

RESPONSIBLE INVESTMENT 2017

GOVERNMENT PENSION FUND GLOBAL

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13.02.2018

A photograph of a woman and a young child walking on a wooden pier. The woman is wearing a grey long-sleeved shirt and dark pants, and the child is wearing a pink hat and blue overalls. They are walking towards the camera, with the woman holding the child's hand. The pier is made of wooden planks and extends into a body of water under a cloudy sky. The text 'Our mission Safeguard financial wealth for future generations' is overlaid on the right side of the image in a blue font.

Our mission
Safeguard
financial wealth
for future generations

Management objective

OBJECTIVE

HIGH LONG-TERM
RETURN

SUBJECT TO

- **Moderate risk**
- **Responsible investment**
- **Efficient organisation**
- **Full transparency**

Three pillars of responsible investment

Setting standards

- Standards
- Expectations
- Research

Exercising ownership

- Voting
- Dialogue
- Disclosure

Investing sustainably

- Assessments
- Investments
- Divestments

RESPONSIBLE INVESTMENT

GOVERNMENT
PENSION FUND
GLOBAL

/2017

No. 04

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SETTING STANDARDS

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EXERCISING OWNERSHIP

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INVESTING SUSTAINABLY

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Setting standards



Setting standards

International standards are our starting point

- Common standards provide better business practices across markets

We contribute to developing standards

- We have experience as an investor in around 9,000 companies in 72 markets

We establish our own priorities

- Our expectations and positions provide predictability in our ownership



Development of international standards

Participated in 17 public consultations in 2017

Equal treatment of shareholders

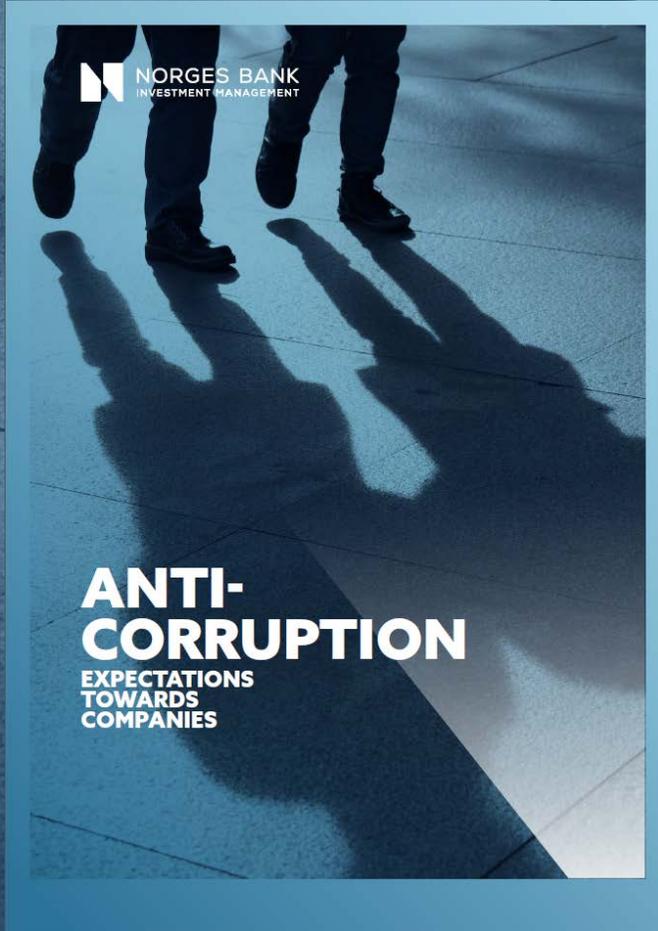
- Introduction of dual voting classes – stock exchanges in Singapore and Hong Kong
- New premium listing category for state-controlled companies – London Stock Exchange
- Companies with no or very few voting shares listed – S&P Dow Jones, FTSE and MSCI

Well-functioning markets

- Dismantling remaining barriers to cross-border investing – European Commission

Sustainable development and better disclosures

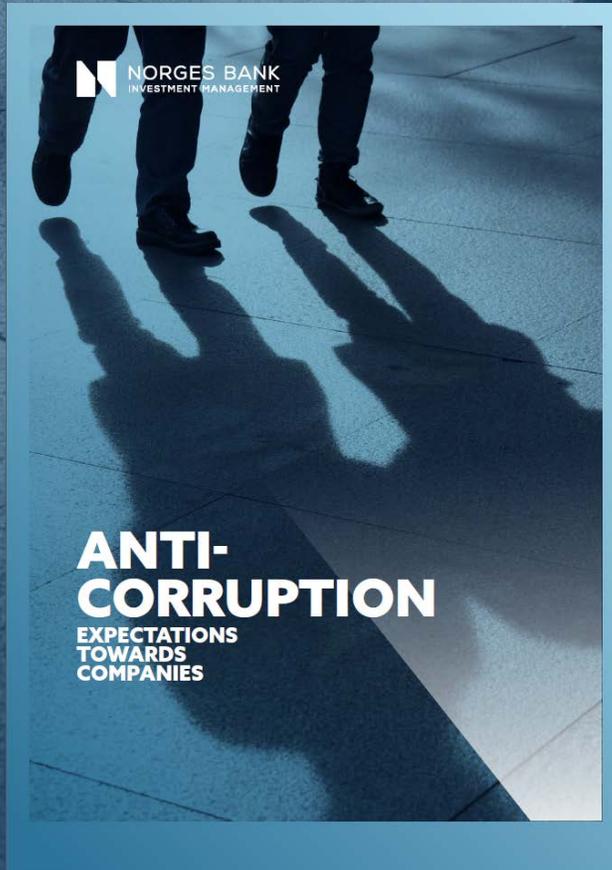
- Guidelines for Multinational Enterprises – OECD
- Framework for climate reporting – CDP, TCFD, EU



Expectations towards companies on anti-corruption

Published 13 February 2018

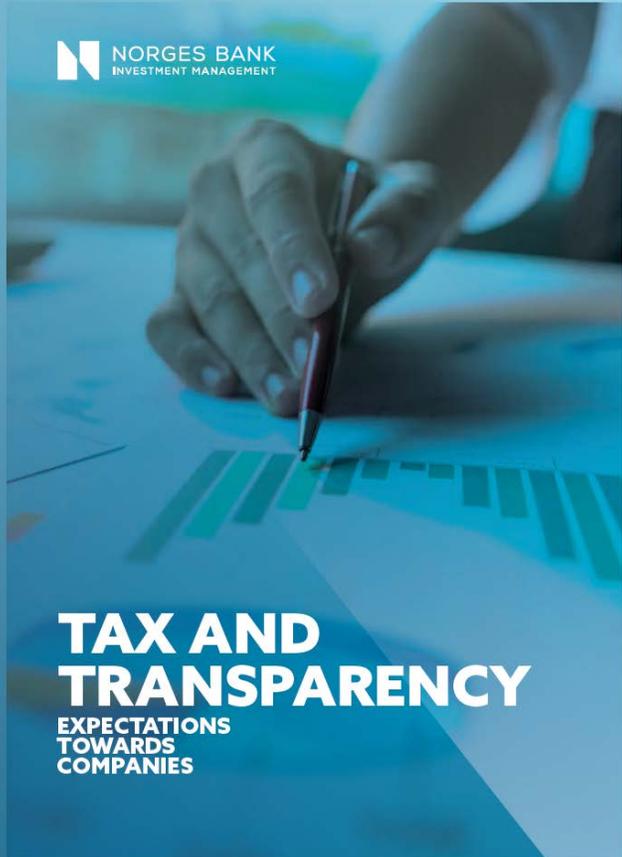
Expectations on anti-corruption



- We expect companies to work against corruption in all its forms
- Boards should ensure that companies set a clear policy to prevent, identify and address corruption
- Companies must actively seek to detect risk of corruption and provide a whistleblowing mechanism
- Companies should report on their anti-corruption programme, and engage with regulators



