



**NORGES BANK**  
INVESTMENT MANAGEMENT

## **EXPERIENCE WITH ENVIRONMENT-RELATED MANDATES**

10 March 2014



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## Executive summary

The Ministry of Finance decided to establish a separate programme for environment-related mandates following the evaluation the ethical guidelines for the Government Pension Fund Global (GPGF) in 2008-2009<sup>1</sup>. NBIM made the first investments within the programme at the end of 2009. This report reviews NBIM's experiences with the environment-related mandates over the four years the programme has existed.

At the inception of the programme, the potential to make investments in environment-related mandates in various asset classes was considered. Unlisted companies and infrastructure have remained outside the GPGF's investment universe. NBIM has chosen not to engage in the immature market for green bonds. The investments made under the programme for environment-related mandates have therefore been made in equity securities of listed companies.

The environment-related investment universe is complex with no clear-cut definition. It is complex as companies that can be considered environment-friendly are found in a number of industries. Each of these industries might have very different characteristics. Furthermore, there is no clear-cut definition, as some of the major companies in the environmental space are part of large, industrial conglomerates. It is a matter of judgement whether the environmental part of a corporation is, or will become, large enough to justify an investment within the programme for environment-related mandates.

In addition, this segment of the market in particular is faced with an ever-changing opportunity set with disruptive technologies, new market entrants and unpredictable policy framework. It is an investment segment that is heavily influenced by government subsidies, and the time period since the launch of the environment-related mandates in 2009 has coincided with a global financial crisis that resulted in policy instability which increased the volatility of this segment and affected investors' risk appetite.

The shares of environment-friendly companies performed very strongly in the five years prior to the financial crisis of 2007 and 2008. Unfortunately, as a group, these companies have performed poorly since the end of 2009, with a small positive return on average. In comparison, equity markets overall have increased more than 50 per cent in the same time period.

The environment-related mandates were worth 31.4 billion kroner at end 2013. Since inception, the return on the investments has been 3.0 per cent on an annualised basis measured in the GPGF's currency basket. This is slightly better than the return of a comparative benchmark.

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<sup>1</sup> Report No. 20 (2008-2009) to the Storting: On the management of the Government Pension Fund in 2008.



## 1. The mandate

The Ministry of Finance reviewed the GPFG's ethical guidelines in 2008. The final evaluation was presented in Report No. 20 (2008-2009) to the Storting. As a result of the evaluation, the Ministry proposed a number of initiatives. One of these was to establish a separate programme for environment-related mandates. The proposal was discussed by the Storting on 8 June 2009.

In its white paper, the Ministry stated:

*In contrast to ear-marking money for a particular fund, the Ministry intends the new investment programme to run across asset classes and that the scope of the investment will vary according to the opportunities at any given time.*

In a letter dated 25 August 2009, the Ministry of Finance asked for Norges Bank's assessment of the various investment opportunities within the proposed programme for environment-related mandates. Norges Bank discussed opportunities within the current investment universe (i.e. listed equities and bonds) in a letter dated 18 September 2009. An analysis of opportunities outside the current investment universe (i.e. private equity and infrastructure) was provided in a letter dated 6 July 2010.

In the letter dated 18 September 2009, Norges Bank discussed listed equities and bonds within a separate programme for environment-related mandates. The bank recommended actively managed equity investments within this programme. The bank noted that the market for environment-friendly bonds ("green bonds") at the time was immature.

The Ministry requested further details on the implementation of the proposed investment strategy in a letter dated 24 November 2009. Norges Bank responded on 3 February 2010, pointing out that it would be advantageous to manage environment-related mandates within the same framework as the rest of the GPFG. Furthermore, the investments should be spread across several internal and external investment mandates in order to utilise specialist knowledge of different segments of the environment-related universe. The Ministry concurred with these assessments in Report No. 10 (2009-2010) to the Storting.

The new mandate for the GPFG that became effective 1 January 2011 provided a requirement for NBIM to give an account of the environment-related mandates in the annual report. The amended mandate effective 27 June 2012 required NBIM to establish environment-related mandates that should normally be in the range of 20-30 billion kroner.

Section 2-4 of the management mandate for the GPFG currently reads:

*The Bank shall establish environment-related mandates within the limits defined in section 3-5. The market value of the environment-related investments shall normally be in the range of 20-30 billion kroner.*

As such, there is no requirement in the mandate to allocate the environment-related mandates between asset classes in a specific manner.

Norges Bank reviewed the basis for unlisted investments focusing on the environment and sustainable growth in the letter dated 6 July 2010. The report built on a previous assessment from 2006 that recommended that the fund's investment universe should be expanded to include private equity and infrastructure. In the letter dated 6 July 2010, Norges Bank warned against investing only in narrowly defined segments when commencing investments in new asset classes. Instead, new



asset classes should be made available on a broad basis, and any unlisted investments focusing on the environment and sustainable growth should be made within the context of the overall mandate.

Private equity and unlisted infrastructure have since then remained outside the investment universe. NBIM has accordingly not made any investments in these asset classes.

As mentioned, Norges Bank noted in the letter dated 18 September 2009 that the market for environment-friendly bonds (“green bonds”) at the time was immature. The market was launched in 2008 by the World Bank. Funds that are raised by issuing a green bond can only be used to finance projects that meet certain environmental criteria. Most of the bonds that have been issued with the green bond label have been issued by multilateral development banks. Currently, about 10 billion dollars has been issued under these types of programmes.

