

# **RESPONSIBLE INVESTMENT 2015**

**GOVERNMENT PENSION FUND GLOBAL**

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**CEO, NORGES BANK INVESTMENT MANAGEMENT**

**OSLO, 4 FEBRUARY 2016**

**We work to safeguard  
and build  
financial wealth for future  
generations**



# Management objective

## GOAL

**HIGH LONG-TERM  
RETURN**

## SUBJECT TO

Moderate risk

- Responsible investment management
- Efficient organisation
- Transparency

# RESPONSIBLE INVESTMENT

GOVERNMENT  
PENSION FUND  
GLOBAL

REPORT  
/2015

No. 02

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**ETHICAL**

**RESPONSIBLE**

**SUSTAINABLE**



**PRINCIPLED**

**SYSTEMATIC**

**LONG TERM**



**STANDARDSETTING**

**OWNERSHIP**

**RISK MANAGEMENT**



# Three pillars of responsible investment



## Standard setting

- International standards
- Our principles and expectations
- Responsible investment research



## Ownership

- Voting
- Company dialogue
- Board interaction



## Risk management

- Risk monitoring
- Industry initiatives
- Focus areas
- Environment-related mandates
- Risk-based divestments

# STANDARD SETTING



# International standards

- International standards are our starting point
- Standards for industries, operations in certain geographies or specific topics
- Contact with regulators
- Consultations



# International standards

## Examples of submissions in 2016

- Swedish Corporate Governance Board. Revision of the corporate governance code.
- ESMA. Impact of the Best Practice Principles for Providers of Shareholder Voting Research and Analysis
- OECD. Due Diligence Guidance for Meaningful Stakeholder Engagement in the Extractives Sector
- World Resources Institute. Calculating and reporting the potential greenhouse gas emissions from fossil fuel reserves

# Our principles and expectations

- Executive Board Principles
- Expectations towards companies
- Position notes



# New expectation document

## Human Rights

- New expectation document published today
- Result of dialogue with companies, experts and NGOs
- Expectations on strategy, risk management, reporting and transparency
- Starting point for interaction with companies



# Responsible investment research

## Current projects

- Research project on water and regulatory risk within mining, Columbia University
- Analysis of environmental risks in the thermal coal value chain, University of Oxford
- Climate change risk and financial markets, University of Oslo
- Efficient company dialogue, London School of Economics and Université libre de Bruxelles