NORGES BANK
INVESTMENT MANAGEMENT

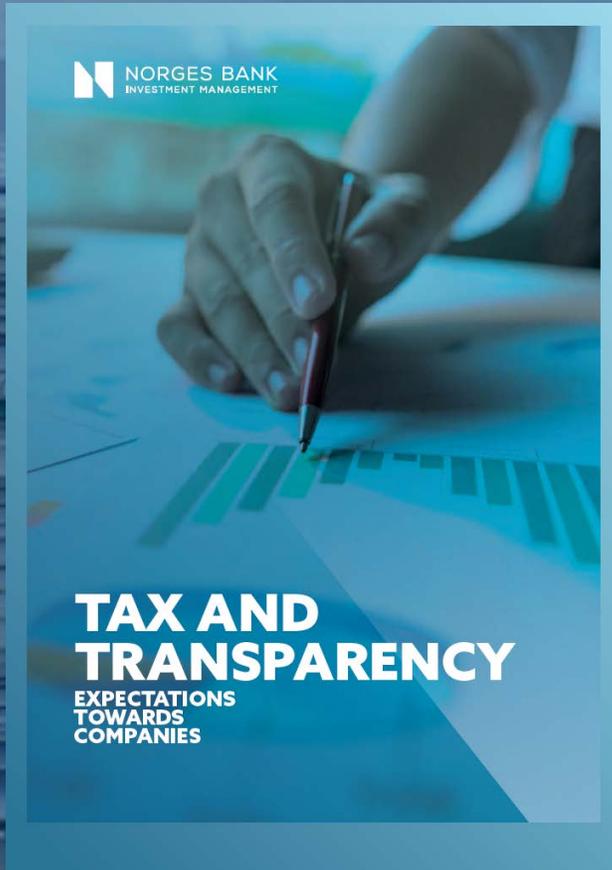


**TAX AND
TRANSPARENCY**
EXPECTATIONS
TOWARDS
COMPANIES

Expectations to companies about tax and transparency

Published 7 April 2017

Expectations about tax and transparency



- We expect multinational companies to have appropriate, prudent and transparent tax behaviour
- Based on three main principles:
 - Taxes should be paid where economic value is generated
 - Company tax arrangements are a board responsibility
 - Public country-by-country reporting is a core element of transparent corporate tax disclosure



MENT POSITION

is driven by long-term value creation and aligns CEO and of total annual remuneration should be provided as preferably ten years, regardless of resignation or

are simple and do not put undue strain on corporate performance conditions and the complex criteria that may

total remuneration to avoid unacceptable outcomes. CEO tied in cash and locked-in shares each year. The board remuneration for the coming year.

ive a clear business rationale. Pensionable income should The board should commit to not offering any end-of-horizon or dilute the lock-in of shares.

ed shareholder interests of his or her remuneration in company shares is a simple and CEO with those of shareholders and the wider society.

se targets is illusory. Incentive plans are often ineffective and may result in tend to have complex and opaque metrics that are open to or rebalance metrics during the measurement period.

remuneration up front without performance conditions and it is not subject to later adjustments. Transparency will also awards that challenge legitimacy.

ocus on business is less vulnerable to any information asymmetry between encourage short-term behaviour. A simplified structure also focus on the company's strategic aims.

in for several years will increase perceived remuneration

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Position paper and Asset manager perspective on CEO remuneration

Published 7 April 2017

CEO remuneration structures are a distinct issue of interest to shareholders, with likely implications for the well-functioning of financial markets. This note views remuneration as an expression of corporate governance and discusses commonly used incentive plans and alternative remuneration schemes.

Agency theory remains relevant to executive remuneration in listed companies because CEO incentives do not match those of shareholders. It is therefore in the interest of shareholders to better align the actions of the CEO with their interests.

Requiring the CEO to be a long-term shareholder seems to be an underutilised strategy for aligning the interests of the CEO with those of shareholders. This should supplement the promotion of a board of directors that effectively monitors management and is accountable to shareholders.

Date 07/04/2017

The Asset Manager Perspective series articulates Norges Bank Investment Management's views and influences on issues topical for the financial industry. They are intended to be definitive, as far as they are intended as timely contributions for the benefit of all market participants. The series is written by employees, and is informed by our investment research and our experience as a large, long-term asset manager.

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Remuneration of the CEO – follow up

- More markets have «Say on Pay»
 - Transparency on total remuneration
 - Long-term shareholding
- Dialogue with boards about our position
- Assessing the structure of pay plans



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Date: 07/04/2017

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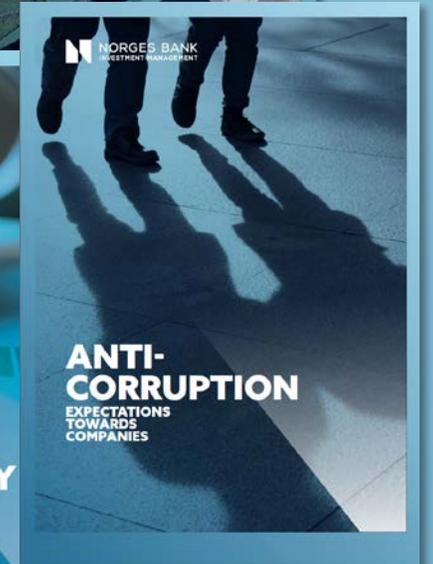
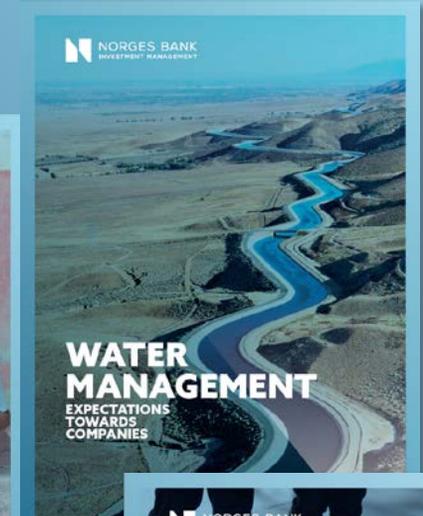
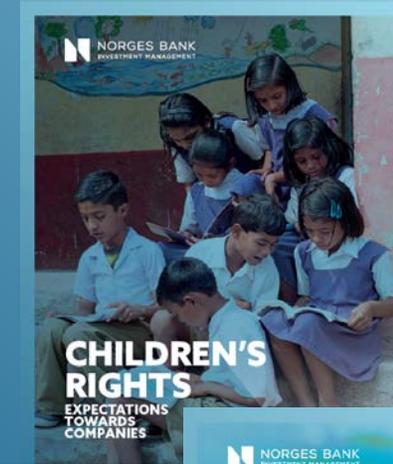
Our expectations and positions

