

Responsible Investment 2019

Government Pension Fund Global

Management objective

OBJECTIVE

High long-term
return

SUBJECT TO

- Acceptable risk
- Efficient organisation
- Responsible investment
- Transparency

Responsible investment

Government Pension Fund Global

2019

No. 06

1 |

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Establishing principles

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Exercising ownership

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Investing sustainably

Risk assessments	72
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Establishing principles



We follow international standards



Global Compact

Guiding Principles on Business and Human Rights

Principles on Responsible Sovereign Lending and Borrowing



Principles of Corporate Governance

Guidelines for multinational enterprises

We develop international standards

Responses to public consultations in 2019

Sustainability disclosure

- Hong Kong stock exchange
- Canada Expert Panel on Sustainable Finance
- Corporate Reporting Dialogue
- Securities and Exchange Commission
- European Commission
- European Financial Reporting Advisory Group
- Japan Responsible Supply Chains Committee
- PRI Association

Management incentives

- European Commission
- Australian Prudential Regulation Authority

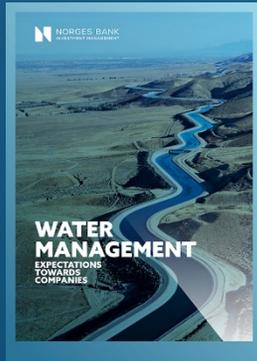
Tax and transparency

- Global Sustainability Standards Board
- Financial Accounting Standards Board
- OECD



