



Responsible investment 2018

GOVERNMENT PENSION FUND GLOBAL

Yngve Slyngstad
Chief Executive Officer, Norges Bank Investment Management



Our mission
**Safeguard financial wealth
for future generations**

Management objectives

OBJECTIVE

**High long-term
return**

SUBJECT TO

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

Responsible investment

Establishing principles

Standards

Expectations

Research

Exercising ownership

Voting

Dialogue

Disclosure

Investing sustainably

Risk assessments

Investments

Divestments

Responsible Investment

Government Pension Fund Global

2018

No. 05

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Establishing principles



Principles for responsible investment

Taking international standards as our starting point

- Common standards apply across markets and raise the bar for all companies

Contributing to the further development of standards

- We draw on our experience as an investor in around 9,000 companies in 70 markets

Setting our own priorities

- Our expectations and positions provide clarity and predictability in our ownership

Development of international standards

Participated in 13 public consultations in 2018

Shares with unequal voting rights

- Singapore and Hong Kong stock exchanges, MSCI-index

National corporate governance codes

- United Kingdom, Japan, Germany, Sweden, Australia

Sound voting systems

- US Securities and Exchange Commission, European Commission

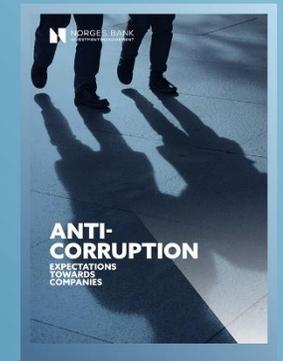
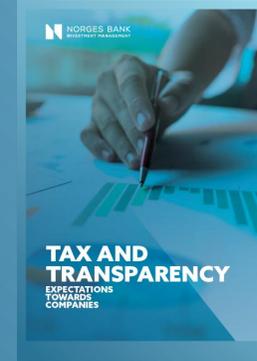
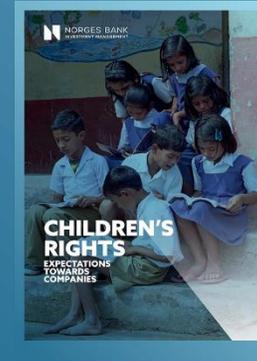
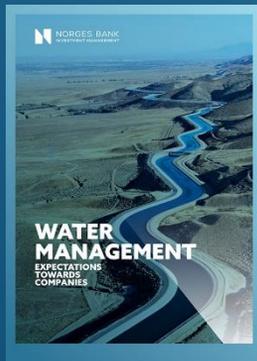
Standards for corporate disclosure

- European Commission, London Metal Exchange, CDP (Carbon Disclosure Project)

Our expectations and positions

Seven expectation documents and six position papers

Environmental

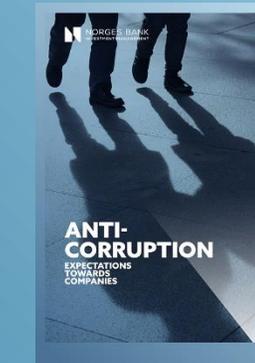
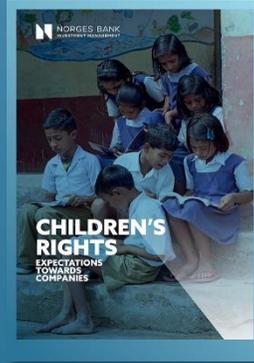
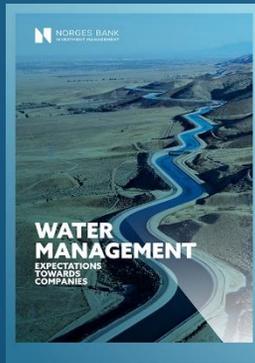


Social

Our expectations and positions

Seven expectation documents and six position papers

Environmental



Social

Governance



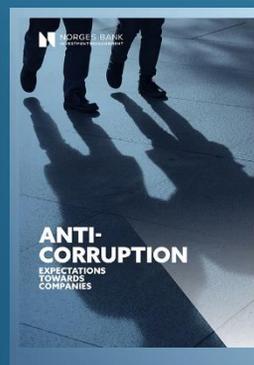
Our expectations and positions

New publications in 2018

Environmental

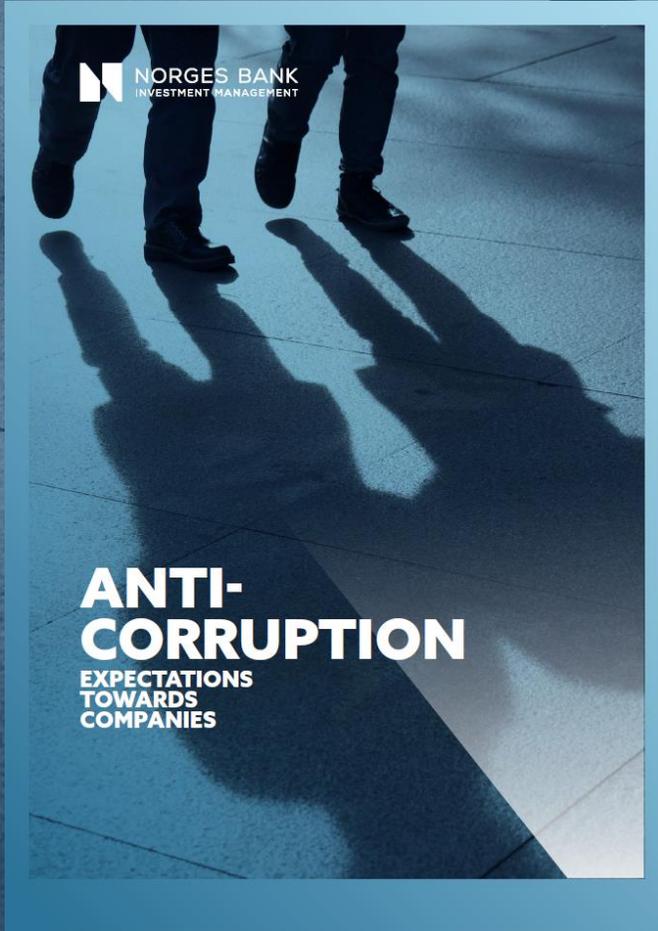


Social



Governance





Expectations towards companies on anti-corruption

Published 13 February 2018

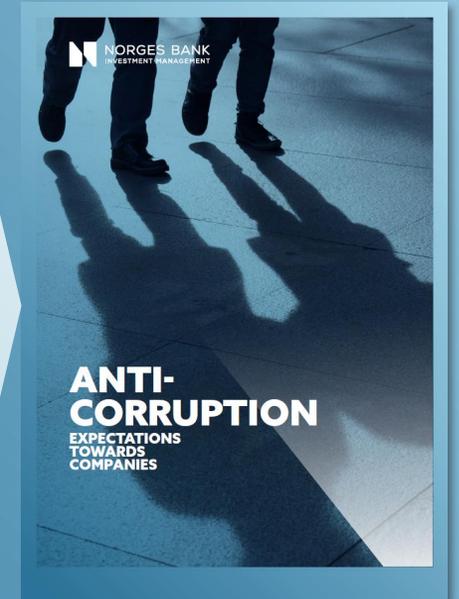
The basis for our expectations

- OECD Guidelines
- G20 / OECD Principles
- UN Global Compact

Companies should **understand** the broader **environmental and social consequences** of their operations