Expectation documents

- New expectations on anti-corruption
- New expectations on tax and transparency
- Updated expectations on climate change

Position papers

- CEO remuneration



Research projects 2017

Governance

- Effective ownership – London Business School
- Shareholder approval – Boston College

Sustainability

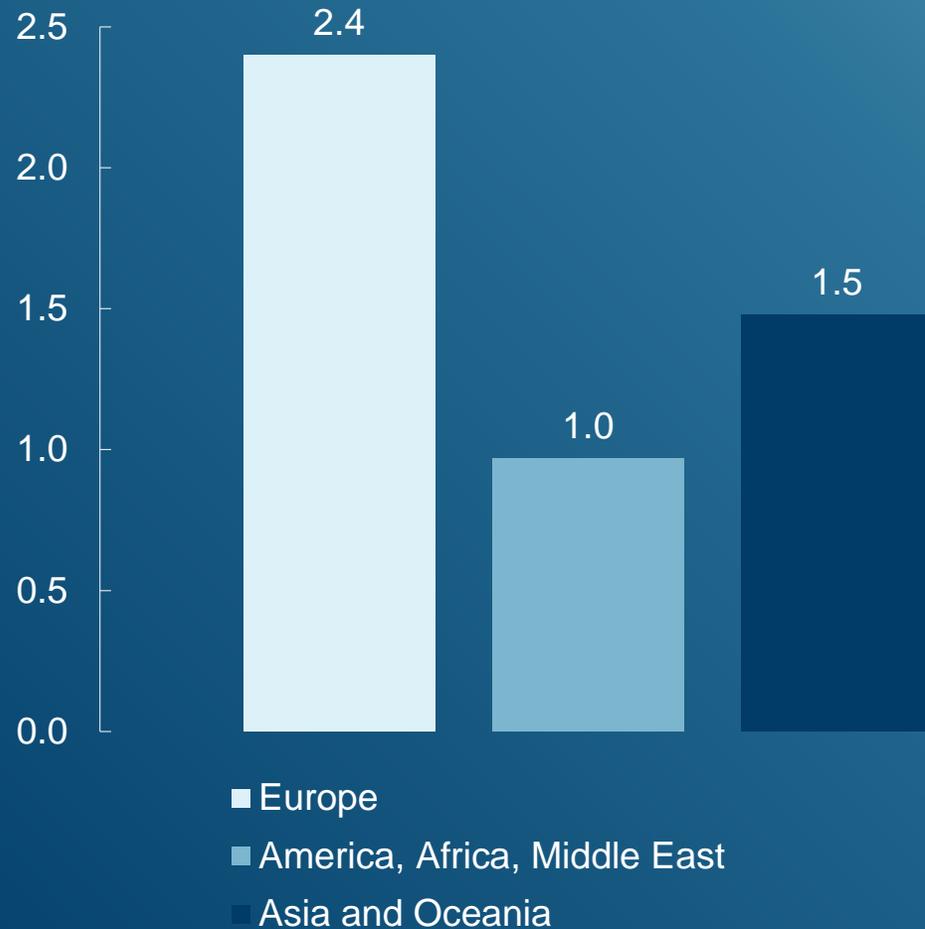
- Sustainability disclosure and value creation – Harvard Business School
- The financial economics of climate change, two separate projects – NYU Stern, Columbia University
- Mining and water risk – Columbia University

Ownership



Equity investments

Percent of FTSE Global All Cap Index



72 COUNTRIES

9,146 COMPANIES

1.4 % OF LISTED
COMPANIES
GLOBALLY



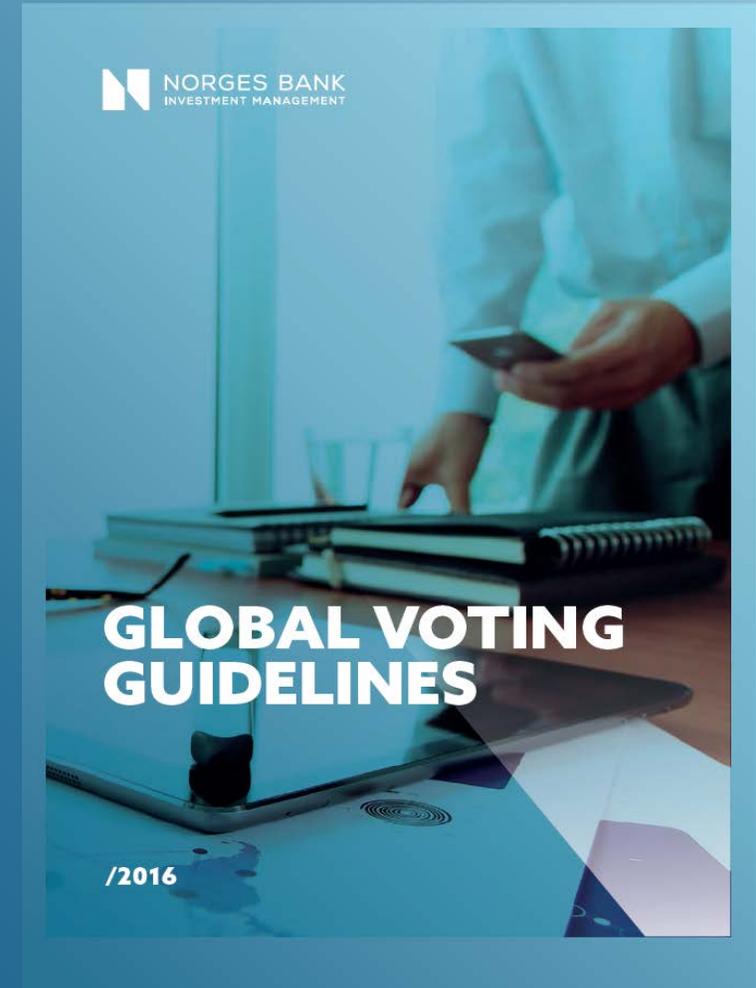
Voting in 2017

We vote at all shareholder meetings

- We voted at more than 11,000 shareholder meetings
- We voted on more than 113,000 resolutions

We published voting intentions for five companies

- Support reporting on water management
 - Monster Beverage Corp
- Support to merger proposal
 - Linde / Praxair
- Support executive remuneration policy
 - Credit Suisse Group
 - Royal Bank of Scotland



Shareholder resolutions in 2017

Resolutions by shareholders accounted for 2 percent of all resolutions voted on

- Corporate governance topics accounted for 94 percent of these resolutions
- Sustainability topics accounted for 6 percent of these resolutions