Adapting expectations to a changing world

Environment



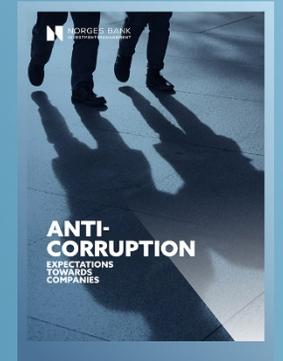
Updated



Society

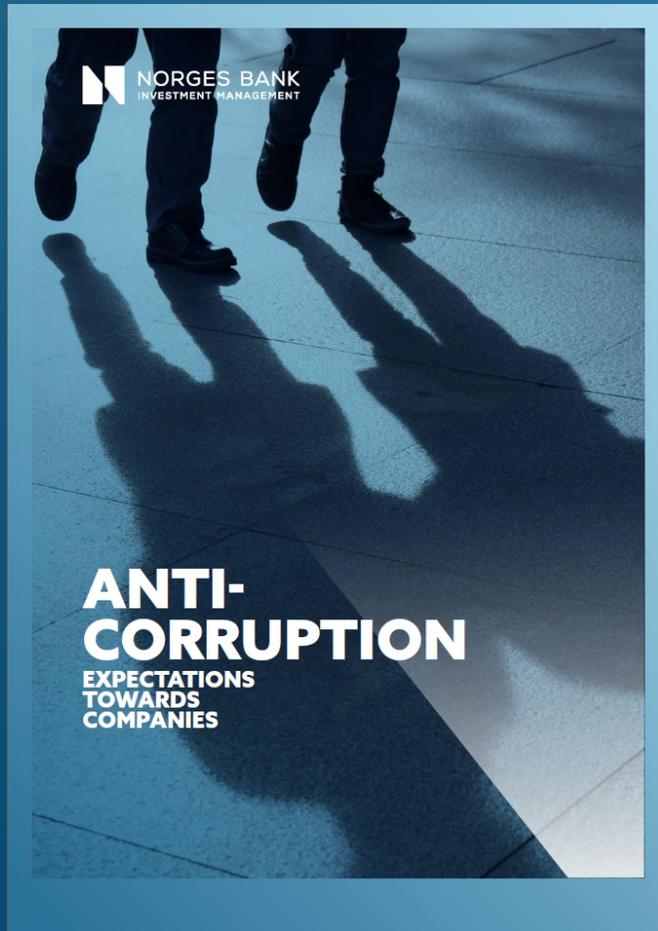


Updated



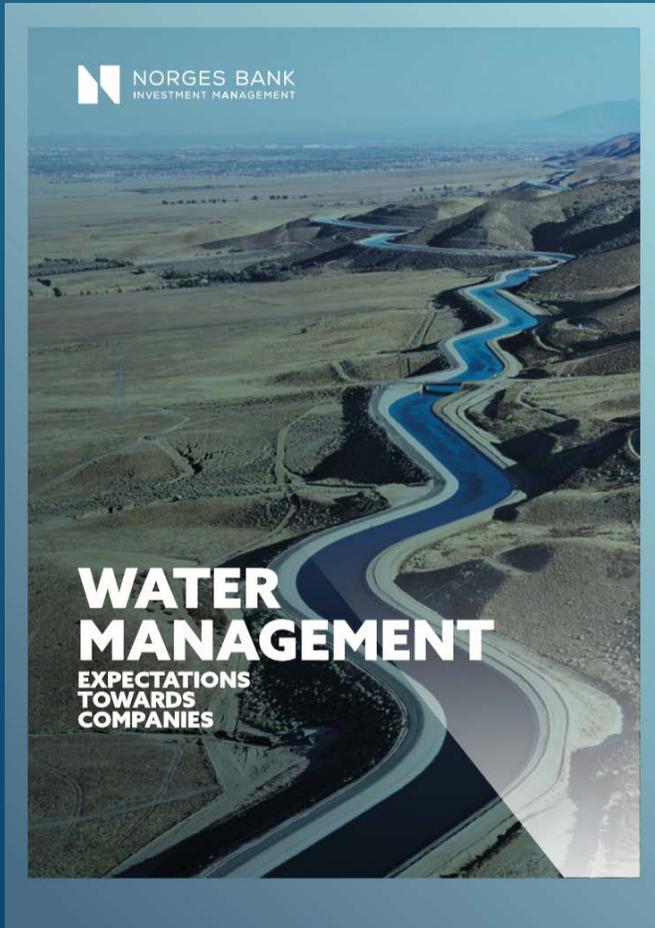
Updated

Renewed interest in money laundering



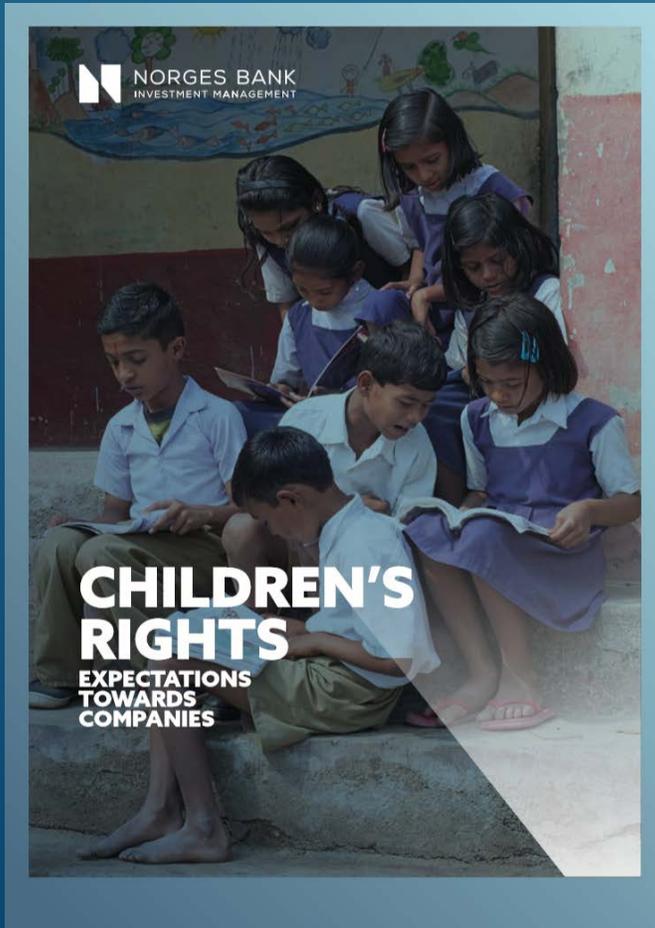
- Updated expectations on money laundering
- Guidelines from the board
- Robust procedures

Risk of tailing dam failures



- Reporting on tailing dams
- Monitoring and maintenance

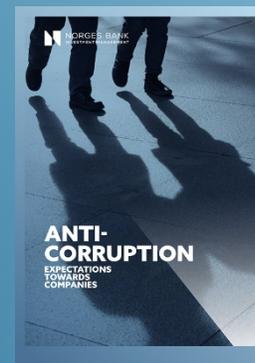
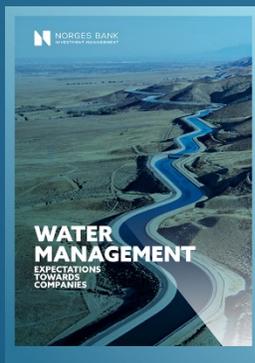
Promote children's rights



- Responsible marketing
- Decent work opportunities

Aligned with the UN Goals

Long-term value creation



Public positions on corporate governance

Six position papers

Effective boards

INDUSTRY EXPERTISE ON THE BOARD POSITION PAPER

NORDESK BANK INVESTMENT MANAGEMENT POSITION

1. The board should consist of a diverse group of individuals with the necessary skills, knowledge and experience to oversee the bank's strategy and operations. It should include representatives of all major business units and geographical regions. The board should also include individuals with industry expertise relevant to the bank's core business.

BACKGROUND

The board is responsible for the overall strategy, performance and risk of the bank. It should ensure that the bank's strategy is aligned with the interests of its shareholders and that the board has the necessary expertise to oversee the bank's operations.

AGREEMENTS FOR THE POSITION

The board should be composed of individuals with the necessary skills, knowledge and experience to oversee the bank's strategy and operations. It should include representatives of all major business units and geographical regions. The board should also include individuals with industry expertise relevant to the bank's core business.

TIME COMMITMENT OF BOARD MEMBERS POSITION PAPER

NORDESK BANK INVESTMENT MANAGEMENT POSITION

1. Board members should commit a sufficient amount of time to their duties as directors to ensure that they can effectively oversee the bank's operations. The board should have a clear policy on the time commitment of its members.

2. The board should have a clear policy on the time commitment of its members. This policy should be based on the bank's size, complexity and the demands of its business.

3. Board members should be held accountable for their time commitment. The board should have a process in place to monitor and report on the time commitment of its members.

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SEPARATION OF CHAIRPERSON AND CEO POSITION PAPER

NORDESK BANK INVESTMENT MANAGEMENT POSITION

The board should ensure that the chairperson and CEO are separate individuals to ensure that the board can effectively oversee the bank's operations. The board should have a clear policy on the separation of the chairperson and CEO.

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CEO REMUNERATION POSITION PAPER

NORDESK BANK INVESTMENT MANAGEMENT POSITION

1. The board should ensure that CEO remuneration is fair, reasonable and aligned with the bank's long-term interests. The board should have a clear policy on CEO remuneration.

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INDIVIDUAL VOTE COUNT IN BOARD ELECTIONS POSITION PAPER

NORDESK BANK INVESTMENT MANAGEMENT POSITION

1. The board should ensure that individual votes are counted in board elections to ensure that the board is representative of all shareholders. The board should have a clear policy on individual vote counting.

