been excluded.

The Ministry also asked the Advisory Commission whether certain investments might violate international human rights law. The Advisory Commission concluded that investments in foreign companies did not in principle constitute a violation of international human rights law. Some international conventions did, however, entail an obligation for states to co-operate internationally. The Advisory Commission pointed to the Convention on the Rights of the Child and its goal to prevent sexual abuse of children and child labour. Allocating capital to companies involved in such activities could be seen as contradicting Norway's obligation to prevent them through international co-operation.

Country approval

As the fund grew in size and the investment strategy developed, investment in emerging markets raised further questions about Norway's international obligations. Some of these countries were under public scrutiny for their human rights record, and some were under international sanction regimes.

In 2007, the fund faced a new situation when its investment in an entire country was questioned. The European Union and other states had agreed on sanctions against Burma. In its white paper on the fund in the spring of 2007, the second Stoltenberg government proposed a mechanism by which the Ministry of Finance could restrict investment in government bonds issued by certain countries if there was "broad political agreement" on doing so.

"Decisions not to invest in government bonds from individual countries should first and foremost apply to countries for which UN sanctions have been decided or countries

subject to other particular international measures which Norway has signed up to", the government explained to the Storting. The Storting supported the measure.

The exemption was consequently laid down in regulation in 2007, with the fund barred from holding bonds issued by the government of Burma. This came to be known as the government bond exemption, because the general rule was that the universe should not be limited. Furthermore, it was implied that the fund should not be invested in companies selling weapons to countries affected by the government bond exemption.

In 2014, the restriction was lifted for Myanmar, as Burma by then was known, after the UN Security Council had revoked its sanctions. Following new UN sanctions on Iran, North Korea and Syria, these countries also became subject to the government bond exemption. When the UN Security Council revoked its sanctions on Iran, the government bond exemption was lifted for that country. Although none of these countries were immediately relevant for investment, it was necessary to align the fund's investment universe with Norway's international obligations.

Ethical consensus

As early as 2002, the second Bondevik government decided to establish a more robust ethical framework for the management of the fund. An expert committee appointed by the government found that the fund had two ethical obligations.

The first was to ensure that future generations would benefit from the country's petroleum wealth. This called for managing the fund with the aim of a high long-term return. The second was to respect the fundamental rights of those affected by the operations of the companies in which the fund invested. This called for avoiding investments if there was an unacceptable risk of the fund contributing to grossly unethical conditions.

The committee specified criteria for negative screening of certain types of weapons. Furthermore, it proposed criteria for the exclusion of companies, based on an assessment of conduct. The criteria should be based on an "overlapping consensus" in the Norwegian population, guided by internationally accepted norms and conventions. There should be a "high threshold" for excluding companies. Echoing an earlier suggestion by Norges Bank to "convince enterprises", the committee pointed to the role of ownership activity. Screening and exclusions should be weighed against the opportunity for changing companies' conduct through active ownership, but also against other policy measures at the disposal of the Norwegian government. Hence ethical exclusions, while necessary, should play a limited role.

Having examined various ethical approaches, the committee found that Norwegians motivated their ethical views in different ways. "Norway is a pluralistic society and there is no agreement on one, single ethical perspective." This was not taken to mean there is no agreement on certain

ethical principles. "In many cases one will arrive at the same answer to ethical questions even if approaching it from different angles. [...] In these cases, there exists something we may call an overlapping consensus."

Council on Ethics

To implement the guidelines, the committee recommended that the Ministry appoint an expert Council on Ethics. Based on thorough investigations, the Council should make recommendations to the Ministry on companies that should be screened or excluded. The new Council was tasked with initiating its own recommendations based on the criteria and not just responding to requests for assessments, as the Advisory Commission had done.

Norges Bank supported the main assumptions and recommendations of the committee, without taking a view on the exact criteria for screening or exclusion. "Norges Bank emphasises that proper risk diversification of the fund's portfolio requires narrow limits for negative screening. [...] Norges Bank agrees with the committee that the fund should only have restrictions consistent with norms that are shared by most Norwegians and can be expected to be stable over time."

Norges Bank nevertheless cautioned that for large funds it was not "a real option to divest from particularly large companies, because the size of the funds means that it is necessary to be present in a large part of the investment universe (to diversify the risk)". Excessive screening would lower the quality of the portfolio, and comparison of performance against other funds would be complicated. Norges Bank added that "reduced risk diversification and transparency may lead to significant costs in relation to the primary purpose of the fund".

The restrictions resulting from the evolving guidelines have led to an accumulated underperformance for the equity benchmark index of 1.3 percentage points against an unrestricted equity benchmark index in the period from the first exclusion in 2006 to the end of 2019. This translates into an average annual underperformance of 0.04 percentage point for the equity portfolio during this period. By way of comparison, the annual management costs for the fund came to just under 0.05 percentage point in 2019.

As a practical matter, Norges Bank suggested that the announcement of the exclusion decisions should be postponed in each case until after the securities had actually been sold, so as not to create price pressure adding further costs in the sales process. The proposal was adopted.

Following the debate in the Storting, the Ministry of Finance issued new ethical guidelines for the fund on 19 November 2004. The Ministry appointed the first Council on Ethics that December. Implementing the weapons criteria was the Council's first priority.

Norges Bank was handed the responsibility for exercising the fund's ownership rights. The overarching objective was defined as promoting the long-term financial return on the fund. The Ministry emphasised that ethical considerations were not an independent objective for the exercise of ownership rights. The trade-off between financial and ethical objectives was a political task and could not therefore be carried out by Norges Bank.

In the revised national budget for 2004, the government explained the division of responsibilities between the asset owner and manager: "If Norges Bank were to be tasked with looking after ethical considerations beyond what

is in the long-term financial interest of the fund, it would create unclear lines in the division of work between the Ministry of Finance and Norges Bank. [...] This way, the accountability of Norges Bank for the financial results might become unclear, and one would no longer have a satisfactory benchmark for assessing Norges Bank's performance as a financial manager."

Ethical exclusions

The Council on Ethics quickly experienced how difficult it could be to interpret an overlapping consensus among Norwegians and to apply it to companies operating in foreign markets. In November 2005, the Council recommended excluding the US retail corporation Wal-Mart Stores Inc on account of serious violations of human rights. The recommendation was approved by the Ministry of Finance, and the decision was published in June 2006 when Norges Bank had completed its divestment.

The Council found that allegations of gender discrimination, union busting and forced unpaid overtime work were well documented. It found it likely that violations of regulations on underaged workers were widespread, and it pointed to many reports of the use of illegal immigrants in the workforce. "In the view of the Council, what makes this case special is the total sum of violations of standards, both in the company's own business operations and in the supply chain. It appears to be a systematic and planned practice on the part of the company to operate on, or below, the threshold of what are accepted standards for the work environment," the recommendation stated.

The decision sparked a political debate, including criticism from the US ambassador in Oslo. Others asked whether the decision would set a precedent, requiring Scandinavian working conditions across the portfolio. Although more

companies have been excluded due to poor working conditions and violations of labour rights over the years, there have been no similar exclusions in developed markets. The decision also led to discussions on the merits of exercising ownership as an alternative to exclusion. This added new relevance to Norges Bank ownership role as described in the new ethical guidelines, and the creation of an ownership function in the fund.

After the establishment of the Council of Ethics, several potential new exclusion criteria were debated in public, including the production of tobacco. The 2003 ethical guidelines did not exclude tobacco producers, however, mainly because tobacco was a permitted product in all jurisdictions, even though the health consequences were well known.

The discussion took a new turn after public health measures against tobacco increased. Norway introduced a ban on smoking in public places in 2004. While controversial at first, acceptance of the new restrictions increased. The Storting also closed its smoking room. Several other countries enacted similar laws. Additionally, the World Health Organization adopted the Framework Convention on Tobacco Control in 2005. The argument that tobacco was a legal product weakened to the point where a majority in parliament was in favour of restricting the fund's investments in tobacco companies. Finally, in 2010, the production of tobacco was adopted as an additional criterion for exclusion from the fund. The decision originated in the Storting and can be seen as the final stage in the public discussion on tobacco that had run for almost a decade. While the new restriction was a

Chart 3 Exclusions. Number of decisions by year and topic.

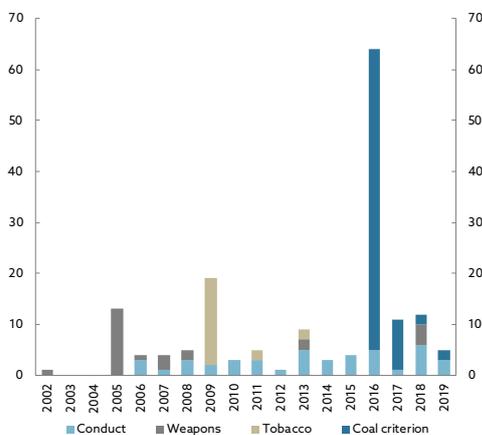
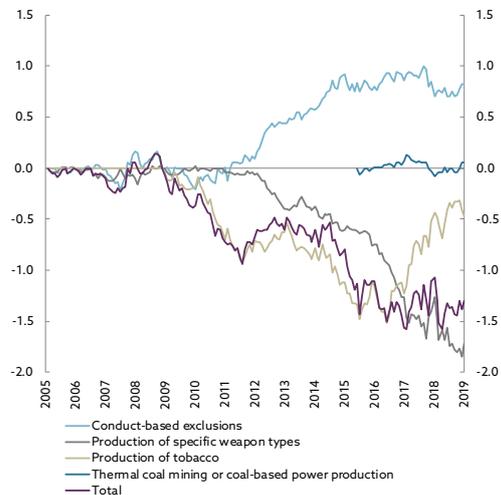


Chart 4 Exclusions. Return impact of equity benchmark index exclusions relative to an unadjusted index. Measured in dollars. Percentage points.



major expansion of the exclusion mechanism, its general premise was preserved in that the new criterion had emerged through an overlapping consensus in the Norwegian population.

Active ownership

Following the enactment of the first ethical guidelines, the fund needed to organise its new responsibilities and exercise its ownership role as a shareholder. Although the ethical guidelines allocated the role of recommending exclusions to the new Council on Ethics, Norges Bank chose to focus its ownership work partly on ethically motivated issues and cases.

This was in line with the thinking of the Ministry of Finance, which requested an account of Norges Bank's plans, including the planned interplay between the various instruments used to promote the fund's ethical guidelines. In its submission to the Ministry, Norges Bank pointed to the importance of how companies treat their stakeholders: "an active and serious interaction between companies and their surroundings is important for the companies' reputation and market confidence."

Being an active owner would in itself be a contribution to ethical behaviour by companies. The letter pointed to "principles of good corporate governance which in most cases will lead to greater transparency and respect for ethical, human rights, social and environmental issues." The fund concluded that financial interests and ethics will often – but not always – be complementary. The fund made it clear that there were limits to ownership as an ethical tool, and that there was a place for exclusions.

Over the following years, the fund would argue that, in many cases, staying invested in a company with questionable conduct was better from an ethical perspective than selling its

shares to investors who were less motivated or able to influence the company.

The interplay between exclusion and ownership was first demonstrated in connection with preventing child labour. Back in 2002, the Petroleum Fund Advisory Commission on International Law had pointed to child labour as a human rights violation where Norway might have obligations to contribute outside its own territory, as a signatory to ILO conventions. Norges Bank identified children's rights as a focus area in 2006, and in particular preventing child labour.

This had become an urgent issue in 2005 when the Council on Ethics started investigating companies producing hybrid cotton seeds in India. By commissioning local consultants and through its own investigations, the Council established that the use of child labour was widespread. Children often came from far away and lived apart from their families. The work involved health hazards, such as the use of pesticides without adequate equipment, the Council reported.

In November 2006, the Council recommended the exclusion of US company Monsanto, one of the largest multinationals involved in hybrid cotton seed production in India. Following a suggestion from Norges Bank in the spring of 2007, the Ministry of Finance decided to try active ownership over a limited period of time to see if this could reduce the risk of child labour.

A year later, the Ministry requested the Council to review conditions again. The purpose was to help the Ministry assess whether continued active ownership by Norges Bank would be better than excluding the company. The Council on Ethics documented that the incidence of child labour in Monsanto's hybrid cotton seed

production chain had been significantly reduced in the areas where the company had taken steps to avoid child labour. This indicated that "by making determined efforts it is possible to reduce the incidence of child labour within a reasonable time frame." The Council had effectively recognised that active ownership seemed to be working, under the threat of a publicised exclusion. The Council therefore no longer recommended exclusion.

The fund had expressed to Monsanto and similar multinationals that it expected better handling of the risk of child labour and that it needed to verify progress. Having agreed on the aim in board-level discussions with the companies, Norges Bank engaged in a continuous expert-level dialogue, including discussions with local management.

Experience from handling these cases provided a deeper understanding of how the different measures under the ethical guidelines could interact. The guidelines were at that time heading towards their first major revision, initiated by the Ministry in 2008. A main aim for the revision was the integration of tools. The Ministry created the expectation of a chain of tools. Before the review got underway, however, another exclusion recommendation provided additional experience.

In November 2007, the Council on Ethics recommended the exclusion of the German industrial conglomerate Siemens under the criterion of serious corruption. Norges Bank, however, found that the company had already taken steps to reduce the risk of corruption in the future. Management and board had changed substantially, and control measures had been implemented. The US Department of Justice had reached an agreement with the company which included official monitoring over a period of four

years. In 2009, the Ministry of Finance supported Norges Bank's view and decided not to exclude the company, but to impose a four-year observation period. Norges Bank and the Council on Ethics were both tasked with monitoring developments and reporting annually to the Ministry.

With this decision, the Ministry had introduced a new tool: observation. It was born out of a concrete situation. It was the first time Norges Bank had opposed a recommendation by the Council on Ethics. Norges Bank had not disagreed on the seriousness of the case but had found that the facts had changed favourably, and that this development was not captured by the recommendation. These circumstances came to shape the understanding of the observation mechanism. When formally proposed as an amendment to the guidelines in 2009, the Ministry wrote: "A decision to put a company on an observation list may in some cases be a good alternative, because it can be assumed to contribute to making the company change its conduct, or it may lead to the company providing more information which can clarify the situation. The use of an observation list may be particularly appropriate where there is doubt regarding developments going forward." This proved to be another long-lived tenet of the framework.

According to the amended guidelines effective from 2010, the Council on Ethics would be able to recommend observation if there was no basis for exclusion, and the Ministry would be able to choose observation even if the Council had recommended exclusion. Observation would, as a rule, be made public.

The Ministry wanted to set higher ambitions for responsible investment management and sought to foster this goal by introducing one

overarching objective. In the annual white paper in the spring of 2009, it wrote: "The two mechanisms – exercise of ownership rights and the exclusion mechanism – are based on different objectives, respectively safeguarding the long-term financial interests of the fund and avoiding involvement in grossly unethical acts or omissions. The Ministry proposes clarifying the overarching objective for the fund as a responsible investor."

The Ministry pointed to the signalling effect of a published exclusion and found that "it must be possible to attach importance to the expected effects of an exclusion when using this instrument, beyond the fact that the aim is to avoid contribution to grossly unethical activity." On the other hand, staying invested could be the ethically preferable solution if the company largely acted responsibly, even if norms were violated in certain areas.

Long-term interests

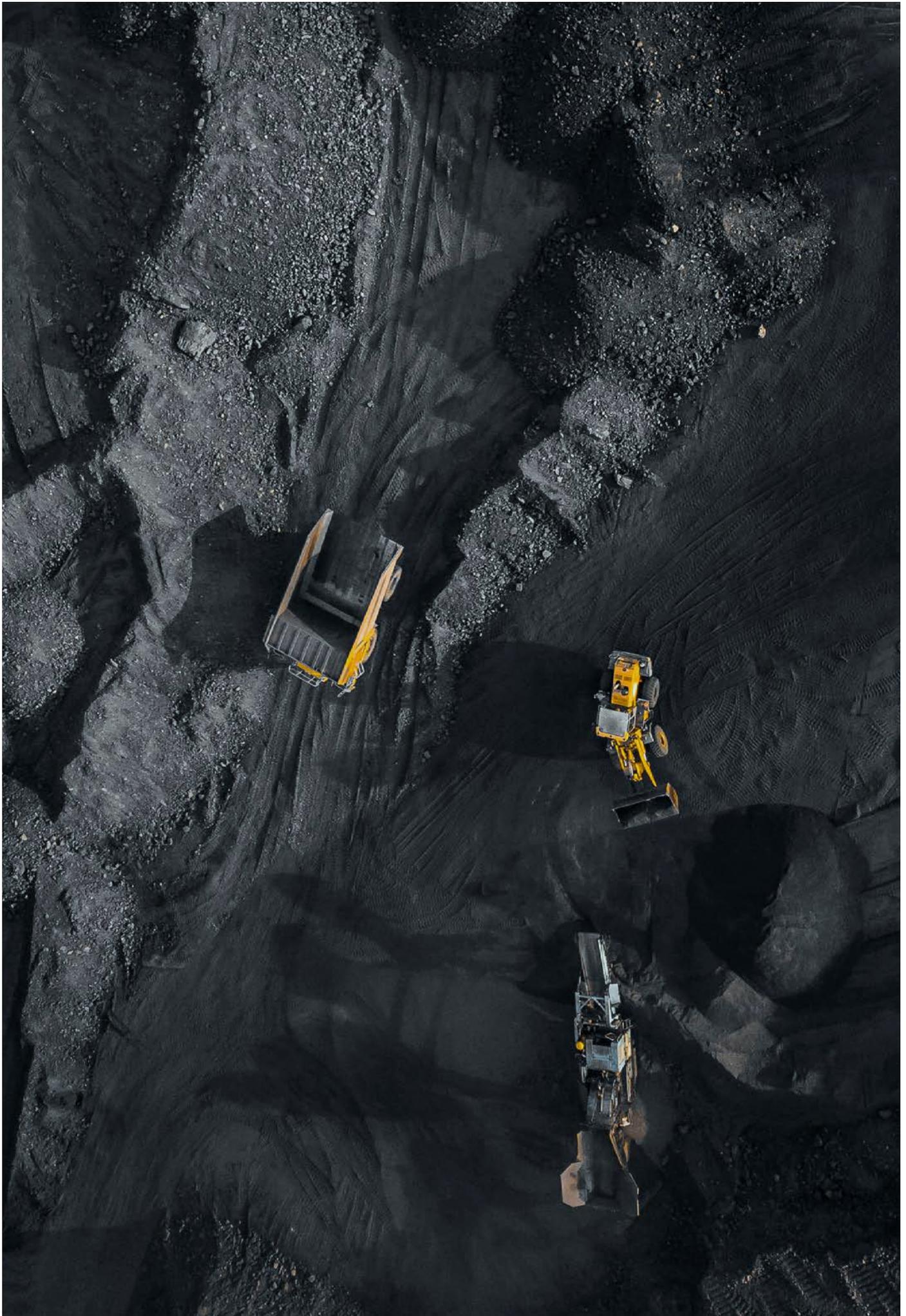
The objective for the management of the fund is to ensure that future generations will benefit from Norway's petroleum wealth. By maximising the return on its investments, the fund further increases the amount of wealth available to future generations. A narrow return focus, however, may ignore any negative externalities associated with companies' operations. These externalities may affect in turn other companies in the fund's portfolio or society at large. As a long-term investor, we have an interest in companies internalising indirect costs that would otherwise be borne by future generations. This is particularly relevant for greenhouse gas emissions and their impact on climate change.

Coal

The fund has limited its exposure to climate change risk through the exclusion of coal companies and certain companies with large emissions. The 2004 ethical guidelines listed unacceptable risk of "severe environmental damage" as a criterion for exclusion. Experience showed, however, that it was hard to recommend exclusion of companies on this basis. The main reason was that individual companies' emissions of greenhouse gases were in general legal and not subject to any regulation by international norms.

Following the adoption of the Paris Agreement in December 2015, the impact of greenhouse gas emissions on climate change received renewed attention. With international agreement on a specific temperature goal, governments had to report their nationally determined contributions and set plans for reducing emissions.

Earlier that year, the Storting decided to remove coal companies from the fund, arguing that extracting and burning coal was an ethical



issues. The Storting decided that mining companies and power producers could be excluded if they derived 30 percent or more of their revenues or based 30 percent or more of their operations on thermal coal. The product criterion should be handled by the fund without recommendations from the Council on Ethics. Assessments should be forward-looking, and if it was unclear whether thresholds would be reached in future, Norges Bank should apply observation rather than exclusion.

Based on the new coal criterion, Norges Bank excluded 59 coal companies in 2016 and a further 15 companies by the end of 2019. Some environmental organisations argued that the relative thresholds for coal-related companies were insufficient and that companies with significant coal-related activities remained in the portfolio.

In 2019, the government proposed supplementing the relative thresholds with absolute criteria. The Storting supported the additional criterion that companies could be excluded if they produced more than 20 million tons of thermal coal annually or had a power capacity of more than 10,000 MW from thermal coal. At the end of September 2019, the fund was invested in six companies with thermal coal production exceeding 20 million tons and two companies with a coal-fired power capacity above 10,000 MW.

Greenhouse gas emissions

In parallel with excluding coal companies, based on a recommendation from an expert group on fossil fuel investments, the Storting decided in 2016 to exclude companies due to “acts or omissions that on an aggregate company level lead to unacceptable greenhouse gas emissions”. No companies were excluded under this criterion until the Ministry provided further

clarification in 2019. In practice, the problem was largely the same as for the original environmental criterion, as it was unclear which emissions should be considered unacceptable. The expert group had also emphasised the exercise of ownership as an important tool in the climate transition.

Disappointed that no exclusion recommendations were triggered by the climate conduct criterion, some environmental organisations urged the fund to exclude companies with unacceptable emissions. A key consideration for Norges Bank was that emissions themselves could not be the basis for exclusion if the company operated within a stringent official emissions regulation scheme. Under quota trading schemes, offsetting emissions by one player against reductions by another player is the intended practice. Large emissions could therefore not be seen as problematic in themselves under such circumstances.

In 2019, the Ministry provided a clarification that was endorsed by a majority in the parliamentary finance committee. For companies to be considered for exclusion, they must have large emissions and high emission intensity, and the assessments should consider future development. If the company operated within a stringent emissions framework, like the European emissions trading mechanism, the emission level itself would not be enough to warrant exclusion without additional factors. As potential additional factors, the Ministry listed carbon leakage (moving production with high emission intensity out of stringent emissions frameworks), obstruction or evasion of a climate framework, insufficient reporting of emissions.

In May 2020, the first exclusions under the climate conduct criterion were announced by Norges Bank, as usual following the set period

to allow for the divestment to be implemented. The four companies were excluded because of carbon emissions from production of oil from oil sands in Canada. In all cases, the exclusion was explained by greenhouse gas emissions being far higher than a comparable sector average and the companies not having sufficiently specific plans to reduce emissions to this level within a reasonable period of time. The emissions were not subject to a stringent regulatory regime such as the EU Emissions Trading System. The Council on Ethics had issued its initial recommendations back in May and June 2017, as well as in March 2018. After the Ministry clarified how the climate conduct criteria should be interpreted, following discussion in the Storting in the spring of 2019, the Council issued revised recommendations in the four oil sands cases in November 2019.

Risk-based divestments

There are companies that do business in a way that we do not consider sustainable. The consequences may be direct - for example, where a company is excluded from markets on account of irresponsible conduct, or is outcompeted by others that manage sustainability risks more effectively. They may also be indirect, with companies' operations having negative impacts on society. We wish to reduce our exposure to such companies over time. Risk-based divestments are one way of doing so.

Starting in 2010, the fund became increasingly aware of the risks associated with palm oil production, which often involves the clearing, or even burning, of rainforest. The Council on Ethics had already touched on this problem.

Chart 5 Risk-based divestments. Number of companies by year.