Number of corporate governance resolutions more than doubled since 2010

- 2,573 shareholder resolutions on corporate governance in 2017
- We voted in favour of 11 percent of governance-related shareholder resolutions

Number of sustainability resolutions increased by 30 percent since 2010

- 165 shareholder resolutions on sustainability in 2017
- We voted in favour of 28 percent of sustainability-related shareholder resolutions

Three categories of company dialogue

Dialogue on strategic topics

- Shareholder rights
- Reporting

Dialogue on incidents

- Corporate actions
- Risk incidents

Dialogue on ethical criteria

- Active ownership

Strategic topics

Priority topics for company dialogue

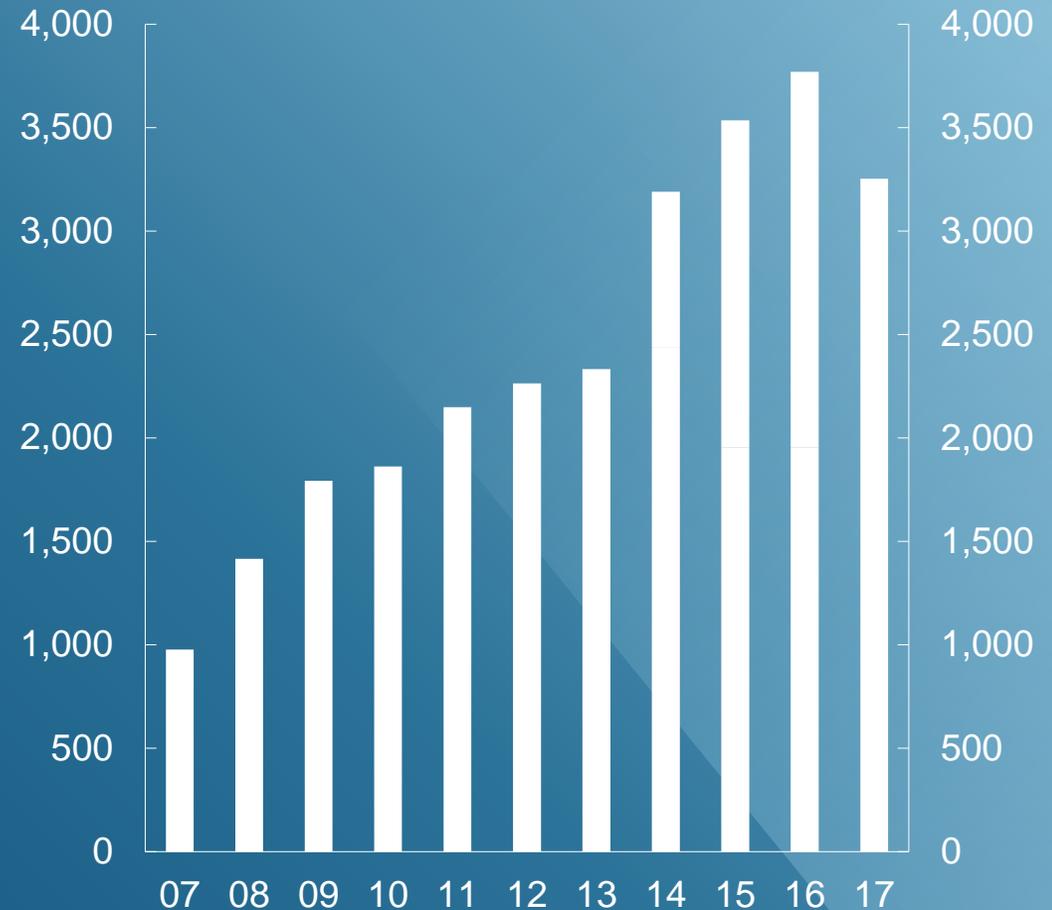
| Category | Examples of topic | Region | Meetings |
|----------------------|----------------------------|---------|----------|
| Environment | Climate change | America | 161 |
| | Deforestation | Europe | 219 |
| | Financing | Asia | 101 |
| | Water management | Total | 481 |
| | | | |
| Social issues | Children's rights | America | 140 |
| | Human rights | Europe | 185 |
| | Tax and transparency | Asia | 48 |
| | | Total | 373 |
| | | | |
| Governance | Board composition | America | 529 |
| | Corruption risk mitigation | Europe | 667 |
| | CEO remuneration | Asia | 255 |
| | | Total | 1,451 |
| | | | |



3,252 company meetings with 1,380 companies

Dialogue with companies in 2017

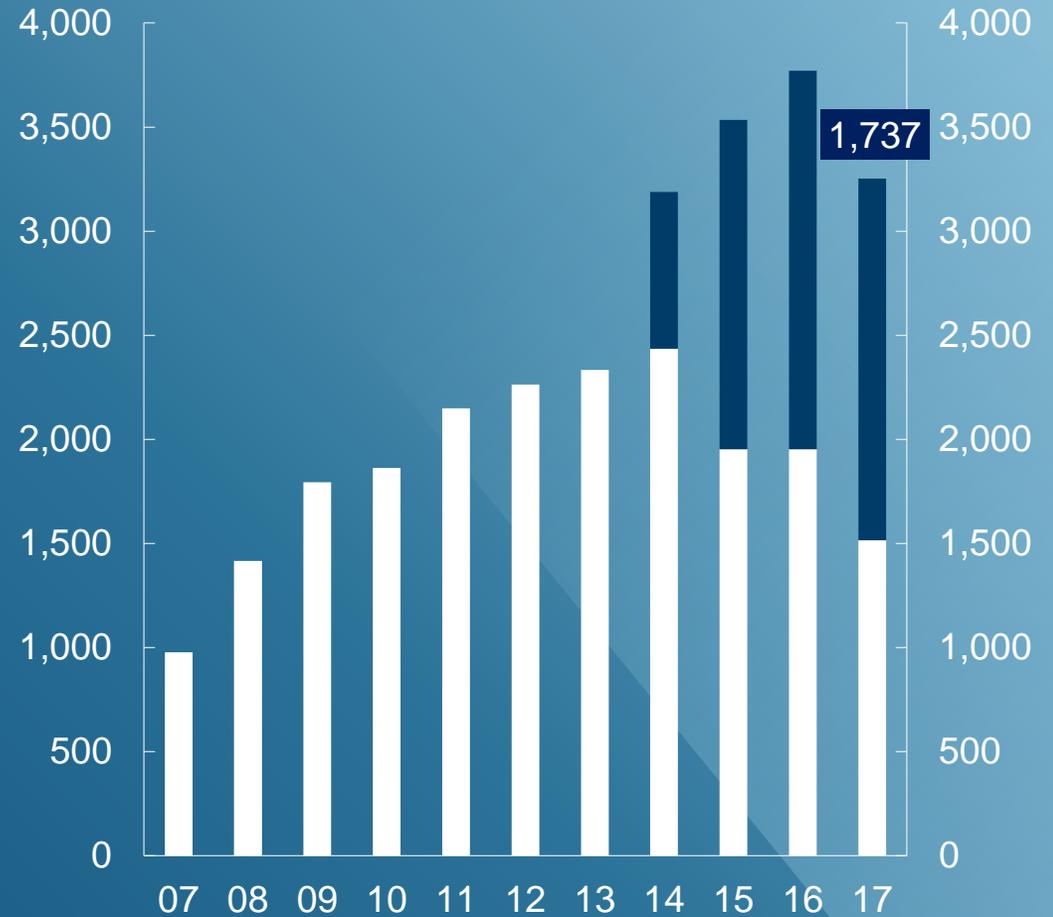
- **Board nomination and election**
- **Shareholder rights**
- **CEO remuneration**
- **Sustainability reporting**
- **Anti-corruption**