Boards should **account for material issues**

Companies should integrate anti-corruption measures into their corporate **strategy, risk management and reporting**

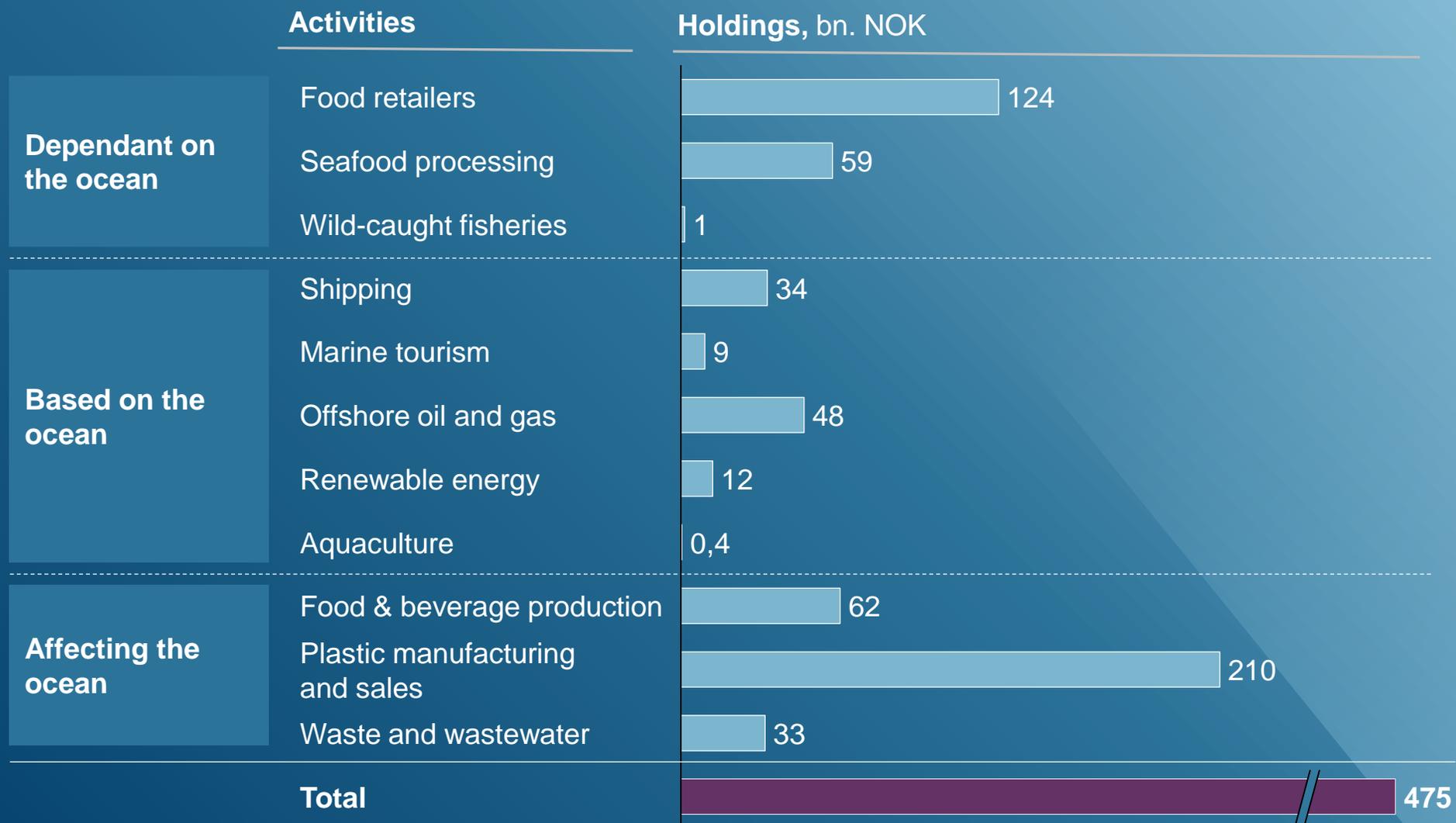


**OCEAN
SUSTAINABILITY**
EXPECTATIONS
TOWARDS
COMPANIES

Expectations towards companies on ocean sustainability

Published 5 September 2018

Important to many companies



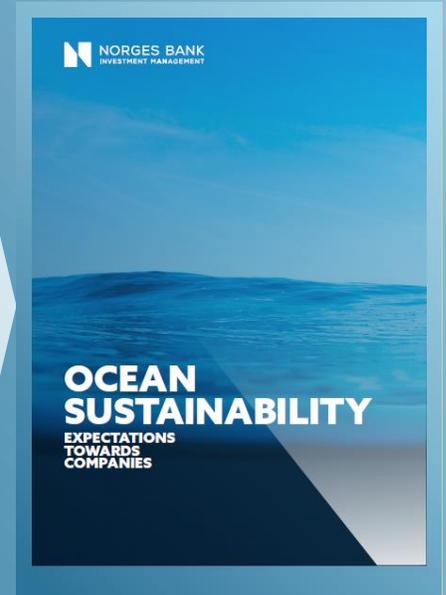
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Companies should **understand** the broader **environmental and social consequences** of their operations

Boards should **account for material issues**

Companies should integrate ocean sustainability into their corporate **strategy, risk management and reporting**