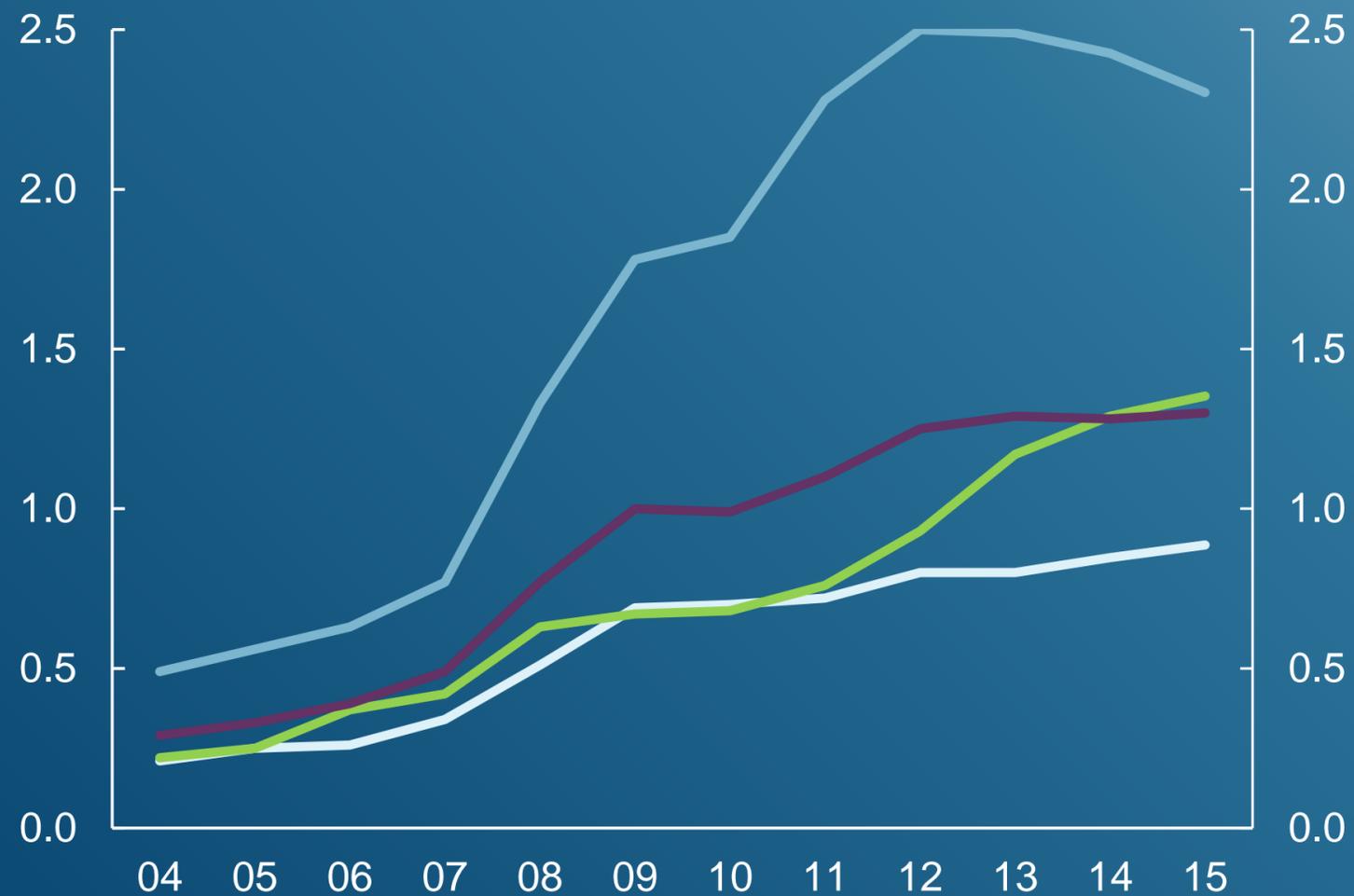
# OWNERSHIP



# Equity investments

Fund equity holdings.