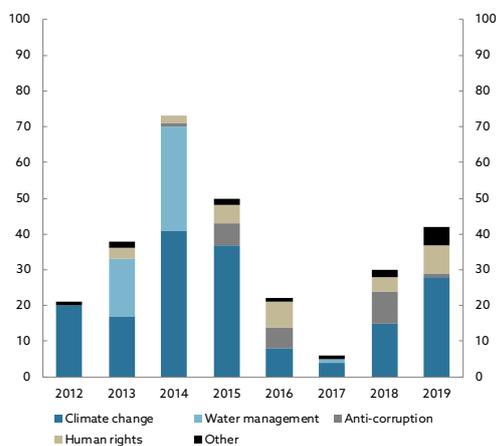
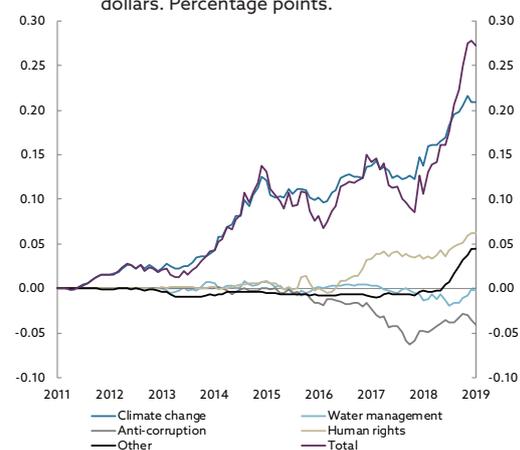


Chart 6 Risk-based divestments. Return impact of risk-based divestments on the reference portfolio for equities compared to a portfolio not adjusted for risk-based divestments. Measured in dollars. Percentage points.



In February 2010, it recommended the exclusion of Samling Global Ltd due to its logging activities in the rainforests of Malaysia and Guyana. In its 2011 report, the Council wrote that it had identified about 40 portfolio companies involved in harmful logging or plantations in Asia and Africa. Rainforests store large amounts of carbon and had for a long period been under pressure from industrialisation and farming. At the global climate conference in Bali in 2007, the Norwegian government pledged to contribute up to 3 billion kroner a year to help avoid deforestation.

We wanted to understand whether companies in our portfolio contributed to tropical deforestation through their involvement in the palm oil industry in Malaysia and Indonesia. We contacted several of the companies to obtain information on how they managed the risk of deforestation. We also enquired whether they had joined the Roundtable on Sustainable Palm Oil, which provided an international certification scheme for sustainable palm oil production. The fund then exited a number of minor investments with elevated risk and unwanted exposure. This led to our first systematic divestment programme. We decided to reduce the fund's exposure to small companies in the farming and fishing sectors with plantations in Malaysia or Indonesia that derived 20 percent or more of their revenue from the production of palm oil and had no clear plan to achieve 100 percent sustainable palm oil certification within a year. Based on these criteria, we divested from 28 companies between 2010 and 2014.

This marked the start of a wider programme of risk-based divestments. As opposed to exclusions based on Council on Ethics recommendations under the ethical guidelines, risk-based divestments did not require a specific rationale to be published for each company. As

such, no lists of company names were published. The divestments did not aim explicitly to tackle ethical dilemmas. The rationale was rather to avoid investments where a risk to the sustainability of the business model had been identified, in this case driven by exposure to palm oil production. Divestments are carried out within the overall limits for portfolio deviation from the benchmark specified in the management mandate and typically target our smaller holdings. Where we have substantial investments in a company, dialogue may be a more suitable approach than divestment.

The fund decided to develop a bottom-up approach for analysing exposure to small companies with particularly high environmental or social risks. These companies would then be considered for divestment from the fund. The risk-based approach was later to be used for other controversial issues, such as some smaller companies with elevated corruption risks and, later, cannabis producers.

As a result of this bottom-up approach, the fund continued to reduce its exposure to deforestation in Indonesia. In 2013, we divested from companies which mined coal on the island of Kalimantan, as this involved removing long strips of overlaying soil, leading to significant tropical deforestation. The criteria used to single out these companies included generating more than 50 percent of revenue from Indonesian coal activities. In some cases, we divested from companies which derived a material share of their revenue from the mining companies' local supply chain. Based on these criteria, we divested from 11 companies in 2013.

After further analysing our exposure to companies involved in tropical deforestation, we expanded our scope in 2014 to include pulp and paper companies. We assessed small companies



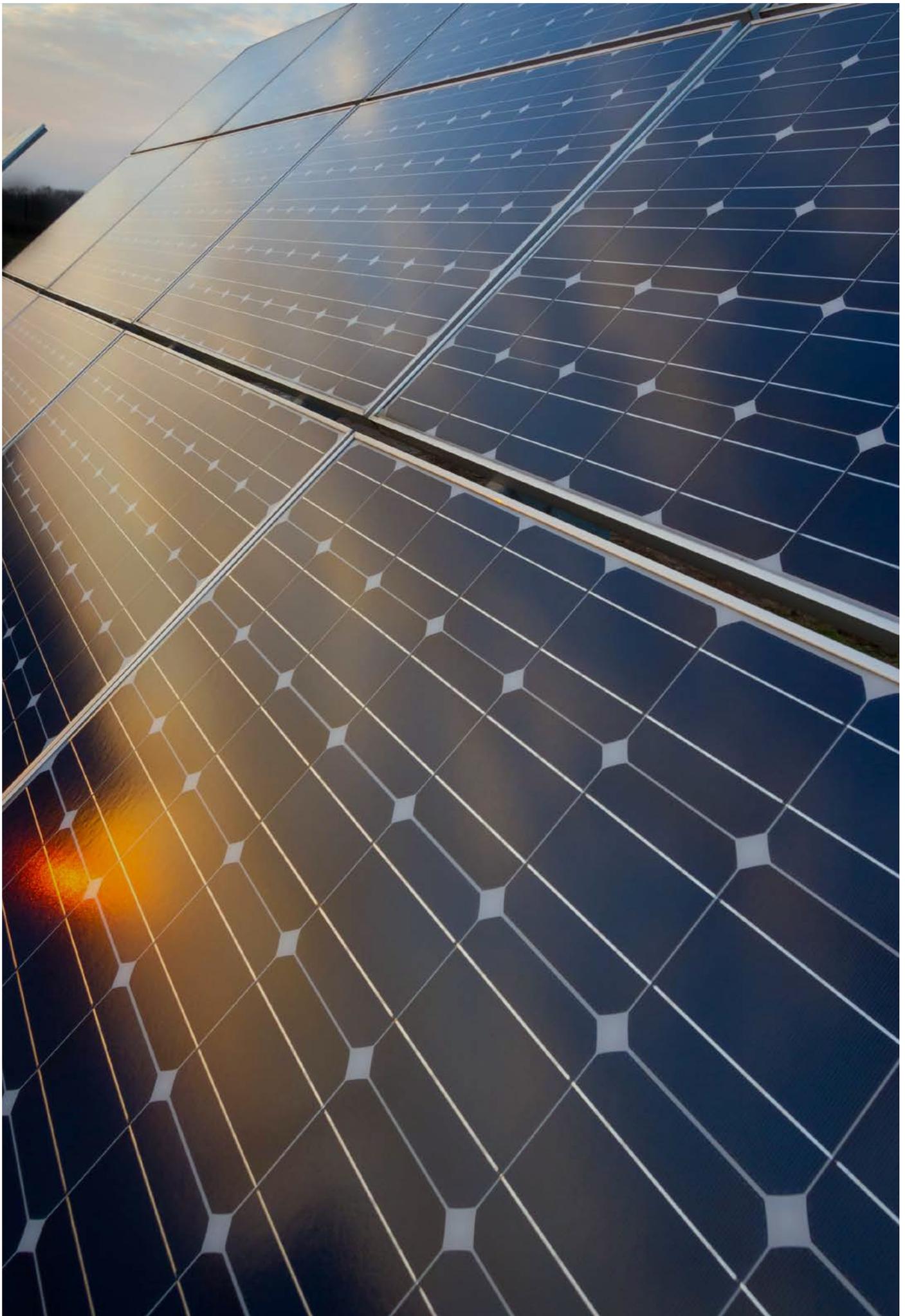
classified as paper producers that lacked adequate certification or well-documented policies for tracing wood, and had paper mills in, or close to, tropical forests. In this case, we found that there was a lack of global standards and reliable certification schemes. Based on this, four companies were divested from in 2014.

In the lead-up to the 2015 Paris Agreement, awareness increased of climate change as a long-term risk to the global economy. Starting in 2013, the fund began to analyse sectors with the highest contributions to greenhouse gas emissions, including cement, coal, oil sands and electricity production. We concentrated on companies in developed countries under the assumption that they would be more inclined to regulate this activity. Based on our analysis, we divested from 29 companies in 2014.

Some types of mining carried multiple environmental and social challenges, including child labour and other human rights violations, pollution of drinking water, deforestation, and depositing tailings directly into rivers, lakes or the ocean. We began by analysing gold and platinum miners where we considered the negative externalities to be above a certain threshold. There was also growing awareness of natural resources extracted in conflict zones and how their sale contributed to perpetuating conflicts. To avoid investing in such companies, we analysed general miners with more than 50 percent of revenue coming from one mine and one commodity, with low ore grade compared to the industry average, and with activities in areas of conflict. Based on our analysis, 45 companies were divested from in 2014.

Starting in the early 2010s, the fund's investment universe was expanded to include listed companies in several frontier markets. Our analysis showed that environmental and social risks were concentrated in extractive industries such as mining and oil and gas, and that local power producers often used old technology and their emissions were particularly high. Based on our analysis, we adjusted the benchmark for external fund managers invested in frontier markets in 2015 and instructed them to consider environmental, social and governance factors to reduce the fund's exposure to unacceptable risks.

Since 2012, risk-based divestments have increased the cumulative return on the equity reference portfolio by around 0.27 percentage point, or 0.02 percentage point annually. Divestments linked to climate change and human rights have increased the cumulative return on the equity reference portfolio by 0.21 and 0.06 percentage point respectively. Divestments linked to anti-corruption have decreased the cumulative return on the equity reference portfolio by 0.04 percentage point, while those linked to water management have had a negligible impact on the return.



Targeted investment

On three occasions, the government has mandated special allocations to environment-related investments. The fund has managed these mandates with the aim of achieving the highest possible return, while investing in assets that yield environmental benefits.

When setting up the initial investment mandate for equities, there was broad political agreement that the fund should have only one, financial objective. The fund had grown at a swifter pace than previously anticipated. In addition, projections indicated that the government was unlikely to have to draw on the fund for a long time. The Jagland government in 1997 stated that the fund should be a dedicated instrument for financial saving. The fund should therefore be managed with the aim of achieving the highest possible return on the government's savings. The Storting endorsed this view.

Soon after the 1997 election, the newly formed Bondevik government signalled that it wanted the management of the fund to place more emphasis on environmental concerns and respect for human rights. The ensuing debate in the Storting and with Norges Bank revealed different views on the objective of the fund and, more broadly, on the range of policy instruments available to the government. While the government wanted to balance financial with ethical or political objectives, Norges Bank maintained that balancing multiple objectives could add significant costs and make efficient management of the fund more complicated. This would in turn undermine the purpose of the fund as an instrument for government saving.

Successive governments have set up dedicated investment funds outside the Government Pension Fund Global to pursue specific objectives, starting with Norfund in 1997 to help developing countries fight poverty, followed by

Argentum in 2001 to stimulate private equity investment in Norway, Investinor in 2008 to provide venture capital to internationally competitive start-ups, and finally Nysnø Klimainvesteringer in 2018 to reduce greenhouse gas emissions through investments in new technology. Today, there is broad agreement that the fund should not be a political instrument of foreign or climate policy.

The fund's environment-related mandates that were established in 2009 have the same risk and return requirements as the overall fund. The investment mandate delegates the definition of the environment-related investment universe to Norges Bank. The fund actively manages a portfolio of environment-related companies, which have contributed positively over time to the return on the fund. Investments in renewable infrastructure will improve diversification of the fund while also being subject to the same risk and return requirements. In both cases, the fund has only one, financial objective.

A financial investor

Norges Bank has consistently maintained that the fund should act exclusively as a financial investor. In its advice to the Ministry of Finance, Norges Bank stated that “any investments for which performance is measured on the basis of criteria other than the direct financial return, taking risk into account, should therefore be separated from the Petroleum Fund”. The governance of the fund should be based on a clear division of responsibilities between the Ministry as owner and Norges Bank as operational manager. The Ministry should define the investment universe and set a clear and easily identifiable benchmark for measuring the fund’s performance in a transparent manner.

Considering the environment

Evaluating the introduction of environmental or human rights considerations, Norges Bank identified positive or negative screening as one viable approach. Norges Bank explained that imposing significant limitations on the investment universe would lead to increased management costs, lower diversification and higher risk without higher expected performance.

If such criteria were to be introduced, Norges Bank stated that the guidelines should be specific and detailed and allow stability and cost-effective investment management with adequate control and performance measurement. The non-financial considerations, including the definition of the objectives and investment strategy, should be decided by the political authorities, acting through the Ministry. Norges Bank should be responsible only for their operational implementation and management in accordance with clearly defined criteria.

The first Bondevik government continued to argue for ethical guidelines in the revised national budget published in May 1998. The

government stated that it had worked to strengthen the emphasis on human rights and the environment, but had not yet found ways to do this that would meet the requirements for clarity, consistency and practicability. It emphasised that such requirements included satisfactory evaluation and control of the management of the investments, including a high degree of transparency. Lastly, the government indicated that it would return with a proposal to separate a small part of the fund and introduce special restrictions for this part of the portfolio based on environmental criteria.

In March 1999, Norges Bank discussed three alternative reasons for investors to establish environmental criteria: to change corporate behaviour, to avoid being associated with harmful activities or to contribute to a higher return. Norges Bank stated that the purpose for introducing such measures must be politically anchored, and provided advice on how such a decision could be implemented operationally through positive or negative screening. Norges Bank pointed to the lack of available information at portfolio and company level as a general challenge which would make it difficult to establish objective and easily identifiable criteria for environment-related investments.

Two months later, the government proposed to “separate out a small part of the fund which should be managed under special environmental guidelines.” This part, unofficially named “the environmental fund” by the Ministry, was to be funded with 1 billion kroner, which at the time amounted to 1.5 percent of the equity portfolio. The results were to be evaluated after three years. This approach gained support from a majority in the Storting. The government’s main reasoning behind the environmental fund was to use it as a driving force for improving the information publicly available on environmental

aspects of companies' activities. This could support the emerging focus on environmental-friendly investments which had been developing globally over the preceding decade. The fund would furthermore follow certain peer investors that had established small environmental portfolios to test positive screening based on environmental criteria.

Squaring the circle

Neither the government nor Norges Bank had found empirical evidence that environmental screening would lead to improved investment performance. On the contrary, the government stated that introducing more restrictive investment criteria would probably lead to higher risk without being compensated with higher performance. In its proposal, the government emphasised that the criteria for environmental investments should be based on objective and easily identifiable factors.

The investment mandate for the fund was amended in 2000, and a framework for the environmental fund was established by the Ministry of Finance early in 2001. This scope was more restrictive than for the ordinary portfolio, with five fewer countries, but with a similar regional distribution. The Ministry set a benchmark that included companies in the FTSE indices that were deemed to have a limited negative impact on the environment. Additionally, the Ministry included companies that fulfilled certain requirements for environmental reporting or environmental certification. The Ministry engaged the UK company Ethical Investment Research and Information Service (EIRIS) to identify these companies.

EIRIS gathered the environmental data that were available on the companies in the FTSE indices and first identified sectors with limited

environmental impact. These constituted approximately 65 percent of the market value. EIRIS then evaluated and scored the remaining companies and excluded approximately 50 percent of the remaining companies. At the time, company data on environmental performance were limited and frameworks for analysing companies' negative or positive impact on the environment were still being developed. The fund had little insight into the data or methodology used to select the investable companies.

On 31 January 2001, the environmental fund was funded with 1 billion kroner, and this was increased to 2 billion kroner one year later. It was managed as a pure index portfolio and the managers did not employ active or systematic strategies to achieve excess return. The Ministry stated that it would assess the results of the environmental fund after its initial three years.

Limits to screening

In its first year, the environmental fund's performance was influenced by a sharp downturn in the global economy, particularly the burst of the dot-com bubble and decreasing demand for technology, media and telecommunications products.

This pattern could also be observed in 2002, which was another weak year in global equity markets. The return on the environmental fund was slightly higher in 2003 and significantly weaker in 2004.

In 2003, an expert committee published its recommendations on ethical guidelines for the fund. The Committee argued that it would not be possible for the fund to have an investment strategy based on positive screening of a limited number of companies based on environmental or ethical criteria. Their recommendation was



instead to introduce a framework for negative screening of the portfolio based on ethical criteria – but with a high threshold for exclusion – combined with active ownership. This recommendation was supported by the government and the Storting, and was implemented in 2004.

As part of this process, the Ministry of Finance asked Norges Bank to evaluate the environmental fund. Norges Bank's advice was to terminate the environmental fund, arguing that the best framework for the fund as a whole was negative screening based on ethical guidelines combined with active ownership, and to maintain an overall goal of promoting financial performance. Norges Bank also stated that there was still no empirical evidence that positive environmental screening would lead to improved performance.

The Ministry followed Norges Bank's advice. The environmental fund was wound up on 1 December 2004, and its assets transferred to the ordinary equity portfolio. From inception in January 2001 until it was discontinued, the benchmark return on the environmental fund was 2.43 percentage points lower than the return on an equivalent equity index where environmental criteria were not applied. This was largely due to the sector composition of the environmental fund, with shares in the technology, media and telecom sectors making up a large portion of the portfolio.

Environment-related mandates

Unlike the 2001-2004 environmental fund, the environment-related mandates introduced in 2010 were not earmarked as a separate portfolio with its own universe and benchmark set by the Ministry. Instead, they were established as actively managed sub-portfolios, subject to the same investment strategy and requirements as the fund as a whole and with the same return target. The environmental-related mandates have contributed positively to the return on the overall fund.

Environmental benefits

In 2008, the Ministry initiated the first broad public evaluation of the fund's ethical guidelines introduced in 2004. It initially indicated that it would re-assess positive selection of environmental investments. In the consultation paper that followed, the Ministry specified that it was considering earmarking a part of the fund for environmental technology or emerging markets. This was subsequently adjusted to become an investment programme targeting environmental investment opportunities, which in turn could become a first step towards investing in private equity and unlisted infrastructure. The Ministry also proposed an investment programme for sustainable growth in emerging markets, which in the end was not followed up. The proposal led to the introduction of environment-related mandates as part of the fund in 2010.

The Ministry stated that "in contrast to earmarking money for a particular fund, the Ministry intends the new investment programme to run across asset classes, and that the scope of the investments will vary according to the opportunities at any given time." It added that the environment-related programme should be expected to "yield undisputable environmental benefits, such as climate-friendly energy,

improving energy-efficiency, carbon capture and storage, water technology and management of waste and pollution." This stated objective would shape the framework for the environment-related mandates.

The proposal for environment-related mandates was put out for a public consultation in 2008, together with the ethical guidelines. In its response, Norges Bank again advised against introducing positive selection of investments based on environmental or ethical criteria. Norges Bank argued that positive selection of companies based on criteria other than expected return would represent a break with the fund's investment strategy, reduce the spread of the fund's risk, and increase company-specific risk. Norges Bank was sceptical about developing the fund's strategy in the direction of positive selection of investments based on normative assessments, as this would conflict with the fund's financial objective. It warned that positive selection could increase exposure to systematic risk factors, and that there was no evidence that positive selection criteria could be linked to higher expected returns.

Norges Bank restated that earmarking investment capital for special purposes would introduce goals besides achieving long-term financial returns, and that such earmarking of investments should take the form of allocations in the annual government budget, and not be part of what was now the Government Pension Fund Global. Norges Bank recommended instead that the fund's investment universe should be expanded to include unlisted infrastructure investments, as this would improve the diversification of risk and increase the potential to create value for the fund.

In 2009, the Ministry disregarded Norges Bank's advice on alternative asset classes and proposed

one investment programme related to environmental investments and one related to sustainable growth in emerging markets. A majority of the parliamentary finance committee supported the establishment of an environment-related programme. In October that year, the Ministry moved forward with the environment-related investment programme within the existing mandate, in line with the approach suggested by Norges Bank.

The Ministry noted the option of expanding environmental investments into new asset classes, including green infrastructure projects such as wind energy. Such investments would be more demanding, with higher financial and operational risk, and this required further analysis. Building on a similar argument, the Ministry also stated that it would need to work further on an investment programme for sustainable growth in emerging markets. This conclusion was supported by a majority of the parliamentary finance committee.

Active management

Norges Bank established its first actively managed environment-related mandates at the end of 2009 within the existing investment mandate for the fund. These mandates were managed externally, focusing on clean power production and water management, with a combined allocation of 2 billion kroner. Shortly thereafter, the fund also established active mandates internally. Building on its experience of actively managed sector mandates, the fund decided to establish the initial environment-related mandates while discussions with the Ministry were still ongoing.

In November 2009, the Ministry asked Norges Bank to clarify certain aspects of the investment programme for environment-related investments. In its response of February 2010,

Norges Bank explained that it had already established several environmental mandates, targeting “climate-friendly energy efficiency, carbon capture and storage, water technology and management of waste and pollution”. This was in line with the Ministry’s proposal and the support gained from the Storting.

From June 2012, the Ministry added a separate provision on environment-related mandates to the investment mandate for the fund, with an initial range of 20-30 billion kroner. The range was increased to between 30 and 50 billion kroner the following year, to between 30 and 60 billion kroner from 29 September 2015, and finally to between 30 and 120 billion kroner from 30 November 2019.

The environment-related mandates are subject to the ordinary investment requirements and restrictions applying to the fund, and the same benchmark. The expectation is that the mandates should generate higher returns than the mix of equities we would have held if we had not funded these mandates. The Ministry of Finance requires the fund to define which sectors and companies are considered to be environment-related.

Our approach is based on a belief that there are opportunities for investing in companies and technologies that enable more environmentally friendly economic activity. These investments are likely to have positive externalities that will benefit society, such as more efficient resource use, less pollution and lower energy costs. Over the long term, companies that develop technological solutions may benefit economically from the ongoing shift towards lower pollution and greater natural resource efficiency.

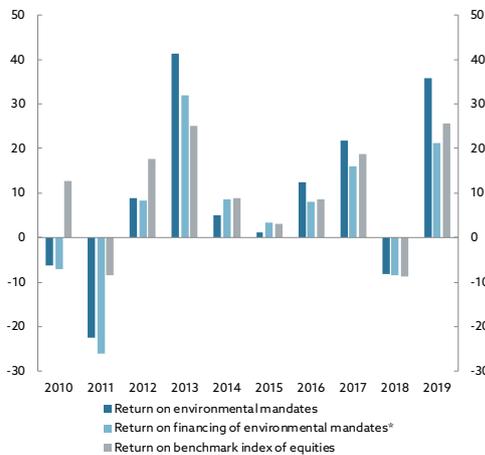
The investments under the environment-related mandates consist of targeted solutions across the market rather than specific industry sectors. The universe for environmental investments is still poorly defined, faced with an ever-changing opportunity set of disruptive technologies, new market entrants and unpredictable policy frameworks.

As the allocation to the universe grew and new companies developed, we observed that there were not many “pure-play” environmental

companies with a single business focus. Together with the lack of a clear-cut definition of the universe, these two characteristics meant that the investable market for pure-play environmental companies was small. Conglomerates often had more capital and resources to develop and implement new solutions.

How large the environmental side of the conglomerate needed to be before an investment was justified was a matter of

Chart 7 Environment-related mandates. Return on environment-related mandates and the benchmark index for equities. Annualised data, measured in the fund’s currency basket. Percent.



*Includes dedicated allocation to environment-related equity mandates in the reference portfolio

Chart 8 Environment-related mandates. Return impact of environment-related mandates on the reference portfolio for equities compared to a portfolio without environmental mandates. Measured in dollars. Percentage points.



subjective judgement. In 2016, we set a minimum level of environmental exposure for a company to be eligible for investment, and the main objective for the investments was defined as follows: "Investments shall be in renewable and alternative energy, energy efficiency, water infrastructure and technologies, pollution control, waste management and technologies. Companies must derive at least 20 percent of their business from the above sectors to qualify for investment."

Although the majority of the initial investments were in pure-play environmental companies, the 20 percent exposure requirement enabled us to invest in multi-industry companies and conglomerates with growing environmental exposure.