Further work on the ocean

**Company
dialogue**

**Communicate the
expectations to relevant
companies**

**Industry
initiative**

**UN Global Compact Action Platform
for Sustainable Ocean Business**

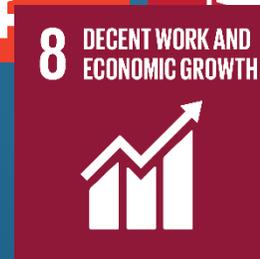
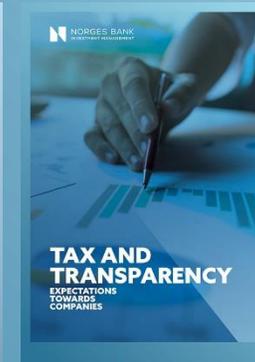
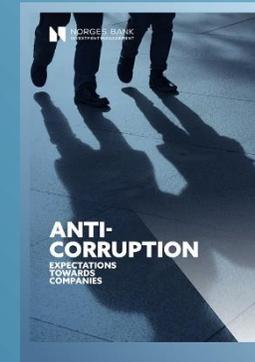
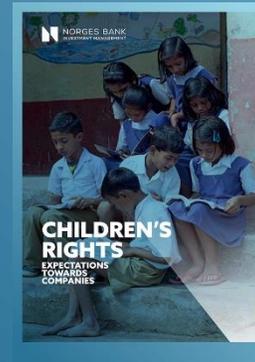
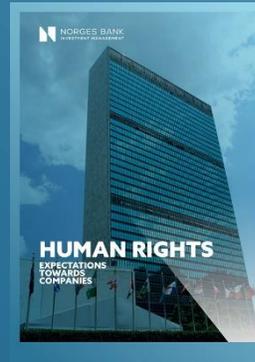
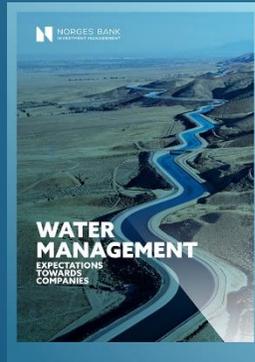
Measurement

**Assess companies' reporting on
sustainable use of the ocean**



Aligned with the UN Goals

Long-term value creation



Effective boards ensure good results

- Each year we vote on more than 45,000 board candidates
- The board is responsible for:
 - Setting company strategy
 - Monitoring management performance
 - Providing accountability to shareholders
- Identifying common features that can contribute to effective boards

Corporate Governance Advisory Board



From left: Svein Rennemo, Carine Smith Ihenacho, Harald Norvik, Åse Aulie Michelet

Our goal is effective boards

Position papers on board effectiveness published 26 October



INDUSTRY EXPERTISE ON THE BOARD POSITION PAPER

NORGES BANK INVESTMENT MANAGEMENT POSITION

1. The board should collectively have a thorough understanding of the industry in which the company operates. A majority of independent board members should have fundamental industry insight.
2. The board should have sufficient industry expertise to monitor management's implementation of corporate strategy. At least two of the independent members should have worked in the industry.
3. The board should have an effective nomination process to identify suitable candidates with industry expertise and provide an explanation to shareholders of the relevance of their qualifications.

BACKGROUND

The board is responsible for guiding company strategy, monitoring management performance and providing accountability to shareholders. Ensuring that the board functions effectively is of fundamental importance to shareholders. This position paper considers the importance of industry expertise for the effective functioning of the board.

Industry expertise can be understood as specific knowledge that provides in-depth understanding of business drivers. This includes both experience from working in the industry and fundamental industry insight gained from other roles.

As a global investor, we observe different emphasis on industry expertise across companies. Best-practice codes provide limited guidance, except in the financial sector where experience from the financial crisis has led to a focus on financial expertise on the board, which in some markets is reflected in regulation.

ARGUMENTS FOR THE POSITION

The board must know the industry to guide company strategy. Each industry has its own drivers of opportunity, risk and profitability. A board with independent members who have in-depth knowledge of the relevant drivers will in most cases be better qualified to set strategic direction.

Independence must be informed to be effective. Monitoring the implementation of company strategy requires objective and independent judgement. With industry experience, independent board members will be in a stronger position to form their own opinions, and to support and challenge management as needed.

Industry expertise can strengthen value creation. A board with strong industry expertise will have a deeper understanding of the business, and will therefore be able to devote more attention to company activities that add profitability, reduce risk and promote growth.

Page 1



TIME COMMITMENT OF BOARD MEMBERS POSITION PAPER

NORGES BANK INVESTMENT MANAGEMENT POSITION

1. Board members should devote sufficient time to fulfil their responsibilities effectively. Board members of listed companies should not serve on more than five boards at one time.
2. The chairperson is responsible for leading all aspects of the board's work and should devote a significant amount of time to fulfil his or her responsibilities effectively. The chairperson of a leading company should generally not chair the board of another company.
3. Board members should contribute to effective discussions and decision-making by attending all meetings. The company should disclose individual attendance rates and explain any absences.
4. The board is accountable to shareholders for the time commitment of its members. The board should disclose all external board assignments, committee roles and employment, so that shareholders can assess the functioning of the board.

BACKGROUND

The board is responsible for guiding company strategy, monitoring management performance and providing accountability to shareholders. Ensuring that the board functions effectively is of fundamental importance to shareholders. This position paper considers the relevance of board members' availability and time commitment for the overall effectiveness of the board.

Serving on too many boards can interfere with board members' performance. Disclosure about board memberships and other significant commitments is a key instrument for improving board nominations. Publishing attendance records for individual board members is a way of strengthening confidence in corporate governance.

As a global investor, we observe differences across markets as well as companies. For certain financial institutions in the EU/FFA, board members' time commitments are specified in regulation. The UK corporate governance code recommends against any full-time executive director taking on more than one non-executive directorship in a FTSE 100 company. Some markets require disclosure of attendance rates for board members, and some companies report beyond requirements.

ARGUMENTS FOR THE POSITION

Board work requires a significant time commitment. Board members who are not able to prepare for meetings, or take part in them on a regular basis, cannot contribute effectively to the company. The chairperson must also allocate time to interacting with management and shareholders.

The board should have capacity for unexpected events. The board must ensure that its members have availability to handle unexpected events, such as major transactions or critical challenges. This is particularly the case for the chairperson, whose leadership is critical in such times.