Percentage of FTSE Global All Cap Index



—Europe —America, Africa, Middle East —Asia and Oceania —Total

**66 COUNTRIES**

**9,050 COMPANIES**

**1.3 % OF GLOBAL LISTED COMPANIES**

**2.3 % OF EUROPEAN LISTED COMPANIES**

# **We are an active owner**

**We own  
9,050 companies**

**We voted at  
11,562 general meetings**

**We voted on  
112,601 resolutions**

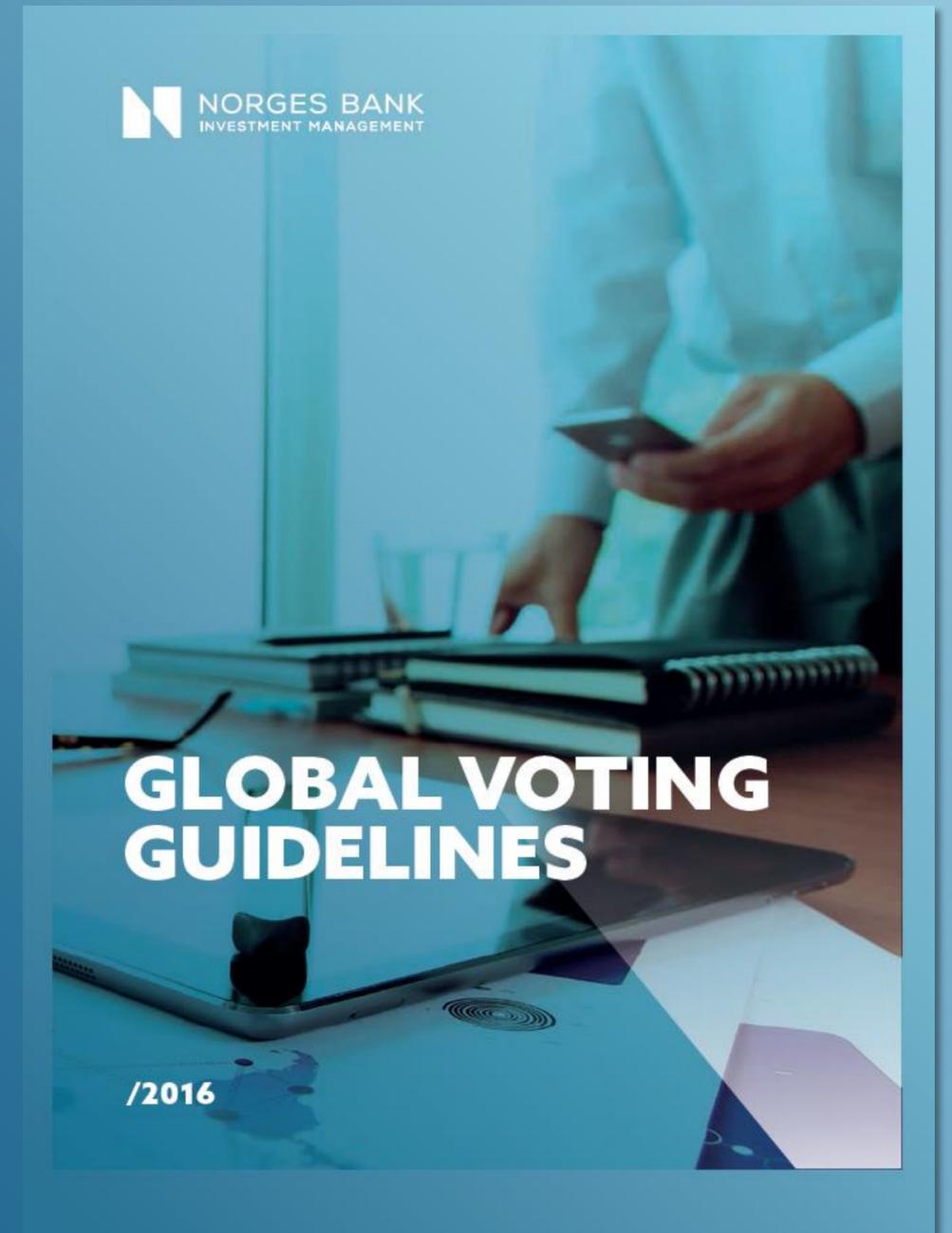
# Our voting

- Voting guidelines
- Position notes



# Voting guidelines

- Out voting guidelines
  - Long-term value
  - Sustainable business practices
  - Board accountability
  - Shareholder rights
  - Equitable treatment of shareholders
  - Transparent company communication
- Vote at all meetings
- Public voting decisions



# 01 | 2015

## THE DIVERSIFICATION POTENTIAL OF REAL ESTATE

DISCUSSION NOTE

We review the return characteristics and private real estate investments and asset perspective of a multi-asset portfolio. Our based on our interpretation and weight academic research.

# 02 | 2015

## GLOBAL TRENDS AND THEIR IMPACT ON REAL ESTATE

DISCUSSION NOTE

# 03 | 2015

## THE QUALITY FACTOR

DISCUSSION NOTE

# 05 | 2015

## INFRASTRUCTURE INVESTMENTS IN LESS MATURE MARKETS

DISCUSSION NOTE

Rapid growth in emerging markets and decreasing returns in developed and infrastructure to support economic and social development. In this note we look closer at infrastructure investments in these less mature markets. Our objective is to provide an overview of the opportunity, key risks and return drivers from the perspective of institutional investors.