1,737 meetings covered sustainability issues

Dialogue with companies in 2017

- Board nomination and election
- Shareholder rights
- CEO remuneration
- Sustainability reporting
- Anti-corruption





We evaluate reporting on the following topics

Governance structure

Risk assessment

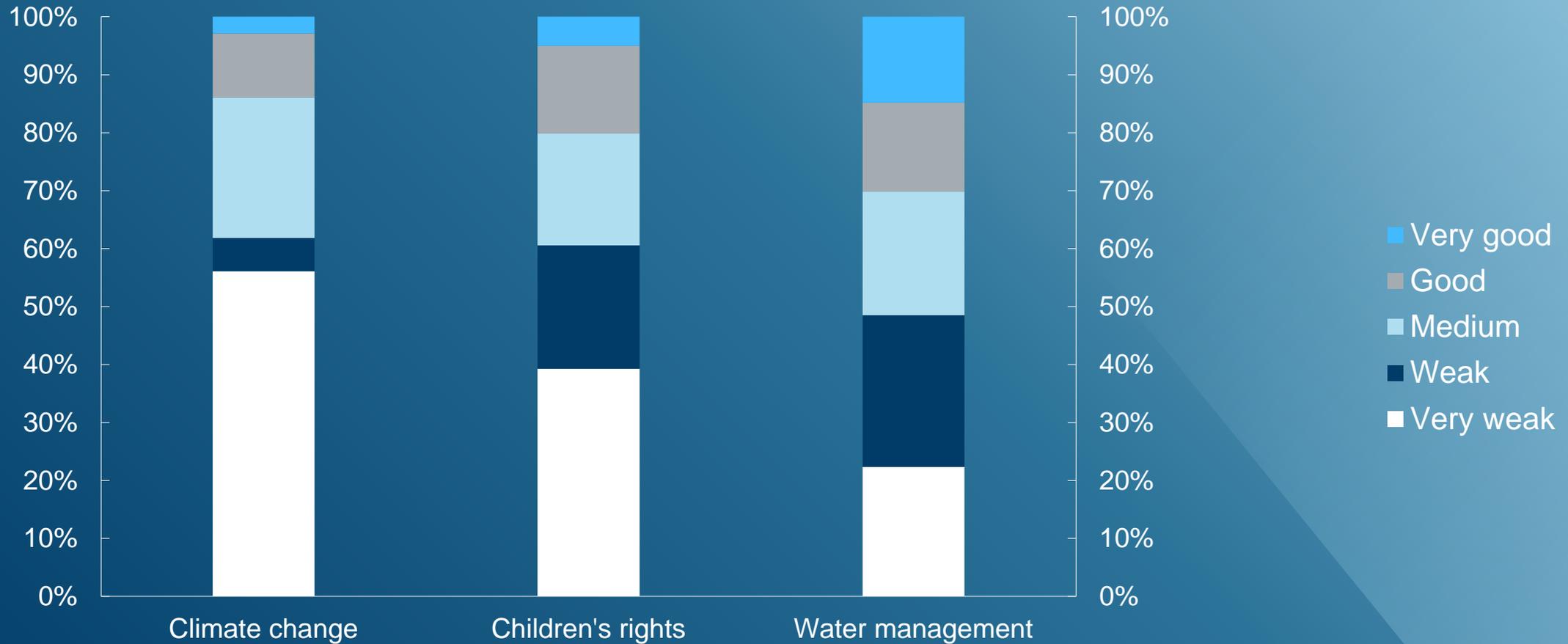
Strategy and implementation

Supply chain management

Performance reporting

Corporate disclosure

Results from companies we have assessed in 2017. Percent



Companies with very good reporting

Examples from various sectors in 2017



Children's rights

Adidas AG
Anglo American Platinum Ltd
Anglo American PLC
Hennes & Mauritz AB
Inditex SA
Mondelez International Inc
Nestle SA
Nokia OYJ
Samsung Electronics Co Ltd
The Coca-Cola Co



Water management

Clariant AG
Danone SA
Heineken NV
Hera SpA
Iberdrola SA
L'Oreal SA
Mondi Plc
Neste Oyj
Nestle SA
Newmont Mining Corp