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PROXY ACCESS AT US COMPANIES POSITION PAPER

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AGREEMENTS FOR THE POSITION

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Shareholder rights



Updated voting guidelines

Clear principles and more transparency



Corporate Governance Advisory Board



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



Corporate Governance Advisory Board

Important issues in 2019

Principles for ownership



Voting on principal issues



Reporting



Academic research

Sustainability	Climate change and effective capital markets	Prof. Hong	
	Financial approach to environmental risk	Prof. Engle	
Corporate Governance	Shareholder approval of issuances	Prof. Holderness	
	Active ownership	Prof. Becht, Franks, Wagner	

Exercising ownership



Ownership

Voting

116 777 proposals at 11 518 meetings

Dialogue

3 412 meetings with companies

Follow-up

3 941 analyses of company reporting

We support the board

Share of votes for and against the board's recommendation. Percent



Shareholder proposals on sustainability

265 proposals in 2019

Criteria

Financial
relevance

Board
responsibility

Company
actions

Support

- 40 percent of proposals
- All proposals with majority support
- Better reporting and board policies

Corporate sustainability reporting

New position paper



1. Board responsibility for reporting

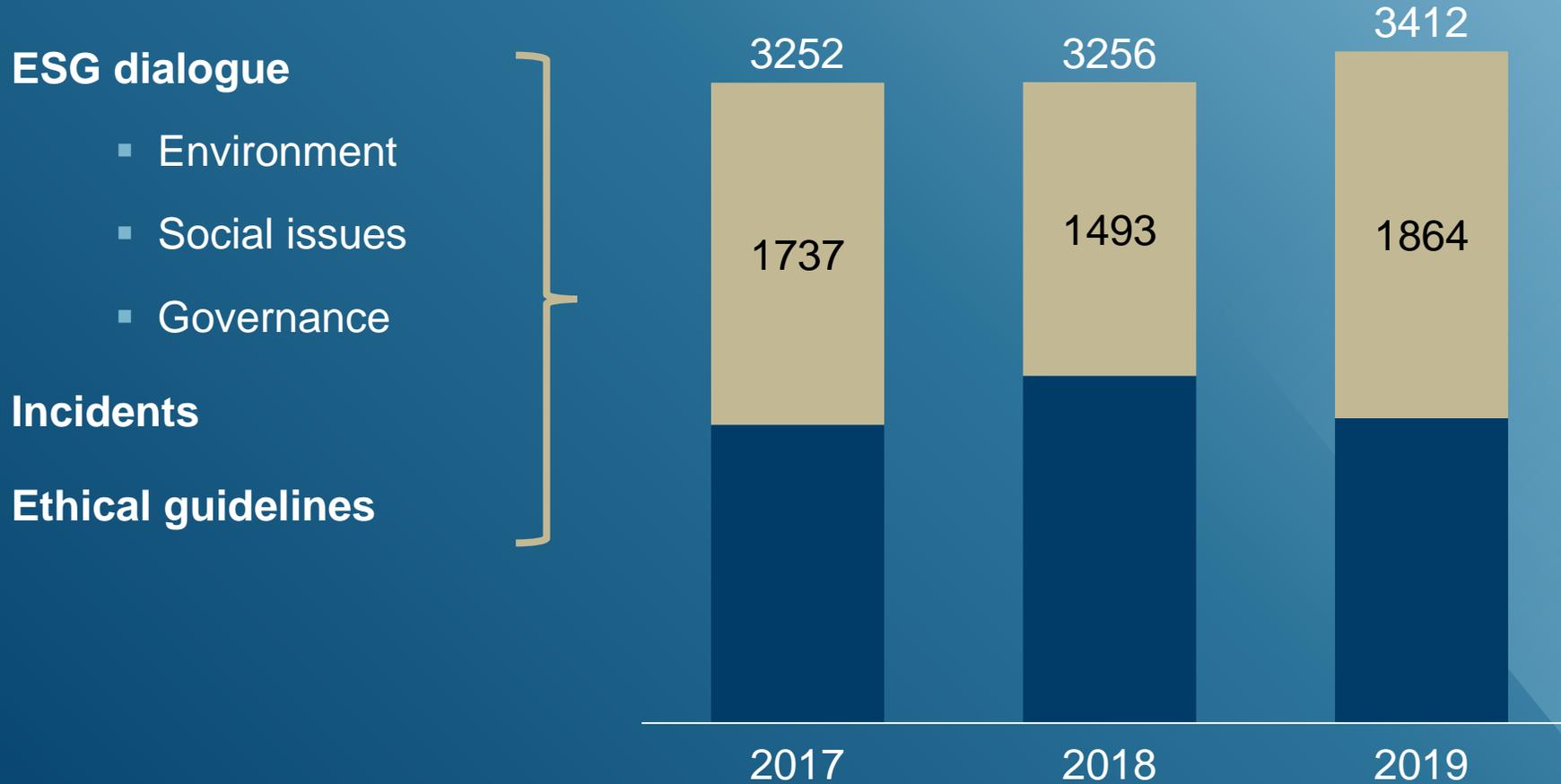
2. Quantitative reporting