# 06 | 2015

## INVESTABILITY CONSIDERATIONS FOR GOVERNMENT DEBT INVESTMENTS

DISCUSSION NOTE

We discuss the investability of a sovereign bond investor may face when investing in national and government debt markets. This includes key considerations for the bond market investor and central bank interventions. A large number of key risks and return drivers for the investor are discussed.

# 01 | 2015

## SOURCING LIQUIDITY IN FRAGMENTED MARKETS

ASSET MANAGER PERSPECTIVE

A large part of the global market for liquidity is fragmented. This is due to the fact that the market is divided into many different segments, each with its own characteristics and risks. This fragmentation makes it difficult to source liquidity in a timely and efficient manner. In this note, we discuss the challenges of sourcing liquidity in fragmented markets and provide some insights into how to overcome these challenges.

# 02 | 2015

## ROLE OF EXCHANGES IN WELL-FUNCTIONING MARKETS

ASSET MANAGER PERSPECTIVE

Exchanges play a central role in the functioning of well-functioning markets. They provide a platform for buyers and sellers to meet and trade securities. Exchanges also provide a range of services, including clearing and settlement, which are essential for the smooth operation of the market. In this note, we discuss the role of exchanges in well-functioning markets and provide some insights into how to ensure that exchanges are functioning effectively.

# 03 | 2015

## THE ROLE OF LAST LOOK IN FOREIGN EXCHANGE MARKETS

ASSET MANAGER PERSPECTIVE

Last look is a key feature of foreign exchange markets. It refers to the right of a market maker to trade a client's order before it is sent to the interbank market. This right is often used by market makers to provide a better price to their clients. In this note, we discuss the role of last look in foreign exchange markets and provide some insights into how to ensure that last look is being used effectively.

# INDIVIDUAL VOTE COUNT IN BOARD ELECTIONS

POSITION PAPER

NORDEI BANK INVESTMENT MANAGEMENT POSITION

Board members should be elected with an individual vote count at the shareholder meeting, and the vote tally published.

### BACKGROUND

It is the right and responsibility of shareholders to elect and remove the board of directors. The OECD Principles of Corporate Governance states that all shareholders should have the right to participate in the vote on individual candidates.

The majority of board elections are uncontested. In the absence of contest, shareholders do not have the opportunity to vote on individual candidates. This provides the possibility of individual candidates.

However, in some markets, often for reasons of cost or complexity, it is not possible to hold individual vote counts. In these cases, the effective delivery of vote by show of hands at the shareholder meeting is used, but does not require the individual count.

In other cases, certain impediments to shareholders or the effective delivery of vote by show of hands at the shareholder meeting, but do not require the individual count.

The practice of individual vote count is not used in all markets. In some cases, companies will not be allowed to bundle separate voting items throughout the vote.

### ARGUMENTS FOR INDIVIDUAL VOTE COUNT

Provides the ability for shareholders to elect and remove the board of directors.

Accountability of boards to shareholders.

Hold board members responsible. That express an anti-vote. Bundling deprives effectively in board elections.

© OECD Principles of Corporate Governance 2004. Published sections in English available in French, Chinese, Spanish and South Korea.

# PROXY ACCESS AT US COMPANIES

POSITION PAPER

NORDEI BANK INVESTMENT MANAGEMENT POSITION

We support proxy access rights at US listed companies when applied with reasonable thresholds that enable shareholders to utilize the rights effectively.

We support the introduction of holding periods of up to three years and holding requirements of up to three percent.

We will accept a limit on the number of board seats to be affected by proxy access candidates if at least two seats or 20 percent of the board can be filled by such candidates.

### BACKGROUND

Proxy access refers to the formal right of shareholders to propose their own director candidates alongside the candidates nominated by the incumbent board. Both sets of candidates appear on the proxy ballot that is distributed to shareholders by the company at its expense.