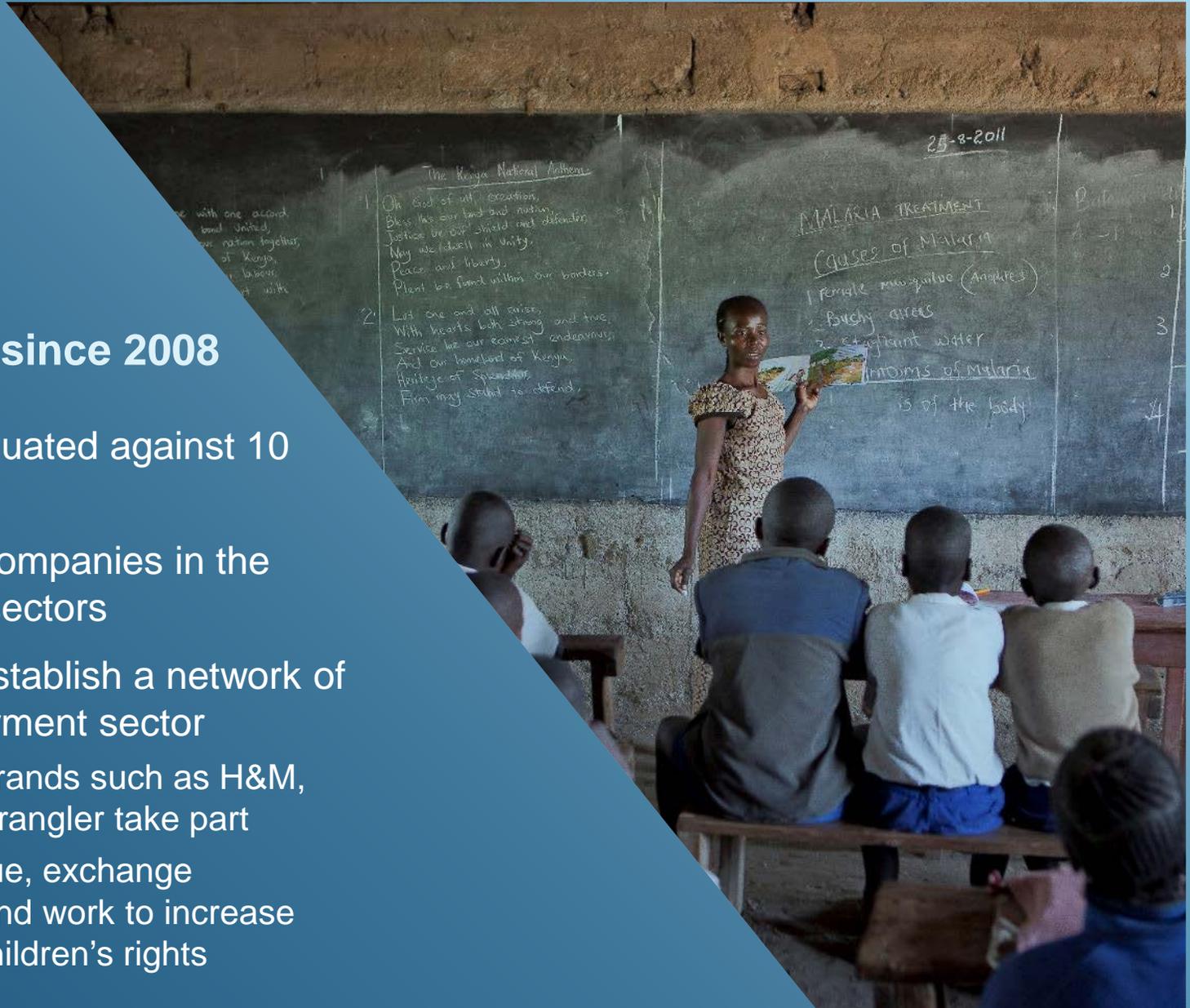
Climate change

ADP (Aeroports de Paris)
British Land Company
Devon Energy Corporation
E.ON SE
Gecina
Itaú Unibanco Holding S.A.
Lotte Chemical Corp
Newmont Mining Corporation
Svenska Handelsbanken
Tofas Turk Otomobil Fabrikasi A.S.

Children's rights

Selected companies assessed since 2008

- 601 companies assessed and evaluated against 10 indicators in 2017
- Reporting was best among large companies in the branded goods, retail and mining sectors
- New agreement with UNICEF to establish a network of companies in the footwear and garment sector
 - Companies behind well known brands such as H&M, Gucci, Puma, North Face and Wrangler take part
 - The network will facilitate dialogue, exchange experience of children's rights, and work to increase awareness and acceptance of children's rights



Water management

Selected companies assessed since 2010

- 600 companies assessed and evaluated against five indicators in 2017
- Nine out of ten companies provided information about water management
- Reporting was best in the pulp and paper and food and beverage sectors
- Information about water risk and mining from a research project at Columbia University



Water management

The oceans

- 40 percent of the oceans are heavily affected by human activity
- Important for entire sectors and affect the supply chain of many companies in our portfolio
- We will develop our expectation document on water management and include salt water



Climate change

Selected companies assessed since 2010

- 1,701 companies assessed and evaluated against five indicators in 2017
- More than half of the companies did not report data to CDP
- Reporting was best in the chemicals and bank and finance sectors
- Follow up of recommendations from the Task Force on Climate-related Financial Disclosures (TCFD) towards the banking sector



Human rights

Expectation document in 2016

- More than half of the companies report on how potential economic impacts of social issues are integrated into business planning
- We will work to improve metrics used to measure companies' human rights performance
- Continued support of project for more sustainable business practices in the apparel industry



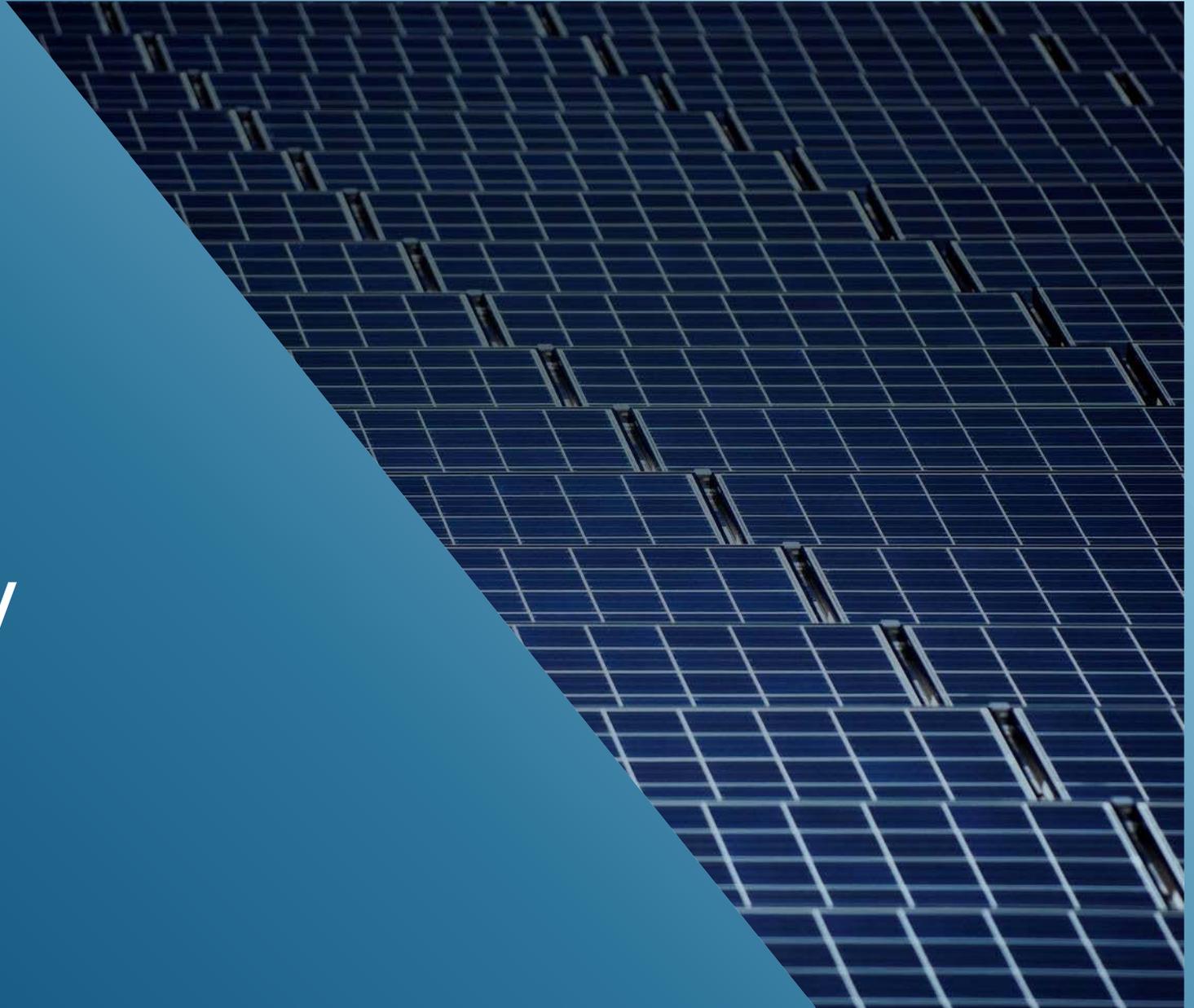
Tax and transparency

Expectation document in 2017

- Tax and transparency is a board responsibility
- We sent a letter with our expectations to 500 companies 4 September 2017
 - 50 companies have sent unsolicited responses
 - Several companies voiced a firm support of our expectations
- Largest improvement potential regarding country-by-country reporting