Given the intention to yield net positive benefits, we acknowledged that, in addition to positive screening for environmental exposure, there was a need for negative screening of potentially harmful sectors. We excluded sectors such as oil and gas producers, and metals and mining from the investment universe. We also excluded companies with more than 20 percent of operations from upstream oil and gas and coal, and coal-related or nuclear power generation activities, even if they were not classified within the excluded sectors.

As part of our monitoring, we kept close track of the environmental exposure of all companies in the environmental mandates and of the sustainability risks associated with these companies. The objective was to gather input on the environmental exposure of the companies in each portfolio. We used this input in our overview of the exposure of each company in our universe. Additionally, we used it as a check on our requirement for minimum environmental revenue exposure.

From 2015, we also kept track of the carbon footprint of all the environmental portfolios and their constituent companies. This was benchmarked against the stocks we sold to fund the portfolios. At the end of 2019, the environmental portfolios had total emissions of 11.3 million tonnes of CO₂-equivalents, as measured by scope 1 and 2 emissions. This can be compared to 15.2 million tonnes of CO₂-equivalents for the funding.

In 2018, we decided to manage the environment-related mandates in-house and to terminate the external mandates. This was based on an acknowledgement that these mandates were in an area that is difficult to measure, with no reliable benchmarks. Furthermore, the investments were a dual strategy with both internal and external mandates, capitalising on different opportunity sets within the environmental universe. Our preference was to simplify and prioritise our internal strategies. Also, terminating the external environment-related mandates enabled us to focus our resources and budget for external managers on other strategies such as specialist country mandates.



Positive contribution

At the end of 2019, we had 62.3 billion kroner invested in shares in 77 companies and 17.1 billion kroner invested in green bonds under dedicated environment-related mandates. The environment-related equity mandates returned 7.3 percent since January 2010, compared to 9.6 percent for the benchmark. Over the past five years, however, the return on the environment-related equity mandates has been somewhat higher at 11.5 percent, compared to 8.7 percent on the fund's equity benchmark. The cumulative relative return of the environment-related equity mandates since their inception in 2010 was NOK 11.9 billion kroner at the end of 2019.

The return on the environment-related equity mandates has been more volatile than the return on the equity benchmark. This is only to be expected, as the environment-related mandates are invested in fewer stocks than the fund's broad equity portfolio. Because the environment-related investment mandates make up only a small part of the fund, these investments have had little impact on the fund's overall return or risk.

Our current environment-related mandate portfolios continue to be invested in three main areas: low-carbon energy and alternative fuels, clean energy and efficiency technologies, and natural resource management.

Our experience of investing in environment-related companies has been good, but not without challenges. The market is still characterised by frequent and major changes, both in the form of an ever-changing opportunity set with disruptive technology and new market entrants, and in the form of unpredictable policy frameworks. Deep analytical resources need to be deployed to avoid disadvantaged companies while uncovering disruptors and winners. The characteristics of the universe mean that it is an area that is particularly suitable for active investment.

Renewable infrastructure

A few years after the introduction of equities, Norges Bank began arguing for further diversification into unlisted infrastructure, which would be an attractive investment aligned with the size and long-term horizon of the fund. However, making concentrated investments in strategically important projects carries political and regulatory risks, especially for a sovereign wealth fund like ours. The energy transition finally provided the trigger for the government to allocate a share of the fund to renewable infrastructure investments.

Expanding the universe

The fund's investment strategy has developed gradually over time. At inception, the fund was invested in government bonds only. In 1998, it was decided to invest 40 percent of the fund in equities. A broadening of the investment universe to include other asset classes was first discussed by the Ministry of Finance in 2001, and in more detail by Norges Bank in 2002. This eventually led to unlisted real estate being included in 2010. Finally, in 2019, renewable energy infrastructure was added as a new asset class to the environment-related mandates. The decision to include infrastructure took several turns before gaining broad political support in the Storting.

Compared to many of our peers, the fund was late to include unlisted infrastructure. Norges Bank first proposed including new asset classes in 2006, with a 10 percent allocation to unlisted real estate and infrastructure. Norges Bank argued that unlisted investments could improve fund diversification. Investments in infrastructure projects would be expected to contribute stable, inflation-adjusted cash flows and help safeguard the fund's long-term international purchasing power. It was noted, however, that this would require an adjustment

of the governance model to reflect the specifics of such investments.

The Ministry of Finance acknowledged both the potential diversification benefits and the need for adjustments to the governance model. In 2008, the Ministry decided to support a 5 percent allocation to real estate but not to include unlisted infrastructure.

In December 2014, the Ministry revisited the question of unlisted infrastructure in the context of renewable energy and less mature markets. Norges Bank responded that it would be possible to invest in infrastructure for renewable energy with the same required rate of return as for the fund's other investments. Infrastructure investments in less mature markets would, however, be more demanding. Norges Bank suggested that the fund's allocation to such investments should initially be defined as an interval of 0-5 percent of its total market value.

The Ministry concluded that a transparent and politically anchored sovereign fund such as the Government Pension Fund Global was less suited to bearing the specific risks associated with unlisted infrastructure investments. It also emphasised that the market for unlisted infrastructure was small for a fund of our size, and that it would be useful to gain more experience from unlisted real estate before potentially allowing new asset classes. The Storting supported the Ministry's position but asked it to consider the issue further.

Finding a compromise

In 2018, the discussion on unlisted infrastructure eventually took an environmental turn, when the Ministry announced that it would assess "whether unlisted renewable energy infrastructure investments can be effected within the scope of the special

environment-related mandates, with the same transparency, return and risk requirements as apply to the other investments in the GPFG.”

In the white paper published in April 2019, the Ministry duly presented a proposal to include unlisted renewable energy infrastructure in the environment-related mandates. Furthermore, based on advice from Norges Bank, the Ministry set out the key parameters for a framework for such investments. In June 2019, the Storting agreed to the proposal, including that the upper limit for the environment-related mandates should be increased from 60 to 120 billion kroner to provide room for the new asset class. The Ministry followed up these decisions by amending the investment mandate for the fund with effect from 30 November 2019.

Under the mandate, unlisted renewable energy infrastructure may constitute up to 2 percent of the investment portfolio. The asset class covers land, real estate and onshore or offshore facilities that are principally used or intended for use in the production, transmission, distribution and storage of energy based on renewable energy sources.

The mandate explicitly states that the fund may not be invested in unlisted infrastructure such as roads, railways, seaports, airports and other basic infrastructure which does not constitute renewable energy infrastructure. The mandate furthermore requires the Executive Board of Norges Bank to set more specific risk limits for countries of investment, projects under development, maximum debt ratios, etc.

Sun and wind

The investment mandate for unlisted renewable energy infrastructure has been modelled on the framework for unlisted real estate. The fund may invest in physical renewable energy infrastructure facilities, and in equity and interest-bearing instruments issued by unlisted companies, fund structures and other legal entities whose principal business is the procurement, development and management or financing of renewable energy infrastructure. These investments may be made through Norwegian or non-Norwegian legal entities.

We have begun building in-house investment capacity and expertise to analyse and invest in renewable energy infrastructure. Norges Bank targets a portfolio of renewable energy investments of 1 percent of the fund by the end of 2022. The focus will initially be on opportunities in European and North American wind and solar generating assets.

Over time, we expect our renewable investments to diversify the fund and generate higher returns than the assets we sell to finance their purchase.



2 | Ownership

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Ownership

In 20 years, the fund grew to become the largest single owner in the world's stock markets. The question for the fund was what to do about the rights and responsibilities that come with ownership.

To protect the fund's long-term interests, we need to exercise our rights as an owner and hold company boards to account. As a sovereign wealth fund managed within the central bank, we recognise that we may have additional responsibilities to companies and markets. Financial markets have changed. Institutional investors have become significant shareholders, diversifying their investments across many markets, sectors and companies. Companies have grown in size large and become multinational enterprises with dispersed ownership.

Some of the largest shareholders are institutional investors like us who own a relatively small slice of thousands of companies across the globe. We cannot know each company in our portfolio in detail, but our future value depends on the value they create. Corporate failures at the turn of the century and the global financial crisis led investors to rethink their role as owners.

Ownership can roughly be split into hard and soft power. Hard power is the legal right to influence companies, primarily by taking part in shareholder meetings to elect the board and approve other fundamental decisions at the company. Soft power covers a broader set of informal interactions to influence the company. Investors can ask to meet the board and management and communicate their priorities.

The fund started out as a reluctant owner. Exercising ownership rights was seen as problematic, given the resources required, our

limited influence, and our status as a sovereign fund. Ownership stakes were capped at 1 percent of the share capital of any one company, with this limit only gradually raised to the 10 percent it is today.

The fund was initially not allowed to exercise its voting rights unless it was necessary in order to safeguard its financial interests. Voting gradually increased as managers had to make decisions on corporate actions that could affect our investments. As voting expanded to protect our long-term financial interests, the fund had to define common principles for voting consistently across all companies.

Company meetings were established as an ownership tool with the adoption of the 2004 ethical guidelines for the fund. Direct contact with individual companies became a means of gaining information and influencing companies on matters that are important for the fund's long-term return. Our starting point is to support the company while being clear about our expectations.

Today, the fund is an active owner. Each year we vote at more than 11,000 shareholder meetings and have nearly 3,500 meetings with companies. We aim to be principled and transparent when we use our voting rights and interact with companies.



Voting

Shareholder meetings are the main opportunity for shareholders to influence companies and hold the board to account. We use our voting rights to promote the fund's long-term interests.

We own a small slice of more than 9,000 companies. As a minority shareholder, we are one of many contributors of equity capital to a company. We rely on the board to set the company's strategy, oversee management performance and be accountable for its decisions. For stock companies to function effectively, most decision-making power is delegated to the board. Shareholders have the right to choose who will sit on the board and act in their best interests. Shareholders also have the right to approve fundamental changes to the company, such as amendments to governing documents, issuance of shares, and mergers and acquisitions.

The fund has come a long way since it initially avoided using its voting rights for fear of getting involved in difficult decisions. Today, the fund actively uses its voting rights at nearly all shareholder meetings. The fund has a principled approach to corporate governance that is applied consistently across the portfolio. The fund publishes all its votes the day after the meeting. In cases when we vote against the board's recommendation, we provide an explanation. From 2021, we will publish our votes before the shareholder meeting and explain any votes against the board's recommendation. We want to be fully transparent about how we exercise our ownership.

A reluctant owner

Exercising ownership rights, including voting at shareholder meetings, was not the intention when the fund began investing in listed companies. On the contrary, exercising ownership rights was seen as problematic, considering the resources required, our limited influence, and our status as a sovereign fund.

In the revised national budget for 1997, the government emphasised that the fund should be “a financial investor and not a tool for strategic ownership”. This was important for reasons of risk diversification, liquidity and availability of capital, as well as performance measurement so that the fund’s performance could be compared with that of other financial investors. Strategic ownership would also have required different expertise and close monitoring of the higher risks involved in actively influencing corporate decisions. The government stressed that “the fund’s ownership interests in individual companies shall be small” and set an ownership limit of 1 percent of the share capital of any one company.

Norges Bank also noted that this “spreads the risk and results in smaller variations, and also helps to avoid equity stakes of a magnitude which forces the investor into an active role as an owner.” Norges Bank estimated holdings of around 0.3-0.4 percent in European markets, given the proposed 40 percent allocation to equity, 50 percent allocation to Europe and a future fund size of 500 billion kroner.

When the fund first invested in equities in 1998, the exercise of ownership rights was subject to the following rule in the Regulation on the Management of the Government Petroleum Fund: “Norges Bank shall not exercise ownership rights linked to shares unless this is necessary in

order to safeguard the financial interests of the fund.”

Norges Bank argued that if it were to make use of its voting rights, the Ministry would have to set “well-defined operational procedures, consistent with the ethical guidelines”. Using the fund’s voting rights would add operational costs and would probably lead to a reduction in revenue from lending securities.

By the end of 1998, the fund already held shares in 2,109 companies. An increase in the cap on ownership stakes became inevitable to allow for greater flexibility in the management of the fund. The cap was duly raised to 3 percent in 2000 to allow several external managers to invest in the same company without running the risk of exceeding the ownership ceiling. As the fund grew further, the cap was subsequently raised to 5 percent in 2006 and 10 percent in 2008. In 2016, an exception was made to the 10 percent cap for investments in listed real estate companies in order to facilitate the implementation of the real estate investment strategy in a market with limited investment opportunities.

Two different considerations gradually persuaded the fund to make more active use of its voting rights: promoting ethical behaviour in companies and protecting the investments of the fund.

Ethical behaviour

The fund first considered using its voting rights as an alternative to negative and positive screening. In 1997, the government had announced that it wanted guidelines for the fund with more emphasis on environmental and human rights issues. The Ministry of Finance raised the possibility of either excluding

companies that did not meet certain criteria or including only companies that did. This led Norges Bank to consider different options for integrating such issues into the management of the fund.

Norges Bank cautioned that both approaches would reduce diversification and increase risk while complicating the management and monitoring of the fund. Norges Bank presented voting as an alternative. Voting could be used to “convince enterprises to attach importance to specific ethical issues [...] without placing restrictions on the fund’s investment universe”. Norges Bank pointed to large US pension funds which had chosen to exercise ownership rights actively instead of excluding companies from their investment universe. Responding to a later proposal to include environmental criteria in the investment strategy, Norges Bank similarly argued that it could “safeguard environmental considerations by using voting rights”.

Norges Bank envisioned three potential ways of exercising ownership rights to influence the “ethical profile of companies”. This included dialogue with company management, tabling proposals at shareholder meetings, and voting only on motions of an ethical nature submitted by other shareholders.

Norges Bank argued that if ownership rights were to be exercised, the fund’s owner would first have to establish a set of specific ethical guidelines that would mention explicitly all the activities of concern to the fund’s owner, and a mechanism to translate these guidelines into the active exercise of ownership rights.

Norges Bank concluded that “whereas the use of voting rights would have a limited impact on the management of the fund, the exclusion of many

companies from the fund’s investment universe might result in substantial costs and make it more complicated to engage in effective management with adequate control and performance measurement”.

Norges Bank made it clear that it considered exercising voting rights the least bad option, and that given the choice it would rather just get on with investing in an unrestricted universe. At the same time, Norges Bank declined to take responsibility for voting: “It is natural for the owner of the fund (the Ministry of Finance) to be responsible for voting.”

As we have seen, the government set aside the objections of Norges Bank, establishing in 2001 both a small environmental fund and an exclusion mechanism. Using voting rights as an alternative to negative and positive screening was not seriously considered. However, the debate on whether to exclude companies that violate ethical norms or own them to influence their behaviour continues to this day. Norges Bank later developed an effective interplay between exclusion and active ownership. Voting has, however, played little part in this interplay, as neither product selection nor business conduct are subject to shareholder approval. The fund has instead chosen meetings and written communication to collect information and present its views on companies’ behaviour.

Protecting investments

Corporate failures such as Enron in 2001, and Tyco and WorldCom in 2002, raised the question of how the fund could protect its investments. These failures revealed instances of mismanagement, or even fraudulent management, and a lack of board oversight. They also demonstrated that there was a need for shareholders to take a more active role in

holding the board to account in order to safeguard investors' long-term financial interests.

In parallel with awareness of the need for greater shareholder involvement by shareholders, regulators, stock exchanges and other market participants had strengthened the regulation and oversight of corporate systems and procedures for management, control and accounting.

Another important aspect was that large institutional investors had become significant owners. Through their diversified holdings, they held minority stakes in thousands of companies across the globe but were not able to monitor each of them effectively. This led institutional investors to re-evaluate the board as an alternative accountability structure to discipline management and deter wrongdoing. Most large pension funds published guidelines for the exercise of ownership rights based on shared interests, which were very similar to the principles of good corporate governance adopted by the OECD in 1999.

Along with these developments, substantial inflows of capital had increased the fund's average holdings in global equity markets, particularly in Europe. While our ownership stakes had at first been so small that our votes would have had limited impact, our growing holdings pointed to a future where using our votes could soon have a greater impact on individual companies and broader market practices. Hence, voting could become relevant to the fund's financial interests.

In the five-year period from 1998, when the fund made its first equity investments, to 2003, average equity holdings increased from 0.04 percent to 0.27 percent globally. In Europe, the

fund owned almost 0.5 percent of every listed company by the end of 2003. The increase in percentage holdings and the possibility of exerting influence through co-operation with other institutional investors made it more likely that the fund could help protect its financial interests by exercising its ownership rights.

The fund already had some experience of exercising its ownership rights in individual companies, even if it did not participate in voting. Companies would regularly ask the fund, as a shareholder, whether to participate in tender offers and whether to receive cash or stock dividends. If the fund did not respond, the company would apply the default option which might not suit the fund's investment strategy, liquidity needs or tax position. Just like voting, these corporate actions involve choosing between different alternatives that affect the company and, in some cases, other shareholders. Corporate actions, however, were limited in scope and decisions could be made through existing arrangements.

Casting the first vote

The equity portfolio was managed exclusively by external managers during the first years starting in 1998. External managers could vote on the shares held beneficially for the fund, but there was no co-ordination to ensure consistent voting. The contracts with these managers regulated the right to exercise ownership rights on behalf of Norges Bank along the same lines as laid down in the fund regulation and the guidelines specified.

The fund started to manage equity portfolios in-house from 2001, alongside the long-term portion of Norges Bank's foreign exchange reserves. External managers had voted on shares held on behalf of the fund soon after the first equity investments were made, but they had not

made full use of the opportunity to vote. Each external manager voted individually, with no co-ordination of voting decisions.

The need to protect the fund's long-term interests across a growing portfolio and to co-ordinate between external managers prompted the fund to make more active use of its voting rights.

The fund started to prepare for voting at companies in portfolios managed internally at the beginning of 2002. The fund entered into an agreement with an international advisory firm that specialised in providing investors with information on upcoming shareholder meetings all over the world. The firm sent this information together with an analysis of the agenda and a voting recommendation for each item. It also assisted in transmitting our vote to the company in time for the meeting. Other international investors used similar services to carry out their voting with minimal use of their own organisational resources.

In February 2003, Norges Bank asked the Ministry of Finance to lift the restriction on our ability to vote. Norges Bank argued that the condition "shall not exercise ownership rights [...] unless this is necessary" could be interpreted as a negative objective and that ownership rights should generally not be exercised. The wording raised doubts as to whether the fund could exercise ownership rights only in very special cases, and the fund wanted a less restrictive interpretation.

Norges Bank suggested a possible reformulation of section 11 of the fund regulation: "Norges Bank shall exercise ownership rights when deemed necessary to safeguard financial interests." This wording did not imply that the fund would exercise ownership rights in every

case where safeguarding financial interests was involved, but that resources would have to be focused on the cases where this was most important. This change to the fund regulation was not immediately adopted but signalled a change of approach for the fund and anticipated the changes to the ethical guidelines in 2004.

Shortly thereafter, the fund cast its first vote, at the shareholder meeting of HSBC Plc on 28 March 2003.

Since voting was meant to contribute to safeguarding the financial interests of the fund, voting decisions for internally managed portfolios were delegated to the internal portfolio managers. The fund prioritised the largest companies in the portfolio, and the decision whether to vote at a meeting was made from case to case, based on a financial assessment of the fund's long-term interests. The objective was not to be active at a large number of shareholder meetings, but to concentrate our efforts on those portfolio segments where it could be assumed that voting would protect the fund's interests.

In 2003, about 2,000 companies in the internally managed portfolios held annual general meetings. The fund used its voting rights at the largest 150 companies in the portfolio, which made up more than 50 percent of the portfolio's value, and on other individual cases that were considered financially important. The fund voted on 514 agenda items at 39 meetings. Of these, the fund voted for 37 percent and against 4 percent, and abstained on 58 percent.

Nearly always, the agenda included other items besides the ones selected by the portfolio manager. Once the fund had decided to participate in a shareholder meeting, the fund had to express views on all the items on the

agenda. In the first years, the fund would often only vote on a single issue linked to corporate actions and abstain on all other issues. In this way, the fund avoided the responsibility and cost of researching the board and governance of the company and having to decide which way to vote.

Starting in 2005, all voting in externally managed portfolios was transferred to the fund. A corporate governance team was established as part of the fund's equity management to monitor the fund's ownership interests, reporting to the Head of Equities.

Chart 9 Voting. Number of meetings voted (left-hand axis) and number of companies in portfolio (right-hand axis).

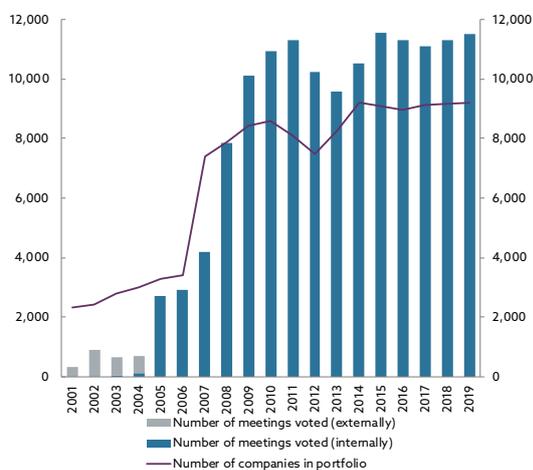
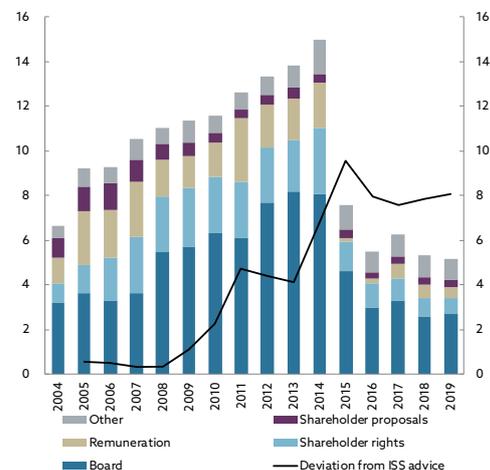


Chart 10 Voting. Share of votes against the board's recommendation by category and deviation from ISS advice. Percent.



A principled owner

With the increasing use of voting rights and the need to co-ordinate voting decisions between different portfolio managers, the fund established an evolving set of guidelines for voting. These guidelines had to explain the objective of voting and specify how to vote on a wide variety of issues. As the fund began to vote at thousands of shareholder meetings, public guidelines became even more important to ensure consistency across the portfolio and to allow companies to understand why we vote the way we do.

Establishing principles

At the start of 2000, the fund began to run internal portfolios. The large external index mandates were terminated and brought in-house early in 2001. Internal and external managers had to make a broad range of decisions regarding the fund's ownership rights in individual investments. Making the best decisions for the fund required co-ordination and clear guidelines.

On 14 February 2002, the fund established its first "Guidelines for Exercise of Financial Ownership in Foreign Stock Companies". With these guidelines, the fund took an important step towards making more active use of its ownership rights. The fund was to protect the interests of the portfolio by taking a position on important questions that could affect shareholders' long-term financial value. The guidelines listed the preferences of the fund: a clearly defined strategy and financial purpose of the company; exact, complete and timely information; one vote for each share; board accountability and regular board elections; and appropriate incentives for management. While the list seems uncontroversial today, at the time it signalled that corporate governance was

relevant for protecting the interests of the fund. This was a clear break with the reluctant approach to ownership in the first five years of equity investment.

When the Ministry of Finance issued the new Regulation on the Management of the Government Petroleum Fund in December 2004, it also stipulated that the fund should exercise all ownership rights with the overall goal of safeguarding the fund's financial interests. The regulation was supplemented by "Principles of Corporate Governance and Protection of Financial Assets" issued by Norges Bank in December 2004. The principles took as their starting point that corporate governance was important to protect the financial interests of assets under management: "Exercising ownership rights with a view to protecting financial assets is an integral part of sound portfolio management. Norges Bank expects company boards to be responsible for ensuring that operations are conducted in a manner that is in the owners' long-term interests." The principles were made public to be more open about how we would exercise our ownership.

In 2008, Norges Bank issued its first public voting guidelines. We already had internal guidelines for voting, but with their publication, companies, investors and other market participants could better understand our priorities. By then, the fund had become a significant owner, with equity investments in 7,531 companies and a global average stake of 0.5 percent. The guidelines reiterated that the overriding objective of voting was to safeguard the long-term financial interests of the portfolio. Being open about the principles that determine our voting became a defining part of our role as an owner. With published principles, we could show how we voted consistently at thousands

of companies. We could be also be more predictable so that companies could understand why we voted the way we did.

