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Government Pension Fund Global – renewed review of responsible investment work and investments in Israeli companies

We refer to the letter from the Ministry of Finance dated 5 August 2025. The Ministry writes that the situation in the West Bank and Gaza has deteriorated, and that questions have been raised around individual investments in the fund against this background. In light of this, Norges Bank has been asked to provide a renewed review of its work on following up the mandate, the fund's investments in Israeli companies and any potential new measures that Norges Bank considers necessary.

The war in Gaza is a humanitarian crisis. The situation in the West Bank and Gaza continues to worsen and causes tremendous human suffering. Norges Bank fully understands that questions about the fund's investments in Israeli companies are raised at this time.

Background

The Ministry of Finance has laid down provisions for the management of the fund in the mandate given to Norges Bank. It follows from section 1-2 of the mandate that the Bank shall seek to achieve the highest possible return after costs, within the applicable investment management framework. Section 1-3 of the mandate requires that responsible investment shall be an integrated part of the management. A good long-term return is considered to depend on sustainable economic, environmental and social development. Furthermore, it follows from section 4-2 that Norges Bank's Executive Board shall establish a set of principles for responsible investment in line with internationally recognised standards, including from the UN and OECD.

The Ministry has also established Guidelines for Observation and Exclusion. It follows from section 1 of the guidelines that the purpose is to avoid the fund being invested in companies that cause or contribute to serious violations of fundamental ethical norms as set out in sections 3 and 4 of the guidelines. The guidelines and the specific criteria for observation and exclusion are based on thorough public reports and are anchored in Parliament.

The framework for the management of the Government Pension Fund is established by political authorities.

In Report No. 22 (2024-2025) to the Storting, the Ministry writes: *"The framework for the management of the Government Pension Fund is established by political authorities, but the fund is not a political instrument."*

The Ministry of Finance establishes the overarching investment strategy for the fund, including the composition of the benchmark index and the scope for deviating from it. The strategy entails that the fund is broadly invested, with small ownership stakes in a large number of companies globally. The Israeli equity market is part of the fund's equity benchmark index. The composition of the equity index follows largely from the index provider's¹ categorisation of which markets should be included.² In 2021, the Ministry of Finance decided not to include additional markets in the fund's equity index and instead consider this in future comprehensive reviews of the framework for, and composition of, the benchmark index.

In accordance with the investment mandate, Norges Bank's Executive Board shall approve the fund's investments in new markets and regularly assess already approved markets, including markets that form part of the benchmark index. Procedures for approval and the list of approved markets are available on Norges Bank's website.³ The procedures are based on information about relevant risk from a range of recognised, international organisations and data providers. At the previous review of approved markets, the Executive Board maintained the approval of the Israeli market.

NOU 2022:12 (the Sverdrup Committee) discussed restrictions of the fund's investments in relation to countries and companies based on ethical, security or political criteria. In the bank's consultation response to the Sverdrup Committee's review, we wrote that *"any restrictions on political, ethical and security grounds must be reflected in the fund's benchmark index"*.⁴

Work on observation and exclusion of companies

Chapter III of the Guidelines for Observation and Exclusion of companies from the Government Pension Fund Global regulates the organisation of the work in the Council on Ethics and Norges Bank. The independent Council on Ethics, appointed by the Ministry after recommendation from Norges Bank, monitors the portfolio and continuously assesses companies against the criteria in the guidelines. The Council provides recommendations to Norges Bank on observation or exclusion of companies. Norges Bank's Executive Board makes decisions based on the Council on Ethics' recommendations. With the exception of the product-based coal criterion and the conduct-based climate criterion, exclusions under the guidelines only occur after recommendation from the Council on Ethics. In accordance with section 5-3 of the guidelines, however, Norges Bank may request the Council on Ethics to take up cases.

Recommendations from the Council on Ethics are thoroughly documented and are made publicly available. Companies that are excluded based on recommendations from the

¹ FTSE Russell.

² For a more detailed description of the index provider's methods and rules for including markets in the equity index, please see Appendix 1 in Norges Bank's letter to the Ministry of Finance dated 22 August 2019.

³ For a more detailed description of the approval process, see the Executive Board's procedures for approval of financial instruments, markets and issuers of government bonds at norges-bank.no.