The proceeds of a bond can be used for environment-friendly purposes without carrying the green bond label. The Climate Bonds Initiative has calculated that the outstanding amount of so-called climate-themed bonds is 346 billion dollars<sup>2</sup>. Issuance related to rail transport dominates, standing at 263 billion dollars. About half of the remaining 83 billion dollars has been issued either in non-benchmark currencies or by unrated or non-investment-grade entities.

The market for green bonds remains small and immature. NBIM evaluates the return and risk characteristics of green bonds on the same criteria as other bonds from the same issuer. So far, NBIM has not invested in green bonds, but continues to monitor the market. As regards bonds that do not carry the green bond label but still could be considered environment-related, the market remains small outside rail transport. NBIM holds such bonds as part of its regular management of the bond portfolio. In the future, NBIM may consider a separate mandate for environment-related bonds.

As a consequence of the above, NBIM has invested the funds within the separate programme for environment-related mandates in the equity securities of listed companies.

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<sup>2</sup> Source: [http://www.climatebonds.net/files/Bonds\\_Climate\\_Change\\_2013\\_A4.pdf](http://www.climatebonds.net/files/Bonds_Climate_Change_2013_A4.pdf).



## 2. The environment-related investment universe

The environment-related investment universe is complex with no clear-cut definition. There are two reasons for this. First, companies that could be considered environment-friendly are found in a number of industries. This increases complexity as the various industries might be very different from each other. Second, a number of the major companies in these industries are part of larger conglomerates. It is only possible to buy shares in the whole conglomerate and not just the part which is environment-related. How large the environment-related part of the conglomerate needs to be before an investment is justified is a matter of subjective judgement.

In a recent OECD review of the concepts and definitions related to “green” investments that are currently used in the market place<sup>3</sup>, the authors state:

*Green investment policies in use vary across asset classes. Sustainable investing has advanced most in equities. An analysis of equity indices reveals a great variety of “green” methodologies applied across the market place. Different approaches to selecting green investments have evolved over the years, in particular (negative or positive) screening, green thematic investing and engagement with companies. In effect, some favour investment in specialist green companies, while others are designed to filter out the best companies within a sector, exclude certain “dirty” companies or to persuade “heavy polluters” to change.*

[...]

*Green investment is a very wide term, and it is being referred to at all levels: the investment in underlying technology and projects but also to green companies and financial products that invest in those, or even to entire asset classes. Green investment can be stand-alone, a sub-set of a broader investment theme or closely related to other investment approaches such as RI/SRI (socially responsible investing), ESG (environmental, social and governance investing), sustainable, long-term investing and others.*

FTSE, an index provider that calculates the equity index for the overall GPF, has an index series for environment-related investments that is called FTSE Environmental Markets. The index series consists of companies that are deemed environment-friendly. There are currently almost 500 companies in the FTSE Environmental Markets index series. Each company is classified into a specific environmental sector and subsector. The sectors and their definitions are shown in Table 1.

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<sup>3</sup> Inderst, G., C. Kaminker and F. Stewart (2012): “Defining and Measuring Green Investments: Implications for Institutional Investors’ Asset Allocations”, OECD Working Papers on Finance, Insurance and Private Pensions, No. 24, OECD Publishing. <http://dx.doi.org/10.1787/5k9312twonn44-en>.



<b>Renewable &amp; Alternative Energy</b>	Companies that provide products and services along the renewable and alternative energy value chain.
<b>Energy Efficiency</b>	Companies that provide products and services enabling more efficient methods of energy usage.
<b>Water Infrastructure &amp; Technologies</b>	Companies that provide or operate technologies, infrastructure and services for the supply, management and treatment of water for industrial, residential, utility and agricultural users.
<b>Pollution Control</b>	Companies that provide technologies to reduce and monitor the contamination of air and soil to address global, regional and local environmental problems.
<b>Waste Management &amp; Technologies</b>	Companies that provide and/or operate technologies, systems and services for waste management, reuse and recycling.
<b>Environmental Support Services</b>	Companies that provide environmental support services through consultancy, or trading services in environmental assets and securities. Diversified environmental companies are also included.
<b>Food, Agriculture &amp; Forestry</b>	Companies that improve yield and productivity in agriculture, silviculture, aquaculture and food production or distribution, whilst minimising negative environmental impacts.

Source: FTSE

The five first sectors cover the areas described by the Ministry of Finance as areas appropriate for the environment-related mandates. These are also the areas that NBIM has concentrated on.

FTSE Environmental Markets is divided into two index families. FTSE Environmental Technology consists of companies with a single business focus. At least 50 per cent of a company's business needs to be derived from environment-related activities to be considered for inclusion in this index. Many of the companies that are included have in fact more or less all their business in environment-related activities.

The other index family in FTSE Environmental Markets is FTSE Environmental Opportunities. This index family consists of companies that have at least 20 per cent of their business in environment-related activities<sup>4</sup>. This means that the index family is a mix of companies with a single business focus and conglomerates.