The guidelines argued that the company should have a clearly defined business strategy, endorsed by the board of directors, that the company should disclose adequate information about its financial position and other relevant factors, and that internal management and control systems should be tailored to the business. The guidelines also argued that the company's board should take account of the interests of all shareholders, that it should have a sufficient number of members with relevant and adequate qualifications and a majority of independent members, that the board could be held to account for its decisions, and that the company should report openly on its policy and actions in relation to human rights and its impact on the environment and local communities.

One issue that set us apart from many other investors was our principled view on the separation of chairperson and CEO. We believed that a clear separation of roles and responsibilities was necessary for the board to exercise objective judgement on corporate affairs and to make decisions independently of management. In most cases, we would vote against the election of the chairperson if he or she was also the CEO. This principled view was not always appreciated by affected boards and made some company interactions more difficult. Over time, we have observed a trend towards separation of roles. In the US, combined roles decreased from 44 percent of companies in the Russell 3000 index in 2012 to 34 percent in 2019. We continue to publish our view on the separation of chairperson and CEO, to explain our view in company meetings and to vote against relevant chairpersons.

With the growing size of the fund, interest in our ownership and voting also increased. At the beginning of 2010, the fund published a combined document entitled "Corporate Governance Principles and Voting Principles". The principles were based on broadly accepted norms, in particular the OECD Principles of Corporate Governance. Many of the principles are still relevant today and can be found in our current voting guidelines. In 2012, the fund published a detailed discussion note on corporate governance which reviewed the academic evidence and suggested specific investor expectations on board accountability and the equal treatment of shareholders.

Voting at shareholder meetings consists mainly of making decisions on proposals put forward by the company's board. In some markets, including the US, shareholders can also table resolutions. In order to influence the agenda at the meeting, the fund decided in 2009 to file its own shareholder proposals. In line with our principled view, we chose the separation of the roles of CEO and chairperson as the objective of our proposals. We selected five US companies that had combined roles without adequate measures in place to mitigate conflicts of interest.

Since 2006, we had engaged with the US Securities and Exchange Commission to make it easier for shareholders to propose alternative board candidates in the US market. We proposed giving shareholders proxy access as a cheaper and less confrontational alternative to the more aggressive proxy fights. In 2012, we filed shareholder proposals seeking bylaw changes at six US companies in order to give shareholders this right. We filed similar proposals seeking proxy access at five US companies in 2013.

The proposals received 30-40 percent support and significant public attention, even if none of

them were adopted. They also contributed to publicising more widely the fund's principled views on corporate governance. Other shareholders later filed similar proposals to strengthen the role of the board and protect shareholder rights. In 2019, 89 percent of US companies in the Russell 3000 index had proxy access.

In 2015, we conducted a major review of our voting principles. The fund was by then invested in over 9,100 companies and had an average stake of 1.3 percent in every listed company in the world. Companies, other investors and NGOs were paying increasing attention to our voting and calling on the fund to explain the rationale for individual votes. At the same time, we had observed that our votes against the board's recommendation had increased to 15 percent, which made us appear less supportive of the board than many of our peers. In our voting, we had followed established and widely shared corporate governance principles on a broad range of issues while adding our own principles, including on the separation of chairperson and CEO. In combination, this led to a high number of votes against the board's recommendation.

We carefully analysed the most important agenda items at shareholder meetings and how we had voted. We also compared our votes to those of other investors and to the advice provided by proxy firms. We found that our votes were broadly aligned with the market and that most of them stood up to scrutiny. However, we also found that we voted against the board's recommendation on a range of large and small issues without a clear sense of prioritisation. This threatened to undermine our principled approach to voting and, moreover, reduce our impact at individual companies.

As a result, we decided to scale back and concentrate on a few core principles that would explain the majority of our votes. Our starting point would be to support the boards that we as shareholders had elected, unless we had a principled reason to withhold our support. When we published new voting guidelines in February 2016, we stressed four principles. First, the board must be accountable to shareholders. Second, the protection of shareholder rights is an essential requirement for minority shareholders. Third, the board is accountable for all information provided by the company. Fourth, the board should understand material risks and opportunities and integrate such matters into the company's business strategy, risk management and reporting.

Our votes against the board's recommendation dropped to 7.6 percent in 2015 and 5.5 in 2016. The main drivers for our against-votes were board accountability, in particular board members' independence and the separation of chairperson and CEO, and shareholder protection, in particular share issuances that undermine our rights.

Following the review, we began to publish two-page position papers on our priorities in corporate governance. We wanted to clarify our principled views and be more open about the reasoning behind our voting. The first two position papers called for strengthened procedures for board elections with the purpose of improving accountability towards shareholders. We argued that shareholders should be able to hold board members to account by voting on each one individually. Boards should also publish the vote tally so the market could assess the level of support for board and management. Sweden was among the few advanced markets where boards were elected on a slate and where companies did not publish detailed voting results.

Taking a principled view on management incentives in 2017, we sought to strengthen alignment of CEO and shareholder interests through simplification of remuneration plans, emphasising transparency and long-term shareholding. In 2018, we argued our position on the time commitment and industry expertise of board members and on the separation of chairperson and CEO. In 2020, we further clarified our views on board independence, share issuances, multiple voting rights, related-party transactions, corporate sustainability reporting and shareholder proposals on sustainability issues. These positions serve as a starting point for our discussions with company boards and explain our voting.

In February 2020, the fund published more detailed voting guidelines, structured along six main principles for effective boards and shareholder protection. The guidelines consistently take as their starting point that we support the board, but that we will withhold our support if we consider that the board is not able to operate effectively or that our rights as a shareholder are not protected.

With more detailed guidelines, we are able to publish a principled explanation in those instances where we vote against the board's recommendation. An effective board is the keystone of a well-governed company. The board should exercise independent judgement, without conflicts of interest. The board should fulfil its duties effectively and have an appropriate balance of competences and backgrounds. Board members should be accountable to shareholders for the outcomes of their decisions. The protection of shareholder rights is an essential requirement for minority shareholders in a listed company. Shareholders should have the right to obtain full, accurate and timely information on the company and to

approve fundamental changes to the company. This includes the right to approve changes in capital structure affecting shareholders' cash flow or voting rights. We expect all shareholders to be treated equitably.

Making voting decisions

Explicit voting guidelines enable co-ordination internally, and publishing them creates predictability about our ownership in individual companies. At the same time the guidelines need to be applied to a broad range of agenda items across markets in different jurisdictions. Each market and, to a large extent, each company is different. Global voting therefore requires gathering information about companies and markets, analysing them, applying careful judgement, and handling difficult issues. Since establishing its first corporate governance unit in 2005, the fund has balanced centralised co-ordination, based on principles, with integrating fundamental company insight from portfolio managers. With better company data and increasing use of analytical tools, we have been able to automate a majority of voting decisions and to concentrate our efforts on the most important.

As the fund grew in size, being consistent when voting at shareholder meetings became ever more important. Consistency means that our voting decisions can be explained on the basis of our principles. When we apply our principles, we evaluate company developments and take into account best practices in the local market. The nature of some proposals requires that we consider them individually. In such cases, we have to use judgement when applying our principles. Consistency does not mean that we will vote in the same way each year, or at all companies and on similar issues.

We have used an online platform since 2003 that brings together all necessary information about upcoming shareholder meetings. The platform includes all of the resolutions to be voted on, the board's position on these resolutions, standardised voting recommendations by competing advisors, as well as the relevant deadlines and technical details. Applying the fund's own global voting guidelines, we receive initial voting recommendations on all resolutions. While we have continuously refined our voting guidelines and strengthened our analytical capabilities, the process remains largely unchanged. Selected companies are analysed internally and escalated for further consideration when necessary. Company-specific factors and fundamental insight are integrated on a case-by-case basis. If no changes are made, the vote is cast automatically, based on our voting guidelines.

The involvement of portfolio managers in voting decisions was formalised in 2013. Each portfolio manager with an active management mandate was asked to analyse the shareholder meeting agenda and provide recommendations on the resolutions subject to a shareholder vote for important companies in his or her portfolio. Fundamental insight from portfolio managers helped us apply our principles more accurately at the individual company. The involvement of portfolio managers in the voting process has also given the portfolio manager a deeper understanding of the companies' governance.

The involvement of portfolio managers in the voting process has strengthened in recent years. In 2013, portfolio managers were involved in 7.3 percent of voting decisions. In 2019, portfolio managers were involved in 9.4 percent of voting decisions. Since portfolio managers concentrate on many of the largest companies in the portfolio, their voting input relates to about 50 percent of the value of the equity portfolio.

While the majority of our voting decisions fall within the scope of our public voting guidelines, there are cases where our guidelines do not give a clear answer. Some resolutions are contentious by nature or fall outside the established voting framework. In 2015, we established a referral system to cope with such cases. We analyse the proposals individually and vote on the basis of what is considered to be in the best long-term interests of the company and the fund. Common examples of such cases have been extraordinary general meetings to vote on mergers, acquisitions or capital issuances, and other important events affecting the company.

Resolutions tabled by shareholders on sustainability issues are particularly likely to require individual analysis. These resolutions cover a broad range of social and environmental issues in a format that is not standardised. They make up only 0.2 percent of all the resolutions we vote on, but are often the most difficult decisions we make. We have seen an increase in the number of shareholder resolutions addressing environmental and social issues. Some of these resolutions have helped improve risk management, while others have diverted attention away from core business. The proponents of these resolutions may be long-term investors such as us, or activists with special interests. Our support for these proposals has varied between 27 and 52 percent in the last seven years, depending on the nature of the proposals and the company in question. With such variation, we were not able to be as consistent and predictable in our voting as we wanted.

In 2019, we formalised a set of three criteria for evaluating shareholder proposals on sustainability. First, the issue at hand should be materially relevant to the company. Second, the proposal should not seek to impose a strategy,

or prescribe detailed methods or unrealistic targets for implementation. Third, the proposal should be considered in light of what the company is already doing. With these criteria, we aim to make consistent voting decisions on a mixed bag of issues, with reasonable use of our resources.

With shareholder proposals as a clear exception, the vast majority of the roughly 115,000 resolutions we vote on each year fall within the scope of our published voting guidelines. Extensive data on companies and detailed guidelines put us in a position to automate most voting decisions. This is necessary in order to handle a vast number of resolutions in a short period with reasonable resources. Automation also means that we can ensure a high degree of consistency and that we can measure trends in corporate governance and market practices over time.

Roughly 87 percent of voting decisions have been automated. These decisions are mainly associated with smaller companies representing approximately 30 percent of the value of the fund's equity portfolio.

The voting guidelines we published in 2020 are more detailed and specific, using binary rules and quantitative thresholds where possible. With more and better company data on corporate governance, we are able to automate the voting process further. This will help us calibrate our voting decisions more accurately, based on our own principles, and improve overall quality and consistency. Automation will also help focus our limited human resources on the companies and voting decisions that matter most for the financial value of the fund.

Chart 11 Voting. Share of shareholder meetings voted by year. Percent.

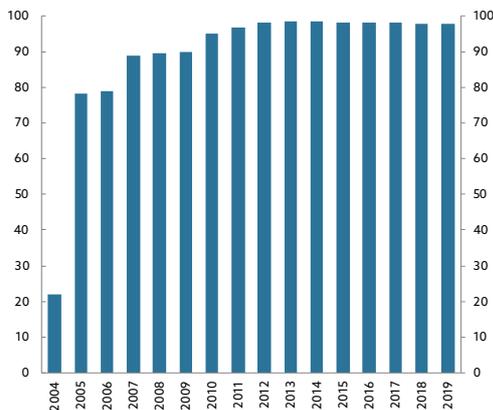
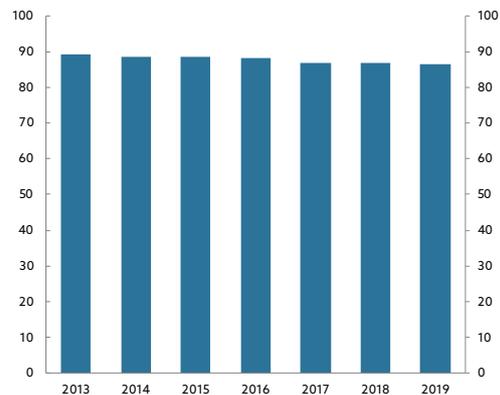


Chart 12 Voting. Share of automated votes by year. Percent.



Reliable voting process

Given the high number of shareholder meetings, we are dependent on a reliable voting process. An efficient decision-making process, voting by proxy and the use of intermediaries have made voting possible across the entire portfolio.

We aim to vote at all shareholder meetings at the companies in our portfolio. The global securities market ensures that capital is allocated efficiently across national borders, but shareholders' voting rights are still subject to local regimes. Furthermore, voting is often manual, with little use of digital solutions to make the process more efficient. For our votes to reach each shareholder meeting and be counted, we rely on a number of intermediaries, making the process slow and uncertain. In most markets, we do not receive any confirmation that our votes have been received by the company. We are working with regulators and service providers to improve the voting process and ensure that our votes are registered.

When we do not vote at a shareholder meeting, this is generally because voting would lead to share blocking, thereby restricting our ability to trade, or because other rules make it difficult to exercise our voting rights. When the fund centralised all voting in 2005, we voted at 2,705 shareholder meetings, or 78 percent of the meetings held. The intention was already to vote for the full portfolio, but share blocking in several European markets prevented investors from selling shares between the time of voting and the shareholder meeting when voting rights had been exercised, and the fund prioritised portfolio managers' freedom.

Changes in market practices enabled us to vote at 7,871 shareholder meetings, or 89 percent of the total, a few years later in 2008. Further reductions in share blocking and other obstacles to voting enabled us to achieve a participation rate of 95

percent in 2010, and we voted at 97 to 98 percent of all shareholder meetings from 2011.

From the outset in 2003, the fund has voted by proxy, through a representative who attends the shareholder meeting and is authorised to vote on behalf of the fund. Most companies permit shareholders to vote at shareholder meetings without attending in person. This system enables us to vote at companies all around the world without travelling to deliver the votes in person. Only in exceptional cases have employees of the fund participated in person at a shareholder meeting.

The process of sending voting instructions starts when we receive the notice of meeting and supporting documents from companies via our custodian network. All meeting-related information is uploaded to a closed web-based system accessible by the fund. Once we make our voting decisions, instructions are sent to companies via our service provider's internet-based proxy voting platform and conveyed to the shareholder meeting by representatives in our custodian network.

In 2020, our process for voting by proxy is largely unchanged. We still use external service providers to collect shareholder meeting information and provide a tool for sending voting instructions. For shareholder voting at thousands of companies to have the intended effect, the process needs to be efficient. Many markets operate with regulatory frameworks based on outdated manual processes, with multiple layers of intermediaries and without end-to-end electronic solutions. As we noted in our 2020 Asset Manager Perspective, we have identified a need for further improvements to the efficiency of the voting process, including harmonisation of regulation, better technology and end-to-end vote confirmation.

A transparent owner

Since we started voting in 2003, we have become increasingly open about how we vote. As a large shareholder, we face growing interest in our voting from companies, investors and other market participants. The Norwegian population, as beneficiaries of the fund, wants to know how we use our ownership rights. Being open about how we vote makes us predictable as an owner and makes us accountable for our decisions. Our next goal is to publish all our voting decisions, with an explanation, ahead of each shareholder meeting.

Voting decisions

In the early years, from 1998 to 2000, the fund had little insight into the voting decisions that external managers made on behalf of the fund. In 2001, we started to receive monthly reports from our custodian bank showing how external managers had voted. The first voting records show that external managers voted at 31 percent of the shareholder meetings where we had voting rights. External managers exercised our rights only when they had identified a financial interest.

The fund began reporting annually on its voting decisions in 2003, after it had cast the first vote at a company in an internally managed portfolio. In that year, shareholder meetings were held at about 2,000 companies in internally managed portfolios. At this point, the fund chose to concentrate its voting rights on the 150 largest companies in the portfolio, which made up more than 50 percent of the equity portfolio's value.

The fund's annual report contained information on the number of shareholder meetings at which we had voted, the total number of votes cast and the share of votes against the recommendations made by company boards. In the period between 2003 and 2007, voting

increased six-fold, from 650 shareholder meetings to 4,202. Although the number of companies in the portfolio grew significantly in this period, the increase was mainly driven by an expansion of voting to a broader range of issues. By 2007, the fund voted against board recommendations in 9.5 percent of cases, mainly driven by opposition to the election of board members.

Starting in 2008, the fund began to publish all its voting decisions at individual companies the previous year when launching our annual report. The data were made available on our website. We supplemented our voting disclosures with explanatory comments and descriptions of our voting priorities.

In the period between 2007 and 2013, voting doubled again, from 4,202 to 9,683 shareholder meetings. The number of companies in the portfolio grew by 10 percent in the period. Improvements in the voting process and the removal of share blocking in many markets allowed us to further expand our voting. By 2013, the fund voted against the board's recommendation in 13.8 percent of cases, which was more than most of our peers.

In 2013, there was a public debate on holding the board of JPMorgan Chase & Co accountable for failures in its risk oversight process following significant trading losses. Our voting decisions had become an important reference point for other investors and our own stakeholders. This was particularly so in high-profile cases following the global financial crisis. Communicating our voting decisions in an annual report, several months after the shareholder meeting, was seen to be too slow. The fund committed to becoming even more transparent.

In the third quarter of 2013, we began publishing our voting on the fund's website one business day after each shareholder meeting. This increased our transparency on voting and how we exercise our rights.

In the period between 2013 and 2019, voting increased by another 20 percent, from 9,583 to 11,518 shareholder meetings. The number of companies in the portfolio grew by another 10 percent in the period. Further improvements in the voting process allowed us to expand our voting yet again. In the same period, we reviewed our voting guidelines, which resulted in our votes against board recommendations stabilising at 5 to 6 percent of all votes. This demonstrated our starting point of supporting the board unless we had principled reasons to withhold our support.

Voting rationales

We have published our voting decisions since 2003 and our voting guidelines in different versions from 2006. This has allowed companies, investors and market participants to understand how we voted and what principles guided our decision. We have generally not commented on specific votes or provided a public rationale since we did not want to single out individual companies or board members.

In April 2020, the fund pushed transparency on voting to a new level. We began publishing a rationale every time we voted against the board's recommendation. The published rationale is part of our continuous disclosure of all voting decisions, one business day after the shareholder meeting. The rationale is derived from the recently updated voting guidelines and provides a principled explanation for all votes against the recommendation of the board.

Voting intentions

In some instances, we have published our voting intention ahead of the meeting. We have done this to draw attention to important principles at select companies. In these cases, we have informed the relevant company in advance of publishing our voting intention. We have mainly chosen to express our support of resolutions that align with our principled view. We published our first voting intention in 2015 to support the special shareholder resolutions on climate reporting at BP and Royal Dutch Shell. Both resolutions were approved by a significant majority.

In total, we have published 21 voting intentions, mainly on climate risk, mergers and board elections. The majority of proposals were tabled by shareholders. While we believe that publishing our voting intentions at individual companies is an effective way of communicating our principles, we also acknowledge that the approach is selective and skewed towards markets with many shareholder proposals.

To further enhance transparency on voting, we will publish all our votes in advance of the meeting from 2021. Our intention is to provide more information to the market and to be fully transparent about how we use our voting rights. We are concerned that a lack of information makes the market for voting advice not fully efficient.



Company interaction

We have 3 500 company meetings every year. Our starting point is to support the company while being clear about our expectations.

The fund's approach to company interaction has developed over the years. However, some premises have been in place from the outset. First, we have maintained that company dialogue contributes to the protection of shareholder interests and supports the fund's objective of achieving the highest possible return. Second, we have sought to be principled and transparent about the matters that we discuss with companies. Third, we have preferred to interact with a number of companies within a sector on the same issues rather than engage in individual company dialogue. Fourth, we have been mindful about the fund's characteristics when interacting with companies, considering our ownership share, our global presence and our nature as a sovereign investor.

We integrate corporate governance and responsible business conduct into our investment decisions to support the fund's objective of achieving the highest possible return with moderate risk. We have integrated governance expertise into the management of the fund, making sure that corporate governance analysts and equity analysts work together.

Company interaction differs from voting in that the interaction is often more informal in nature, offering opportunities to communicate our views but also engage in discussion and learn from companies. Whereas voting is a legal right, interaction is a tool that we have chosen to make use of but where we depend on the willingness of the company to interact with us. Successful interactions between investors and companies also develop over time rather than being a one-off expression of views.

Voting and company interaction are most effective as ownership tools when they complement each other. We have used company interaction to inform companies of how we intend to vote at a shareholder meeting and to explain after the meeting why we voted the way we did. We have also used our voting rights to reiterate views that we explained in meetings with companies.

Ownership interests

As early as 2003, we defined what we considered to be the fundamental purpose of exercising our ownership rights. This was to ensure that the interests of all shareholders were sufficiently protected by the governing bodies of the companies that we were invested in. The focus on protecting shareholder interests came in response to cases where the rights and financial interests of shareholders had been poorly protected, or not protected at all, as illustrated by some large corporate failures in the US in particular at the turn of the millennium.

We observed that a number of large institutional investors had started to collaborate to play a more influential role in safeguarding their financial interests. At the same time, our average holdings in global equity markets were rapidly increasing. The growth in our ownership interests, combined with the possibility of exerting influence through co-operation with other institutional investors, was considered key to our ability to help protect and develop the fund's financial interests through active ownership.

Another important consideration for basing the exercise of ownership rights on safeguarding financial interests was that we wanted to create predictability as to our behaviour as an owner. We considered that such predictability would help establish strong relations with other investors and portfolio companies as well as enable us to exert more influence in matters considered important to the fund. The publication of our corporate governance principles in 2004 and subsequent dissemination of the principles to the largest companies in our portfolio in 2005 illustrate how we sought to be predictable from the outset.

We also stressed our focus on safeguarding long-term financial interests, which in our view

had been neglected both by corporate managers and by other investors. Poor governance practices had too often come about due to a short-term focus, and we considered the exercise of ownership rights even more pertinent for protecting the interests of long-term investors such as ourselves.

Following the adoption of the 2004 ethical guidelines, we concluded that there could also be an ethical dimension to the exercise of ownership rights. We found that poor corporate governance was sometimes a result of a fundamental lack of ethics, as illustrated by lack of accountability. We also found that corporate priorities were sometimes driven by special interests rather than the interests of shareholders and the common good. Further, we recognised that there could be synergies between ethics and financial interests for long-term, universal investors, given that our investments around the world could be impacted by lack of respect for rights, lack of environmental protection, conflict and instability. We also argued that the long-term financial soundness of the fund was a genuinely ethical concern, given the needs of future generations, and that ethics and financial interests could therefore be complementary. At the same time, we noted that it would not be appropriate to use our ownership rights to address ethical concerns that could not be justified on the basis of financial considerations.

The protection of our long-term financial interests has remained a fundamental purpose for the exercise of ownership rights. Interaction with companies has always been part of our toolkit and has broadly had three objectives: to hold boards to account, to contribute to changes in portfolio companies and markets, and to gather information about company practices.

Holding boards to account

We concluded early on that holding companies' boards of directors to account was crucial for us as a financial investor, and a key objective of company interaction, given the role of the board in supervising a company's management and operations and representing shareholder interests. This naturally centres around board accountability for company strategy, but also extends to the environmental and social consequences of company operations. Without well-functioning boards, we lose out as investors.

This is why we decided in 2005 that direct contact with individual companies on governance issues should primarily be with the board of directors. In later years, we elaborated on the rationale for holding boards to account, noting that attempts by single shareholders to micromanage a company with dispersed ownership are likely to frustrate and undermine management, disturb strategy processes and blur lines of responsibility.

The better option for shareholders like ourselves would be to retreat from detailed involvement in corporate decision-making and hold the board accountable for its actions and outcomes. We observed that market practices were often insufficient to hold boards accountable, partly due to inadequate mechanisms allowing boards to insulate or entrench themselves, and partly due to a lack of initiative from shareholders to involve themselves in overseeing boards. We therefore decided that being a constructive and firm owner overseeing boards and holding them to account would be a priority for the fund.