3. International standards



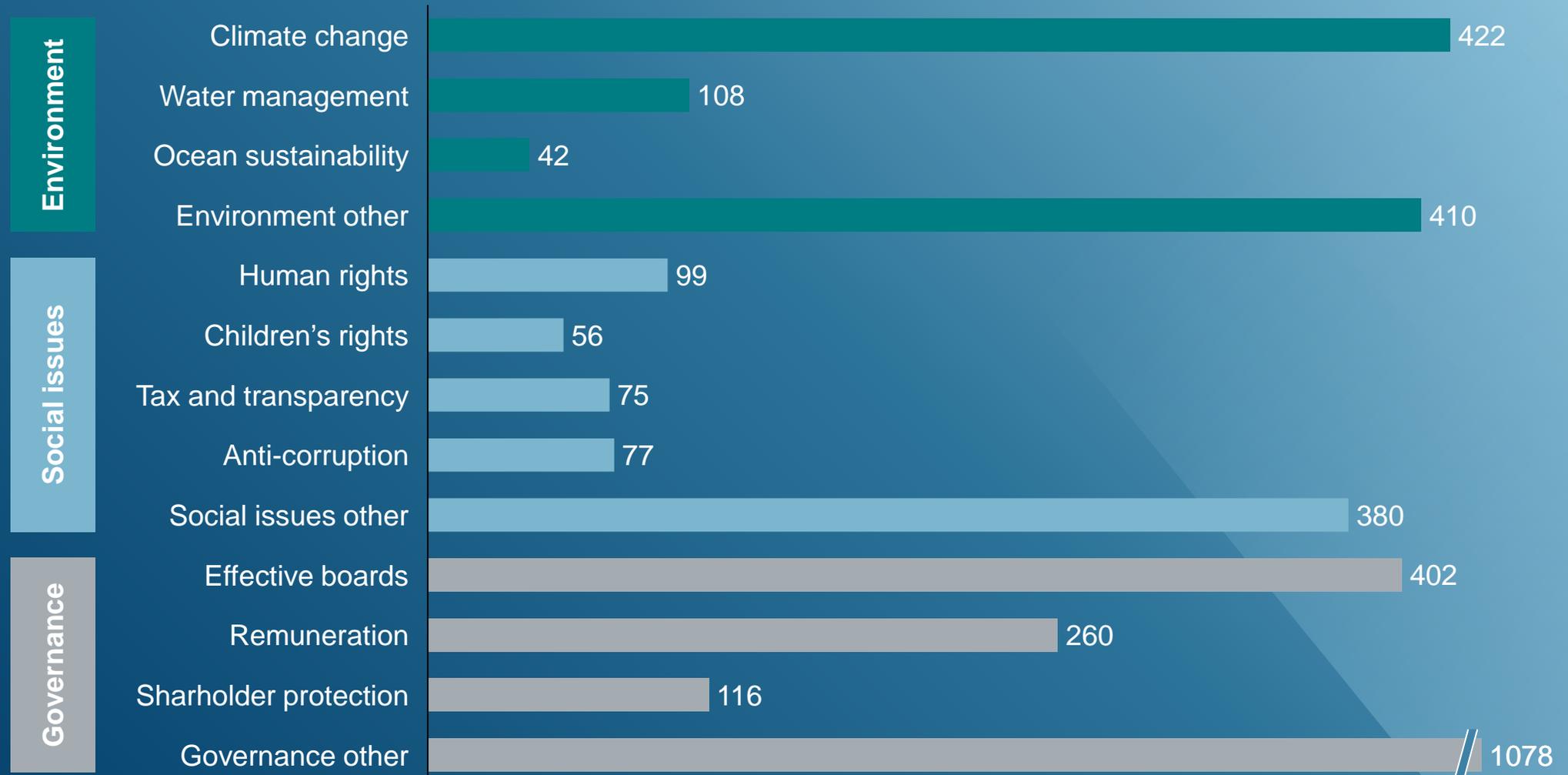
Company dialogue

1864 company meetings on sustainability and governance



Dialogue on sustainability and governance

Number of meetings, by topic



Company dialogue

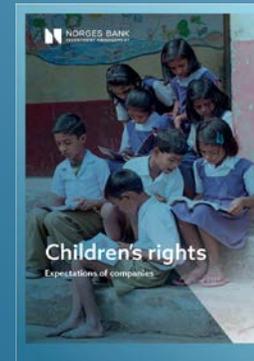
Following up on our expectations

Environment



- Nutrient run-off
- Plastic production and waste
- Transition risk and responsible ship recycling
- Financing linked to deforestation
- Concrete and cement production
- Environmental risks of fashion

Social



- Transition and supply chain risks related to cobalt
- Forced labour in electronics supply chains
- Responsible marketing of breast milk substitute
- Deforestation and child labour in cocoa supply chain
- Reporting on anti-corruption in exposed sectors
- Anti money laundering in banks
- Agency agreements in oilfield services
- Tax policies

Shipping Transition risk

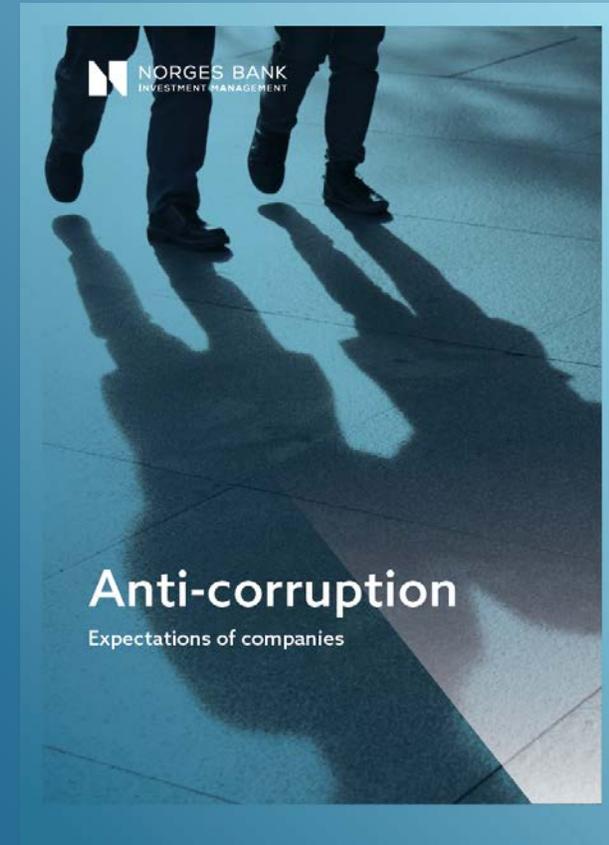
- IMO 2020 & IMO 2030/50
- >40% of transported goods are pure carbon
- Companies can:
 - Reporting on transition risk
 - Plan for climate transition
 - Reduce carbon emissions
 - Work for responsible ship recycling



Banks

Money laundering as a challenge

- 2-5% of GDP laundered every year
- Increased fines and regulatory attention
- Companies can
 - Develop governance structures and processes
 - Use new technologies to monitor customer relationships and transactions
 - Build corporate culture
 - Co-operate with authorities