As is common practice, companies in FTSE Environmental Markets are weighted by their market capitalisation, with an adjustment for so-called free float. Since conglomerates tend to be larger companies than companies with a single business focus, a large part of FTSE Environmental Opportunities consists of companies where as much as 80 per cent of the business is derived from activities that are not environment-related. In fact, in terms of weight, companies with a single business focus make up little more than 10 per cent of FTSE Environmental Opportunities. In NBIM's

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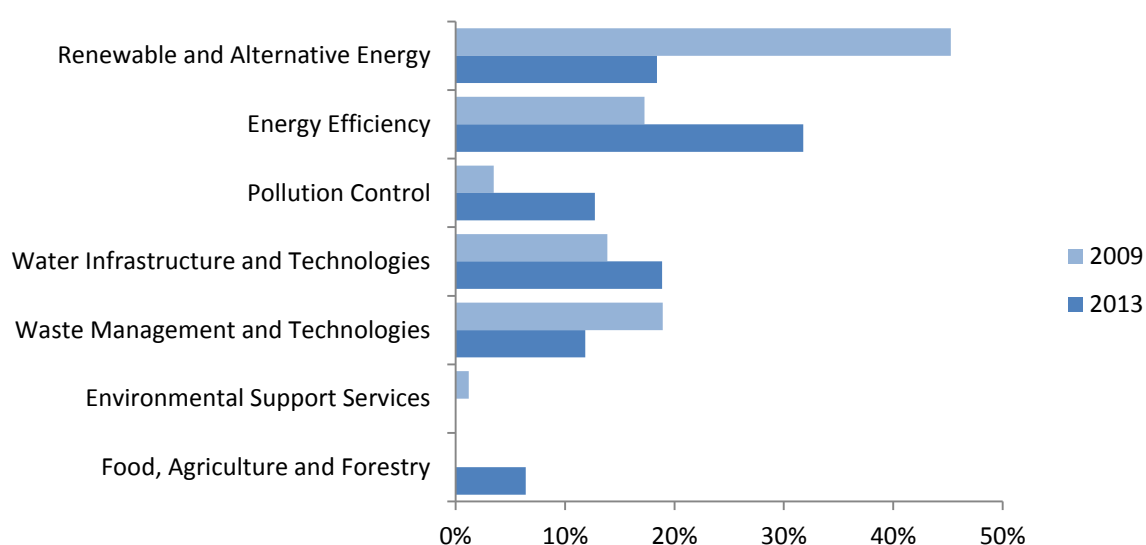
<sup>4</sup> FTSE works together with Impax, an asset manager, in determining the amount of business a company derives from environment-related activities. Making this determination is to a certain extent subjective, especially for conglomerates, and there is potential for conflicts of interest. As described in the next section, NBIM uses tailor-made benchmarks in the day-to-day operational management of the GPFG.



opinion, the index family that consists only of companies with a single business focus, i.e. FTSE Environmental Technology, best reflects the exposure sought after by the mandate for environment-related investments.

There are challenges to investing in companies with a single business focus, however. When the separate programme for environment-related mandates was initiated at the end of 2009, environmental companies with a single business focus were dominated by companies in the renewable and alternative energy business. As Figure 1 shows, almost half of the FTSE Environmental Technology 50 index by market capitalisation belonged to this sector. At the end of 2013, the index was much more evenly distributed.

**Figure 1: Sector weights in the pure-play FTSE Environmental Technology 50 index**

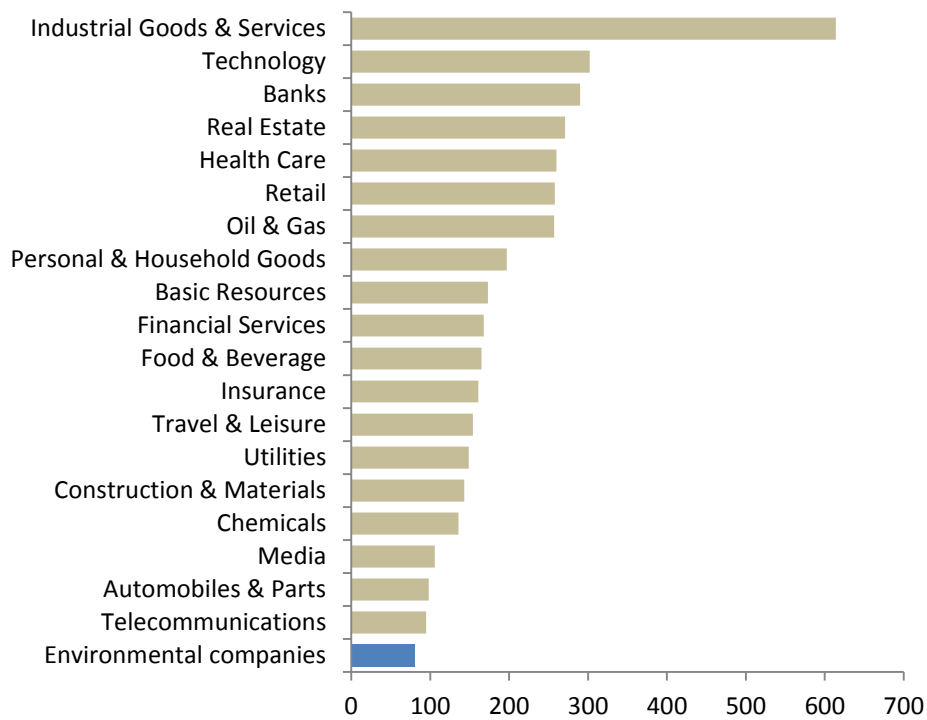


*Source: FTSE, NBIM calculations*

Another challenge is the limited investment universe. There are not many environment-related companies with a single business focus. Throughout the last four years there have been less than 100 environment-related companies with a single business focus with a market capitalisation above 1 billion dollars, and there are currently 80. In Figure 2, this is compared to the corresponding number of companies in conventional sectors. Furthermore, environment-related companies with a single business focus tend to be fairly small. Together, these two characteristics mean that the investable market capitalisation of environment-related companies with a single business focus as a group is small. Currently, it is somewhat less than 300 billion dollars. In Figure 3, this is compared to the investable market capitalisation of conventional sectors. Partly because of the limited investment universe, NBIM has made some environment-related investments in companies that are part of larger conglomerates.