From 2006 onwards, we stepped up our interaction with individual companies, emphasising that the chairperson and key board representatives would be the most important

points of contact on governance issues. From 2013, we started to engage more systematically with company chairpersons to discuss the board's working culture and dynamics, including how the chairperson ensured useful debate and safeguarded the quality of the board's work. That year, we had 77 meetings with the chairpersons of companies in which we held large stakes. These meetings covered a wide range of ownership issues, centring on the board's role in establishing effective governance. Specific issues raised in these meetings included the responsibilities of the chairperson, strategy setting, role of board members, nomination of directors, shareholder consultation, and sustainable business practices.

In 2015, we introduced a sector-specific focus to our dialogue with company chairpersons, targeting 12 chairpersons of European banks. These dialogues focused on capital adequacy and allocation, strategy setting and execution, succession planning and board effectiveness. In 2016, the dialogue was extended to include US financial institutions, and we met the chairperson or lead independent director of 15 financial institutions in the US.

Since then, we have sought to engage with the boards of our top 50 holdings regularly. The dialogue has concerned issues such as industry expertise on the board, directors' time commitments, and governance and sustainability practices.

Our interaction with boards has increased year on year, from 70 interactions in 2013 to 167 in 2019. Despite our focus on holding boards to account, most of our company dialogue over the years has nonetheless been with members of management. While we generally have access to boards thanks to the size of the fund, access in some markets, including the US, has been

challenging. Further, some of our dialogues have pursued objectives other than board accountability, such as information gathering or contributing to changing company governance and sustainability practices. While these are objectives that we have often pursued at board level, it has also been necessary to address issues with other parts of company management, such as the CEO, or sustainability experts for more detailed discussions or information gathering. Lastly, we only meet boards when we are confident that we can make the meeting mutually beneficial, i.e. when we are able to match the level of seniority, have the prerequisite knowledge and expertise about the company and sector, and want to convey views and questions that warrant the board's attention.

Improving company and market practices

The development of the ethical guidelines for the fund in 2003-2004 established that the fund had an ethical duty to work on improving company practices through the exercise of ownership rights, including company dialogue. Exercising this duty through ownership activities would have the benefit of improving the situation for those negatively affected by a company's activities. However, it was also noted that there could be associated risks, for example that the fund could contribute to unethical practices if unsuccessful in exercising its ownership rights in a way that led to improvements in company practices.

This duty to exercise ownership rights was described at the time as a duty to remain invested while using our rights as an owner to influence portfolio companies. Exerting influence was understood in this context as the responsibility to ensure that portfolio companies were made aware of the fund's corporate governance principles. Exerting influence was

not understood to mean that the fund should seek to direct corporate strategy.

While it was recognised that direct dialogue with company boards would be limited to key holdings, such dialogue would be an opportunity to raise a broader set of issues in a way that would not be possible solely through voting. Social and environmental issues rarely figured routinely on the agendas of shareholder meetings at the time. Dialogue was therefore seen to be a particularly useful tool for raising ethical concerns related to human rights and environmental practices.

It is important to note that the ethical duty to use our ownership rights to influence companies was not seen as an objective in itself. Rather, it was seen as integral to the objective of achieving the highest possible long-term return.

A clear example of such a dialogue is the meetings that we held with the chairperson of BP Plc in response to the Deepwater Horizon incident in 2010. The objective of this meeting was to ascertain that the board would commission an independent review of the accident and make it public. We also wanted the board to reaffirm health and safety as its utmost priority. There was a clear link between our environmental concerns and our financial interests in the company.

Although we recognised that we have an ethical obligation to use our ownership rights to promote changes in company practices, and that the objectives of company dialogue in this respect would be to convey our views and nudge companies towards better reporting and responsible business practices, we also acknowledged that the results of these dialogues would be difficult to measure.

First, it is hard to establish whether a change in business practice is due to our interaction with the company, the interactions that the company might have with other investors, or occurred independently of investor outreach. Second, it is difficult to ascertain how a company's revenues and share price would have developed had the company not changed its practice. Third, companies will normally present changes as their own initiatives rather than a reaction to investors' wishes, thus making the result of ownership activities difficult to document. Finally, the exercise of ownership rights through individual dialogue often takes time, and effects are therefore unlikely to emerge in the short term.

Notwithstanding these challenges, we noted that dialogue might still contribute to raising awareness at board level and enhance internal communication within a company about the concerns that we raise through our interactions. Over time, we have also observed changes in company practices even if we cannot attribute these to our interaction. In terms of our measuring the overall results of ownership activities, it was considered that the best approach would be to focus on activities undertaken and how effectively these activities have been organised.

Gathering information

During the development of the ethical guidelines for the fund, it was recognised that the information that we gather through contact with companies forms a basis for efficient and effective exercise of ownership rights. A lack of comprehensive and consistent reporting across markets on environmental, social and governance issues has meant that, in practice, we have used company meetings to gather information that we need for further risk analysis.

In some cases, we have also sought to gather information through company meetings to inform the development of our own positions and expectations. For example, we consulted a number of chairpersons of portfolio companies to inform the development of our expectations on board accountability in 2012. We have also interacted with companies in relation to our voting. Some voting decisions, in particular on shareholder proposals related to sustainability issues, that sometimes require us to gather additional information from companies in order to inform our decisions.

Another example of how we use company interaction for information gathering and internal knowledge building is our work on the nomination committees of selected Swedish companies starting in 2013. This interaction has enabled us to gather invaluable information about nomination processes under the Swedish corporate governance model and about effective board evaluations.

Ownership issues

The matters that we have raised in company interactions have evolved considerably, often in response to the development of new corporate governance principles, positions and expectations. In the early years, interactions focused on six priority areas as defined by our corporate governance strategies. In more recent years, we have expanded company interaction to cover further governance and sustainability issues. All the issues that we discuss with companies are nonetheless grounded in our positions and expectations on good corporate governance and responsible business practices. This principled approach to the issues that we raise with companies distinguishes us from many other investors. There are current issues and event that other investors might raise but where we do not have a principled view.

Six priority issues

Our first corporate governance strategy, approved by Norges Bank in 2006 for the period 2007-2010, identified six priority areas for our corporate governance work, including company dialogue. These were: (i) the right to vote; (ii) the right to nominate and elect board members; (iii) the right to trade shares freely; (iv) the right to open, timely information; (v) children's rights within the value chains of multinational companies, particularly related to limiting child labour and measures to protect children's health; and (vi) companies' response to national and supranational authorities on issues related to long-term environmental change, including the risk of pronounced climate change, the destruction of ecosystems and biodiversity, the extensive and long-term depletion of water resources, and declining access to clean water.

The criteria for the selection of these six areas included the importance for long-term returns, the probability of an investor like us being able

to bring about actual changes, the possibility of identifying relevant companies, industries and jurisdictions, and the potential for co-operation with other investors that would increase the likelihood of successful company interaction. The four priority areas related to governance were considered important rights necessary to achieve real influence and dialogue with companies, including on social and environmental issues. At the time, these rights were restricted or poorly developed in a number of markets. The two priority areas related to sustainability were deemed to harmonise well with the international standards on which the fund's corporate governance principles were based, notably the UN Global Compact and the OECD Principles of Corporate Governance and Guidelines for Multinational Enterprises.

With backing in the 2007-2010 corporate governance strategy as well as our first expectation document on children's rights, our direct dialogue with companies was stepped up significantly in 2007. All in all, we initiated or continued contact with 93 companies in the portfolio during the year, primarily on issues related to these priority areas. With regard to the right to vote, we endeavoured, both through voting and through direct contact with companies, to reduce companies' use of structures which restricted voting rights. We also engaged in direct dialogue with companies about governance systems that either individually or collectively made takeovers difficult or impossible. With regard to the right to open and timely information, we encouraged companies to give shareholders adequate information on the strategies they were pursuing and what consequences these strategies could be expected to have. The requirement for open and readily available information was also a key part of most

company dialogues on children's rights and climate lobbying in 2007.

In 2008, a key issue raised with many companies was board independence. We communicated our view that this principle should apply to the chairperson and important board committees, and a general expectation that a majority of directors should be defined as independent of dominant shareholders and the company's executive management.

The principles and strategy for our corporate governance efforts were revised in 2009. Six new priority areas were defined: (i) equal treatment of shareholders; (ii) shareholder influence and board accountability; (iii) well-functioning, legitimate and efficient markets; (iv) climate change; (v) water management; and (vi) children's rights. While most of these priority areas were covered by the previous strategy, water management and the promotion of well-functioning and efficient markets were new. The choice of areas was based on our assessment of which types of areas were best suited to dialogue with companies and standard setters. By prioritising areas in this way, we envisaged that we could increase our impact, particularly by building expertise and alliances. Prioritisation was also considered necessary to lend our initiatives sufficient weight, and meant that there might be certain issues or incidents that would appear important on their own but would not be allocated ownership resources.

In 2009, in response to this strategy, we engaged for the first time with 14 companies in the construction, mining, oil and gas, and retail industries about their approach to water management. This dialogue was expanded in 2011 to focus on companies in Asia and Australia that were particularly exposed to water risk. These dialogues showed that some companies

were inadequately managing water-related risks in the supply chain and revealed a need for improving measurement and disclosure of water consumption and water-related risks. We emphasised that it was in the fund's interest for markets to be well-functioning, open and well-regulated to reduce serious market failures, and subject to reasonable standards of conduct, such that they contribute to sustainable development.

Good governance

In 2012, we published our first corporate governance expectations in the form of a discussion note setting out our views on board accountability and equal treatment of shareholders. The document was intended to serve as a basis for dialogue with portfolio companies. In developing the expectations, we consulted 20 selected company chairpersons in 2011 and 2012. The main conclusions from this dialogue were that there should be clear expectations on the integrity, behaviour, motivation and character of directors who accept the invitation to join a board. The duty to build value over the long term should not be frustrated by short-term distractions. Further, the primacy of the role of the chairperson and a particular skill set for the chairperson should be expressed explicitly. The division of duties between the board and executive management should also be clarified.

While the expectations largely addressed issues that we had already raised in company dialogues, the publication of the corporate governance expectations consolidated our principled approach to company interaction on governance. Some of these issues have been somewhat controversial for us to raise in company dialogues, as our interactions could be interpreted as challenging existing power structures vested in the board and management.

Public expectations have helped us convey that we are not singling out certain individual company practices but taking a principled approach that applies to all companies and in all markets.

While we had raised proxy access through our voting practices and engagement with standard setters since 2006 and discussed the issue with companies, our public position was only developed and published in 2014-2015. The publication of the position paper enabled us to raise the issue more systematically in company dialogues. In 2014, we interacted on this issue with 25 companies that we believed had considerable influence in their respective industries. The main aim was to encourage boards to support proxy access reforms and introduce proxy access in their bylaws. In 2015, we sent letters to 27 companies seeking proxy access implementation before the next shareholder meeting. By the end of 2015, we found that 108 companies had implemented proxy access in their company bylaws or charters with an ownership threshold of 3 percent held for three years or more. By the end of 2016, this number had grown to 250 S&P 500 companies.

Further position papers on corporate governance in the period 2015-2020 have helped explain our views and facilitate interaction on individual vote counts in board elections, CEO remuneration, time commitment of board members, industry expertise on the board, separation of chairperson and CEO, board independence, related-party transactions, multiple share classes, and shareholder rights in equity issuances.

Long-term sustainability

In more recent years, we have expanded the focus of company dialogues to include further sustainability issues, notably anti-corruption,

climate change scenario planning, human rights, deforestation, tax transparency and ocean sustainability. In most cases, these dialogues have come about as a result of the publication of expectations on these issues.

Anti-corruption was first raised in company interactions in 2015, with a focus on building our understanding of the safeguards and compliance programmes that companies had put in place to detect and prevent corruption. We engaged with 14 companies specifically on corruption risk mitigation. Through these dialogues, we sought to clarify the board's oversight of anti-corruption policies and prevention measures.

In 2015, we also embarked on dialogues with a number of electricity producers about their plans for transitioning to less emission-intensive energy systems, and with mining companies about their views on a possible move in the industry towards spinning off coal-mining operations. In these dialogues, we sought board recognition of the necessity of integrating climate-related challenges and opportunities into investment planning and risk management. We emphasised transparency on defined responsibilities for climate change planning within the organisation. We also wished to see companies identify scenarios for climate regulation, carbon pricing and future environmental conditions, and stress-test the sustainability of operations in different market situations. Finally, we asked for an outline of what climate change scenarios the board was working with and the assessments it was making. The dialogue began with letters to the company chairperson. The responses indicated there to be a range of approaches to climate change strategy setting. Transparency on scenario planning varied considerably, and companies highlighted aspects such as investing in low-emission technology. Following the

letters that we received in response, we had further correspondence and a select series of meetings.

Having published our human rights expectations in 2016, we started to raise human rights more systematically in company dialogues. In addition to sending letters to our 500 largest holdings informing them about our human rights expectations, we initiated dialogues on specific human rights issues. One such dialogue focused on the risk of illegal migrant labour and human rights abuses in Turkish supply chains in the context of the Syrian civil war and associated humanitarian crisis. We contacted 22 large apparel companies to get a deeper understanding of their sourcing of garments from Turkey, including information on how these companies assessed their exposure to the risk of refugees working illegally in their Turkish supply chains, and what action plans the companies had put in place to deal with such situations. Approximately two thirds of the companies contacted responded to our letters, and we had a continued dialogue with a number of these companies.

In 2017, we stepped up company interaction on deforestation. One of the focus areas was improving supply chain standards beyond the Brazilian Amazon amongst commodity traders and meatpacking companies. The other was Indonesian and Malaysian banks' policies on palm oil financing.

Following the publication of our tax transparency expectations in 2017, we wrote for the first time to the largest 500 companies in our portfolio about their approach to tax. Subsequent interactions have focused on publication of corporate tax policies and country-by-country reporting of taxes paid, providing us with data that we could use to enhance our financial and risk analysis.

In 2018, we published our expectations on ocean sustainability and interacted with companies, both as part of the development of the expectations and specifically through a dialogue with six companies on nutrient run-off from agriculture. In this dialogue, we approached large food and meat producers to understand the extent of run-off in their value chains and how they are managing this issue.

Our interaction on sustainability has evolved in tandem with market developments, standard setting and emerging corporate approaches to tackling sustainability matters. During the first decade of the fund's operations, international norms and thinking on how social and environmental matters affect companies and investors were still relatively immature and often confused with corporate social responsibility. Some issues also proved controversial. For example, our early interaction on climate lobbying was not well received, as it was perceived to interfere with national policy agendas on energy security. Corporate and investor attitudes to sustainability issues have changed considerably in recent years, however. Such issues are now a regular feature of most investor interaction with companies, including our own. There is also a greater recognition amongst companies of how risks and opportunities in areas such as climate change or human capital management might impact business strategies.



Ownership interactions

The fund's characteristics have influenced our company interactions, notably which companies we engage with and the degree of transparency on these interactions. As a long-term investor, we have had regular interaction with our largest companies since 2005. This contact has taken many forms, including letters, email correspondence, conference calls and meetings, depending on the matter at hand, developments that have occurred, and how the companies have responded. While our preference has generally been to interact with groups of companies through letters and collective discussions, the format of these interactions has been shaped by what is behind the need for company dialogue, which broadly falls into two categories: (i) interactions driven by our interests as a long-term owner; and (ii) interactions driven by external developments, such as specific incidents or ethical concerns referred to us under the ethical guidelines.

Finding the right format

When prioritising which companies to interact with, we recognised early on that our ability to influence companies through dialogue was linked to our ownership share. As the number of portfolio companies grew, we also acknowledged that integrating corporate governance and sustainability issues at the company level into the dialogue with our largest, actively managed holdings would be more efficient and effective than pursuing company contact with smaller companies not covered by portfolio managers. Promoting corporate governance at large holdings could also have spill-over effects on entire sectors. These principles of focusing on the largest, actively managed holdings have guided all our interactions, regardless of whether we have chosen to send companies letters, invite them

to sector initiatives, or approach them for individual dialogues.

Beyond the fund's market allocations, there have been few formal guidelines in terms of ownership activities in specific countries. In practice, however, our nature as a sovereign investor has placed certain limitations on company interactions in this respect. For example, unlike some other investors, we have had few country-specific strategies when interacting with companies. We have also generally held all our company meetings in one of our four foreign offices and not in Oslo in order to emphasise that we are a financial investor with a global mandate.

There are some notable exceptions, for instance our broad engagement with Swiss companies on the removal of opt-out provisions from their articles of associations, Swedish companies on individual vote counts, and Japanese companies on general corporate governance issues. In these cases, we have taken a market-specific approach to our interaction because we have observed a discrepancy between the corporate governance trends in these markets and wider global developments. However, we have often found it more logical and more pertinent for a sovereign investor to take an industry approach when interacting with companies. We have also recognised that some markets have had corporate governance traditions that might be inconsistent with ours or cultures for shareholder interaction that differ. For example, we have generally had a better reception when seeking to raise sustainability with European companies than with companies from other markets. Although this is rapidly changing, the greatest share of our ownership interaction has therefore been with European companies.

Our nature as a sovereign investor has also imposed certain requirements on our behaviour in company interactions. From the outset, we have placed emphasis on behaving in a manner that would earn the respect of the companies so as to have a positive influence. Our objective has been to support boards and companies. We have rarely joined other investors when interacting with companies, due to our need to maintain control of the agenda and approach to interaction. We do not co-sign letters to companies together with other investors, and we do not participate in collaborative engagements where we co-ordinate company interaction with other investors. We also decided early on that it would not be appropriate, for example, to set deadlines for when to expect changes in company practices as a result of our interaction. Such requirements could in practice end up as a form of positive screening or create pressure to divest, which would not be aligned with our investment mandate. This does not mean that we have lacked clear plans for our interaction with companies. Action plans for each company dialogue, specifying the aim of the dialogue, the timeline and resources allocated were prepared for the first dialogues initiated in 2007, and this practice continues today.

Other behaviours that we have emphasised include thoroughness in preparations, integrity in our interactions and transparency about our activities whilst at the same time being cautious about publicising our actions with respect to individual companies. When we were granted the mandate to exercise ownership rights in 2004, it came with certain expectations of transparency. It was argued that the fund should be required to report on its dialogue with companies, as this would create incentives for the fund to prioritise ownership activities internally. It was, however, recognised that such

external reporting should not compromise the fund's ability to achieve its objectives in respect of ownership dialogue.

Our approach to external reporting on company interaction has varied somewhat over time. In the early years, we tended to report broadly on outcomes and give examples from some dialogues without naming specific companies. In 2014, we started for the first time to name examples of the companies we had engaged with and the purpose of the dialogue. However, we were less open about the outcomes and results of our dialogue than previously. One reason for this is that being more explicit at the company level makes it more challenging to discuss specific outcomes of our dialogues.

There is considerable interest from external stakeholders in who we engage with and what we achieve with our dialogues. Some other investors use media campaigns and other public communication to push companies towards change. Although our practice not to be public about the names and details of the companies we interact with is different to that of many other investors, we believe that our approach builds the necessary openness and trust for the dialogue to be effective.

It also remains difficult to attribute changes in company practices to dialogues initiated by us. In recent years, our external reporting has largely been activity-focused. In 2019, for example, we reported on the activities that we undertook with respect to a dialogue with ten producers of breastmilk substitutes. We reported that one company, Health & Happiness International Holdings Ltd, had published a new policy on responsible marketing of such products. When we initiated the dialogue with this company in 2018, the company did not have such a policy in place but had been considering it for some time.

While it is impossible to ascertain whether our engagement contributed to the company's decision to publish the policy, our dialogue did perhaps help emphasise the importance that we attach to this issue as an investor.

From the outset, our approach to company interactions has been underpinned by the need to act as a principled and predictable owner. The characteristics of the fund, notably our size, our minority holdings and the global nature of our investments, have required us to identify effective and efficient ways of interacting with our portfolio holdings. The accountability that we seek from company boards is also to some extent dependent on our ability to be transparent about our company interactions. While some of the formats through which we interact with companies, notably letters and

industry initiatives, are by nature relatively transparent, it is more difficult to achieve similar levels of transparency when we meet with individual companies.

Prioritising our long-term interests

Interactions driven by our interests as a long-term owner typically take the form of written interaction, sector dialogues and company-specific contact.

Writing letters to companies has been one of the main ways for us to interact with a large number of our portfolio companies. In these letters, we have typically shared our principles and views on corporate governance and sustainability matters. Back in 2005, we used letters as a means to disseminate our corporate governance principles to the largest companies in our

Chart 13 Company interaction. Number of meetings where ESG was discussed.

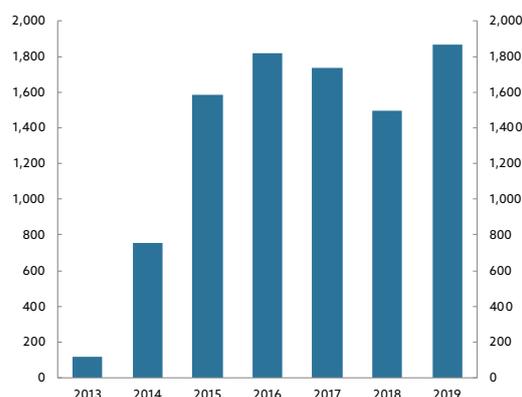
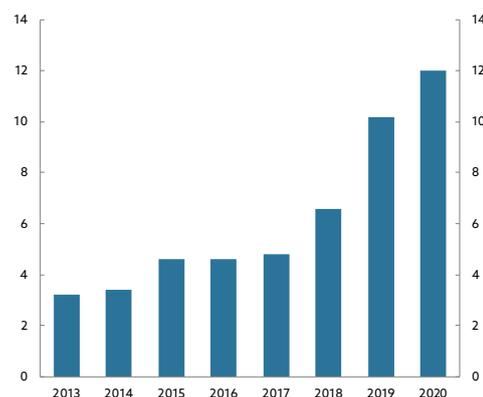


Chart 14 Company interaction. Share of company meetings where climate, carbon or emissions was mentioned. Percent.



portfolio. Similarly, we have used letters to inform portfolio companies about our other expectations, such as the human rights expectations which we wrote to companies about in 2016, and the tax transparency expectations which formed the basis of letters to the chairpersons of the largest 500 companies in our portfolio in 2017. Many companies responded to our letters, expressing support for our expectations and explaining their own strategies.

Company correspondence has also served to emphasise our voting intentions and decisions. For example, we wrote in 2019 to the chairpersons of the companies where we had voted against a board member due to overcommitment (“overboarding”), reiterating our position on the time commitment of board members. We also wrote letters to the chairperson of the board and the chairperson of the nomination committee at companies where we had in previous years instructed exemptions from our voting guidelines on the separation of chairperson and CEO but later reversed our position.

In some cases, we have sent letters to convey concerns, for example the absence of a response to our positions and expectations. We have raised company reporting on sustainability through letters since 2008, when we first started to evaluate how our portfolio companies were reporting against our expectations on children’s rights. We decided to send letters to companies that we found to have weak or non-existent reporting. Our first letters in 2008 were addressed to 19 companies that we found not to have reported adequately on their approach to children’s rights. In 2010, we expanded this dialogue to cover 60 companies with inadequate reporting on climate change, water management and children’s rights. In 2019, the number of companies that we wrote to regarding

sustainability disclosure reached 156 companies across our eight sustainability priorities, including both leaders in sustainability reporting and companies that we considered to be lagging behind.

With time, the process of sending letters regarding sustainability reporting has become more formalised, and escalation mechanisms have been introduced. In 2013, for example, we started to inform companies that had not responded to our letters sent in the previous year that we would consider the consequences of this lack of response in our voting at future shareholder meetings. In 2014, we intensified our engagement with a selection of companies that had answered our letters but had neither responded to our specific requests nor improved their reporting. In 2018, we began sending reminder letters to non-responding companies. This resulted in enhanced response rates and some improvements in company reporting on topics such as water management and children’s rights in 2019. Some companies still fail to acknowledge our concerns, and we have therefore voted against the chairperson at selected companies in 2020.