It is the case today that neither US state nor federal law provide shareholders with proxy access rights. The Securities and Exchange Commission (SEC) proposed a universal rule on proxy access in 2010 but it was struck down by the US Court of Appeals for the District of Columbia Circuit. In the absence of a universal rule, the only recourse for shareholders to secure proxy access is to seek bylaw amendments company by company.

The relevance of proxy access to firm value and long-term investment returns is being analysed by a growing body of empirical literature. Among recent studies, the CFA Institute, *Proxy Access in the United States: Revisiting the Proposed SEC Rule (2014)* provides a literature review of event studies on the enacted SEC rule and the subsequent overturning. It concludes that proxy access would both benefit the financial markets and enhance board performance.

### ARGUMENTS FOR PROXY ACCESS

Provides shareholders with a reasonable right to propose board candidates

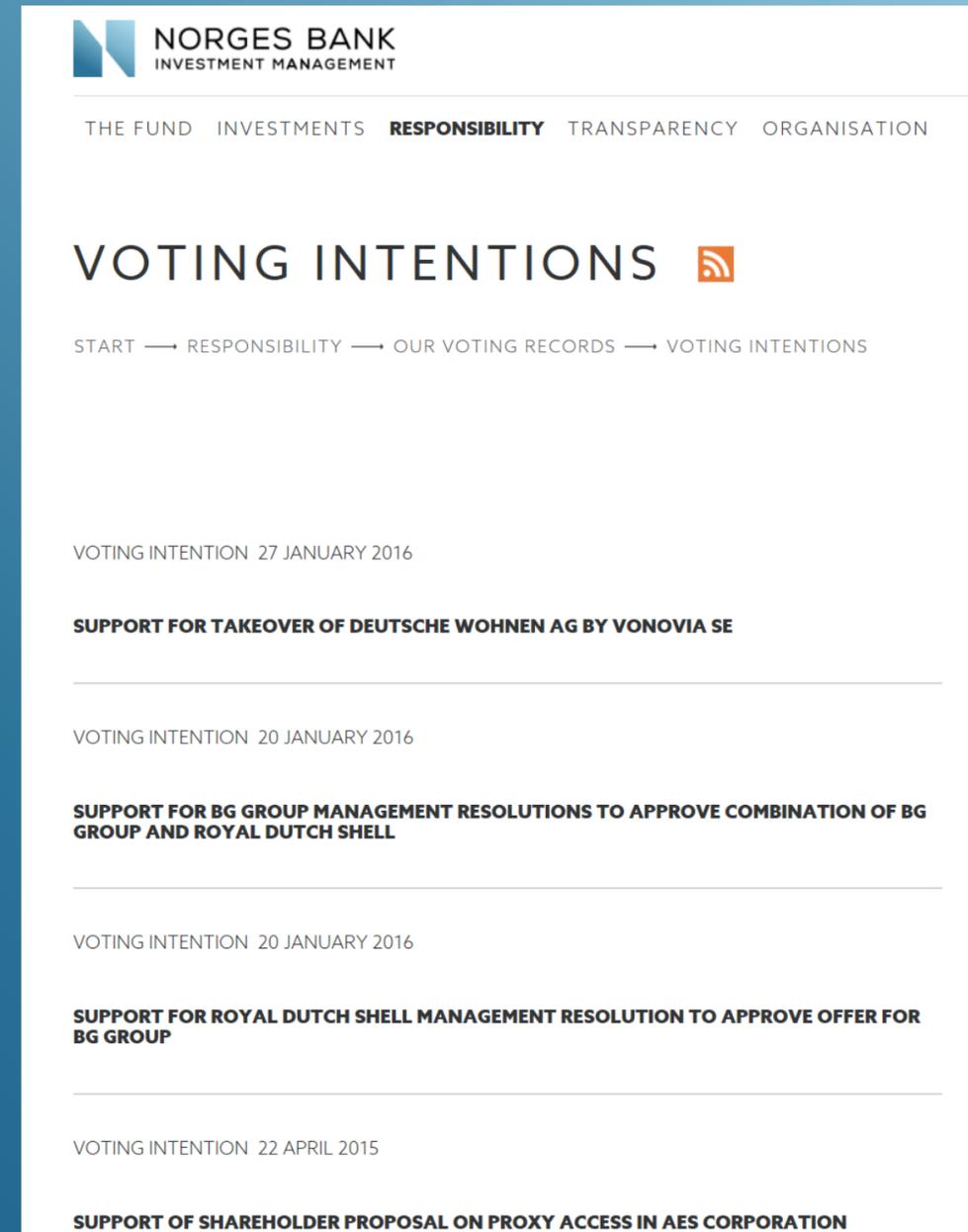
US state laws provide shareholders of US companies with a right to propose director candidates in competition with the candidates nominated by the incumbent board. However, there are considerable legal and cost impediments attached. For instance, the proposer must finance the distribution of alternative documentation to shareholders. Consequently, the right is rarely used. Proxy access provides shareholders with a reasonable ability to propose board candidates that should enhance democratic election procedures.