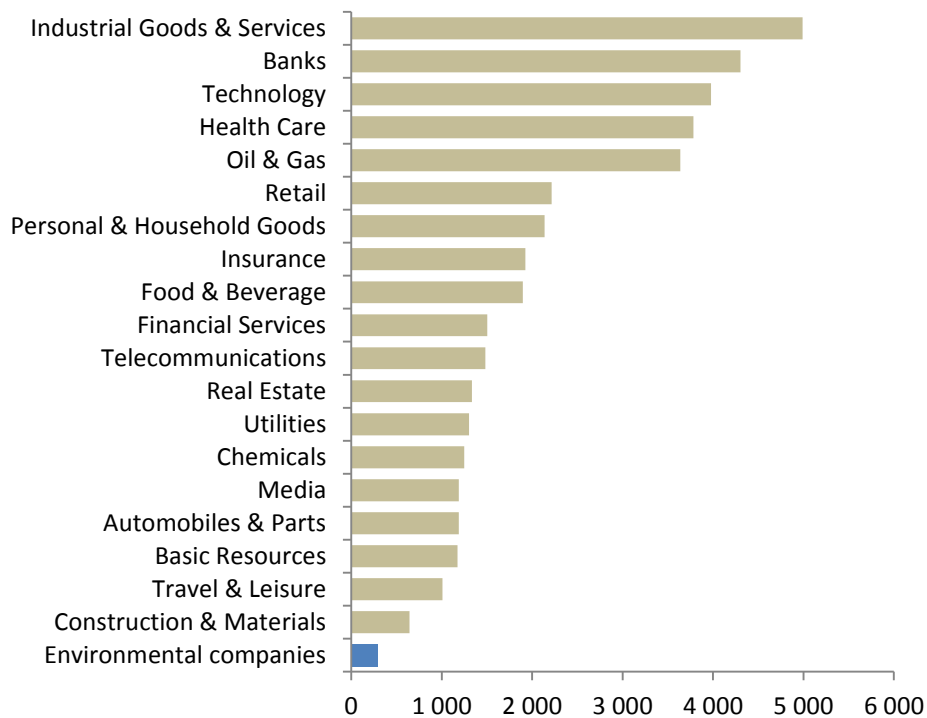


**Figure 2: Number of companies with an investable market capitalisation above 1 billion dollars**



Source: FTSE

**Figure 3: Investable market capitalisation (billion dollars)**

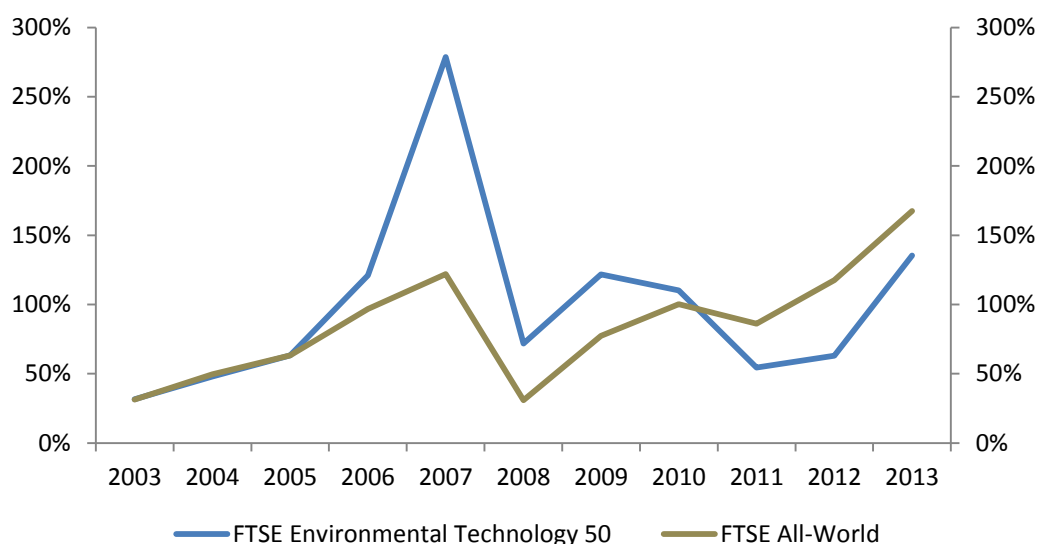


Source: FTSE

The share prices of environmental companies with a single business focus have been volatile over the last decade. Figure 4 shows that the FTSE Environmental Technology index performed very strongly in the four or five years prior to the financial crisis, both in an absolute sense and also relative to the overall, global equity market. The index more than halved in value during 2008. It subsequently recovered somewhat in 2009, returning to levels seen in 2006.