⁴ See letter from Norges Bank to the Ministry of Finance on 5 January 2023.

Council on Ethics also exit the benchmark index. Norges Bank considers the Council on Ethics mechanism as an important part of the overall due diligence work, and as the key instrument for avoiding that the fund is invested in companies that potentially contribute to serious violations of fundamental ethical norms.

In line with the ethical guidelines, there is regular information exchange and coordination of work between the Council on Ethics and Norges Bank. Coordination meetings are held regularly and information about companies, sectors and themes is exchanged continuously. This work has been ongoing for a long time and has been strengthened in recent years.

The Council on Ethics pays great attention to issues related to companies that contribute to, or are themselves responsible for, serious violations of individuals' rights in war or conflict situations.⁵ The application of the criteria in the guidelines requires thorough assessments of the connection between companies' activities and norm violations. Among the matters the Council on Ethics considers is what constitutes contribution to serious violations of fundamental ethical norms in each individual case. The Council on Ethics bases its work on the wording of the guidelines and guidance given through parliamentary proceedings, including the official reports that are supported by Parliament.⁶

In Report No. 22 (2024-2025) The Government Pension Fund 2025, the Ministry wrote:

"Exclusions are limited to the gravest forms of ethical norm violations. The threshold for excluding companies from GPFG shall be high. The guidelines are forward-looking and concern the risk of ongoing or future unacceptable conditions. Exclusion is not a mechanism based on concluded company actions that lie in the past."

The first exclusions related to occupied areas in the West Bank occurred in 2009. Based on advice from the Council on Ethics, 11 exclusions from the fund have been published based on companies' activities related to illegal settlements in the West Bank, including two companies in the period 2024-2025. The Council on Ethics reports in a letter to the Ministry dated 30 August 2024 that most of the companies that could have been relevant to assess based on arms deliveries to Israel are already excluded based on the product-based weapons criterion.

Norges Bank's Executive Board decided on 8 August 2025 to exclude six companies with connections to the West Bank and Gaza, based on recommendations from the Council on Ethics dated 25 June and 2 July. The names of these companies, and the recommendations from the Council on Ethics, will, in line with usual practice, be published once the divestment is completed.

Implementation of the mandate

The objective for the management of the Government Pension Fund is to achieve the highest possible return with an acceptable risk.⁷ Responsible investment shall be an integrated part of the management. We refer to the annual reporting on responsible investment for a more

⁵ The Council on Ethics has provided detailed accounts of how it is working on these issues, including in its annual report for 2024 and in a letter to the Ministry of Finance on 30 August 2024.

⁶ See the Council on Ethics' introduction to the hearing before the Standing Committee on Finance and Economic Affairs on 13 May 2025.

⁷ See the Government Pension Fund Act § 2.

detailed description of the work, and how the mandate requirements and the Executive Board's principles on responsible investment are implemented. Below we provide more detail on the ownership work and risk management in the current situation.

In line with the international principles and standards referred to in the mandate, Norges Bank Investment Management conducts due diligence assessments. Due diligence assessments are a continuous and ongoing process. In areas with war and conflict, heightened due diligence is required. Over a long period of time, we have closely monitored companies operating in areas with war and conflict. As situations and areas with war and conflict has increased in recent years, Norges Bank Investment Management has strengthened the ownership work and risk monitoring and expanded the exchange of company information with the Council on Ethics. This is described in the responsible investment report for 2024.

In both 2022 and 2024, we updated the expectation document on human rights and strengthened the expectations of companies' conduct in conflict areas. The expectation document is clear that companies should conduct enhanced due diligence assessments in war and conflict areas and implement measures to reduce the risk that they contribute to violations of human rights and international law. We have followed this up through ownership work, including through enhanced risk assessments and stakeholder dialogue. Since 2020, Norges Bank Investment Management has contacted over 60 companies about due diligence and risk-reducing measures in war and conflict areas. We have had dialogue with over 30 companies with operations connected to the West Bank and Gaza. This is ongoing work that is given high priority. Progress in this work is described on a general level in the responsible investment report for 2024.