Provides greater director and board accountability

Shareholders' right to propose board candidates is a fundamental principle of good corporate governance and board accountability. A balance of power between shareholders, board of directors and company management is essential to a well-functioning corporate governance system. The existence of a proxy access right set on reasonable terms may be an effective way to enhance the responsiveness of boards to the interests of shareholders. Proxy access should increase the accountability of boards and encourage constructive engagement between shareholders and the board.

# Pre-AGM disclosure from 2015

- Evaluated 25 candidates in 2015
- Identified 12 companies for further dialogue
- Three Pre-AGM voting intention disclosures in 2015
- A further three disclosures so far in 2016
- All voting decisions public on nbim.no



The screenshot displays the 'VOTING INTENTIONS' page on the Norges Bank Investment Management website. The page features a navigation menu with 'RESPONSIBILITY' highlighted. A breadcrumb trail shows the path: START → RESPONSIBILITY → OUR VOTING RECORDS → VOTING INTENTIONS. The main content area lists four voting intention disclosures, each with a date and a title:

- VOTING INTENTION 27 JANUARY 2016  
**SUPPORT FOR TAKEOVER OF DEUTSCHE WOHNEN AG BY VONOVIA SE**
- VOTING INTENTION 20 JANUARY 2016  
**SUPPORT FOR BG GROUP MANAGEMENT RESOLUTIONS TO APPROVE COMBINATION OF BG GROUP AND ROYAL DUTCH SHELL**
- VOTING INTENTION 20 JANUARY 2016  
**SUPPORT FOR ROYAL DUTCH SHELL MANAGEMENT RESOLUTION TO APPROVE OFFER FOR BG GROUP**
- VOTING INTENTION 22 APRIL 2015  
**SUPPORT OF SHAREHOLDER PROPOSAL ON PROXY ACCESS IN AES CORPORATION**



# Company dialogue in 2015

3 520 company meetings in 2015. Prioritised topics.

- Board nomination and election processes
- Equal treatment of shareholders
- Corporate reform
- Corruption
- Sustainability
- Event driven

# Company dialogue in 2015

## Prioritised topics

## Dialogue examples

- Board nomination and election processes
  - *Right to nominate board members in the US.  
25 per cent of companies introduced rights in 2015*

# Company dialogue in 2015

## Prioritised topics

### Dialogue example

#### ■ Corporate reform

- *Involved in the development of corporate governance and stewardship codes*
- *Organised seminar in Tokyo for 180 companies. Topic: Implementation of the new Japanese corporate governance and stewardship codes*



# Company dialogue in 2015

## Prioritised topics

## Dialogue examples

- Event driven dialogue

- *Minority shareholder protection at Volkswagen*
- *Monitored company and requested better governance structure*

# RISK MANAGEMENT



# Risk monitoring

Country

Sector

Company



# Risk factors

## Topics we look at

### ■ Environmental

- Biodiversity and deforestation
- Water use and scarcity
- Climate change
- Climate gas emissions
- Waste management

### ■ Social

- Child labour
- Health and safety
- Human capital and labour rights

### ■ Governance

- Corruption

## Information we use

- Trucost
- Maplecroft
- Transparency International
- MSCI
- US Department of Labor

## Children's rights

We expect companies to respect children's rights. They should have adequate systems in place and report on their activities. We have assessed companies with activities or supply chains in sectors with a high risk of child labour since 2008.