Dialogue on ethical criteria

Active ownership

Prevent child labour in value chain



Reduce oil spills



Prevent environmental damage

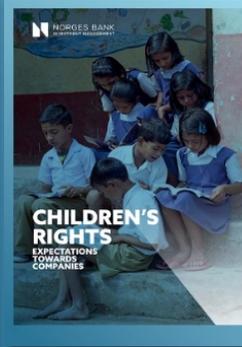
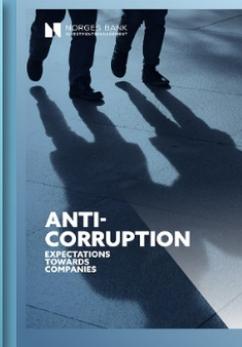


Prevent corruption



We assess companies' reporting

Assessment
of company
reporting

	Environment			Social			
							
# companies	493	1749	249	500	500	200	250
# indicators	50	29	25	50	52	51	72

~160 000 assessments of company reporting



We assess companies' reporting

Examples of good reporting in 2019



Children's rights

Unilever NV
Nestle SA
The Coca-Cola Co
Adidas AG
The Hershey Co



Water management

Coca-Cola HBC AG
Anheuser-Busch InBev SA/NV
BASF SE
Danone SA
Iberdrola SA



Climate change

Kellogg Co
Verbund AG
Orsted A/S
L'Oreal SA
Owens Corning



Human rights

Microsoft Corp
Burberry Group PLC
Diageo PLC
Anglo American PLC
HP Inc



Tax and transparency

Banco Bilbao Vizcaya Argentaria SA
BHP Group PLC
Vodafone Group PLC
Pearson PLC
Telefonica SA



Anti-corruption

Newmont Goldcorp Corp
Naturgy Energy Group SA
Alstom SA
Engie SA
Medtronic PLC



We support common frameworks

Relevant, reliable and comparable reporting



- Financially material indicators per sector, and broader impacts



- Information on exposure, management and performance
- Integrated reporting
- Need for standardisation

Investing sustainably



Top five holdings in environmental portfolio

Investments in environmental technology



Low-carbon energy and alternative fuels

- Iberdrola SA
- Sempra Energy
- NextEra Energy Inc
- Linde PLC
- National Grid PLC



Clean energy and energy efficiency

- Daikin Industries Ltd
- Keyence Corp
- Legrand SA
- Thermo Fisher Scientific Inc
- Eaton Corp PLC



Natural resource management

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



Return on environmental mandates

Percent

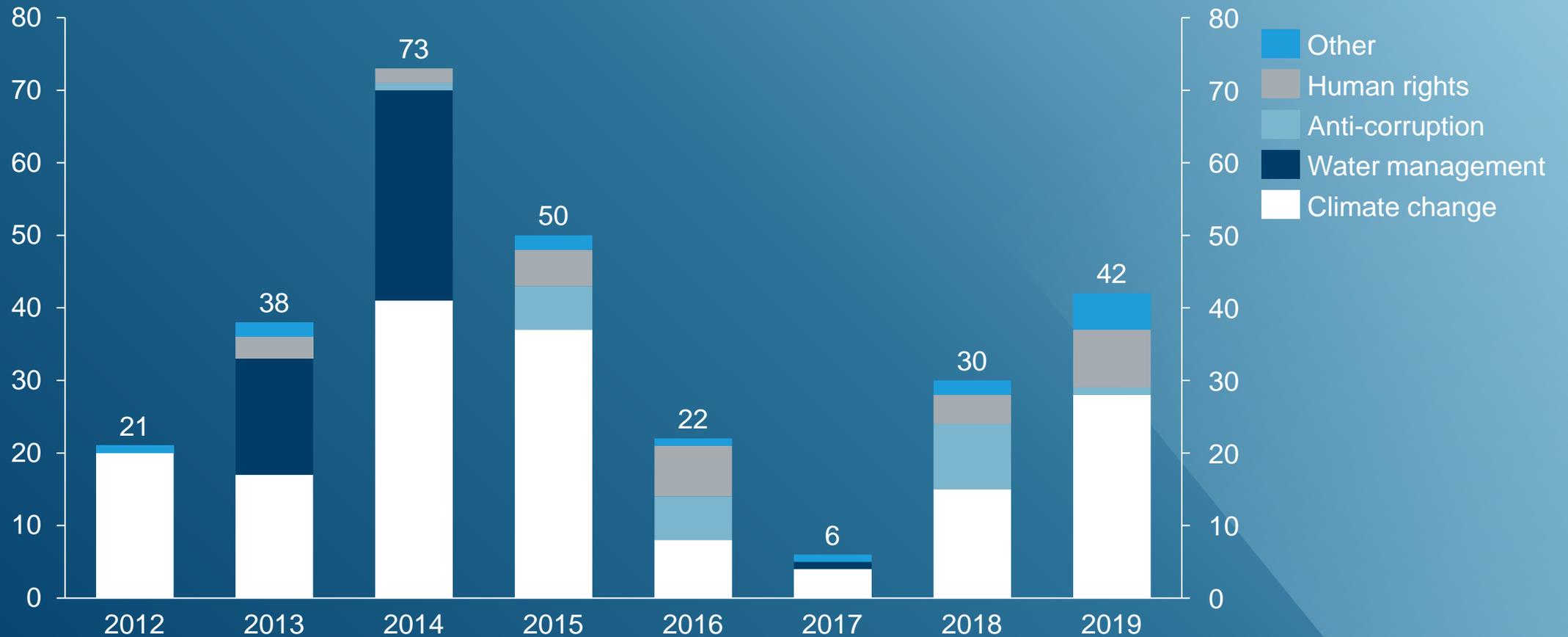
	Last 12 months	Last 5 years	Since 01.01.2010
Environmental equity mandates	35,8	11,5	7,3
Funding	21,1	7,5	4,4