In accordance with the management mandate, the Executive Board has established principles for how risk management in the fund shall be conducted. Since 2024, deeper analyses have been conducted of the portfolio's exposure to areas in war and conflict. Norges Bank Investment Management monitors new companies that enter the investment portfolio on a daily basis, and has since 2024 required that external managers must have prior approval to make investments in Israeli companies that were not already included in the portfolio. Not all new companies that were assessed received such approval.

In 2024, Norges Bank Investment Management started specific reviews of Israeli companies. As part of the review process, information from several different sources is used, and reference is made to company lists prepared by various organisations. The companies are classified in these reviews as low, medium or high risk. All companies that have been assessed as high risk have either been sold or assessed by the Council on Ethics. In 2024 and up to summer 2025, Norges Bank Investment Management had sold 10 smaller Israeli companies.

The previous specific risk review was conducted in May this year. The much-discussed company Bet Shemesh Engines Holdings was then assessed as a company with medium risk. Given the information that has now emerged, the company would have been assessed as high risk. With a broadly invested global portfolio, there will always be a risk that information is not captured early enough, or that we make assessments we, in hindsight, would have made differently.

Measures

In the letter dated 5 August, the Ministry of Finance asked Norges Bank about any new measures that the bank considers necessary. In the following, we first review the fund's investments in Israeli companies and then describe measures that Norges Bank will work further on to strengthen responsible investment work. We have based this on the premise that the measures shall be within the established division of responsibility and roles between the Ministry of Finance, the Council on Ethics and Norges Bank.

Review of the fund's investments in Israeli companies

Since 2020, the fund's Israeli equity investments have mainly been managed by external managers.⁸ Norges Bank Investment Management has ongoing monitoring of which companies the external managers are invested in, and which changes they make to the portfolio. Nevertheless, Norges Bank Investment Management decided on 5 August 2025 to insource the management of all the fund's Israeli equity investments to simplify the management of this portfolio. Norges Bank Investment Management has also sold the 11 companies in the portfolio that are not included in the benchmark index. This is standard procedure when external management mandates are terminated. The Council on Ethics has not provided recommendations to exclude any of these 11 companies. Norges Bank Investment Management will, for the time being, not invest in Israeli companies outside the benchmark index.

As of 14 August 2025, the fund had 19 billion kroner invested in 38 companies listed in Israel. This was a decrease of 4 billion kroner and 23 companies respectively from 30 June 2025. The portfolio has been reduced by 6 smaller companies since 11 August. At the end of the first half of the year, we had 11 billion kroner less invested in Israeli companies than what follows from the benchmark index. At the end of the first half of the year, there were 56 Israeli companies, corresponding to 34 billion kroner, in the benchmark index. The fund has no investments in Israeli bonds.

As previously described, the Executive Board decided on 8 August to exclude six companies with operations connected to the West Bank and Gaza following recommendations from the Council on Ethics. Once the divestments are completed, the fund's Israeli equity holdings will consist of fewer companies and have a lower market value than as of 14 August. The equity holdings will change over time, due to factors such as market developments, future index changes or potential exclusions following recommendations from the Council on Ethics.

Based on the letter from the Ministry of Finance, Norges Bank Investment Management has also conducted a new review of the Israeli companies in the fund's equity portfolio. Public information has been used to assess the nature of the business, corporate governance and management, whether the company has operations in occupied areas or has financed the development of settlements, contracts with Israeli defence, and whether it has ownership in companies that are excluded in accordance with the Guidelines for Observation and Exclusion. The review is partly based on discretionary assessments. Extensive cross-ownership and other connections between companies increase the complexity of the assessments. Based on this review, Norges Bank Investment Management has sent the Council on Ethics information about several Israeli companies.

⁸ For a more detailed description of Norges Bank's use of external managers, see letter 27 August 2019.

The ethical guidelines are directed at companies' responsibility for, or contribution to, serious forms of ethical norm violations. Individual investments that are subject to criticism or associated with norm violations, but which do not reach the threshold for exclusion, will occur in the investment portfolio. This applies both for Israeli companies and for the fund's other investments. If the management were to completely avoid such risk, it would divert from the fund's purpose. At the same time, we place great emphasis on improving our operations and describe below how Norges Bank will work to further strengthen our responsible investment.