Page 1



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Page 1

Research on ownership and sustainability

Effective ownership

- London Business School

Shareholder approval rights

- Boston College

Climate change data

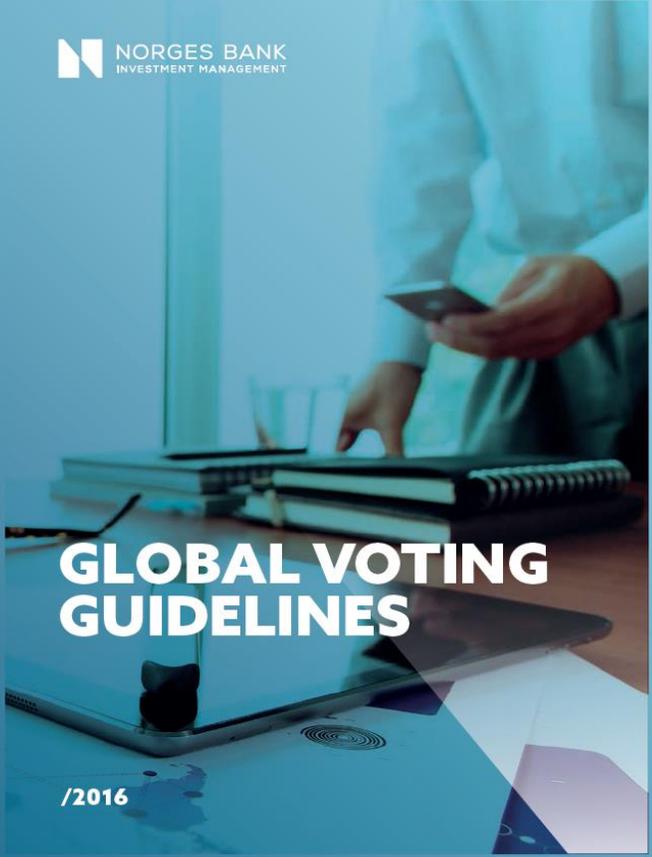
- NYU Stern
- Columbia University

Mining industry data

- Columbia University

Exercising ownership





**GLOBAL VOTING
GUIDELINES**

/2016

**We vote at all
shareholder meetings**

11,287 shareholder meetings

113,546 resolutions

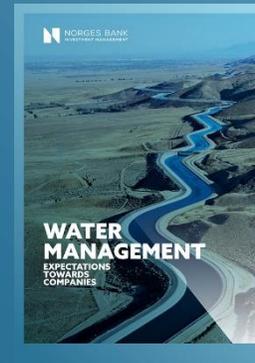
Voting intentions published in 2018

Signalling our expectations and positions

Environmental



- Support for shareholder proposal on methane emissions management
 - Kinder Morgan Inc, 8 May
- Support for shareholder proposal on climate change
 - Transcanada Corp, 20 April



- Support for water-related shareholder proposal
 - Imperial Oil Ltd, 20 April

Governance



- Support for remuneration policy
 - The Weir Group Plc, 13 April



- Support for unbundled board elections
 - Boliden AB, 20 April



3,256 meetings with 1,420 companies

Three categories of company dialogue. Meetings in 2018

Dialogue on strategic topics

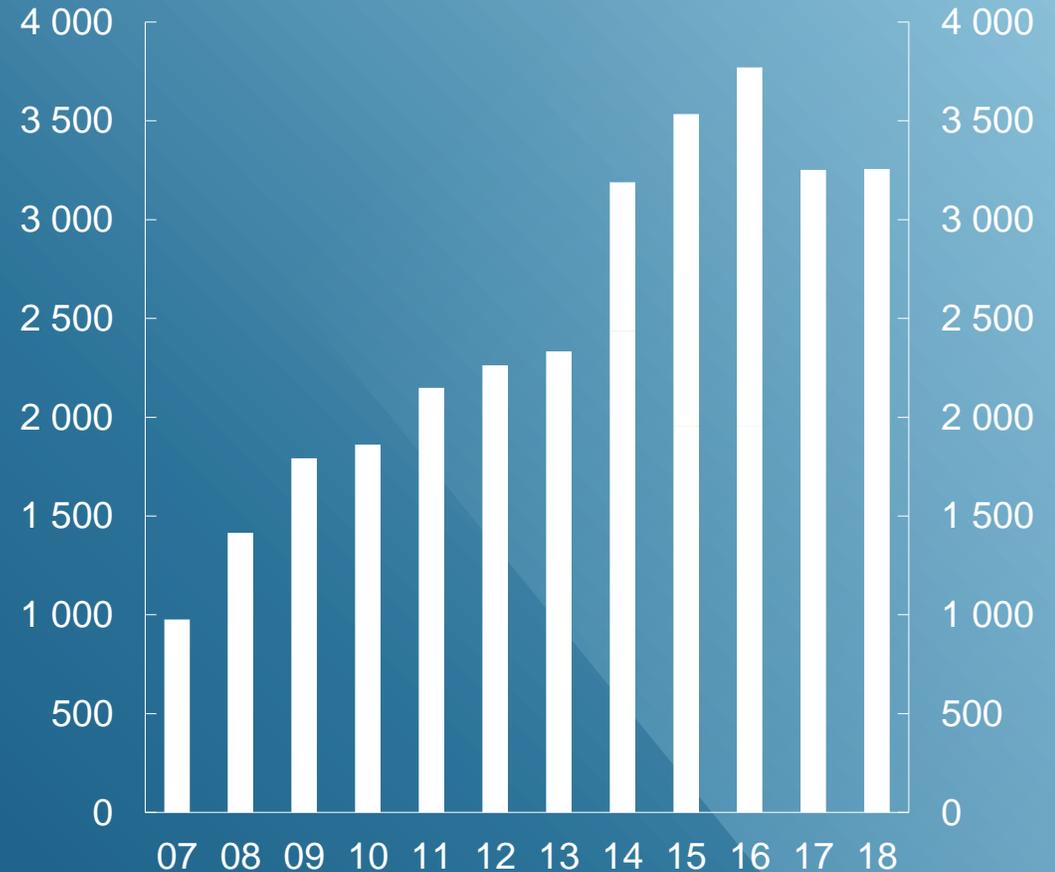
- Sustainability
- Board accountability and effectiveness
- Executive remuneration
- Shareholder rights

Dialogue on incidents

- Corporate actions
- Risk incidents

Dialogue on ethical guidelines

- Exercising ownership rights



Strategic topics

Priority topics for company dialogue

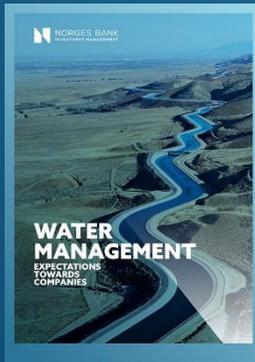
Category	Topics	Meetings	Share of equity portfolio's value
Environmental	Climate change	272	16.3
	Water management	75	4.9
	Other environmental issues	214	12.9
Social	Human rights	64	6.2
	Children's rights	27	2.5
	Tax and transparency	57	5.7
	Anti-corruption	50	6.2
	Other social issues	217	15.0
Governance	Board accountability and effectiveness	233	20.1
	Executive remuneration	196	19.0
	Shareholders' rights	108	8.2
	Other governance issues	811	34.4