Risk-based divestments in 2019

Expectation	Theme	Criteria	2019
Climate change	Coal-based power production	Coal as relevant percentage of fuel-mix	16
	Thermal coal mining	Relevant business mix allocated to thermal coal extraction	12
Anti-corruption	Anti-corruption	Indications of insufficient risk management related to corruption and corporate governance	1
Human rights	Human rights	Indications of insufficient risk management related to human rights, labour rights or health, safety and environment	8
Other	Other	Activities exposed to unacceptably high risk from an environmental, social or governance perspective but not linked to any of our expectation documents	5
Total			42



Risk-based divestments



Ethical decisions in 2019

Decisions made by the executive board

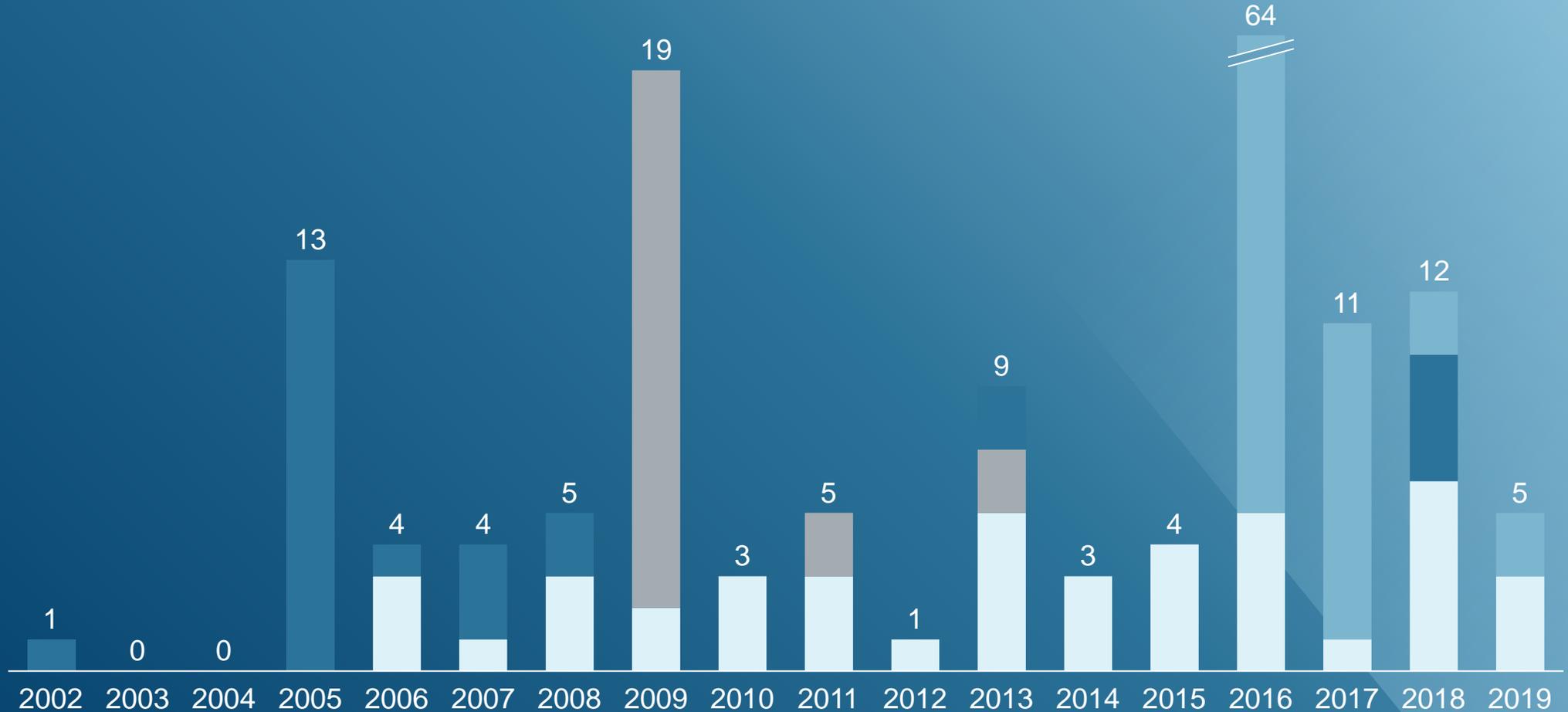
Category	Criterion	Number	Companies
Exclusion	Thermal coal mining or coal-based power production	2	<ul style="list-style-type: none"> • Evergy Inc • Washington H. Soul Pattinson & Co Ltd
	Severe environmental damage	1	<ul style="list-style-type: none"> • Halcyon Agri Corp Ltd
	Human rights violations	2	<ul style="list-style-type: none"> • Texwinca Holdings Co • G4S PLC
Revoked exclusions	Production of specific weapon types	1	<ul style="list-style-type: none"> • General Dynamics Corp
	Production of tobacco	1	<ul style="list-style-type: none"> • Grupo Carso SAB de CV
	Severe environmental damage	2	<ul style="list-style-type: none"> • Rio Tinto Ltd • Rio Tinto PLC
	Human rights violations	2	<ul style="list-style-type: none"> • Walmart Inc • Wal-Mart de Mexico SAB de CV
	Other particularly serious violations of fundamental ethical norms	1	<ul style="list-style-type: none"> • Nutrien Ltd
Observation ended	Gross corruption	1	<ul style="list-style-type: none"> • Petroleo Brasileiro SA



Exclusions

Number of companies 2002-2019

- Coal
- Weapons
- Tobacco
- Conduct



Responsible investment

Establishing principles

Standards

Expectations

Research

Exercising ownership

Voting

Dialogue

Disclosure

Investing sustainably

Risk assessments

Investments

Divestments

Responsible Investment 2019

Government Pension Fund Global

UTTAK

Principles for responsible investment

International standards



Developing standards



Our principles



Principles guide our voting



OECD's Principles of Corporate Governance



Global voting guidelines



Positions on corporate governance

Risk assessments

Better data gives better assessments

Country

~1 200 companies in emerging markets

Industry

Selected industries with high risk exposure

Company

141 incidents related to companies



Nytt forskningsprosjekt

Hvordan indeksinvestorer kan være gode eiere



NFI Research Programme

Call for Research Proposals

The NFI is currently inviting submissions of research proposals on: **Changing Ownership Structure and its Implications for Corporate Governance**

[Click here](#) for more details.