NBIM’s first investments in environment-related mandates were made at the end of 2009. Unfortunately, environmental companies with a single business focus have struggled since then, returning 6 per cent measured in USD. In the same time period, global equity markets have returned more than 50 per cent. Still, since the end of 2002, environmental companies with a single business focus have returned 8 per cent on an annual basis in US dollars, only slightly weaker than the overall market at 9 per cent.

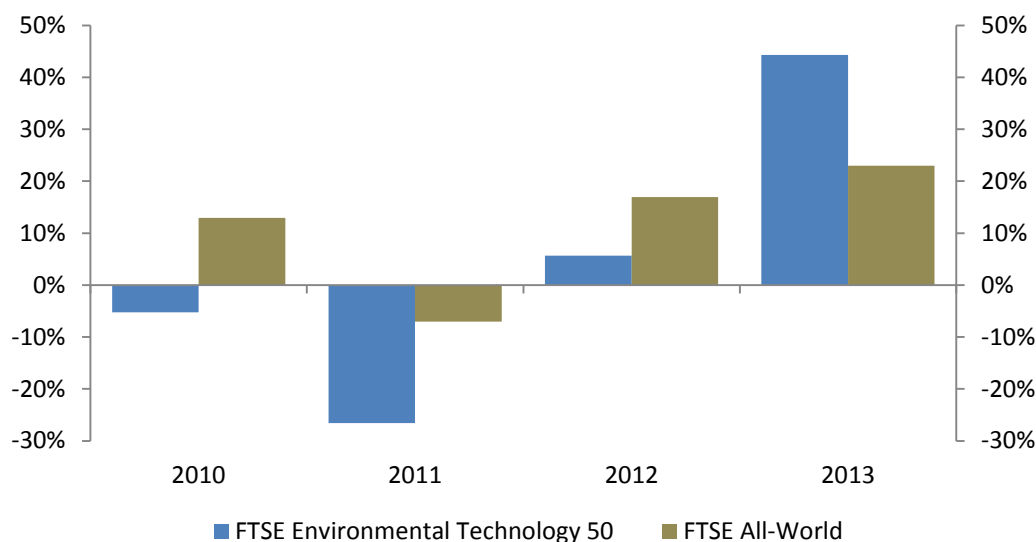
**Figure 4: Cumulative total returns in dollars, 2003-2013**



*Source: FTSE*

Figure 5 shows the returns for each year since NBIM’s first investments in environment-related mandates were made. As is evident, environmental companies with a single business focus lagged the overall market in each of the first three years. 2011 was a particularly weak year. In 2013, environmental companies with a single business focus have made a strong recovery, returning more than 30 per cent so far.

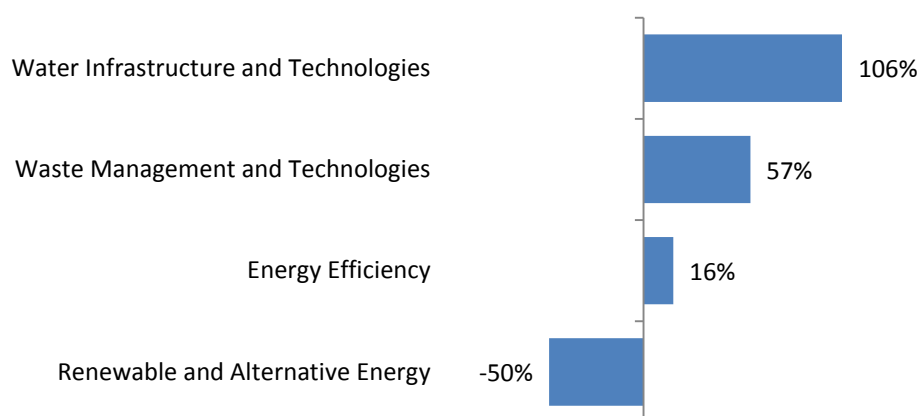
**Figure 5: Total returns per year in dollars, 2010-2013**



Source: FTSE

Figure 6 shows the returns for environmental companies with a single business focus during the last four years by sector. It should be noted that FTSE does not make these calculations for companies with a single business focus, presumably because some of the sectors consist of very few companies. NBIM has performed the calculations for sectors where there are at least six constituents at all times. As this is a limited selection of companies, some caution needs to be shown in interpreting the results for sectors other than renewable and alternative energy.