Strengthening Norges Bank's work on observation and exclusion of companies

In line with the ethical guidelines established by the Ministry, there is regular coordination and information exchange between the Council on Ethics and Norges Bank. The scope of this work has increased significantly in recent years, but we will assess possible measures to strengthen this work further to better utilise combined resources. For example, Norges Bank Investment Management has regularly shared information about companies that are engaged in activities that were not assessed to constitute sufficiently high financial risk for the fund, but which could be thought to be relevant for the Council on Ethics' work.

Norges Bank Investment Management has recently strengthened the analysis tools for risk assessments, including through expanded use of artificial intelligence. Norges Bank Investment Management will ensure that the Council on Ethics can also benefit from these tools, especially in acute or heightened situations. In light of the current situation, Norges Bank Investment Management has sent the Council on Ethics additional information about several international companies.

Norges Bank will review the procedures in all parts of its work on observation and exclusion and assess measures to further strengthen the process for handling recommendations from the Council on Ethics.⁹ In line with the Guidelines for Observation and Exclusion, we will also assess using Norges Bank's right to formally request the Council on Ethics to assess companies.

Review of the Executive Board's governing documents

The Executive Board of Norges Bank has delegated the implementation of the management assignment to Norges Bank Investment Management within supplementary governing documents. These include Norges Bank Investment Management CEO job description, Investment Mandate Government Pension Fund Global, Procedures for approval of financial instruments, markets and bond issuers, and principle documents for various parts of the management.¹⁰ The Executive Board will review the governing documents and assess the requirements placed on external equity management. The purpose will be to strengthen Norges Bank's overall responsible investment and the procedures for following up and selecting external managers, particularly in situations that require heightened due diligence.

⁹ In accordance with the "Guidelines for observation and exclusion from the Government Pension Fund Global", Norges Bank shall ensure that sufficient information is available before it makes a decision regarding the exercise of ownership rights, observation or exclusion, or revokes any such decision.

¹⁰ The Executive Board's principles documents include: Principles for responsible investments at Norges Bank, Principles for contributions to research, Principles for remuneration to NBIM employees, Principles for investments in real assets and Principles for risk management in NBIM.

The Executive Board's governing documents for the management of the fund are publicly available.

At the same time, we emphasise that our experience with external management is good, and that results in this part of the management of the fund have been very good. We will continue to use external managers in emerging markets and in other market segments that require local presence and specialist expertise. That the Executive Board is now reviewing principles and guidelines for this part of the management, underscores the importance of this strategy also going forward.

Concluding remarks

The investment mandate for the Government Pension Fund Global sets high requirements for responsible investment. In addition, the Guidelines for Observation and Exclusion sets requirements for the work of the Council on Ethics and Norges Bank. Overall, the regulatory framework is extensive and entails requirements for ongoing assessments of individual investments along a range of dimensions. Norges Bank assesses that the framework has worked well over time. The Sverdrup Committee, which assessed long-term development trends of significance for the Government Pension Fund Global, pointed out that *"The Fund is a solid construction that has served Norway well, and the model is a good starting point also for a more unpredictable world. But we should be prepared that the model will be challenged and that the management of the fund may become more demanding. The tradition of gradual development should therefore continue"*.

With a broadly invested global portfolio, there will always be risk that individual investments can be linked to possible norm violations. The Ministry of Finance writes in Report No. 22 (2024-2025) that *"[t]he investments of the Fund attract considerable attention. The investment strategy implies that the Fund is invested in a large number of companies, including in countries and regions with different norms and values. Even with a robust framework for risk management, responsible investment and ethically motivated guidelines, unwanted situations may arise in markets and companies in which the Fund is invested. It is not possible to organise the management of the Fund in such a way that it cannot be exposed to unwanted situations. The Ministry nevertheless emphasises that the responsible investment practices need to be evolved to match the size and complexity of the Fund, based on the premise that it is a long-term financial invest"*

Norges Bank agrees with the Ministry's assessment and, like the Ministry, emphasises further development of our work. We will continue to strengthen our work on responsible investment and due diligence, including use and follow-up of external managers, risk management, ownership exercise and cooperation with the Council on Ethics.

Yours faithfully

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