Following up sustainability issues

1,493 meetings with sustainability and governance on the agenda

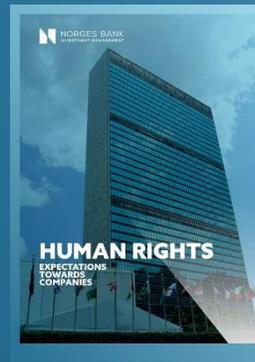
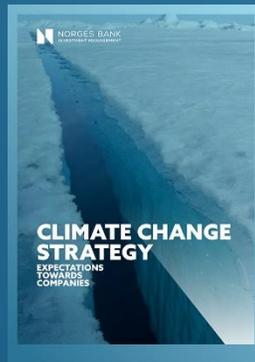
Environmental



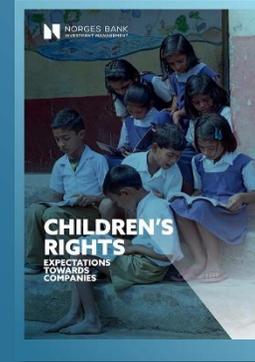
- Ocean pollution from the agricultural sector



- Climate disclosure for banks
- Deforestation and financing
- Deforestation in Brazil



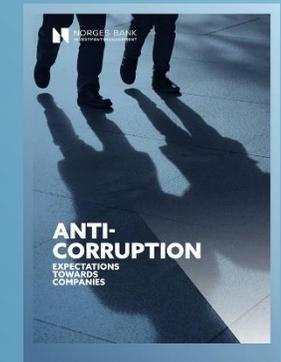
- Supply chains in the automobile industry
- Marketing of breast-milk substitutes



Social



- Tax and transparency at UK banks



- Handling of corruption risk

Following up corporate governance

1,162 meetings with corporate governance on the agenda

Governance



- Discussed board composition with 191 companies

- Discussed board independence with 67 companies

- Discussed executive remuneration with 170 companies

- Public support for new pay policy at The Weir Group

- 40 companies in Sweden have implemented individual vote count

- Dialogue with companies on the requirements for new pay policy at The Weir Group

- Implemented at many companies, following our 2012 and 2013 proposals

- Dialogue on the requirements for use of proxy access



Dialogue as part of active ownership



Target to prevent child labour in the supply chain

- Initiated dialogue in 2018. The company has taken new measures
- We will continue to follow up the plans and measures



Target to prevent oil spills

- Both companies have strengthened their preventive measures, but spills have partly increased
- Will continue to follow up to see if preventive measures will reduce oil spills



Target to prevent environmental damage

- The Executive Board decided in December 2018 to continue the follow-up of the company for another three years
- Progress noted towards our target. We will follow up on the re-opening of the mine



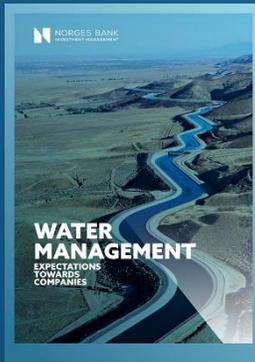
Target to prevent corruption

- Both companies have initiated several measures to prevent and detect corruption
- Good progress against our targets. Will follow up effectiveness of measures

Assessment of sustainability disclosure

Assessment of 2,256 companies

Environmental



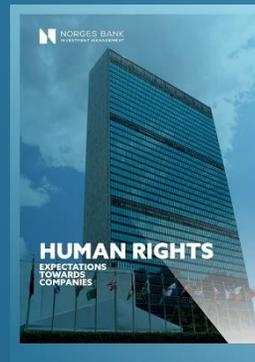
- Assessed 598 companies



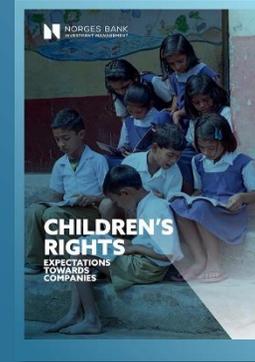
- Assessed whether 598 companies address their use of the ocean



- Assessed 1,700 companies



- Assessed 600 companies

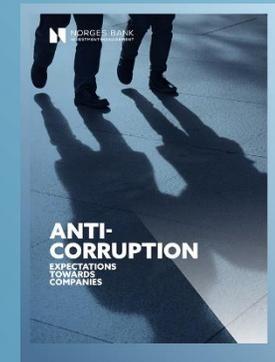


- Assessed 600 companies

Social



- Preliminary analysis of 30 companies



- Preliminary analysis of 30 companies

We evaluate disclosure on



Governance

Strategy

Risk assessment

Supply chain management

Results

Children's rights

Selected companies assessed since 2008

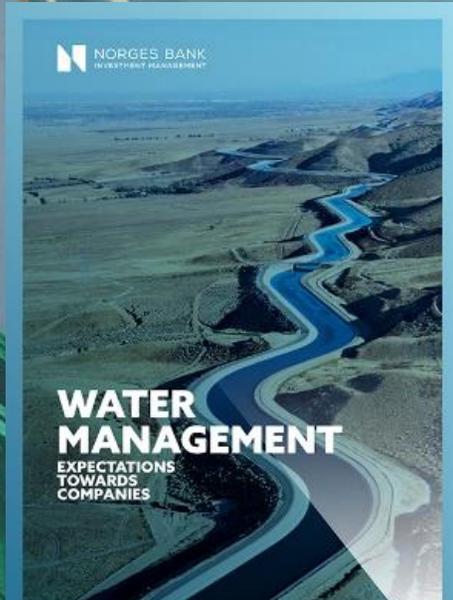
- 600 companies assessed in 2018
- 18% of companies contacted in 2017 have improved their reporting on children's rights
- Sent letters to 35 companies in 2018
- Collaborating with UNICEF on a network of companies in the garment sector