**Figure 6: Total returns by environmental sector in dollars, 2010-2013**



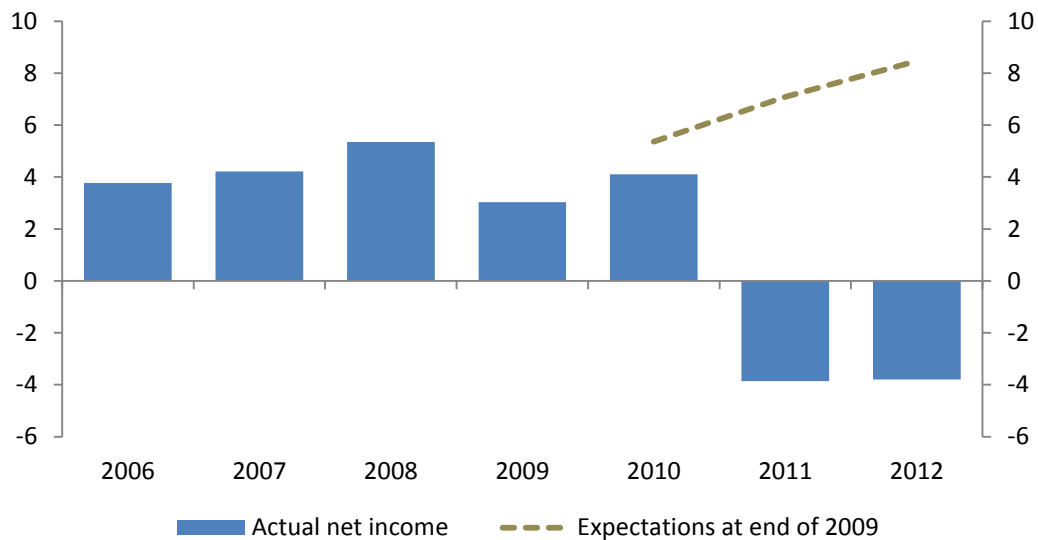
Source: FTSE, NBIM calculations

As is evident from Figure 6, the main contributor to the poor performance of environmental companies with a single business focus in the last four years has been the renewable and alternative energy sector. As was shown in Figure 1 this was by far the largest sector among environmental companies with a single business focus at the end of 2009, making up almost half of the universe.



Since 2009, companies in the renewable and alternative energy sector have struggled with a reduction of subsidies and a large capacity increase in China. The emergence of shale gas in the US has added to the pressure. Figure 7 shows how net income for the sector as a whole has fallen well short of expectations. While analysts back in 2009 expected the sector to post aggregate profits of 7-8 billion dollars in 2011 and 2012, the sector actually posted losses of almost 4 billion dollars in each of these years.

**Figure 7: Net income of the renewable and alternative energy sector 2006-2012 (billions of dollars)**



*Source: FactSet, NBIM calculations*



### 3. NBIM's management of environment-related mandates

As communicated in letters to the Ministry of Finance, NBIM intended to manage environment-related mandates within the same framework as the rest of the GPF. Furthermore, NBIM argued that environment-related mandates are particularly well-suited for active management.

In general, NBIM puts great emphasis on conducting independent, fundamental research in its active management. NBIM believes that investment professionals must specialise in a fairly narrow segment of the market in order to perform such research effectively. As described in the previous section, there is significant variety among companies considered environment-friendly. Therefore, NBIM has split its environment-related mandates between different managers, each with specialist knowledge of a particular segment of the environment-related investment space.

The first four mandates<sup>5</sup> were awarded at the end of 2009. An additional five mandates were awarded during 2010. These were all given to external managers. Another mandate was awarded to an external manager in 2011. Finally, three of the external environment-related mandates were terminated in 2013. Both the award and termination of mandates are considered investment decisions and regularly occur in the operational management of the GPF.

**Table 2: Development in number of mandates**

	2009	2010	2011	2012	2013
<b>Internal</b>	2	2	2	2	2
<b>External</b>	2	7	8	8	5
<b>Total</b>	<b>4</b>	<b>9</b>	<b>10</b>	<b>10</b>	<b>7</b>

*Source: NBIM*

There are two internal mandates. One invests in clean energy companies and the other in water and waste-processing companies. The approach to investing in these mandates is similar to the approach in NBIM's other internal sector mandates. As mentioned, this involves making investments based on in-house fundamental research. The ability to conduct such research is helped by, among other things, a high degree of specialisation in one or a few related industries.

As in other industries, NBIM makes a judgment on the future prospects of environment-related companies by analysing their strategy, competitive advantage, management and financial statements. In addition, the environment-related sector requires substantial knowledge and awareness of global and local environmental policies. Most of these corporations are dependent on policy-making decisions on which technologies to favour (e.g. wind, solar, hydro, nuclear) or which obligations to impose (e.g. smart metering, CO<sub>2</sub> emissions caps, vehicle fuel efficiency levels, building efficiency constraints). Considerable time is dedicated to meetings with the management of the companies, visits to facilities and discussions with government authorities relevant to the sector, which, combined with financial modelling, serve as basis for stock selection.

When NBIM started investing in equities in 1998, all of the assets were managed by external portfolio managers. Over time, NBIM has developed its capabilities, and most of the assets are now managed internally. However, NBIM still utilises the knowledge of external managers for

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<sup>5</sup> A mandate is the authority to invest a certain amount of money on behalf of the GPF. Mandates can be given to portfolio managers who work for NBIM or to portfolio managers in external asset management organisations. A mandate includes a number of restrictions that ensure that money is invested as intended. NBIM continuously monitors the activity in mandates to make sure restrictions are adhered to.



investments in parts of the equity market to complement our in-house capabilities. This includes investments in particular countries in emerging markets and investments in smaller companies in developed markets.

In a similar vein, NBIM has awarded environment-related mandates to external asset managers. These include investments in the water supply chain and investments in smaller manufacturing companies that produce technology components for environment-related products.

NBIM has found that there are relatively few asset managers that can offer both specialist knowledge and an investment process that fulfils NBIM's requirements. The majority of established products are based on thematic allocation or a negative screening philosophy. NBIM, on the other hand, wants each investment to be based on independent, fundamental research. NBIM has therefore looked for specialist knowledge and a customised strategy created specifically for NBIM.

