NORGES BANK
INVESTMENT MANAGEMENT

Responsible investment
Government Pension Fund Global 2021

Nr. 08

Our mission is to safeguard and build financial wealth for future generations

2021 at a glance

11,601
shareholder meetings
voted at

97.1
percent of
shareholder meetings
voted at

2,628
company meetings

655
written communications
with companies

107.7
billion kroner
in environment-related
equity investments

21.6
percent return
on environment-related
equity investments

4,196
assessments of
company reporting

90,168
thousand tonnes of CO_2-
equivalents in equity
portfolio's carbon footprint

12
new exclusions

52
new divestments

14
consultation responses

5
academic projects

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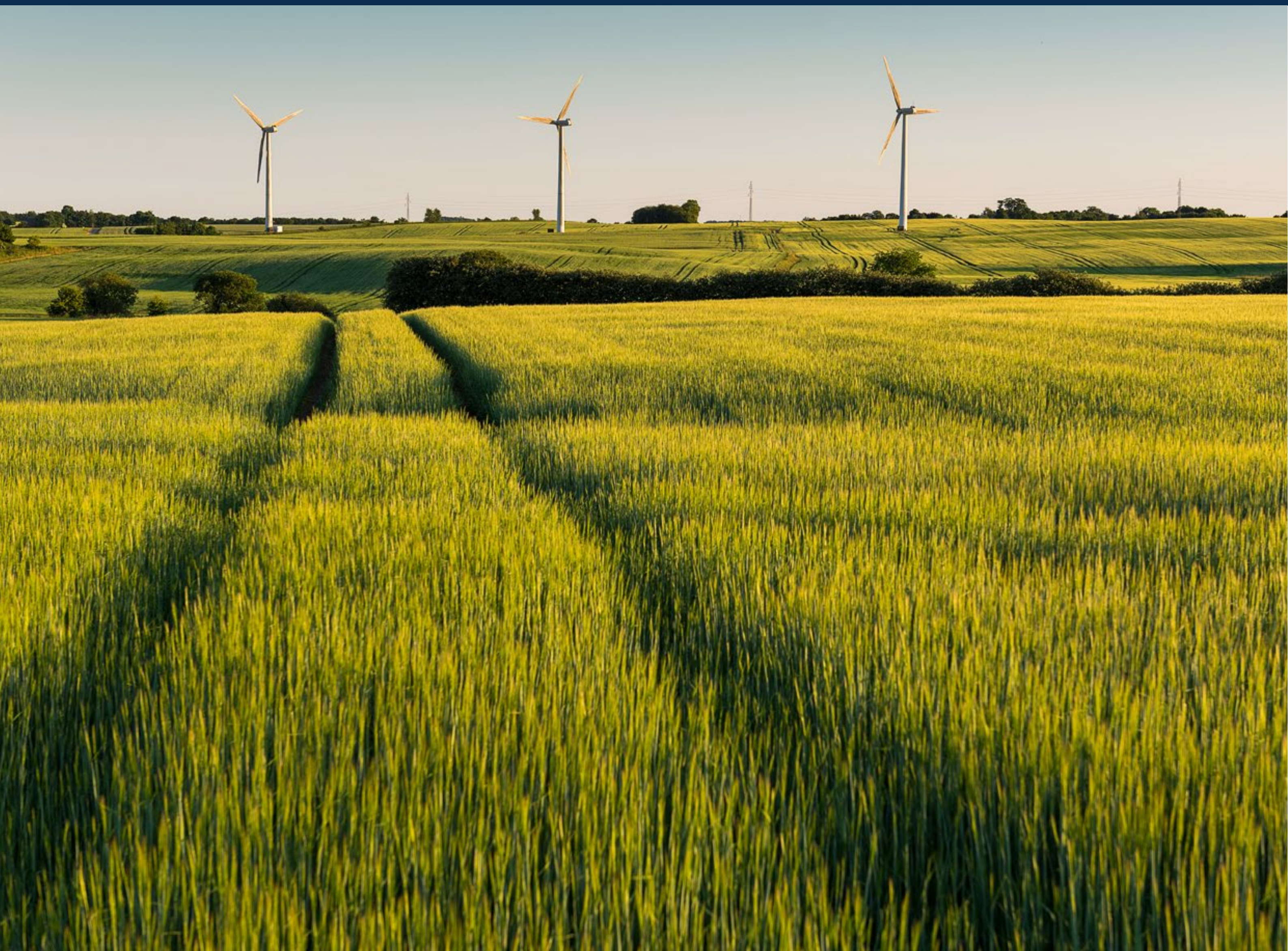
Responsible investment 2021



Sustainability and financial returns go hand in hand.