Water management

Selected companies assessed since 2010

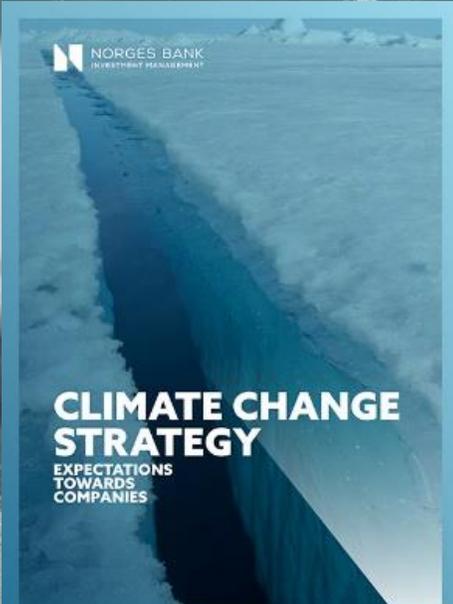
- 598 companies assessed in 2018
- 39% of companies contacted in 2017 have improved their reporting on water management
- Sent letters to 30 companies in 2018
- Organised seminar on water risks and the value chain for agricultural goods



Climate change

Selected companies assessed since 2010

- 1,700 companies assessed in 2018
- 36% of companies contacted by letter in 2017 now report on climate
- Sent letter to 35 companies in 2018
- Initial review of company reporting regarding deforestation and contacted companies with weak reporting
- Took part in a pilot project led by UN Environment (UNEP) to develop methods for investors' disclosure in line with TCFD recommendations



Ocean sustainability

Expectation document in 2018

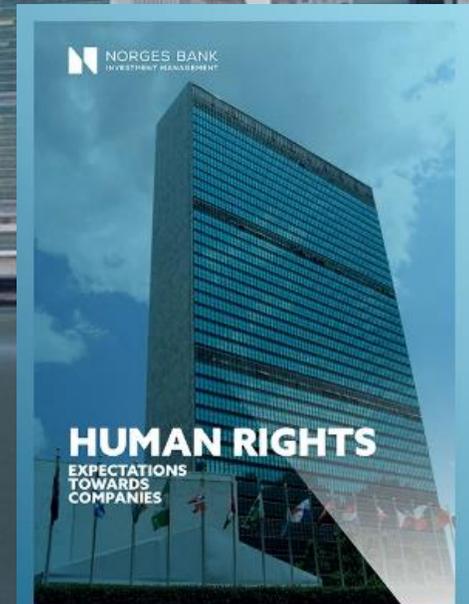
- Assessed whether 598 companies address their use of the ocean in their public reporting
- Only 16% reported on ocean-related themes
- Joined the UN Global Compact Action Platform for Sustainable Ocean Business, which is developing a framework for how businesses can promote sustainable use of ocean resources



Human rights

Initial analysis since 2017

- Initial assessment of 600 companies in 2018
- Score improved by 6 percentage points from 2017
- 60% integrate human rights in strategic planning
- 40% of selection had no, or only general, policy
- Take part in the Social & Labour Convergence Project, which in 2018 presented a methodology and tool for assessing working conditions in the apparel sector



Tax and transparency

Expectation document in 2017

- Initial analysis of 30 companies in 2018 to understand how the boards decide their tax management policies
- Generally weak results
- Global standards are being developed
- We launched an initiative on tax policy for companies providing consumer goods and services



Anti-corruption

Expectation document in 2018

- Initial analysis of 30 companies in sectors with a high risk of corruption
- Most companies had medium to good results
- Followed up certain companies to improve reporting
- Mapped corruption risk in the pharmaceutical sector and raised the topic with a number of companies



Companies with good results on disclosure

Examples from various sectors in 2018



Childrens' rights

The Coca-Cola Co
NIKE Inc
Stora Enso OYJ
Marks & Spencer Group Plc
Anglo American Plc



Water management

Danone SA
Kellogg Co
Gildan Activewear Inc
Enel SpA
Anheuser-Busch InBev SA



Climate change

Iberdrola SA
SSE Plc
Westpac Banking Corp
Akzo Nobel NV
Tokio Marine Holdings Inc



Human rights

ArcelorMittal
Thyssenkrupp AG
UPM-Kymmene Oyj
Stora Enso Oyj
Aperam SA



Tax and transparency

BHP Billiton Plc
Unilever Plc
Anglo American Plc
Banco Santander SA
HSBC Holdings Plc



Anti-corruption

BHP Billiton Plc
Anglo American Plc
Deutsche Telekom AG
Novo Nordisk A/S
Roche Holding AG

Investing sustainably



From words to numbers



- Dialogue
- Initiatives

- Database
- Measurement

- Carbon footprint
- Leaders/laggards

- Dialogue
- Divest

- Change
- Risk reduction

Sustainability assessments

Better data gives better analysis

Country analysis

- Assessment of indicators for corporate governance, environmental and social issues
- Analysed sustainability risks in 515 companies in emerging markets

Sector analysis

- Identifying sectors with very high risk exposure
- In 2018 we carried out sector analysis of 905 companies

Company analysis

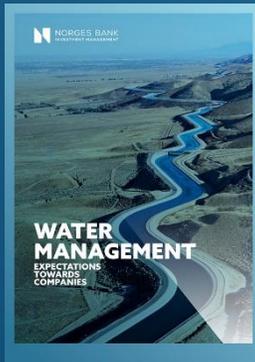
- Focus specifically on material holdings and on incidents
- Produced 5 reports on material holdings and 34 briefs on incidents in 2018



Assessment of sustainability

Sector analysis of 905 companies. Examples

Environmental



- Water related risks in extraction
- Water and waste management in power production



- CO₂ emissions and environmental pollution from maritime transport
- Sustainable fishing

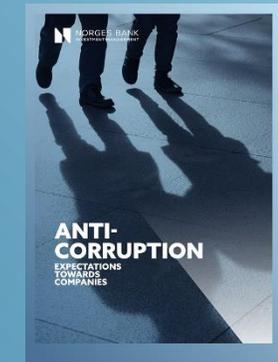
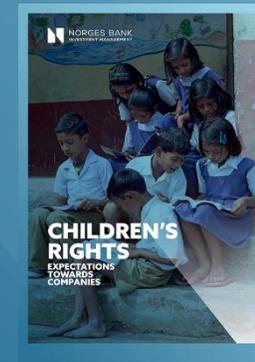


- Deforestation and sustainability certification in agriculture, forestry and fishery sectors
- Transitional risks related to climate change for fuel trading
- CO₂ emission and coal exposure in power production

Social



- HES, labour conditions, child labour and slavery within apparel and retail sector
- HES, labour conditions, child labour and slavery in agriculture, forestry and fishery sectors
- Human rights and how this affects local communities in agriculture, forestry and fishery sectors



- Material challenges related to corporate governance
- Handling of corruption risk

A large-scale photograph of an offshore wind farm. The image shows a vast expanse of dark blue ocean under a clear, light blue sky. In the foreground on the right, a large white wind turbine is partially visible, with its three blades extending towards the top right corner. In the distance, a long line of similar wind turbines stretches across the horizon. A small boat is visible on the left side of the water.