The mandate structure has successfully ensured competent coverage of most segments of the environment-related investment space. In aggregate, the environment-related mandate portfolio currently has investments in about 170 companies. Fewer than 50 of these companies are held by more than one mandate.

As mentioned, NBIM awarded the first mandates and made the first investments at the end of 2009. Initially, 7.3 billion kroner was invested in the environment-related mandates. The following year, as internal capabilities were further developed and more external managers identified, an additional 18.9 billion kroner was invested. Since then, relatively small adjustments have been made. In 2013, three external environment-related investment mandates were terminated 6.9 billion kroner was withdrawn during the year. Net of withdrawals, NBIM has invested 24.5 billion kroner in the environment-related mandates since inception.

**Table 3: Investments made by year (billions of kroner)**

	2009	2010	2011	2012	2013
<b>Internal</b>	5.4	9.1	1.0	0.0	0.0
<b>External</b>	1.9	9.8	0.1	4.1	-6.9
<b>Total</b>	<b>7.3</b>	<b>18.9</b>	<b>1.1</b>	<b>4.1</b>	<b>-6.9</b>

Source: NBIM

As described in the previous section, environment-related mandates were in general very poor investments in 2011, before rebounding strongly in 2013. NBIM's environment-related mandates have by and large mirrored the overall developments. At the end of 2013, the environment-related mandates had achieved a 13.0 per cent cumulative return since inception, corresponding to 3.0 per cent on an annualised basis<sup>6</sup>.

**Table 4: Returns (measured in the currency basket)**

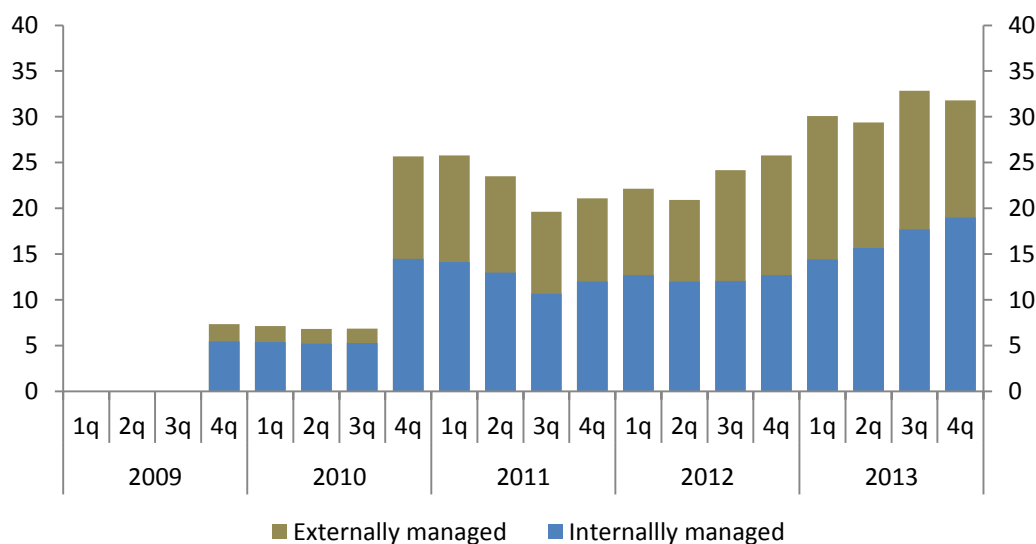
	2009	2010	2011	2012	2013
<b>Per year</b>	1%	-6%	-23%	9%	41%
<b>Cumulative</b>	1%	-5%	-26%	-20%	13%

2009 return for 14 days only. Source: NBIM

<sup>6</sup> On page 43 of NBIM's annual report for 2013, the average annual return is stated as 2.7 per cent in the period 2010-2013. This figure does not include the return in the last two weeks of 2009.

Figure 8 shows the development in the net asset value of the environment-related mandates. Net asset value changes as investments are made and the market value of securities fluctuates. The net asset value fell in 2011 as a result of a decline in share prices. However, with the subsequent rebound in 2013, the net asset value has recovered and is now 31.4 billion kroner<sup>7</sup>.

**Figure 8: Net asset value of environment-related mandates 2009-2013 (billions of kroner)**



Source: NBIM

From the beginning, NBIM has argued that the environment-related mandates are particularly well-suited for active management. As mentioned several times, the environment-related space consists of companies in very many different industries and with many different business models. There is a high level of uncertainty about how things will develop. This means that there is likely to be a huge disparity between the returns of successful companies and the returns of less successful companies.

Many of the investment strategies currently deployed use fairly crude measures of environmental friendliness rather than in-depth analysis of companies. This is partly because it is much more expensive to perform in-depth research into companies. The GPF is a large investor that invests globally for the long term. This means that NBIM is in a very strong position to make the necessary investments in fundamental research both in general and for environment-related investments in particular.

The alternative to active management is to invest in exactly the same companies that are included in an environmental benchmark, distributing investments according to each company's weight. As discussed in the previous section, there is no objective definition of what constitutes an environment-friendly company. A passive replication would leave the decision of whether a company is environment-friendly or not to a third party. In some instances, the third party might have a subjective interest in classifying a company in a certain way.

<sup>7</sup> The net asset value of 31.4 billion kroner is exclusive of a small amount of cash held by the environment-related mandates. All return figures include the impact of holding cash.