Investing sustainably



From words to numbers

Building a database with sustainability data

- We depend on quantitative data to perform analyses

We support initiatives for better sustainability disclosure

- CDP (formerly Carbon Disclosure Project)

We aim for more financial reporting about climate change

- Task force for climate related financial disclosure
- Integrated reporting to Principles for Responsible Investment

We measure climate risk and carbon footprint

Emissions by sector

Scope 1 and 2

| Sector | Equity portfolio | Reference index | FTSE All Cap |
|--------------------|------------------------------------|------------------------------------|------------------------------------|
| | Tonnes CO ₂ equivalents | Tonnes CO ₂ equivalents | Tonnes CO ₂ equivalents |
| Basic materials | 25,074,080 | 23,681,250 | 2,925,356,440 |
| Consumer goods | 5,765,582 | 4,673,948 | 474,844,895 |
| Consumer services | 8,252,835 | 6,079,735 | 830,935,674 |
| Financials | 1,856,646 | 1,893,345 | 218,420,483 |
| Health care | 733,747 | 696,473 | 63,185,428 |
| Industrials | 20,110,089 | 19,249,313 | 1,873,987,859 |
| Oil and gas | 16,983,780 | 17,504,428 | 1,926,254,153 |
| Technology | 1,220,326 | 1,130,357 | 110,747,203 |
| Telecommunications | 672,848 | 732,444 | 87,235,419 |
| Utilities | 20,244,932 | 25,000,232 | 4,707,084,732 |
| Sum | 100,914,866 | 100,641,525 | 13,218,052,284 |



Emissions intensity by sector

Scope 1 and 2, Weighted by market value of fund holdings.

Equity portfolio, reference index and FTSE All Cap

| | Equity portfolio | Reference index | FTSE All Cap |
|-----------------------|---|---|---|
| Sector | Tonnes CO ₂ equivalents per million dollars in sales revenue | Tonnes CO ₂ equivalents per million dollars in sales revenue | Tonnes CO ₂ equivalents per million dollars in sales revenue |
| Basic materials | 731 | 772 | 844 |
| Consumer goods | 74 | 70 | 66 |
| Consumer services | 105 | 90 | 89 |
| Financials | 32 | 29 | 29 |
| Health care | 31 | 30 | 30 |
| Industrials | 245 | 262 | 246 |
| Oil and gas | 549 | 560 | 560 |
| Technology | 44 | 44 | 44 |
| Telecommunications | 45 | 49 | 49 |
| Utilities | 1,260 | 1,453 | 2,215 |
| Weighted total | 180 | 189 | 222 |



Emissions by market capitalization

Scope 1 and 2, weighted by market value of fund holdings

Equity portfolio, reference index and FTSE All Cap

| Sector | Equity portfolio | Reference index | FTSE All Cap |
|-----------------------|---|---|---|
| | Tonnes CO ₂ equivalents per million dollars invested | Tonnes CO ₂ equivalents per million dollars invested | Tonnes CO ₂ equivalents per million dollars invested |
| Basic materials | 887 | 947 | 938 |
| Consumer goods | 84 | 67 | 62 |
| Consumer services | 123 | 104 | 103 |
| Financials | 12 | 11 | 11 |
| Health care | 12 | 11 | 11 |
| Industrials | 485 | 391 | 364 |
| Oil and gas | 608 | 549 | 548 |
| Technology | 25 | 21 | 21 |
| Telecommunications | 34 | 35 | 35 |
| Utilities | 1,122 | 1,334 | 1,805 |
| Weighted total | 217 | 204 | 223 |

¹ Does not take into account companies' different capital structure (debt-to-equity ratio)



Fixed-income corporate and reference index

Emissions scope 1 and 2 as at 31.12.2017

| | Tonnes CO ₂ equivalents | Average emissions intensity weighted by market value of fund holdings. Tonnes CO ₂ equivalents per million dollars in sales revenue |
|------------------------|------------------------------------|--|
| Fixed-income corporate | 5,785,668 | 193 |
| Reference index | 7,084,048 | 220 |
| Difference | -1,298,380 | -28 |

Assessing sustainability

Country analysis

- Assessing indicators for governance, environment and social issues
- New framework for approval of government bonds from 01.01.2018

Sector analysis

- Identifying sectors with particularly high risk exposure
- In 2017, we conducted sector analyses covering 686 companies

Company analysis

- Focus on material ownership reports and incident briefs
- We prepared 14 material ownership reports and 24 incident briefs in 2017



Sector analysis

| Sectors | Number of companies | Environment, social, governance topics |
|--|---------------------|--|
| Toys | 38 | Health and safety, labour rights, product safety, toxic chemicals, packaging |
| Oil and gas | 135 | Greenhouse gas emissions, fossil fuel reserves, regulatory risk |
| Steel | 78 | Greenhouse gas emissions |
| Cement | 53 | Greenhouse gas emissions, social and governance |
| Chemicals | 22 | Greenhouse gas emissions, water, pollution |
| Timber, pulp and paper | 11 | Biodiversity, sustainability certification |
| Agricultural commodities | 38 | Deforestation, water, greenhouse gas emissions, human rights |
| Mining | 21 | Health and safety, corruption, greenhouse gas emissions, water |
| Automobiles | 74 | Greenhouse gas emissions, low carbon technologies |
| Utilities | 25 | Fossil fuel-based generation, physical risk, transition risk |
| Basic materials, consumer goods and services, financials, health care, industrials, oil and gas, telecom | 154 | Corruption risk, governance |
| Software and services, retail, consumer services | 37 | Data security, product safety, tax and transparency |



Environmental mandates

Environmental related equity mandates. Return in percent

| | Last 12 months | Last 5 years | Since 01.01.2010 |
|------------------------|-------------------|-----------------|---------------------|
| Environmental mandates | 21.7 | 15.5 | 6.2 |
| Equity benchmark index | 18.7 | 12.5 | 10.3 |

Environmental investments

Environmental mandates

| Category | Number of companies | Total ¹ Bn. kroner |
|---|---------------------|----------------------------------|
| Low-emission energy & alternative fuels | 47 | 21 |
| Clean energy & efficiency technology | 93 | 27 |
| Natural resource management | 66 | 20 |
| Total equity | 206 | 68 |
| Green bonds | | 7 |
| Total | | 75 |