From words to numbers

FTSE All Cap
Equity portfolio

Tonnes CO₂-equivalents
13,963,468,347
107,440,520

Emissions intensity 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	25,884,091	25,558,317	3,176,961,413
Consumer goods	4,752,213	4,521,544	456,633,469
Consumer services	8,615,816	6,337,238	857,014,193
Financials	2,160,439	2,011,901	245,109,687
Health care	1,048,314	974,321	73,882,887
Industrials	21,130,407	20,710,271	1,954,788,054
Oil and gas	19,861,028	19,250,688	1,998,709,715
Technology	1,387,691	1,372,780	125,660,711
Telecommunications	709,454	757,344	89,353,548
Utilities	21,891,067	25,760,999	4,985,354,670
Total	107,440,520	107,255,402	13,963,468,347

Emissions by market value in different sectors

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	778	837	856
Consumer goods	62	59	57
Consumer services	116	94	94
Financials	14	14	14
Health care	14	13	13
Industrials	254	251	233
Oil and gas	533	485	485
Technology	17	17	17
Telecommunications	38	39	39
Utilities	1,210	1,394	1,931
Weighted total	164	170	197

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



Return on environmental mandates

	Last 12 months	Last 5 years	Since 01.01.2010
Environmental equity mandates	-8,3	5,9	4,5
FTSE Global All Cap	-7.3	7.0	9.2

Environmental investments

Environmental mandates

Category	Number of companies	Total ¹ Bn. kroner
Low-emission energy and alternative fuels	13	16
Clean energy and efficiency technology	41	15
Natural resource management	23	12
Total equity	77	43
Green bonds		13
Total		57

¹ Total includes cash. Total is 57 due to rounding.

Top five holdings in environmental portfolio

Investments in environmental technology



Low-emission energy and alternative fuels

Iberdrola SA
NextEra Energy Inc
Sempra Energy
Linde Plc
National Grid Plc



Clean energy and efficiency technology

Keyence Corp
Daikin Industries Ltd
Thermo Fisher Scientific Inc
Legrand SA
PTC Inc



Natural resource management

Waste Connections Inc
DS Smith Plc
Xylem Inc/NY
LKQ Corp
Koninklijke DSM NV

Ethical decisions in 2018

Decisions made public by the executive board in 2018

Category	Criterion	Number	Company
Exclusion	Coal	2	PacifiCorp, Tri-State Generation and Transmission Association
	Severe environmental damage / Human rights violations	4	Evergreen Marine Corp Taiwan Ltd, Korea Line Corp, Precious Shipping Plc, Thoresen Thai Agencies Plc
	Gross corruption	1	JBS SA
	Production of specific weapon types	4	AECOM, BAE Systems Plc, Fluor Corp, Huntington Ingalls Industries Inc
	Human rights violations	2	Luthai Textile Co Ltd, Atal SA/Poland
Observation	Coal	2	Berkshire Hathaway Energy Co, MidAmerican Energy Co
	Severe environmental damage / Human rights violations	1	Pan Ocean Co Ltd
	Human rights violations	1	Nien Hsing Textile Co Ltd
Revoked	Other particularly serious violations of fundamental ethical norms	2	Kosmos Energy, Cairn Energy



Exclusion and observation as at 31.12.2018

Ethical reasons

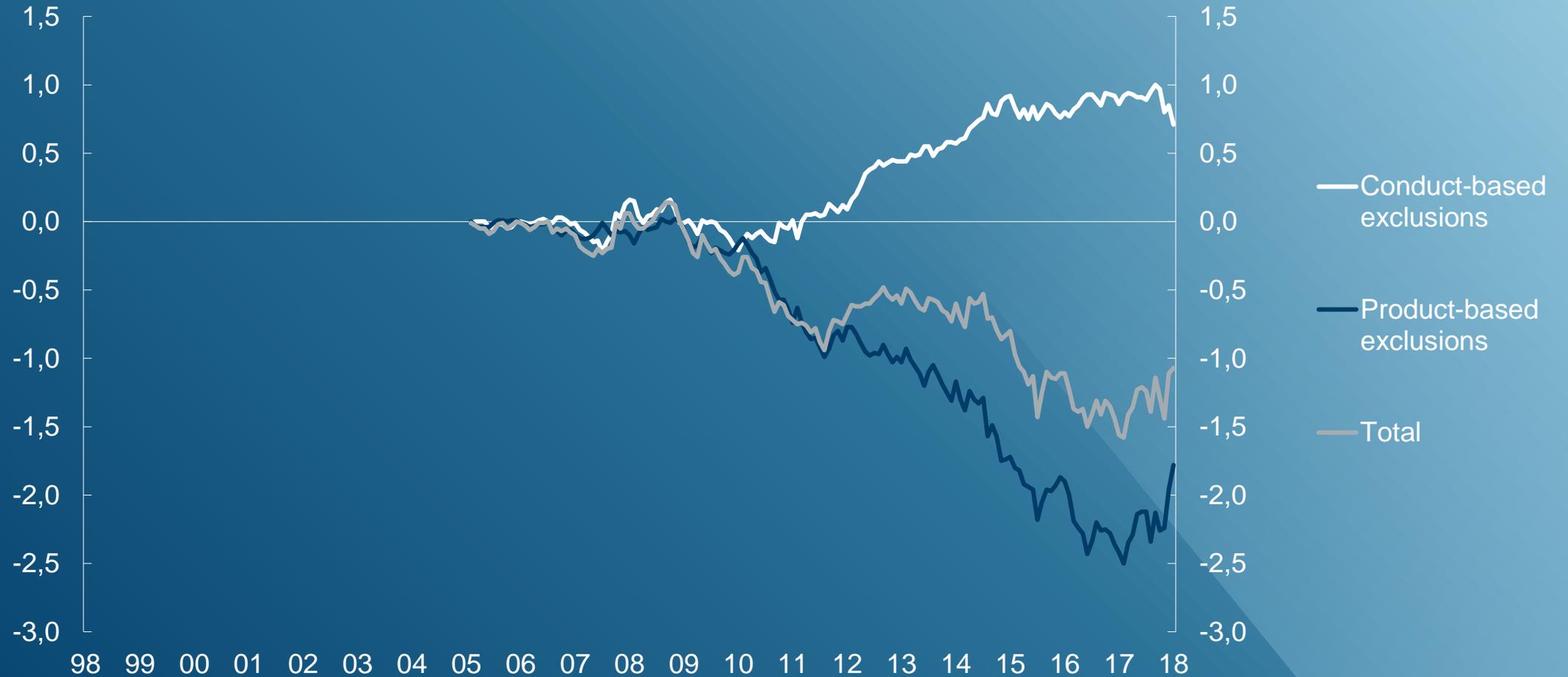
Issue	Criterion	Number of companies	Market value bn. kroner*
Product-based exclusions	Production of tobacco	18	47
	Production of specific weapon types	19	63
	Thermal coal mining or coal-based power production	68	32
Conduct-based exclusions	Human rights violations	5	13
	Severe environmental damage	17	27
	Contributions to climate change	0	0
	Gross corruption	2	1
	Other particularly serious violations of fundamental ethical norms	3	3
	Serious violations of the rights of individuals in war or conflict	2	0
Observation	Serious environmental damage/ breach of human rights	4	0
	Human rights violations	3	
	Severe environmental damage	1	
	Severe environmental damage/ Human rights violations	1	
	Gross corruption	3	
	Thermal coal mining or coal-based power production	14	
Total		152	186