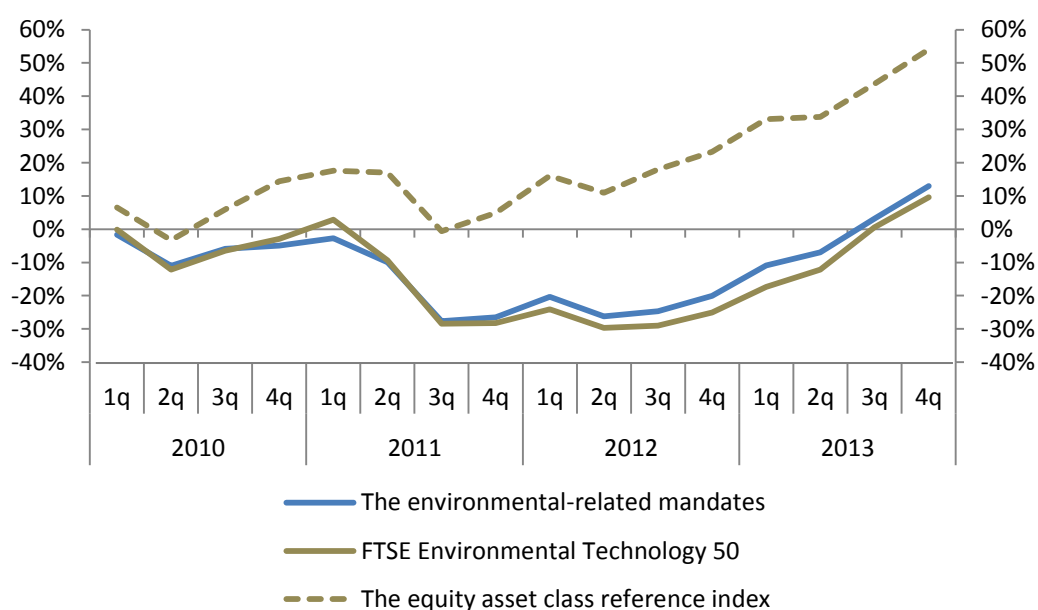


NBIM has the ability in-house to create benchmarks. Every mandate is measured relative to a benchmark that is customised to fit its investment objective and investment universe. The environmental mandates are also measured relative to such tailor-made benchmarks.

Although tailor-made benchmarks are very well-suited for the operational management of the GPFG, there is little or no transparency for external observers. In this document, NBIM therefore reports the relative performance of the environment-related mandates against the publicly available FTSE Environmental Technology 50. The development in this index has been fairly similar to NBIM's in-house customised environmental benchmark.

As Figure 9 shows, the environment-related mandates have, on aggregate, tracked the FTSE Environmental Technology 50 index fairly closely. As previously stated, at the end of 2013 the environment-related mandates had returned 13.0 per cent since inception. In the same time period, the FTSE Environmental Technology 50 index returned 9.6 per cent. The environment-related mandates have thus outperformed by 3.4 percentage points over the whole time period. This corresponds to 0.8 percentage points on an annualised basis.

**Figure 9: Cumulative returns since inception (measured in the currency basket)**



Source: NBIM

For comparison, Figure 9 also shows the development in the equity asset class reference index. In total, the equity asset class reference index has returned 54.1 per cent in this time period, which corresponds to 11.2 per cent on an annualised basis. The equity asset class reference index does not necessarily reflect the actual funding of the environment-related mandates.

NBIM has paid 291 million kroner in fees to external managers of environment-related mandates. This is equal to 0.8 per cent of the average external assets under management per year. In general, external management is more expensive than internal management. In comparison, the cost for running the overall GPFG is less than 0.1 per cent per year. Almost half of the environment-related mandates have been managed externally, while the corresponding figure for the overall fund is less than 5 per cent.



#### 4. Experiences

For its internal management of the environment-related mandates, NBIM has established a separate team within its group of sector specialists. NBIM has had similar teams for investments in various other industries since 1999.

As in other segments of the market, NBIM has augmented the internal teams with specialist external mandates. NBIM has experience in searching for, selecting and monitoring external managers. This competence has been used to award specialist environmental mandates.

The diverse set of industries that encompass the environment-related investment space, the ambiguity of whether the environmental activities of a company are substantial enough to warrant an investment, and the limited number of companies with a single business focus above a certain size have led to some challenges in designing appropriate benchmarks and constructing and monitoring portfolios. NBIM's has, however, been able to handle any issues that have arisen.

The investment space has, in general, been very challenging since the environment-related mandates were set up, significantly underperforming the broader market. It is likely that returns will continue to be volatile. The political and technological uncertainty is high, and a segment such as renewable energy is prone to boom-bust cycles. NBIM continues to believe that these characteristics warrant an investment approach based on specialisation and fundamental research. NBIM's portfolio has outperformed appropriate benchmarks, both tailor-made and publicly available.

Norges Bank is still of the opinion that environment-related mandates are well suited for inclusion in our active investment management strategies. The sector is fairly narrow in terms of investment opportunities in companies with a single business focus. However, the current size of assets under these types of mandates is manageable. As the definition is not clear-cut, a large degree of flexibility is warranted. Until this point the mandates have been concentrated on listed equities, but we would not rule out including environment-related bonds at some future point in time. The returns have been volatile compared to the overall equity market, and we must be prepared for this volatility to continue.