## Water management

Limited access to water is a growing risk for many companies. We expect companies in particularly exposed sectors to have a clear water management strategy. We have assessed companies exposed to water risk since 2010.



## Climate change

We expect companies to analyse how their operations are affected by climate change and to develop plans and targets to address climate change risk. We have assessed companies exposed to climate change risk since 2010.



# Climate change activities over time

- 2008** Expectation document
- 2009** Establishment of environment-related mandates
- 2010** Assessments of climate reporting
- 2012** Palm oil divestments
- 2013** First coal divestments
- 2014** Portfolio carbon footprint analysis
- 2015** Research and analysis projects



# Emissions intensity in various sectors

Equity portfolio 31.12.2015

Sector	Share of portfolio market value (percent) *	Total for sector Million tonnes CO <sub>2</sub> -equivalents	Ownership weighted Million tonnes CO <sub>2</sub> -equivalents
Basic Materials	5.1	2 172	18.3
Consumer Goods	14.5	356	2.8
Consumer Services	11.0	669	4.7
Financials	23.4	185	1.2
Health Care	10.7	36	0.3
Industrials	13.6	1 904	16.0
Oil & Gas	5.4	2 449	12.7
Technology	9.0	34	0.3
Telecommunications	3.4	37	0.2
Utilities	3.3	4 104	30.7
		11 945	87.2

\* Does not total to 100 percent because cash and derivatives are not included

# Exclusions on the basis of coal operations or climate change

## Changes to the Guidelines for exclusion and observation

- Two new criteria
  - Conduct based for climate change (from 1 January 2016)
  - Product based for coal (from 1 February 2016)
- Norges Bank identifies companies under product based coal criterion
- Decisions under the criteria follow the established process for exclusion and observation
  - Executive Board decides
  - Publication of exclusions once assets have been sold

# Observation and exclusions in 2015

Changes from 31.12.2014 to 31.12.2015

## Exclusions:

- Daewoo International Corp
- POSCO
- Genting Berhad
- IJM Corporation
- ZTE Corp
- BWX Technologies\*