Nicolai Tangen
CEO, Norges Bank
Investment Management

Long-term value creation

As a large, long-term shareholder, we can see that our dialogue with companies on climate risk over the years is gradually changing their strategy and approach.

Last year, we noted how the pandemic was acting as an accelerator for companies' work on climate risk. Having engaged with companies on climate issues ever since we first published our expectations in 2009, we saw a clear improvement in corporate reporting and management of climate risk.

This trend continued in 2021. As companies become more aware of how they impact on the world around them, they are increasingly defining a corporate purpose. As an investor, we view this as positive, because it requires companies to reflect on their long-term strategy and how they contribute to society. For this purpose to be meaningful, it needs to be translated into culture, strategy, goals and actions. Only then is it more than empty words. We believe that, in time, a corporate purpose of this kind will lead to increased earnings and a more sustainable business.

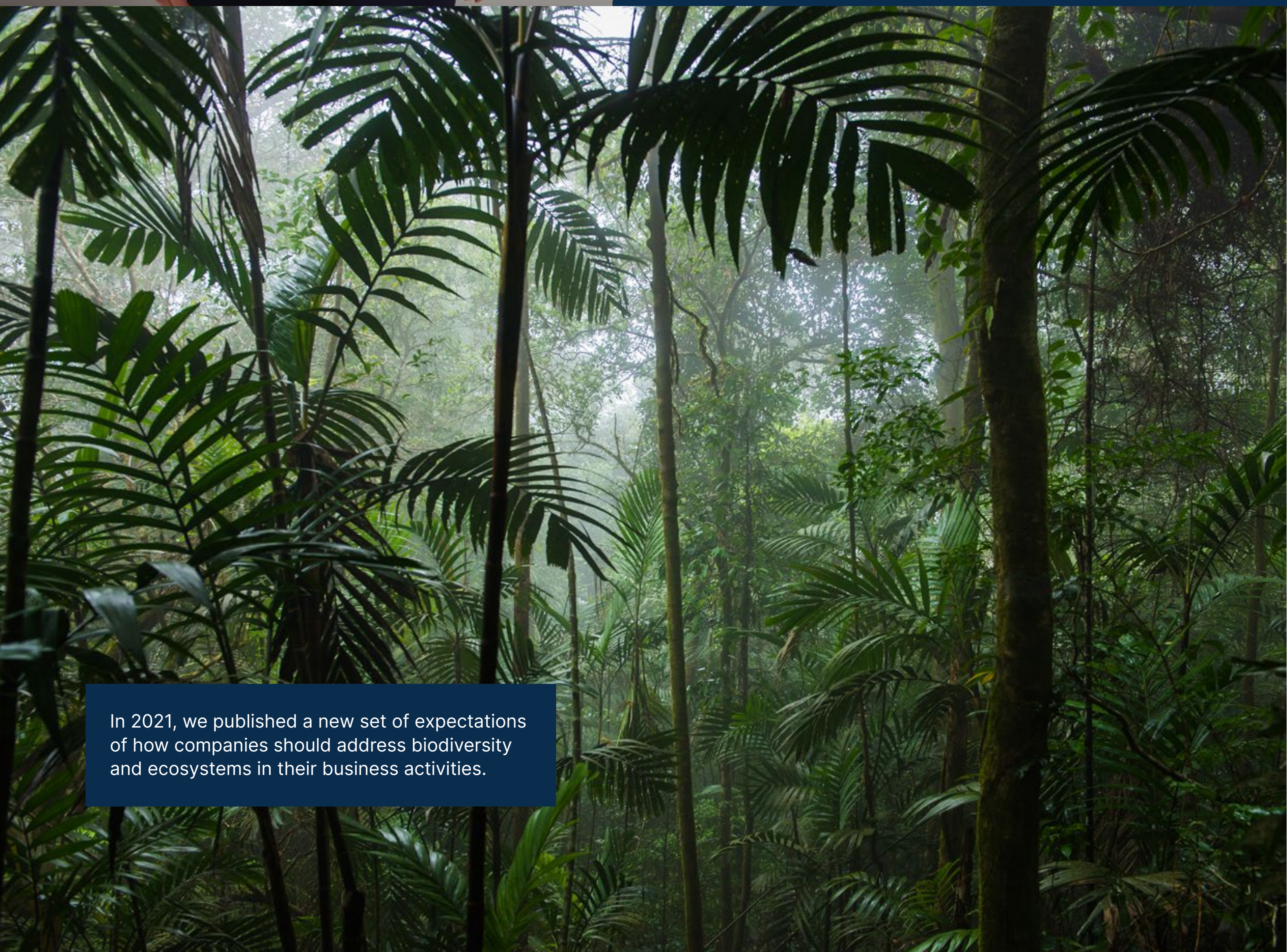
Sustainability and financial returns go hand in hand. Companies that do not care about the world around them could lose customers, face lawsuits and harm their reputation. And this can obviously have financial consequences.