Although letters are part of the company interaction toolbox for most investors, our practice of approaching companies based on our own data analysis with a consistent message year after year about the need for better sustainability reporting seems to be a practice that is unique to the fund. Our experience is that this form of interaction helps raise company awareness of sustainability data of relevance to investors and strengthen sustainability reporting practices across markets.

Our letters have always been addressed to the chairperson of the companies. An advantage of this approach is that our views and concerns are

usually conveyed to the whole board. Addressing letters to the chairperson has therefore supported the objective of holding the board to account through our company interaction.

Another way that we have been able to interact with multiple companies at the same time is through our industry initiatives, where we work with a group of companies in a collaborative mode to address a collective challenge faced by a sector or a value chain. The overall objective of bringing companies together in this way has been to promote shared knowledge and learning, identify practical solutions and generate commitments to industry-wide practices. While this approach to company interaction is different to the approaches that are typically pursued by investors, we understood early on that it would be an efficient way to promote better market standards overall.

A notable early example of an industry initiative that we initiated was the work on preventing child labour in seed production in India, backed by our expectations on children's rights. Launched on 12 June 2009, the World Day Against Child Labour, this initiative brought together four companies in the fund's portfolio – Monsanto, Bayer, Syngenta and DuPont – which committed to work together to address the challenge of child labour in their supply chains. The industry standard CropLife Position on Child Labor in the Seed Supply Chain was published by CropLife International, a global trade association for the plant science industry. The standard described the joint effort these companies committed to make to eliminate the use of child labour by suppliers and other partners in the seed sector. It was also driven by the recognition that while one company was reluctant to act alone, we could level the playing field and reduce competitiveness concerns if we brought the key market players together.

Industry initiatives have typically concerned our focus areas and been directed at a group of companies within a sector. There are also examples of initiatives that have involved a broader set of participants, including peer investors and other stakeholders, such as non-governmental organisations or external interest groups. Dialogue has typically taken place collectively through working groups, roundtables and workshops. Some industry initiatives have been undertaken in collaboration with recognised external partners such as industry groups where this was deemed useful to drive a conversation or fully inform a discussion.

Another early industry initiative, launched in 2008 together with Dutch pension fund APG, focused on addressing child labour risks in cocoa production and supply chains in West Africa. In autumn 2010, companies participating in this initiative helped launch a child labour action plan and a partnership between the industry, the US Department of Labor and the governments of Ghana and the Ivory Coast.

More recent initiatives have looked at quantitative non-financial data in the mining sector, tropical deforestation in South East Asia and standards for responsible palm oil production, environmental risks from mining, human rights challenges in the apparel supply chain, human rights performance indicators, and anti-corruption in the pharmaceutical sector.

As opposed to engagements with individual companies, the expected outcome of an industry initiative is knowledge building or commitments to shared solutions across a group of companies. To make industry initiatives worthwhile for all participants, we have focused on generating outputs that are tangible and of practical relevance, such as public reports,

guidance documents, tools, methodologies, action plans and specific commitments to progress towards mutually recognised goals.

An example of such an output is the guidance document providing practical steps for how companies can integrate children's rights into sustainability strategies and responsible sourcing frameworks, produced by the Network on Children's Rights in the Garment and Footwear Sector. The network was established by UNICEF and the fund in 2017. The guidance document was the result of contributions from garment and footwear brands and retailers, which provided input in writing and verbally during workshops and webinars during 2018 and 2019. The companies that participated in network activities and contributed to the development of this guidance tool included adidas AG, Carrefour SA, The Walt Disney Co, Hennes & Mauritz AB, Kering SA, Li & Fung Ltd, Next, Tesco Plc and VF Corporation.

Our industry initiatives have been an innovative way of interacting with groups of companies and ensuring shared ownership of solutions between us as an investor and our portfolio companies. Although the motives for participation have ranged from showing corporate leadership to peer pressure and securing a seat at the table, the format has created incentives for companies to take part and helped enhance standards for responsible business practices. This is a form of company interaction where we have developed a practice that is considered leading by other market participants.

While our preference has generally been to interact with groups of companies through letters and collective discussions, we also interact with individual companies, primarily through company meetings. We have used individual company meetings to promote

improvements in governance and sustainability practices aligned with our expectations and positions, recognising that supporting leading practices at individual companies can have spill-over effects on sectors and markets. We have also encouraged enhanced company disclosure to enable us to access information that is of relevance to our investment considerations. The dialogues have further helped build internal knowledge of how companies approach governance and sustainability matters. As with our other forms of interaction, we have often taken a sector approach to our company-specific interactions, addressing the same issue with a group of companies in a specific sector, albeit through individual conversations. Maintaining our principled and predictable approach to corporate governance even in individual company dialogues has been key. What we raise in such dialogues has therefore been informed by our positions and expectations on governance and sustainability, materiality and exposure, incidents and other internal and external input.

One of the first issues that we raised in an individual company dialogue with a group of companies was the principle of "one share, one vote". Multiple share classes with different voting rights distort the balance between economic interest and voting power. In 2007, we engaged with French and Dutch companies in our portfolio at the time to encourage these companies to reduce the use of structures that restrict voting rights.

Another issue that we started to raise in individual company dialogues at this time, and which remains topical today, was climate lobbying. Being a global investor with a long-term horizon, engagement on this issue was motivated by the risk that the cost of climate change represents to the portfolio. We initiated

dialogue with 24 companies in the energy and transport sectors that we considered the most active in lobbying on climate issues, because these companies would both be affected by and affect the design of future climate legislation. Our message to the companies was that their climate lobbying should reflect broad and long-term investor interests in effective climate legislation. The discussions centred around the risks and opportunities for these companies presented by various forms of legislation and technological advances. The dialogues with these companies gave us a better understanding of their strategy and their view on both current and future climate legislation. We learnt that, for many companies, financial considerations related to earnings in the short to medium term regularly clash with more long-term financial considerations. We also observed how the climate debate in many countries was closely

intertwined with the debate about strategic national energy supply, and how this created certain challenges for a sovereign investor like ourselves.

Dialogue on social issues was also on the agenda from the outset. For example, we engaged with close to 60 companies on child labour and children's rights back in 2007. The target group for this dialogue was portfolio companies in sectors exposed to child labour risks such as agriculture and metals. We chose to engage with companies in these sectors in cases where there was a complete or partial lack of relevant information on how the companies were complying with international standards on children's rights. In response to the dialogue on children's rights, all companies acknowledged the importance of the issue and committed to continue interacting with us. Several companies

Chart 15 Company interaction. Number of meetings where ESG was discussed, by counterpart at company.

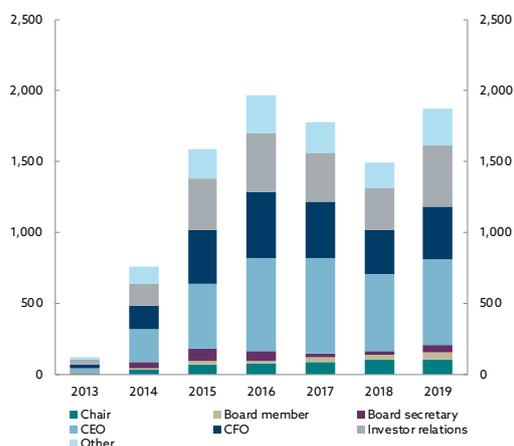
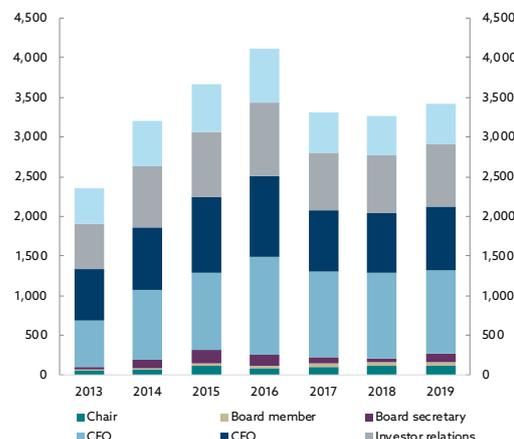


Chart 16 Company interaction. Number of meetings by counterpart at company.





confirmed that they were working on improvements to their approach to children's rights which could, in a best-case scenario, benefit the whole of the sector in question.

Since then, we have raised a range of sustainability and governance issues in company-specific interactions, including dialogue with aviation and real estate companies in the US on their management of new regulatory requirements to limit carbon emissions from aircraft and from energy used in buildings, engagements with banks on the adoption of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and financing of the Dakota Access Pipeline Project, energy transition in the automotive supply chain, a circular economy in the fashion industry, anti-corruption disclosure, and publication of tax policies. Examples of governance-related issues that we have brought up in one-to-one conversations with companies include proxy access, "one share, one vote", board decision-making processes, board skills and composition, and executive remuneration.

Common to all these individual dialogues is that the discussion has been founded on our expectations and positions to ensure that we act in a principled and predictable way. We have raised the same issue with all companies, and we have approached a group of companies, often in the same sector, with which we have then held individual conversations.

Responding to external events

Our company interaction is sometimes also driven by external developments, such as concerns referred to us under the ethical guidelines or specific serious incidents.

The Guidelines for Observation and Exclusion from the GPFG state that, before making a decision on observation or exclusion, Norges Bank should consider whether other measures, including the exercise of ownership rights, may be more suited to reducing the risk of continued norm violations, or whether such alternative measures may be more appropriate for other reasons. Since 2012, observation and exclusion recommendations from the Council on Ethics have resulted in decisions to engage with six companies. Dialogues with these companies have their own unique format and purpose. The overall objective of dialogue on the ethical criteria is to establish that the companies have taken measures to reduce the risk of norm violations pointed out by the Council on Ethics recommendations. The purpose is therefore different from the purpose of our other company dialogues, which are focused on achieving the highest possible financial return with moderate risk. However, the outcomes, which are often changes in company practices and disclosures, may be similar to the outcomes sought in our regular company dialogues.

Our first dialogues on the ethical criteria commenced in 2013. We raised the risk of severe environmental damage due to oil spills in the Niger Delta with Eni SpA and Royal Dutch Shell. We also raised the risk of severe environmental damage and gross human rights breaches with AngloGold Ashanti Ltd with respect to the company's two gold mines in Ghana. These dialogues are still ongoing. In 2017, dialogues on ethical criteria were expanded to cover the risk of gross corruption at Eni SpA and Saipem SpA.

These dialogues were concluded at the end of 2019 when we considered that the risk of future norm violations had been reduced. In 2018, we were asked to engage with UPL Ltd on the use of child labour in its seed business in India, taking into account our earlier experience from the industry initiative on this issue.

When considering whether active ownership is a suitable tool to reduce risk, we have looked at factors such as the size of our stake in the company, whether the ethical concerns raised by the Council on Ethics are related to our focus areas, and whether there have been other ownership or market factors that would make active ownership a more or less suitable tool. Where we have identified engagement to be suitable, most companies have responded constructively to our outreach, probably to some extent motivated by the potential threat of exclusion that accompanies dialogue on ethical criteria.

Achieving the objective of these dialogues has been more difficult in cases where the companies in question have not been solely responsible for the ethical breaches. This includes cases where the wider context contributes to the challenges, such as oil spills in Nigeria, or where some of the breaches are partially legacy incidents. Using ownership rights as a time-bound alternative to exclusions or observation was a practice that we adopted relatively early on, considering that most other investors did not have equivalent exclusion and observation mechanisms in place at the time. Some other investors have since adopted similar practices of engagement prior to considering escalations such as divestment.

Our portfolio companies have sometimes been involved in incidents or corporate actions that

have posed a risk to our investments. In such cases, we have chosen to engage with companies if corporate governance practices appear to be deteriorating or where fund value may be compromised. We have then contacted the company to express our opinion with a view to steering the company in the right direction, or to request information on how the company is dealing with the event in question.

Our dialogue with and open letter to the Volkswagen AG board of directors in 2009 is an early example of how we have reacted to incidents. In this letter, we expressed regret that the company had not provided enough information about transactions with its parent company Porsche SE and its owner families. Specifically, we reacted to news of an agreement that Volkswagen AG would be used in a financial undertaking at the troubled parent company Porsche SE. In this case, it was important for the fund, both financially and as a matter of principle, to prevent controlling shareholders from enriching themselves at the cost of other shareholders. It was also considered important to ensure high levels of transparency and credible valuations when controlling shareholders transfer valuable assets between company units with varying economic rights for the different participants.

We therefore made it clear to Volkswagen's board that we expected equal treatment of shareholders and that we wanted dialogue. When it became known that Volkswagen had issued Porsche SE a sizeable loan as part of the management of the crisis, we again asked to discuss the matter. We also asked the board to account for the systems in place for handling conflicts of interest in this case. The information from Volkswagen's board was not sufficient to allay suspicions that the company had

discriminated against other shareholders to save the controlling families' investments in Porsche SE. Our decision to publish one of its written communications came after the Volkswagen board had refused to talk with outside shareholders for a lengthy period. Our demands for more information for the market and dialogue with key shareholders were partly met.

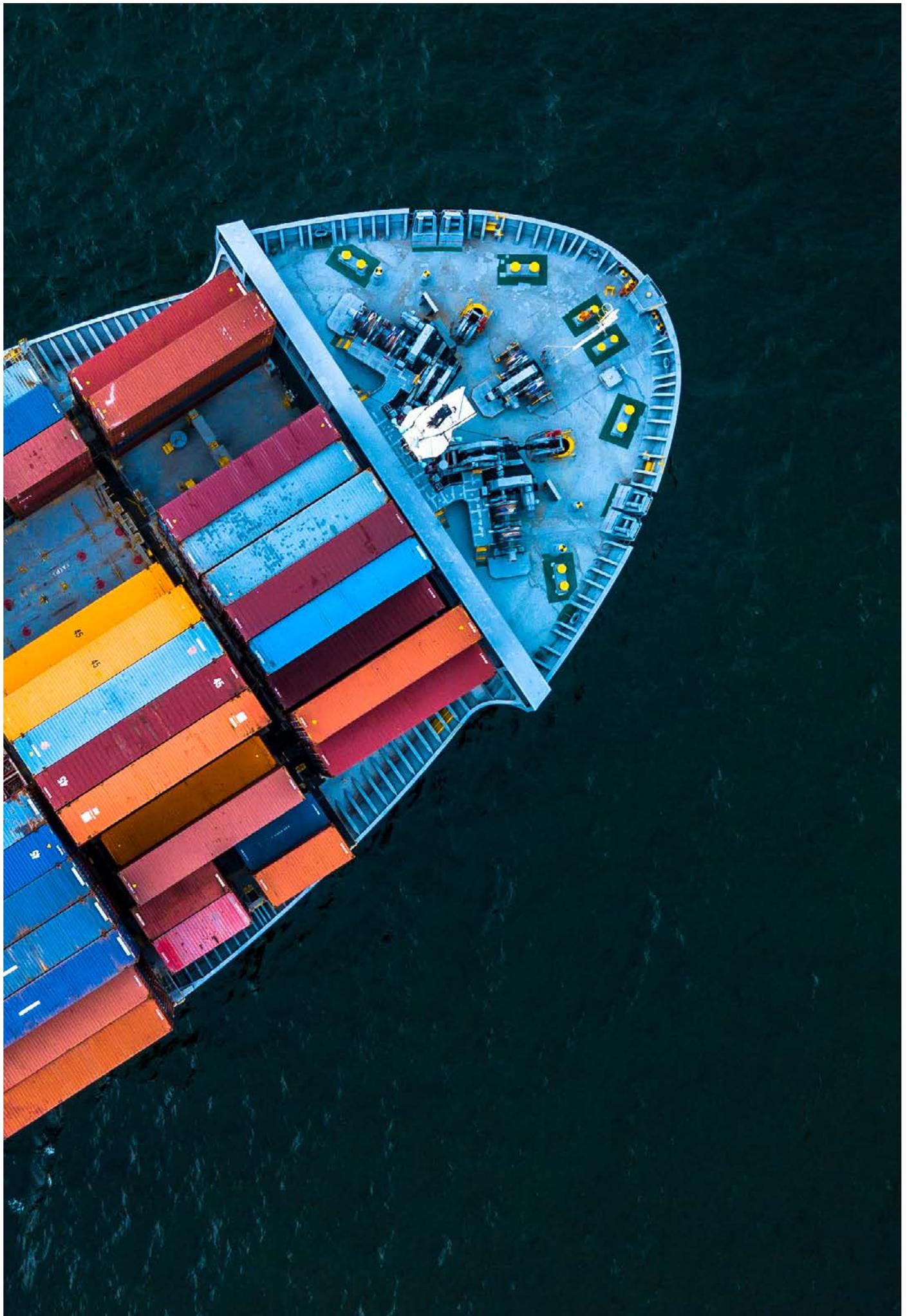
Over the years, we have also developed an approach for monitoring, analysing and interacting with companies whose environmental or social practices pose significant risks to the fund. Where such risks are high and our ownership share or other factors suggest that we have an opportunity to influence the company, we will act on such risks by sending a letter or requesting a meeting with the company. For smaller holdings, we may consider risk-based divestments.

The fund's approach to company interactions has developed over time. The issues that we raise have evolved, and we have conveyed our views through many different formats. Notwithstanding these developments, four premises have remained in place from the outset: (i) we interact to protect our interests as a shareholder and support the fund's objective of achieving the highest possible return; (ii) we interact in a principled and transparent manner; (iii) we preferably interact with groups of companies within a sector; and (iv) we interact with the fund's characteristics in mind, notably our ownership share, global presence and nature as a sovereign investor.



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Markets

Our mission is to safeguard and create value for future generations. We have an interest in companies being able to meet the needs of the present without compromising the interests of future generations.

Globalisation increases growth, lifts millions out of poverty, and provides an economic return for workers and savers alike. At the same time, globalisation without solutions to global challenges, such as climate change, harbours its own risks. We have an inherent interest in sustainable economic growth and a stable economic system.

Our fund was set up during a period of historical consensus on the benefits of market-based solutions and global institutions. The global financial crisis and its aftermath led to the free market consensus becoming more fragmented, with a growing understanding of the role of governments in curbing corporate excesses, not least those that lead to risks beyond individual companies. The regulation of the financial sector itself changed, but the more significant long-term outcome may be the impact on the broader thinking about the state, the economy, business and society.

The international environmental and social agenda developed from the 1970s, with the Brundtland report "Our Common Future" and the UN Convention on the Rights of the Child. However, this agenda did not fully or systematically emerge at the corporate level until the turn of the millennium.

Global warming became the generational challenge for our planet, leading to a global agreement at COP21 in Paris in 2015. By then, climate change was firmly on the corporate agenda.

The unanimous adoption of the UN Guiding Principles on Business and Human Rights in 2011 firmly established the state's duty to protect and the company's duty to respect human rights. The Guiding Principles succeeded where previous discussions on responsible business conduct for multinational corporations had failed. Tax was another issue where multinational corporations were seen to benefit from the lack of a coherent global system. The OECD led the response, which culminated in the 2015 Action Plan on Base Erosion and Profit Shifting.

While global standards have emerged which seek to reduce the externalities of business, international institutions have faced increasing headwinds in the last decade. As a global investor, we view this with concern. It is clear to us that companies have responsibilities beyond their objective of value creation. They have responsibilities to their stakeholders, not least to their workers and their supply chain. They should account for significant environmental and social impacts of their business, especially as the economic costs to the system are increasingly felt across the globe.

Market outcomes should be both efficient and legitimate. Without the latter, our ability to safeguard and create value over time will be diminished. Uncertainty, tensions and upheaval do not boost productivity. On this basis, we both support the global standards that exist and contribute to their further development. We promote corporate disclosures necessary to assess the risk exposures of our investments, and we encourage companies to explain how they manage risks and opportunities.



Standards

Standards promote consistency across markets and raise the bar for all companies. As a global fund, we benefit from internationally agreed standards that promote long-term value creation and responsible business practices.

Our long-term return is inherently linked to the long-term performance of the global economy. We are exposed to global risks and opportunities, and to companies' handling of these, all of which benefit from global standards. For corporate governance, these standards help create a level playing field for companies and an efficient division of responsibility between shareholders and boards. They also aid us in holding boards accountable for corporate outcomes.

Many environmental and social challenges are interlinked. Some issues, such as climate change, know no borders and require global co-ordination. Many depend on regulatory solutions, beyond the reach of companies, sectors or business alone. We support standards for corporate sustainability reporting and responsible business conduct. In this way, we promote economic outcomes that are sustainable for the long term.

Our work with standards has developed significantly over the lifetime of the fund. Early on, we adopted existing international standards and principles to use in our work. Quite quickly, however, we became involved in the development of the standards themselves, both through participation in working groups and through public consultations. We found that there were, and still are, gaps to be filled, and that standard setters appreciated learning about our experience as an investor in 9,000 companies around the world. We thus became a contributor to the standards.

Lastly, and perhaps most importantly, we developed our own positions and published expectations of companies, transposing the existing standards and principles into our own context and on specific issues.

Our expectations and positions have supported existing good practices, and sometimes even anticipated changes in broader market standards. Notable examples include our views on climate change disclosure and sustainability disclosures in general.

Adopting standards

As a long-term, global investor, standards give us a basis from which we can work with other market participants. We need a common language in our dealings with companies. In our first years as a responsible investor, we sought established international standards on which to base our work. These have expanded and developed individually, but also grown more coherent over time.

Looking outwards

We decided early on to build on international standards, rather than simply export Norwegian values abroad. We believe that there are some shared foundations, both in terms of norms and market efficiency, that we and other market participants should work from. As a global investor, we benefit from a level playing field across the markets we invest in. It was therefore natural for us to first look to existing standards issued by international bodies such as the UN and the OECD.

Finding a firm footing

In 2004, Norges Bank approved new corporate governance principles for the fund. These principles provided much of the basis for our subsequent work on standards. Then, as now, our principles were based on the OECD Principles of Corporate Governance and stated that the companies in which we invest should follow relevant principles from the OECD and UN. At the time, these were the UN Global Compact and the OECD Guidelines for Multinational Enterprises. Since 2017, our principles also refer to the UN Guiding Principles on Business and Human Rights.

The OECD Principles of Corporate Governance mainly relate to effective governance, such as shareholder rights and key ownership functions, equitable treatment of shareholders, disclosure

and transparency, and the responsibilities of the board. Such principles are fundamental to the global equity market in which we operate, and for us as a shareholder in thousands of companies.

The OECD Guidelines for Multinational Enterprises are a set of government-endorsed recommendations for companies that operate internationally. Their aim is to support sustainable development through responsible business conduct, trade and investment. The OECD Guidelines are fundamental as a benchmark for responsible business conduct across the world.

The UN Global Compact sets out ten general principles derived from the Universal Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, and the Rio Declaration on Environment and Development. The ten principles cover human rights, with a specific focus on labour rights, the environment, and bribery and corruption. Many of the companies in which we invest have signed up to the Global Compact. With more than 11,000 company participants, the Global Compact dwarfs any other corporate responsibility initiative.

Converging standards

International standards and principles have evolved significantly during the history of the fund. In some ways, they have become more coherent across different issues. For example, both the principles of the UN Global Compact and the UN Guiding Principles are now incorporated into the OECD Guidelines. Furthermore, some expectations about responsible business conduct outlined in the OECD Guidelines are also referenced in new global frameworks such as the G20 agenda, the UN Sustainable Development Goals, and the

Paris Agreement. In this way, the basis for our work has become more integrated, but some distinctions may also become more blurred. We observe that many matters considered primarily ethical a few decades ago now also have an economic and financial significance. As an investor, we must consider how this affects us, our market context and the tools at our disposal.

While broad, international standards still form the foundation of our work, they have to a large extent also been implemented in local or regional regulations and guidelines, or through sector-based initiatives which more often guide company practices. A notable example is the emergence of stewardship codes and the development of corporate governance codes in many markets. Others include the various laws around modern slavery and supply chain human rights due diligence that have emerged, and OECD guidance documents at the sector level.

Contributing to standards

Over the years, our contribution to the development of international standards has become an increasingly important part of our approach to responsible investment. We have recognised that it is in the fund's interest to participate in discussions and to promote the development of standards that will enhance the overall value of the fund. Standard-setting activities became part of our mandate from the Ministry of Finance in 2010.

Providing insight

The first corporate governance principles established that we could participate in international networks and organisations to promote good principles of corporate governance. They further stated that Norges Bank could contribute its experience to public consultations to help ensure that market regulators protect ownership rights.