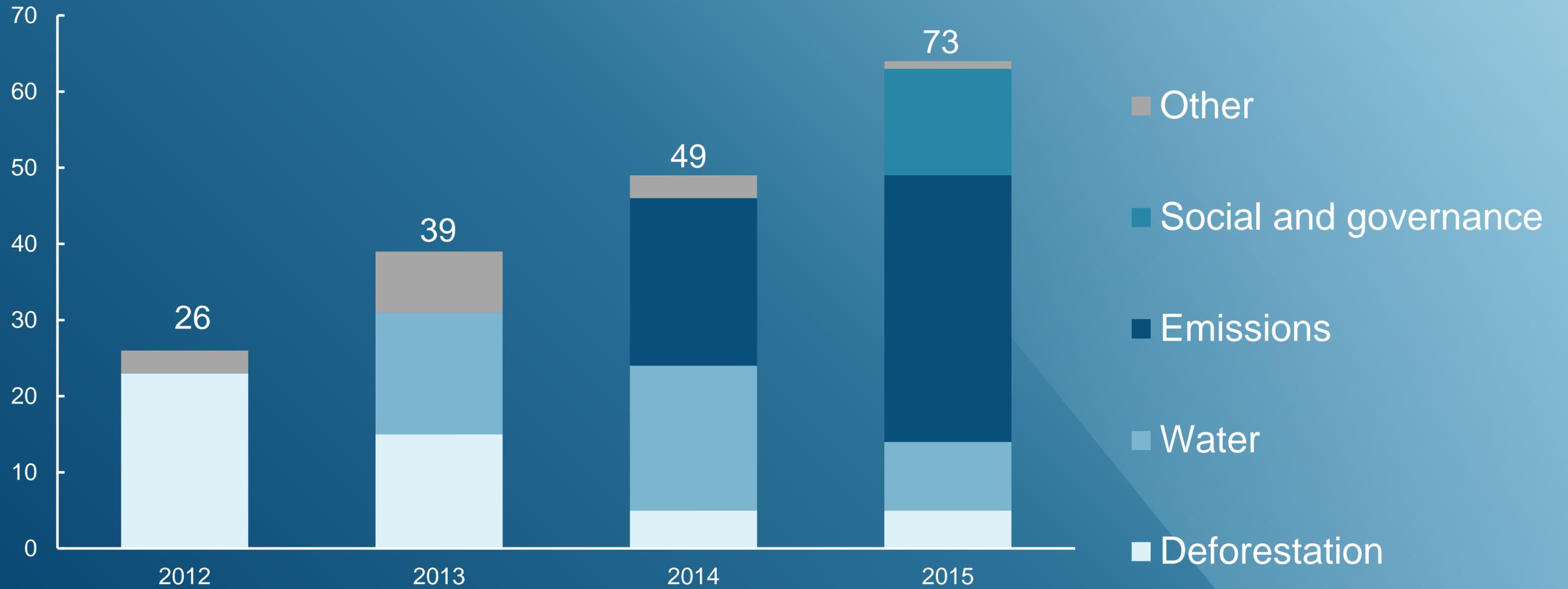
## Observation:

- PT Astra International Tbk

## Revocation of observation:

- Alstom SA

# Risk-based divestments



# Criteria for risk-based divestments

Criteria are sector or topic specific and may include:

- Share of income from a specific activity
- Geographic footprint of operations
- Sustainability certification of products or processes
- Higher estimated CO<sub>2</sub>-intensity than peers
- Indications of insufficient risk management of social and governance topics

# Risk-based divestments

Main category	Theme	2015	2014 and earlier
GHG-emissions	Oil sands	0	5
	Coal extraction towards electricity production	11	14
	Cement production	8	2
	Coal-fired power generation	16	1
	Other	7	0
Deforestation	Palm oil production in Malaysia and Indonesia	2	27
	Coal mining in Indonesia	0	11
	Coal mining in India	1	5
	Pulp and paper	4	0
Water	Gold mining	0	16
	General mining and precious metals	9	17
	Mountain-top removal	0	2
Social and governance	Heavy construction	9	0
	Corruption	5	0
	Other	1	14
		73	114

# Environment-related mandates

Investments in 224 companies

Main category	Sub groups	Number of companies	Total (billion NOK)
Low-emission energy & alternative fuels	Renewable energy	54	6.7
	Low-emission energy	19	10.9
	Low-emission fuels	14	1.5
Clean energy & efficiency technology	Electricity production	3	1.2
	Transport	10	3.5
	Buildings	9	5.4
	Industry	45	8.2
Natural resource management	Water	35	8.8
	Waste management and emissions reduction	9	3.6
	Sustainable agriculture	7	2.5
	Other	19	1.5*
<b>Total</b>		<b>224</b>	<b>53.8</b>



# Environment-related mandates

	Last 12 months	Last 3 years	Since 01/01/2010
Return on environment-related mandates	1.1	14.5	2.8
Standard deviation on environment-related mandates	15.1	12.8	14.1
Return on the FTSE Environmental Technology 50 Index	5.4	17.6	3.0
Return on the MSCI Global Environment Index	-0.3	11.2	6.9

# RESPONSIBLE INVESTMENT

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# HUMAN RIGHTS STRATEGY

EXPECTATIONS  
TOWARDS  
COMPANIES

# GLOBAL VOTING GUIDELINES

/2016