*Market value in the benchmark index if not excluded



How exclusions affect performance

Equities. Percentage points.



How divestments affect performance

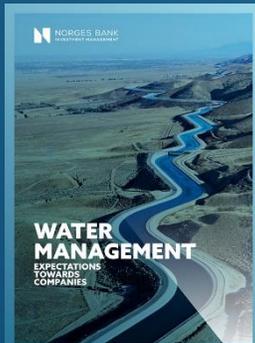
Risk-based divestments. Equities. Percentage points



Risk-based divestments

Unacceptable risk related to our expectations

Environmental



45

Water

Mining
Water pollution



3

Ocean

Water pollution
Seafood industry



82

CO₂
emissions

Mining
Cement
Coal
Oil sand

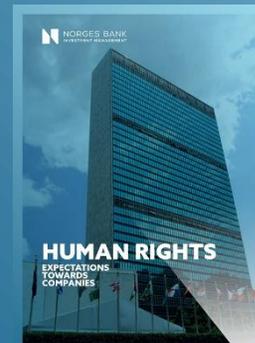


60

De-
forestation

Mining
Palm oil
Paper production

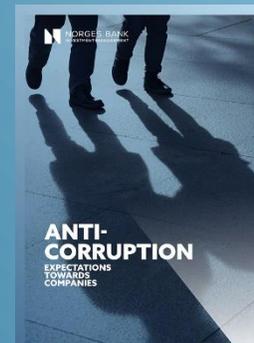
Social



19

Human
rights

Mining
Construction
Seafood industry



22

Anti-
corruption

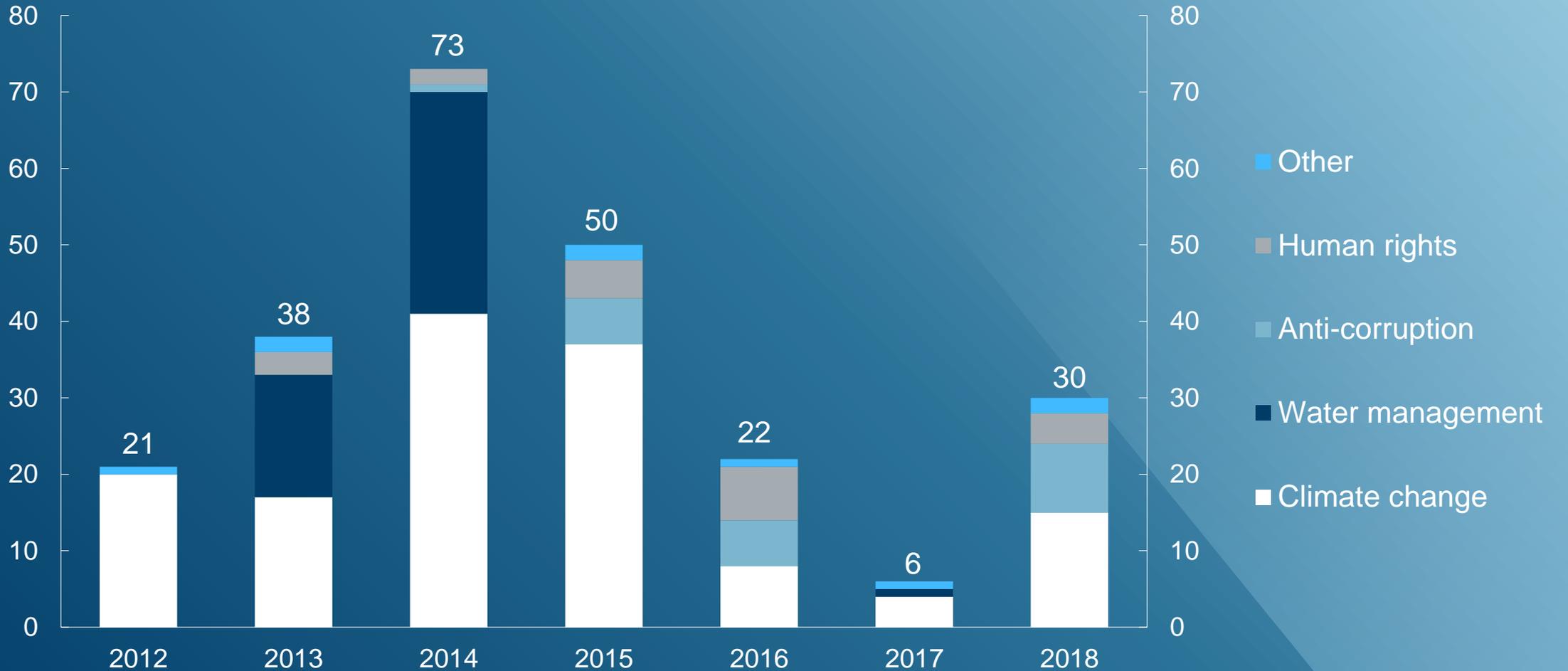
Mining
Other corruption
cases

Risk-based divestments in 2018

Expectations	Theme	2018
Climate change	Palm oil production	2
	Rubber production	1
	Coal based power production	10
	Coal extraction for power production	1
	CO ₂ -intensity	1
Anti-corruption	Anti-corruption	9
Human rights	Human rights	4
Other	Tobacco related	2
Total		30



Risk-based divestments





**RESPONSIBLE
INVESTMENT 2018**
GOVERNMENT PENSION FUND GLOBAL