Over the years, our approach has become more active, including through participation in initiatives, collaboration with external partners, and responding to public consultations. It is our ambition to meet relevant international and local standard setters in our key markets annually. We prioritise policy initiatives that seek to improve corporate transparency, ensure fair business practices and improve capital market quality and efficiency and internalise externalities.

We find that our role as a global financial investor provides us with a relevant perspective on many issues. Our experience is that standard setters appreciate our interest and welcome opportunities to explain their agendas.

Participating in initiatives

One of the main channels through which we can contribute to international standards is involvement in various international initiatives

and working groups. Such participation has taken many forms over the years, from helping draft principles and guidance with the UN and OECD, to joining industry associations and publicly endorsing independent initiatives.

The first example of international participation was in 2005, when the then UN Secretary-General Kofi Annan invited Norges Bank and a group of other large institutional investors to participate in a process that would lead to the development of the Principles for Responsible Investment. The background to this initiative was an increasing consensus among investors that environmental, social and governance factors can affect the return on portfolios, and that these factors were not sufficiently embedded in investment processes or corporate governance activities. We were an active participant in this work, which resulted in six main principles which we adopted in November 2005. The Principles for Responsible Investment have formed investors' approach to sustainability and governance through ownership, investment and collaboration for the last 15 years.

Industry associations and other initiatives encouraging closer relationships between investors, business, society and the environment are also central to our work to improve business standards and practices. 2005 was the year we joined the first industry association, when we became a member of the International Corporate Governance Network (ICGN). The ICGN's primary objective is to provide an international investor-led network for the exchange of views and information about corporate governance issues and to develop and encourage adherence to corporate governance standards and guidelines. For an investor like the fund, it seemed a good place to start.

In 2006, we joined the Council of Institutional Investors (CII), a forum for promoting corporate governance, made up of institutional shareholders in the US. In addition to facilitating dialogue with authorities and other standard setters, the network seeks to improve market practices by various means. We have maintained these early relationships to this day.

We soon expanded our focus from core corporate governance to corporate transparency and sustainability reporting. In 2007, we endorsed the Investors' Statement on Transparency in the Extractives Sector. The international Extractive Industries Transparency Initiative (EITI) aims to combat corruption and increase transparency in countries rich in natural resources. We supported the initiative as we believed portfolio companies had an interest in a business environment characterised by stability, transparency and respect for the law.

In autumn 2012, the Norwegian national contact point under the OECD Guidelines received a complaint concerning the fund's role as minority investor in the South Korean steel company POSCO. The complaint concerned alleged violations of the guidelines by POSCO in connection with the company's plans to develop iron-mining operations, steel production and related infrastructure in the Indian state of Odisha. At the time, it was not clear whether the OECD Guidelines applied to investors. To help clarify how the guidelines apply to minority investors, we decided in 2015 to join the OECD Advisory Group on responsible business practices and the financial sector. This work resulted in new guidance issued by the OECD, entitled *Responsible Business Conduct for Institutional Investors: Key Considerations for Due Diligence under the OECD Guidelines for Multinational Enterprises*. We have taken this guidance document as a starting point when

developing our own risk processes and ownership priorities in recent years.

We continue to lead or join initiatives that contribute to standards on corporate governance, corporate sustainability reporting and responsible business conduct. Some of these have been organised by us in industry initiatives with groups of companies, as discussed in the previous chapter. Others have been memberships or financial support for and interaction with organisations such as the African Corporate Governance Network, the Asian Corporate Governance Association, the Ceres Water Hub, the Harvard Law Institutional Investor Program on Corporate Governance, the Institutional Investors Group on Climate Change (IIGCC), the Sustainability Accounting Standards Board (SASB), the Transition Pathway Initiative (TPI), the UNEP FI pilot project on implementing the TCFD recommendations, and the UN Global Compact Action Platform for Sustainable Ocean Business.

Responding to consultations

Over the years, we have responded to an increasing number of public consultations launched by international organisations, market regulators, stock exchanges, corporate governance bodies and other standard setters seeking input from market participants. We have contributed an investor's perspective, drawing on our experience in more than 70 markets and on our knowledge of companies in our portfolio.

The fund responded to its first public consultation in 2006. The International Accounting Standards Board wanted to know which non-financial information is relevant to understand a company's position, and how this should be included in the management report. Corporate disclosure has since been one of our

priorities, and we have responded to a total of 36 consultations on company reporting. In the past decade, we have concentrated mainly on sustainability reporting.

Also in 2006, we started engaging with the US Securities and Exchange Commission (SEC) concerning the possibility for shareholders to elect board members at US companies. This led to our early focus on the mechanism known as proxy access: the right of shareholders to propose competing candidates in director elections. Since then, proxy access has been implemented at an increasing number of US companies. Over the years, we have responded to 23 consultations on shareholder rights protection.

Furthermore, we have shared our perspective on the development of national corporate governance codes, responding to consultations in some of our largest markets, including the UK, Germany, Japan, Australia and Brazil. We have also been active on principles for responsible conduct developed by the OECD and implemented in various markets.

Over two decades, we have provided input on a wide range of issues ranging from governance and protection of minority shareholders to corporate reporting and responsible business conduct. Our experience is that our responses have often led to follow-up meetings with standard setters and other stakeholders. Through constructive engagement, we believe the fund has contributed to better corporate governance and responsible business standards.

Setting expectations

Adopting international standards and contributing to their development have been important steps. However, we realised early on that we could have more impact when international principles were mirrored in more targeted views developed within our own investment and ownership context. When we decided in 2008 to publicly express expectations of companies, we did something fundamentally new at a time when many thought investors like us should not express views on these issues at all.

We have seen clear benefits of engaging with standard setters and companies on the basis of our own public expectations and positions. Publicly expressed principles allow us to work at scale; we do not single out individual companies or set specific agendas. Being principles-based

creates consistency across our portfolio and helps build trust by being open and predictable. Our expectations and positions now cover a broad range of relevant governance and sustainability matters, some instigated by us and some developed after external input. Looking back at these publications, we believe that they are one of the most meaningful contributions we as a fund have made in the field of responsible investment.

Long-term sustainability

Our expectation documents are directed at company boards. They take global sustainability challenges, place them in our specific context, and serve as a starting point for our dialogue with companies. At the most basic level, they say that boards should set the corporate direction on responsible business practices and put a governance system in place to achieve this.

Chart 17 Standards. Number of responses to public consultations.

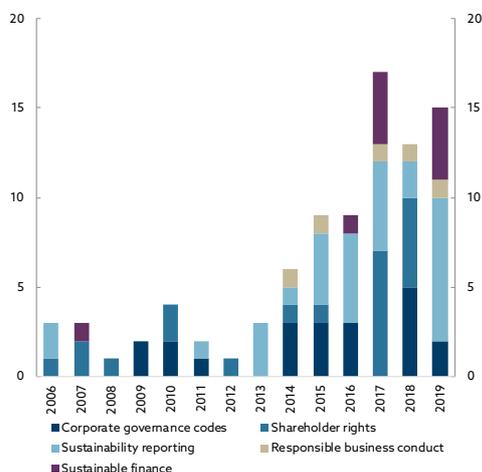
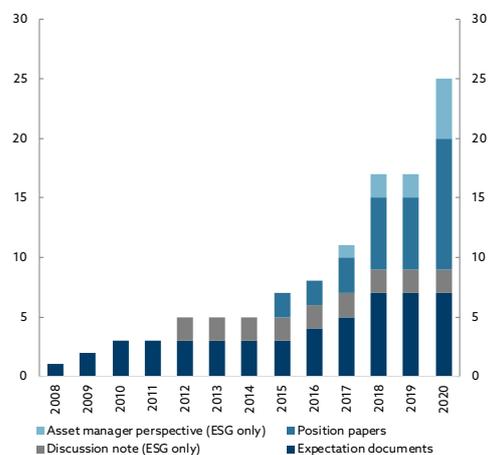


Chart 18 Standards. Number of fund public positions on responsible investment.



In 2008, we published our first expectation, document on children's rights. These were among the first comprehensive investor expectations on human rights. Although child labour was recognised as a risk, companies had limited awareness of other ways they might be infringing upon children's rights. The document, entitled *Investor Expectations on Children's Rights*, was developed in dialogue with experts in the field from organisations such as UNICEF, Save the Children and the ILO. We emphasised expectations that would stand the test of time.

These first expectations were well received by companies and other market participants. The Ministry of Finance commented in its annual report to the Storting in 2009 that "more expectation documents would help create transparency about the work related to ownership rights and also safeguard companies' need for predictability". The Ministry thought that expectations on environmental issues, particularly on climate change, and transparency on international revenue streams, might be particularly useful additions. The parliamentary finance committee similarly welcomed an increased use of expectation documents.

Around the same time, we started to develop expectations on climate change and water management. In prioritising these issues, we assessed whether these issues were relevant for investors in general and for the fund in particular, whether they were appropriate for dialogue with companies and regulatory authorities, and whether they provided opportunities for real impact. The issues were financially motivated, in line with the fund's role as a long-term financial investor. This was a clear recognition of the potential financial risks from environmental externalities to which our fund is exposed.

Following the 2006 Stern Review on the Economics of Climate Change, global warming was increasingly understood as an economic challenge, as well as an environmental one. Already in 2006, we expressed our interest in efficient, global policy solutions to the climate problem. Water risks were emerging on the agenda of some forward-thinking business leaders and experts. Both expectation documents were subject to extensive consultation with experts and civil society and were published in late 2009.

Sustainability challenges, and how they manifest themselves in the environment, society and the economy, are dynamic. Our documents have therefore evolved significantly over time in terms of scope, purpose, structure and content. The climate change document is a good case in point. It was updated to include tropical deforestation in 2012. We wanted to include one of the biggest contributors to global warming, even though the portfolio's deforestation exposure was reasonably limited. It is a good example of an issue where we believe we can contribute to improved outcomes over time, even if our direct financial risk is limited here and now.

Starting in 2015, our expectations shifted their emphasis more towards the board's responsibility to integrate sustainability into business planning and management. Starting that year, all of the expectation documents were therefore updated to clarify their purpose and motivation, and to follow a similar structure with expectations for governance, strategy, risk management and disclosure. We have been pleased to see that many other frameworks and guidelines have adopted this logic and categorisation in recent years.



Also in 2015, the parliamentary finance committee requested Norges Bank to consider developing expectations on human rights. The fund published such expectations in early 2016, again with a basis in the UN Guiding Principles, and with emphasis on elements we prioritise as an investor, such as good risk management and reporting, including on supply chain risks. These changes complemented or pre-empted regulatory changes in many markets in the direction of increased human rights due diligence and disclosures to support this.

In 2016, the parliamentary finance committee asked Norges Bank to develop a view on tax and transparency, and this document was published early in 2017. The document was timely, as the OECD had launched its Base Erosion and Profit Shifting (BEPS) project at about the same time, and tax risk was emerging on the agenda of companies, regulators and civil society. It followed up earlier consideration of international revenue streams and companies' activities in closed tax jurisdictions. Whereas the problem back in 2009 was less well defined for an investor, the BEPS actions and other reforms meant that tax risk now clearly had an investor dimension. To us, it seemed clear that tax minimisation was not always in shareholders' interest, and that boards had a role in the setting of tax policies and the ensuing reporting.

In 2018, the fund published further expectations, on anti-corruption and ocean sustainability. The expectations on anti-corruption emerged partly from our work on the tax expectations, and partly as a result of our own multi-year focus on anti-corruption in standards and company engagements. The most recent expectation document concerns ocean sustainability and came about following an analysis of evolving sustainability issues that might increasingly be relevant for many companies in our portfolio,

notably resource depletion, ecosystem services and plastic pollution.

The scope of our expectations has evolved over time. We started with an innovative approach, soon received requests to publish further expectations and then proactively identified relevant issues ourselves. Climate change will be recognised by most as a relevant issue for investors, but other environmental issues also apply. The expectations on children's rights could have been a part of a broader human rights document. At the same time, a separate document has given us room to go beyond child labour and explore issues such as marketing towards children and the role of working parents as caregivers. It was important early in our efforts to start with issues that everyone, both in Norway and in the markets and companies we invest in, could agree on as important. After all we manage our fund for future generations.

Civil society actors and investee companies sometimes ask why we do not have separate expectations on particular issues such as biodiversity or human capital management. At the same time, many companies already mention the confusion created by the many different standards and expectations. We have sought to maintain a balance between the desire to focus our efforts to achieve better results and the desire to cover a broad range of relevant issues in company engagements with policy documents.

Good governance

To support our ownership activities, we also publish position papers that clarify our stance on selected corporate governance issues. Our starting point is that the board is responsible for setting company strategy, monitoring management's execution of that strategy, and providing accountability to shareholders.

Again, we moved early to articulate our own views based on international standards, but also on our experience as a shareholder in thousands of companies across 70 countries. In 2009, we revised the principles and strategy for the fund's active ownership. Among the six new strategic focus areas were the promotion of well-functioning, legitimate and efficient financial markets, equal treatment of shareholders, and shareholder influence and board accountability.

We published two discussion notes in 2012 presenting our expectations on corporate governance and well-functioning markets. The document on corporate governance focused on board accountability and the equal treatment of shareholders. The documents set out priorities for corporate governance as a means to foster dialogue. In this work, the fund reviewed the academic literature and gathered practitioner views to express positions on corporate governance.

The format of our public views on corporate governance has evolved. In 2015, we published the first two in a series of position papers, on proxy access and individual vote counts in board elections. In these documents, we consider specific and often contentious aspects of corporate governance, weighing the arguments for and against, and presenting a detailed and practical view. In 2017, we published our views on CEO remuneration, and since 2018 we have published eight further positions on board

effectiveness and composition, and shareholder protection.

Each year, we vote on nearly 50,000 board candidates. We seek to understand what is needed for boards to be effective, and how we can contribute to better governance. In 2018, we argued for the separation of the role of chairperson and CEO, and for the importance of relevant industry expertise on the board. We opined that board members should devote sufficient time to fulfil their responsibilities effectively, and we set a limit for how many board roles one person can hold. In 2020, we argued that the board must be independent to be effective and set out our expectations for independence on the board and main committees.

The protection of shareholders is an essential requirement for minority shareholders in a listed company. Shareholders should have the right to obtain full, accurate and timely information on the company. In 2020, we argued that the board should ensure that company reporting reflects all material sustainability risks and opportunities. We also believe that shareholders should have the right to approve fundamental changes to the company, including changes in capital structure affecting shareholders' cash flow and voting rights. In our latest position paper, we clarified our views on multiple share classes, shareholder rights in equity issuances, and related-party transactions.

Our eleven position papers guide our voting at shareholder meetings and provide predictability around our decisions. Many of them have solidified long-held voting policies previously expressed in company dialogue. In some of the positions, we have decided to take a principled view quite far from market practice at the time, and subsequently observed market practice

moving closer to our position. For instance, very few companies fully comply with our position on CEO remuneration, but we encounter general support for the direction that the document lays out, towards simple, transparent and long-term plans with deferred shares rather than complex and highly leveraged incentive plans. We have also found that, while companies are cautious about changing the responsibilities of sitting CEOs, a number are committing to splitting the role from that of the chairperson the next time one is hired. A gradual shift towards separating the roles of CEO and chairperson has established itself as a trend in the US.

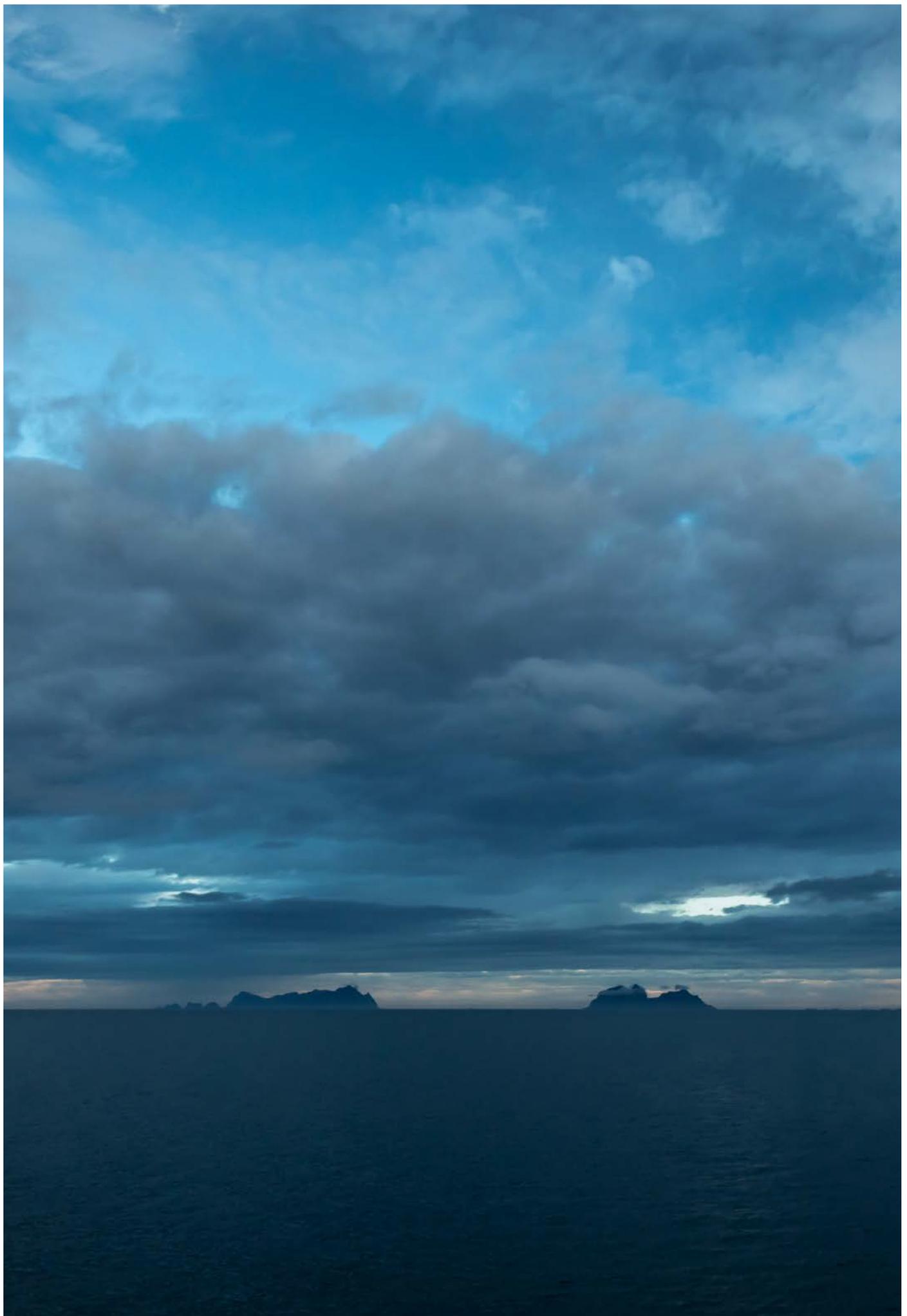
Providing perspectives

We sometimes face important questions in our work where we have not yet arrived at a firm position but where we would like to draw attention to their implications for us as an investor. Since 2015, we have done so in a series of Asset Manager Perspectives. These documents present the fund's reflections and are not meant to be definitive. Rather, they are intended as timely contributions for the benefit of all market participants, and we find that they have been a useful tool in framing the discussion on emerging issues and providing relevant background for our position papers and engagement with standard setters.

The first five documents we published in the series concerned well-functioning markets. They touched on issues such as sourcing liquidity, the role of exchanges, the role of "last look" in foreign exchange markets, and the role of securities lending.

In 2017, we published an Asset Manager Perspective on CEO remuneration, exploring the issue and laying the foundations for our position paper on the subject. In 2018, we published an Asset Manager Perspective showing how our

goals as a responsible investor to a large extent align with the UN Sustainable Development Goals. In 2020, we published three new perspectives on responsible investment: corporate sustainability reporting, the shareholder voting process and shareholder proposals on sustainability. The first document allowed us to put on paper our decade-long drive to promote corporate sustainability reporting and better define the type of information we need as investors. In the paper on shareholder proposals, we summarise our approach to voting on sustainability proposals and provide a basis for communicating our decisions in the future.



Reporting

Company reporting is evolving to meet the needs and expectations of investors and other stakeholders. We need more and better data to assess long-term risks.

The past two decades have seen a growing focus on the roles and responsibilities of companies in relation to society and the global commons. It has increasingly become the norm that companies are obliged to manage the impacts of their activities on nature and on the communities where they operate. There is also growing recognition that company operations can be affected by changes in their surroundings, either physical or social, which in turn can influence their financial prospects.

Reporting on environmental and social issues is not a new practice, but one that has evolved and strengthened over time to meet the needs and expectations of investors and other stakeholders. In order to fully understand how sustainability issues affect portfolio risk and return, investors need complete and reliable information about the companies they own, including the sustainability-related aspects of their operations.

Over the past two decades, the fund has developed several initiatives to improve the quantity, quality and consistency of information about such considerations. As public expectations have evolved, and companies have increased their focus on sustainability reporting, we have expanded our work from pushing for more data from companies, towards developing our own risk management capabilities at scale and contributing to more rigorous reporting standards.

More data needed

How companies manage their use of natural and social resources can have a bearing on their ability to create value in the long run. Long-term investors need accurate and reliable data about the environmental and social impacts of a company's activities in order to assess its financial prospects. Historically, such information has often not been included in companies' financial statements: sustainability impacts can be difficult to quantify and have often been considered less relevant to report on. The fund has sought to address this challenge by requesting more data from companies, both via our own assessments of company disclosures and by supporting market-wide reporting platforms such as CDP.

Relevance of data

Changing attitudes regarding the role of companies and their investors have also entailed increased obligations for investors to hold companies to account for their negative externalities. For the fund, the obligation to hold companies responsible for their conduct was made explicit through the introduction of the ethical guidelines in 2004. The corporate governance principles published in the same year also emphasised the need to make demands of companies concerning the long-term sustainability of their activities, on the basis that this could have implications for the fund's long-term return.

In order to carry out these responsibilities, the fund needed more data about how the companies in our portfolio were impacting their surroundings, and vice versa.

Measuring company disclosure

We quickly understood that such information was rarely available; and when it was, it was neither reliable nor comparable across

companies or industries. What little information companies disclosed was mainly found in non-standardised corporate social responsibility reports and one-off press releases and was largely qualitative. At the time, there were also few, if any, data providers gathering, systematising and disseminating sustainability information for use by third parties such as investors. The limited availability and poor quality of data presented a key obstacle to following up the ethical guidelines and corporate governance principles in a systematic and robust manner.

To address these weaknesses, we developed our own in-house analytical frameworks to structure company-reported information into comparable indicators of how well these companies were managing and accounting for their exposure to child labour and climate risks. At the time, it was uncommon for large, institutional investors to have publicly expressed views on environmental and social issues, and even rarer to operationalise these views directly in the work they did with portfolio companies. For the fund, this meant that there were few examples of best practice we could look to for inspiration or guidance. We had to focus on developing our own approach and capabilities organically.

In 2006, children's rights and environmental challenges including climate change were defined as priority areas and became natural areas in which to start our work on understanding companies' inherent risk exposures and risk management. We carried out several analyses in 2007, paving the way for future work on these issues. The focus was on building up the expertise needed to develop measurement tools. These could then be applied systematically across the portfolio to follow up on the prioritised sustainability areas and hold investee companies to account in accordance with our ownership principles.

The first of these compliance assessments, as they were called at the time, were published in 2008. More than 430 companies were systematically analysed on the basis of the criteria set out in our Investor Expectations on Children’s Rights. The assessments entailed detailed, manual research on each company’s governance structure, risk management processes, supply chain oversight and performance reporting. The companies were selected for assessment on account of having operations in sectors with high child labour risk, such as agriculture, chemicals, mining, iron and steel, and textiles. The assessments were an important step towards systematically implementing our expectations on children’s rights, and the findings spurred our first engagement projects on child labour risk.