Company dialogue

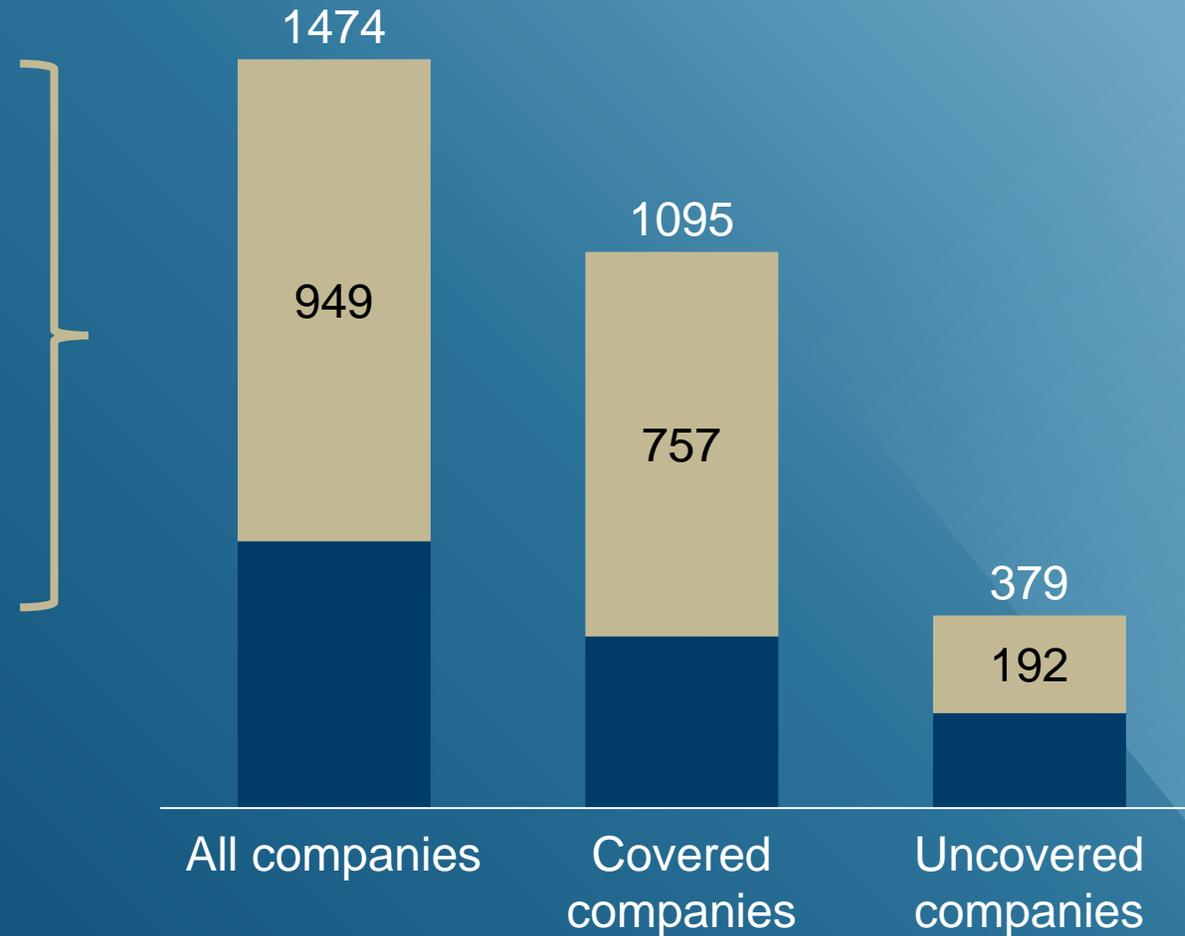
ESG dialogue with 949 companies

ESG dialogue

- Environment
- Social issues
- Governance

Incidents

Ethical guidelines



Cocoa

Deforestation and child labour risk

- 2/3 of world cocoa from West-Africa
- Companies have ambitions. Still tied to child labour and deforestation
- Financial and reputational risk
- Challenging local conditions and consumer willingness to pay
- Companies can:
 - Increase value chain traceability
 - Set timebound targets
 - Report on work to address risks



We assess companies' reporting

Assessments of company reporting



Average score of 100:

39

53

51

37

28

27

46

Best market:

Switzerland

Finland

France

Spain

Australia

Spain

Italy

Best sector:

Industrials

Utilities

Healthcare

Technology

Tele-communication

Basic Materials

Utilities



Karbonavtrykk

Utslipp per sektor, ramme 1 og 2. Per 31. desember 2019

Sektor	Aksjeporteføljen	Referanseindeksen	FTSE Global All Cap
	Tonn CO ₂ -ekvivalenter	Tonn CO ₂ -ekvivalenter	Tonn CO ₂ -ekvivalenter
Materialer	25,520,930	26,564,554	4,064,966,371
Konsumvarer	5,019,479	5,034,474	597,237,766
Konsumtjenester	8,613,837	6,489,564	892,749,697
Finans	2,274,429	2,182,262	247,568,541
Helse	907,628	847,754	72,110,587
Industri	21,255,448	22,989,746	2,457,386,732
Olje og gass	20,019,106	19,941,383	2,016,170,447
Teknologi	1,985,234	1,918,897	187,861,150
Telekommunikasjon	977,375	1,010,650	115,649,495
Kraft- og vannforsyning	20,994,984	22,157,633	5,661,484,463
Sum	107,568,451	109,136,917	16,313,185,248