¹ Total includes cash

Top ten holding environmental investments

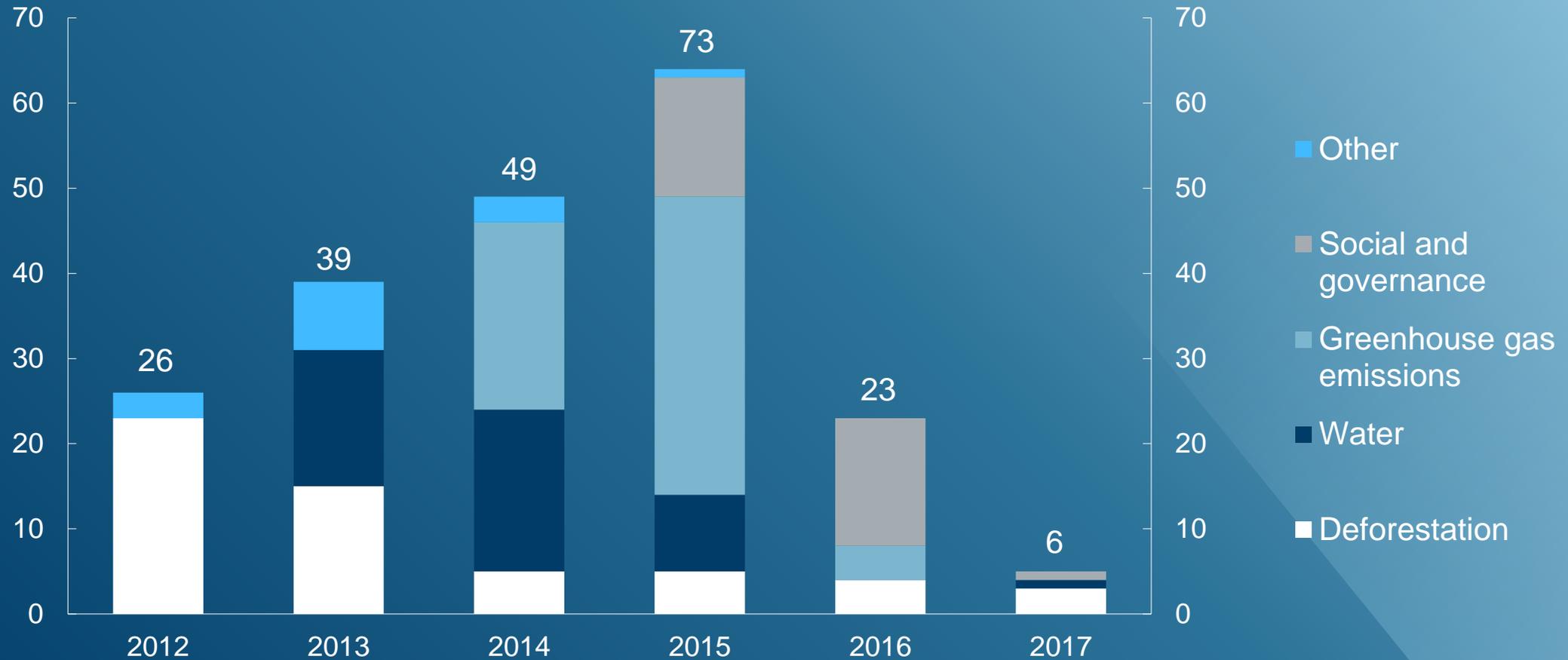
Largest holdings in percent of the environmental portfolio

| Alternative fuel | | Clean energy | | Natural resource management | |
|-----------------------------|-----------------|------------------------------|-----------------|-----------------------------|-----------------|
| | Portfolio share | | Portfolio share | | Portfolio share |
| Linde AG | 5.1 | Parker-Hannifin Corp | 3.0 | Waste Connections Inc | 2.7 |
| Iberdrola SA | 4.2 | Daikin Industries Ltd | 2.8 | DS Smith Plc | 2.4 |
| NextEra Energy Inc | 4.1 | Thermo Fisher Scientific Inc | 2.1 | Xylem Inc | 2.1 |
| Sempra Energy | 3.4 | Legrand SA | 2.1 | Steel Dynamics Inc | 1.5 |
| National Grid Plc | 1.6 | Eaton Corp Plc | 1.8 | Veolia Environment SA | 1.5 |
| Enel SpA | 1.2 | Infineon Technologies AG | 1.7 | AO Smith Corp | 1.5 |
| Energies de Portugal SA | 1.1 | ABB Ltd | 1.3 | Ecolab Inc | 1.4 |
| SSE Plc | 0.8 | Keyence Corp | 1.2 | American Water Works Co Inc | 1.3 |
| Huaneng Renewables Corp Ltd | 0.8 | Atlas Copco AB | 1.1 | Koninklijke DSM NV | 1.3 |
| NRG Yield Inc | 0.5 | Tesla Inc | 1.0 | Severn Trent Plc | 0.9 |

Risk-based divestments in 2017

| Category | Theme | 2017 |
|-----------------------|---------------------|------|
| Deforestation | Palm oil production | 3 |
| | Soy production | 1 |
| Water | Chemicals sector | 1 |
| Social and governance | Tobacco related | 1 |
| Total | | 6 |

Risk based divestment



Ethical decisions in 2017

Decisions made public by the executive board in 2017

| Category | Criterion | Number | Company |
|---------------------------|----------------------|--------|---|
| Exclusion | Coal | 10 | CEZ AS, Eneva SA, Great River Energy, HK Electric, Huadian Energy Co Ltd, Korea Electric Power Corp, Malakoff Corp Bhd, Otter Tail Corp, PGE SA, SDIC Power Holdings Co Ltd |
| | Environmental damage | 1 | Bharat Heavy Electricals Ltd |
| Observation | Coal | 2 | NorthWestern Corp, Portland General Electric Company |
| | Human rights | 2 | Hansae Yes24 Holdings Co Ltd, Hansae Co Ltd |
| | Corruption | 2 | PetroChina Co Ltd, Leonardo SpA |
| Ownership approach | Corruption | 2 | Eni SpA and Saipem SpA |
| Revoked decision | Cluster munition | 1 | Raytheon Co |

Exclusions based on coal

Guidelines for observation and exclusion

Two criteria

- Conduct-based climate criterion (from 1 January 2016)
- Product-based coal criterion (from 1 February 2016)

69 companies excluded

13 companies put under observation



Exclusion and observation as at 31.12.2017

Ethical reasons

| Issue | Criterion | number | bn. kroner |
|----------------------|---|------------|------------|
| Product based | Production of tobacco | 20 | 69 |
| | Production of specific weapon types | 16 | 62 |
| | Thermal coal mining or coal-based power production | 69 | 28 |
| Conduct based | Serious or systematic human rights violations | 3 | 12 |
| | Severe environmental damage | 17 | 29 |
| | Contributions to climate change | 0 | 0 |
| | Gross corruption | 1 | 0 |
| | Other particularly serious violations of fundamental ethical norms | 5 | 2 |
| | Serious violations of the rights of individuals in war and conflict | 2 | 0 |
| Observation | Serious or systematic human rights violations | 2 | |
| | Severe environmental damage | 1 | |
| | Gross corruption | 3 | |
| | Thermal coal mining or coal-based power production | 13 | |
| Total | | 152 | 202 |



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