Based on this analysis, we entered into dialogue with 135 companies that did not report adequately on how they managed relevant risks associated with child labour and other human rights abuses, both in their own operations and in their supply chain. When we reassessed these companies a year later, 33 percent of them had improved their reporting on child labour and children’s rights. Transparency improved in all sectors, but the improvements were most apparent in the cocoa and apparel retail sectors. The mining and steel companies also had an increased number of policies on child labour. These encouraging early results emphasised the benefits of the assessments as a systematically deployable analytical tool. The scoring processes allowed us not just to home in on exposed companies and start dialogues with them, such

Chart 19 Reporting. Number of assessments of company reporting. No assessments in 2012.

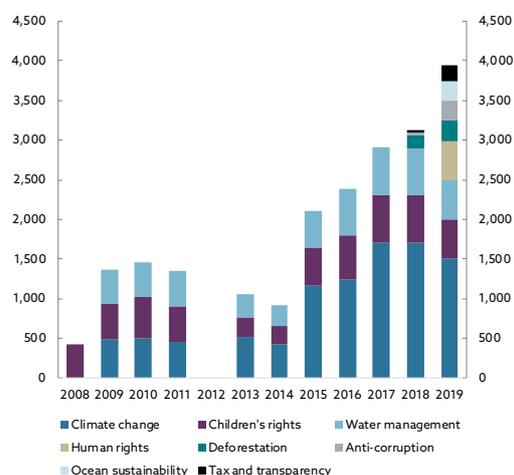
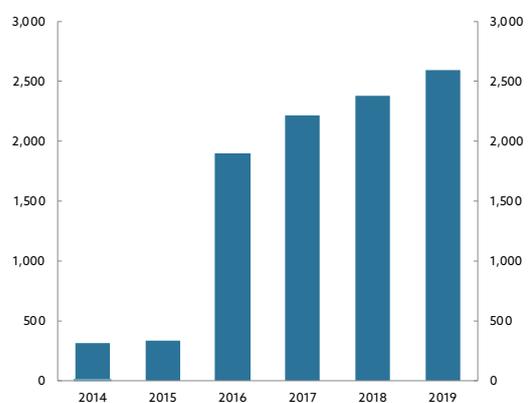


Chart 20 Reporting. Number of unique data points in the fund’s non-financial database. Thousands.



as the previously cited Monsanto ownership case, but also to track improvements at company and sector level over time.

In 2009, we published our Investor Expectations on Climate Change, and replicated the systematic compliance assessment approach, targeting 476 companies in climate-sensitive sectors such as oil and gas, coal mining, utilities, cement, steel, aluminium and transportation. Based on the findings, we corresponded with 40 companies. Our dialogues were focused on understanding how climate change considerations were integrated into their business strategies, practices and risk management systems.

When we published our expectations on water management in 2009, the scope of the assessments was further expanded a year later to examine also the practices and disclosure of 431 companies in the mining and industrial metals, forestry and paper, food and beverage, electricity and multi-utilities, water utilities and pharmaceutical industries. The assessments were largely based on information collected by CDP Water, an initiative where the fund was the lead sponsor. The key finding from these assessments was that companies generally had a good overall awareness of water risks and water usage within their own operations, but much less knowledge of their supply chains.

With children's rights, climate change strategy and water management established as the thematic focus areas for the fund's work on sustainability, the subsequent years were spent developing and refining the methodologies for the compliance assessments, so that these could underpin the engagement work. Building on our experiences, we were able to gradually expand the number of companies assessed every year, in order to cover a more significant

part of the portfolio. From 2011 onwards, we also started publishing the names of the companies with the best disclosure in each focus area. This was done in order to recognise companies' efforts to address their sustainability impacts, and to encourage peers to follow suit.

Building on our experiences, we were able gradually to expand the number of companies assessed every year, in order to cover a more significant part of the portfolio. In 2015, we nearly doubled the number of assessments per area, compared to the year before, covering both new sectors and more companies in each sector. In 2017, we expanded the assessments to cover even more areas, such as water management in emerging markets and climate change at financial institutions.

As environmental, social and economic trends continue to shape the operating environment of companies, it is only natural that our sustainability assessments continue to develop, buoyed by improvements in available technology and expertise. In 2019, we more than doubled the number of issues covered in our sustainability assessments, adding human rights, ocean sustainability, deforestation, tax transparency and anti-corruption to the existing three focus areas that companies were assessed on. We conducted almost 4,000 individual in-depth analyses of how exposed companies were managing sustainability risks, an almost tenfold increase from the 430 first children's rights compliance assessments a decade earlier. Looking ahead, these systematic assessments, strongly founded in our public expectations on sustainability, will continue to be an important analytical foundation for our responsible investment work.

Building reporting platforms

Our manual assessments of sustainability reports showed us the challenges of limited and non-comparable information. We recognised the need for reporting platforms that could systematically gather sustainability information and make it accessible. This would improve our understanding of individual companies' impacts, and how well these are managed. But making financially material information systematically available to market participants could also contribute to reduced informational asymmetries, enhanced market stability and more efficient capital allocation. This would benefit the fund as a long-term universal owner.

A key partner in building reporting platforms has been CDP, formerly the Carbon Disclosure Project. Since its inception in 2000, CDP has taken a leading role in providing structured and standardised environmental datasets that can be integrated into investment processes. CDP's questionnaire approach was instrumental in encouraging companies to start measuring and disclosing their greenhouse gas emissions. The platform has since expanded its scope beyond climate to water management and deforestation. Investor support contributed both to the uptake of CDP reporting, and its wider effect on company practices. When companies received information requests from their owners, they were encouraged to integrate environmental considerations into their governance structures, business strategies and risk management processes.

The fund became an investor signatory to the CDP in 2008 and has since then supported the organisation in various projects. We became lead sponsor of CDP's water programme at its launch in 2009 and remain so to this day. Through our participation in advisory groups, speaking at events and arranging workshops to garner input from companies, we have contributed to the programme's development. Today the fund utilises CDP's comprehensive and structured datasets on companies' exposure to environmental risks and opportunities to inform our own company and industry analyses. We also contribute to the process of developing the questions that form part of CDP's information-gathering process.

Risk analysis needed

With a growing recognition that environmental, social and governance factors could influence financial risks and returns over a long-term investment horizon, the fund intensified its efforts to ensure such factors could be incorporated into our risk management processes. We had already been working extensively to map and acquire data for the purposes of analysing selected individual companies and contributing to the sustainable development of markets. However, we also needed to use information in order to manage exposure to sustainability risks across the portfolio. Part of this was achieved by scaling up our internal repository of environmental, social and governance data and deploying this information to implement risk management practices that were novel at the time, such as risk-based divestments and portfolio carbon footprinting.

Identifying high-risk companies

One way of mitigating environmental and social risks in an investment portfolio is to avoid owning companies with unsustainable business models. Identifying and assessing these companies requires in-depth analysis of whether their activities conform to prevailing technological, regulatory or environmental trends. Recommending companies for risk-based divestment is often a last resort after other possibilities have been deemed insufficient. It is important to ensure that the divestment analysis builds on accurate and reliable data about the company.

Following the turbulent capital markets of 2007-2009, we had already increased the scope of our risk management. The risk management department covered areas such as market, credit, counterparty and operational risk, and had developed a number of frameworks to

measure and interpret the risk outlook for the fund. While sustainability and governance risks were considered as part of these analyses, the first explicit mention of these factors in our public risk reporting was in 2011. This coincided with several adjustments to our investment management strategy aimed at taking greater advantage of the fund's long-term horizon and size, including increased consideration of long-term risk factors.

The fund carried out its first risk-based divestments in 2012. The first tranche focused explicitly on palm oil producers. The practice was subsequently expanded both geographically and thematically. The fund soon turned its attention to other causes of tropical deforestation, including surface mining and pulp and paper production in South East Asia. In 2013, the fund looked at the environmental and social risks associated with mining, including mountaintop removal, tailings disposal and conflict minerals. The fund also analysed companies with the largest contributions to greenhouse gas emissions. In each case, these analyses resulted in the fund divesting from companies. The divestments were carried out within the general limits for the management of the fund.

In 2014, the fund established a new structure for analysing, monitoring and managing environmental and social risks in the portfolio. A review of relevant data offerings showed that corporate reporting on sustainability risks was at a relatively early stage and predominantly consisted of text-heavy reports. To make risk-based divestments scalable across our portfolio, we needed a better view of companies' inherent environmental and social risks and how these were managed. In addition, we wanted a view of related controversies that a company had been involved in. We decided to start compiling large normalised datasets of company-specific

environmental and social data points that would give us comprehensive coverage of our portfolio and enable us to better automate and scale our analysis. This practical direction enabled us to develop risk-based divestments further and provided us with an extended basis for risk management.

The database started small with only 300,000 unique data points in 2014, mainly due to the limited availability of relevant data. However, as investor demand for data related to environmental and social factors and indicators has grown, the size of the database has increased ten-fold. The database has gradually been expanded to include more company-specific information, such as greenhouse gas emissions, waste management, health and safety, and water usage. We have also included indicators of sustainability-related risks or controversies, including in the supply chains of many global companies.

Soon, we began using these environmental and social data for an increasing number of additional analyses, including screening the portfolio for both positive and negative externalities and feeding into our daily monitoring of company incidents, which uses algorithm-driven web scraping of company news. We have also used the data for research, such as exploring the link between carbon emissions and returns, as well as climate risk as a systematic factor.

In addition, we have used the data in the risk analysis of our largest holdings. In 2013, we began creating in-depth company risk reports to enhance risk management of the fund's most material positions. These reports provide insight into both financial and non-financial issues at a company that may be relevant from a risk management perspective. The environmental and

social risk analysis was initially limited to inputs from the respective company's sustainability report. As the data available improved and we developed our database, we were able to expand the environmental and social factors considered. This resulted in a more systematic review of material factors, including input from our portfolio managers and external analysts.

Since 2015, the database has also played a significant role in our work on implementing the coal-based exclusion criterion in the ethical guidelines. The criterion requires the fund to determine not only companies' current share of revenue or operations based on coal, but also to make forward-looking assessments of company plans for reducing the share of coal in favour of other energy sources. Accounting data proved to be insufficient for such assessments. The fund procured detailed information from a range of sources, including suppliers of market data, selected investment banks and companies themselves. This was structured and stored in the non-financial database and formed the basis for exclusion or observation decisions for companies that were considered to be in breach of the thresholds specified in the coal criterion.

Also in 2015, we decided to add a more structural top-down approach to our work on risk-based divestments. This saw the creation of our bespoke country-sector ESG risk matrix, which was used to identify inherent levels of environmental, social and governance risks at the country and sector levels. Non-financial data across ten different environmental, social and governance themes are collected at a country, sector and company level from a number of different sources. The data are compiled, scored and aggregated into a framework that allows us to identify areas of high inherent risk at the country and sector level individually, as well as for specific country and sector combinations.

In 2016, we launched a platform to integrate environmental and social data with financial data in a single source that can be used by the entire organisation, including portfolio managers. We have since continued to expand the scope of the data on the platform as they have become available in the database.

Measuring portfolio risks

Identifying high-risk companies for divestment has been an important tool in the risk management process. However, this approach only addresses a small subset of the fund's portfolio. To ensure robust risk management across all companies and markets, more scalable assessments were needed.

Chart 21 Reporting. Scope 1 and 2 emissions by sector. Thousand tons CO₂ equivalents as at 31 December 2019.

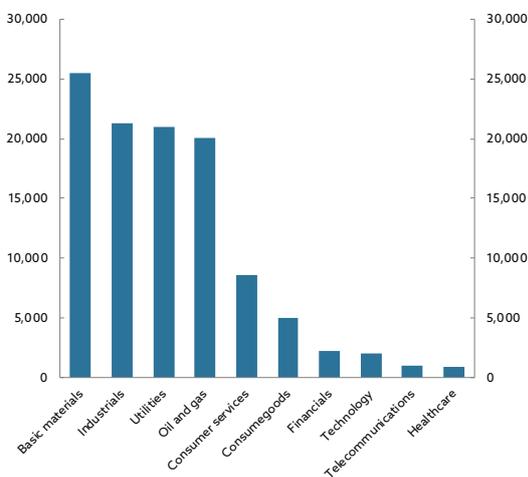
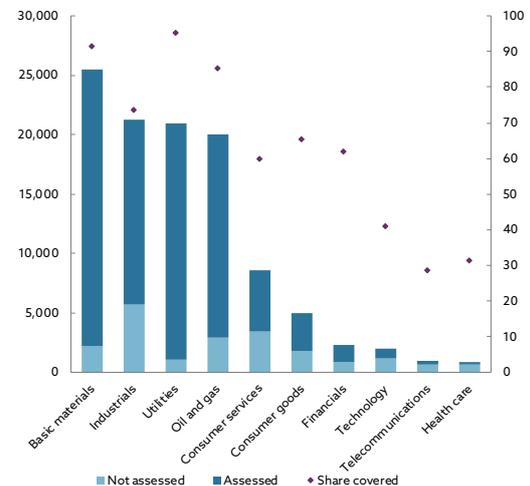


Chart 22 Reporting. Share of portfolio carbon footprint covered by our internal climate assessments. Percent (right-hand axis). Thousand tons of CO₂ equivalents (left-hand axis). As at 31 December 2019.



The fund's work on climate risk over the years serves as an example of the evolution of our approach to measuring risks that affect the entire portfolio. Climate risk consists of both physical risks and transition risks, and the understanding of its financial implications for the fund is evolving.

The 2015 Paris Agreement underlined the need to account for how our investment portfolio was positioned with respect to both physical risks and the transitioning economy. In our efforts to improve the availability of non-financial data, and to measure ESG risks across our portfolio, we had increasingly been asking companies to move from words to numbers in their sustainability disclosures. We saw this drive towards quantification as an area where we ourselves should also "walk the talk". Climate change, and specifically greenhouse gas emissions, was an area where quantification and standardisation had come furthest, and was a natural starting point for our efforts to better understand the some of the sustainability risks facing the portfolio.

As part of the development of our first responsible investment report in 2015, we conducted an analysis of greenhouse gas emissions from all the companies in our equity portfolio. This carbon footprint has been reported every year since and was expanded in 2016 to include our corporate bond portfolio. This analysis has helped us understand some of the climate-related exposures of our portfolio and informed our ownership activities. When we started the exercise, carbon footprinting of an investment portfolio was still a novel practice. However, over time, carbon footprinting has evolved to become a well-established and rigorous climate risk metric estimated by many investors.

Footprinting illustrates two of the key challenges that remain with regard to measurement of sustainability risks. First, the lack of standardised and comparable data in corporate reporting continues to be an obstacle. Second, a portfolio carbon footprint does not exhaustively capture climate risk, is backward-looking and takes no account of context, let alone the complexity of overall sustainability risk. From 2018, therefore, we have started exploring the use of climate scenario analysis, including physical climate risk assessments and assessments of scope 3 emissions.

In recent years, the carbon intensity of both the equity and corporate bond portfolios has been lower than that of the benchmark index. This is not the result of any specific investment strategy, but rather a series of different investment decisions.

Social issues have been even more challenging to analyse. Sometimes this is due to a lack of reporting, but often the issues themselves are intrinsically less quantifiable, such as human rights or corruption risk. These areas require further development, and we have promoted industry initiatives and supported several international projects from 2018 to improve knowledge and indicators.



Understanding financial impact

Quantifying the financial impact of a company's sustainability performance is an important but inherently difficult endeavour. Academic consensus seems to be in favour of a small positive relationship between firms' sustainability and financial performance.

In order to contribute to the development of such understanding and to inform our responsible investment strategy, we have over the years funded a number of research initiatives and collaborated with academic institutions. This approach was spurred in 2013, and supporting research into responsible investment was included in the fund's mandate in 2014.

The same year, we initiated our first research project with Columbia University, investigating the financial impact of mining and water-related risks. Since then, we have supported a total of eight research projects, both through the Norwegian Finance Initiative (NFI) and directly with several world-leading research institutions.

The most recently completed project resulted in a special issue on climate finance in *The Review of Financial Studies* in March 2020. The issue includes contributions by the Nobel laureates Lars Peter Hansen and Robert Engle and shows how there is a place for finance research in understanding the implications of climate change. The project came about after the fund had arranged a conference in 2016 to evaluate current thinking on climate change and realised that there was a lack of academic research looking directly at how climate change affects financial markets. After two further conferences,

the research culminated in nine articles published in *The Review*, chosen from 106 submissions. Taken together, the articles highlight the importance of investor beliefs regarding climate change risks, the efficiency of capital markets and the roles of hedging and governance.

Overall, our external research projects illustrate how academic insights can help improve market insights, develop methodologies and facilitate access to important data that allow investors to analyse and report on their own sustainability risk exposures.

Standardisation needed

With the fund's evolving role as a responsible investor, the state of sustainability data continued to present a key challenge when exercising our ownership rights and managing risks. Through our compliance assessments and disclosure initiatives, we have pushed for a general increase in the quantity of information. By developing our own risk management practices, we have also put this data to use in order to manage our own exposures to sustainability risk. We have made significant progress since the 2004 introduction of the ethical guidelines and ownership principles. Nevertheless, from an investor perspective, sustainability information from companies continued to lack the completeness and comparability found in financial accounting data. This made it difficult to use as a basis for investment and risk decisions. It was clear to us that as a global investor, we needed to take a proactive role by guiding reporting practices to elicit more decision-useful information from companies.

From words to numbers

Financial statements provide little information about a company's business model and operating environment. It is also difficult to assess the completeness of the growing number of sustainability reports due to differing and evolving views on what issues fall within the realm of corporate sustainability, which of these are material to individual sectors and companies, and where the reporting boundaries should be.

An important distinction between traditional financial reporting and sustainability reporting is the lack of standard units of accounting for the latter. Sustainability reporting has also traditionally included a larger proportion of subjective narratives. This makes it difficult to compare companies' sustainability performance.

Due to the long-term nature of many sustainability issues, such as climate change, even many numerical indicators may be subjective as they are based on judgement calls deciding whether and how a current externality becomes internalised.

Multiple standards

A number of different frameworks and standards have developed in order to guide and support companies' efforts to measure and report on their environmental and social impacts. However, these frameworks often differ in their approach to how and what companies should report. The resulting heterogeneity in corporate disclosure has complicated company and portfolio analysis for us and other investors.

The fund reflected on the issue of multiple standards in a consultation response to the Corporate Reporting Dialogue in 2019. We specifically commented on the fragmentation of the sustainability reporting landscape, noting approximately 400 mandatory or voluntary reporting regulations, guidelines and standards in existence and voicing our concern regarding the burden this represented for companies. We concluded that as investors we needed to take a more proactive role in guiding companies on what and how to report, down to the level of specific frameworks, standards and data points.

A notable example of our work to promote the development of a specific reporting framework was our support for the TCFD, launched in 2015 by the Financial Stability Board (FSB). The framework was developed with the overall aim of developing consistent climate-related financial risk disclosures for use by companies, banks and investors in providing information to stakeholders. Through initial consultation responses, we also contributed feedback and comments on operationalising the

recommendations. The TCFD framework's four pillars – governance, strategy, risk management, metrics and targets – in many ways reflected the approach the fund had been employing over a number of years in our expectation documents.

Towards a common standard

Supporting individual frameworks is a useful exercise, but we believe that the harmonisation of these different sustainability reporting standards is in the interest of both investors and companies. It will simplify company and portfolio analysis, and reduce the overall reporting burden on companies.

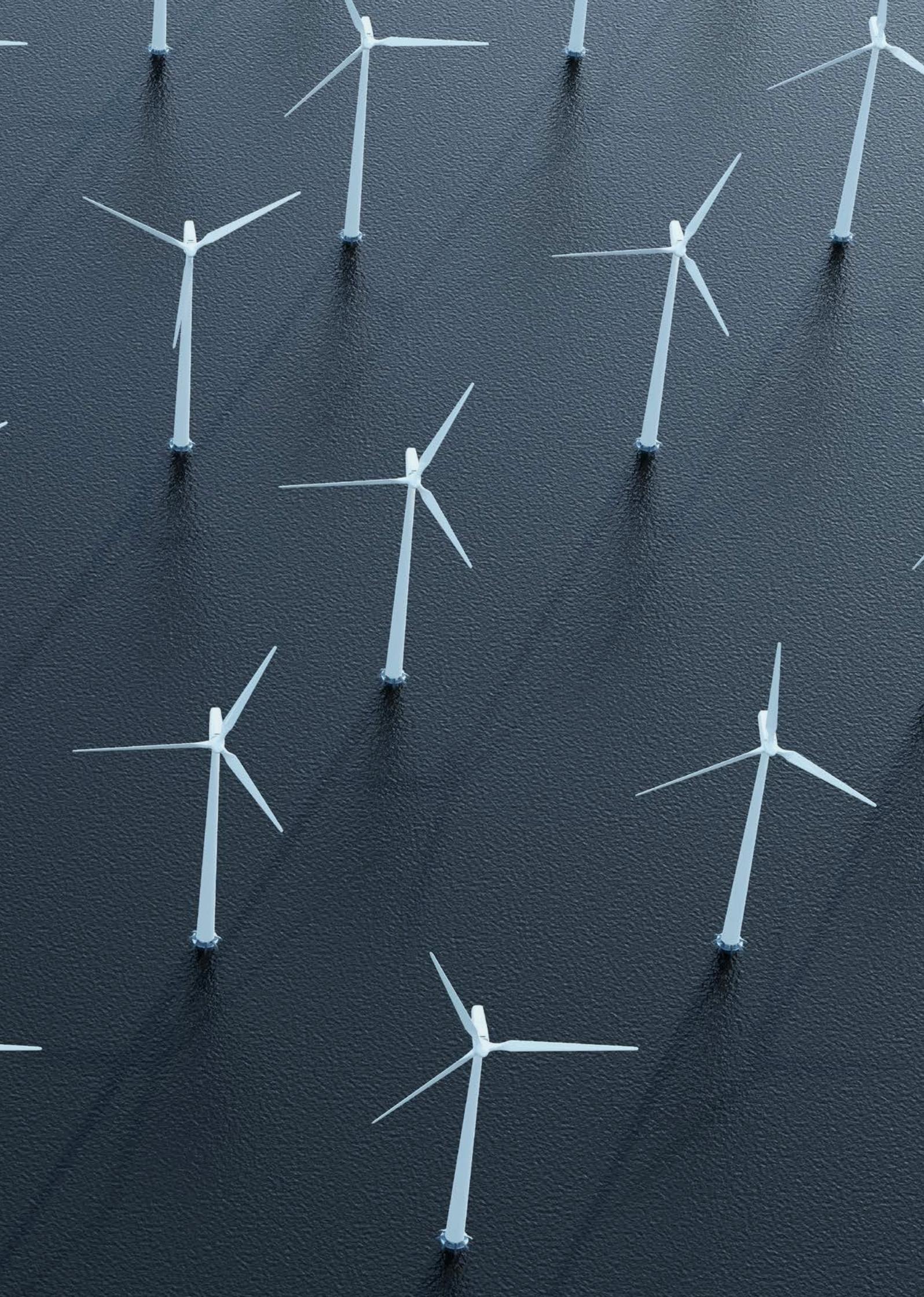
We were also aware that we, as a universal owner, were well positioned to contribute to appropriate and consistent reporting, both by testing and developing measurement methodologies, and by promoting their uptake by investee companies.

In early 2019, the fund publicly endorsed the recently published standards developed by the SASB and joined its Investor Advisory Group to help promote uptake of the standards. The SASB standards focus specifically on information that is financially material and so relevant for investment decision-making. They also present the advantage of being industry-specific, enabling investors to compare performance from company to company within an industry.

Our 2020 Asset Manager Perspective on corporate sustainability reporting, we shared our detailed reflections on disclosure. In a position paper, we emphasised the need for improved metrics, clarifying that company disclosures should include indicators of exposure, management and performance, and preferably be based on established international standards, such as the SASB and the GRI.

We have gone from pushing companies for reporting on basic sustainability data, to integrating a growing database into our risk management, to contributing to more rigorous and nuanced reporting standards. We are therefore encouraged by the uptake of certain reporting frameworks and note that several sustainability metrics have become well recognised and increasingly integrated into company disclosures. Further development of good corporate reporting will help all our responsible investment activities as described in this review. We will continue to push for more data and better risk management, and we will continue to promote market-wide rigour and consistency in the way companies manage and account for the environmental and social aspects of their business activities.







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