Karbonintensitet 1

Utslippsintensitet per sektorer, ramme 1 og 2. Per 31. desember 2019

Sektor	Aksjeporteføljen	Referanseindeksen	FTSE Global All Cap
	Tonn CO ₂ -ekvivalenter per millioner dollar i omsetning	Tonn CO ₂ -ekvivalenter per millioner dollar i omsetning	Tonn CO ₂ -ekvivalenter per millioner dollar i omsetning
Materialer	762	748	786
Konsumvarer	65	64	62
Konsumtjenester	74	68	67
Finans	45	39	39
Helse	32	31	31
Industri	235	253	235
Olje og gass	424	419	419
Teknologi	42	40	40
Telekommunikasjon	53	54	54
Kraft- og vannforsyning	1,194	1,288	2,011
Vektet total	156	161	194



Karbonintensitet 2

Utslippsintensitet per sektorer, ramme 1 og 2. Per 31. desember 2019

Sektor	Aksjeporteføljen	Referanseindeksen	FTSE Global All Cap
	Tonn CO ₂ -ekvivalenter per millioner dollar investert	Tonn CO ₂ -ekvivalenter per millioner dollar investert	Tonn CO ₂ -ekvivalenter per millioner dollar investert
Materialer	686	747	801
Konsumvarer	54	53	51
Konsumtjenester	95	75	75
Finans	12	12	12
Helse	10	9	9
Industri	195	209	194
Olje og gass	486	453	453
Teknologi	17	16	16
Telekommunikasjon	44	46	46
Kraft- og vannforsyning	888	968	1,612
Vektet total	129	134	165



Risk-based divestments

2012-2019

Expectation	Number of companies	Market value (B NOK)
Climate change	170	12
Water management	46	5
Anti-corruption	23	8
Human rights	29	5
Other	14	1
Total	282	32

Exclusions and observation 31.12.2019

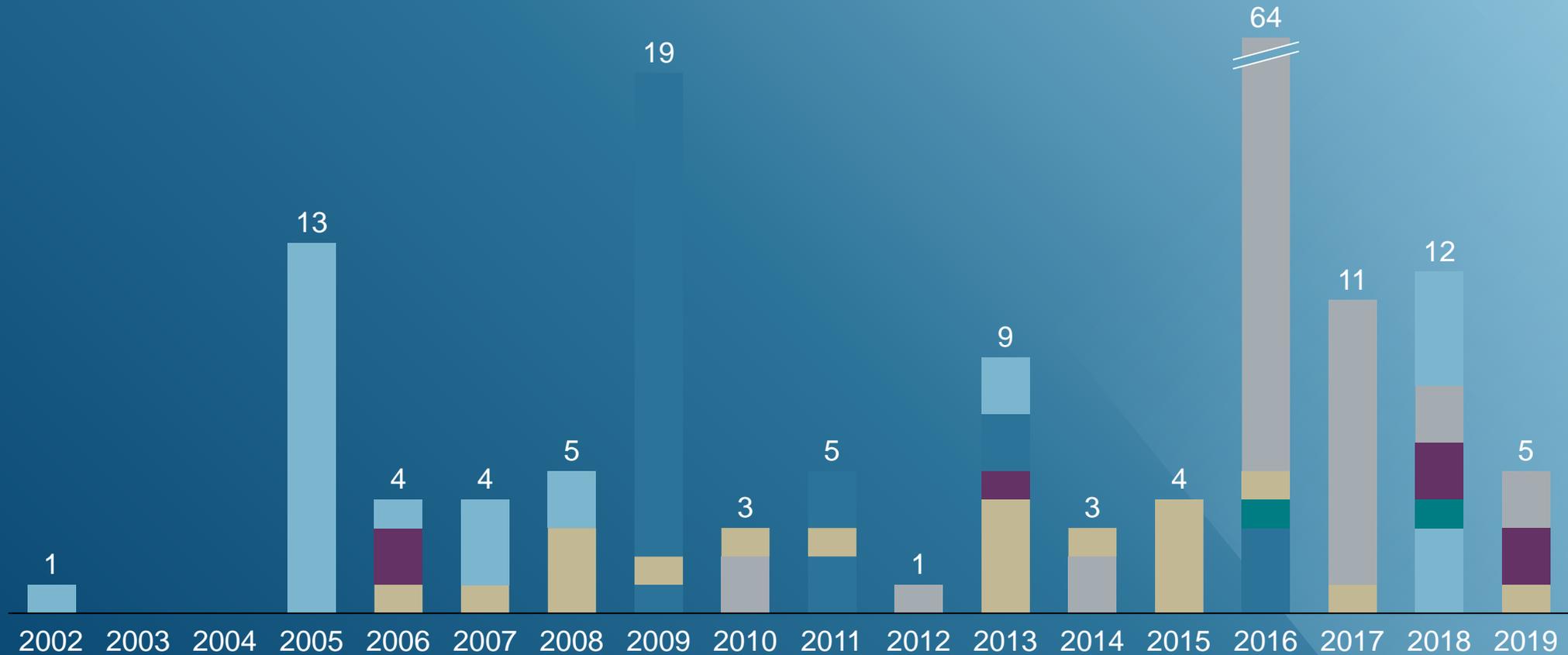
Ethical reasons

Category	Criteria	Total	Markedsverdi (B NOK)
Exclusions – product	Thermal coal mining or coal-based power production	69	60
	Production of specific weapon types	18	81
	Production of tobacco	17	57
Exclusions – conduct	Severe environmental damage	15	23
	Contributions to climate change	0	
	Human rights violations	5	21
	Gross corruption	2	1
	Other particularly serious violations of fundamental ethical norms	2	0
	Serious violations of the rights of individuals in situations of war or conflict	2	0
	Severe environmental damage and human rights violations	4	0
Observation	Thermal coal mining or coal-based power productions	14	
	Severe environmental damage	1	
	Human rights violations	3	
	Gross corruption	2	
	Severe environmental damage and human rights violations	1	



Exclusions

Number of companies 2002-2019



- Våpen
- Menneskerettigheter
- Miljøskade / menneskerettigheter
- Tobakk
- Miljøskade
- Andre normbrudd
- Kull
- Korrupsjon
- Krig og konflikt