Last autumn, the Skancke committee recommended setting a long-term objective of net zero emissions from the companies in which the fund is invested, and concluded that active ownership would be the most important tool in our management of climate risk. As an investor, we aim to be an active owner. Because it is as an owner that we can influence companies. It is as an owner that we can measure their performance year after year and support them in the transition to a low-carbon economy. This does not mean that we should invest in every company. We will continue to divest from companies if we do not consider their business model to be sustainable and we have little possibility of influencing their behaviour. Last year, we also began to assess companies' sustainability risk before they become part of our benchmark index. We believe this gives us a better picture of sustainability risk in our portfolio, and more opportunities to follow up what companies are doing about it.

In the coming year, we will continue to strengthen our analytical capacity and monitoring of companies' sustainability efforts. Over time, we expect this to have good results.

There is no doubt that companies take our expectations seriously

Carine Smith Ihenacho
Chief Governance and
Compliance Officer



In 2021, we published a new set of expectations of how companies should address biodiversity and ecosystems in their business activities.

Ownership works

We continued the high activity level of ownership work from our home offices in 2021. We took transparency to the next level by publishing all of our voting intentions five days before the general meetings. We strengthened our expectations of companies. We screened the entire portfolio against the expectations, we presented our views at 2,628 company meetings, and we voted at 11,601 shareholder meetings. That is how active ownership creates value for the fund.

Climate and nature were focus areas in 2021. The value of the fund depends on how companies in the portfolio manage the transition to a low-carbon economy and natural resources. We have for several years had clear climate expectations to the companies in our portfolio. In 2021, we clarified that companies should have a climate plan with targets for reducing emissions in line with the Paris Agreement. We also published a new set of expectations of how companies shall address biodiversity and ecosystems in their business activities.

Effective boards are crucial to our ownership work. A board whose members have a diversity of backgrounds and experience, and an appropriate gender balance, will have better discussions and reach better decisions. In our new position paper on board diversity, we say that boards with less than 30 percent women should set targets for gender diversity and report on progress. We influence companies through both dialogue and voting and aim to vote at all shareholder meetings. In 2021, we voted against more pay packages than in previous years. For example, we were critical of plans where targets or results were adjusted during the pandemic. For the first time, we also voted against selected directors due to insufficient management of climate risk. We expect to increasingly vote against the board for climate related reasons.

Does active ownership work? Yes, it does. Our 2,628 company meetings and countless responses to emails and letters during the year leave us in no doubt that companies take our expectations seriously. Active ownership is a long-term process, however, and change takes time. It is encouraging that our annual assessments of company reporting indicate that our ownership efforts have tangible results. Each year, we carry out around 4,000 detailed assessments of companies' governance structure, strategy, risk management and sustainability goals. We continued to see improvements in these areas in 2021, and the companies we engaged with made better progress than the rest of the companies in our portfolio.

How we work

The objective for the management of the fund is the highest possible return with moderate risk. Responsible investment supports this objective in two ways. First, we seek to improve the long-term economic performance of our investments. Second, we seek to reduce the financial risks associated with the environmental and social practices of companies in our portfolio. We work to promote well-functioning markets, develop the fund’s assets and support responsible business practices at companies.

Market

Our goal is to contribute to well-functioning markets and good corporate governance. We recognise a set of international standards and contribute to their further development. To protect our investments, we express clear expectations of markets and companies.

Portfolio

Our goal is to identify long-term investment opportunities and reduce our exposure to unacceptable risks. We assess how companies impact on the environment and society, and we follow up industries and companies with unacceptable risks. We see opportunities in companies that enable more environmentally friendly economic activity.

Companies

Our goal is to promote long-term value creation at the companies we invest in. In our dialogue with companies, we discuss the board’s responsibilities, shareholders’ rights, and responsible business practices. We use our voting rights to support effective boards. There are also companies we choose not to invest in for ethical reasons.

2 Market

Standards

The fund invests globally and owns a small slice of over 9,000 listed companies across the world. We are therefore dependent on global solutions to common challenges such as climate change.

The fund is invested in companies in 65 markets to spread risk and capture global growth. Well-functioning markets ensure that capital is channelled efficiently from investors to companies. Markets also need to deliver solutions that are legitimate. We support global standards that seek to reduce the negative effects of business activities. Companies have a responsibility that goes beyond creating financial value. They also have a responsibility to consumers, employees and suppliers. Companies should report on how they impact on the environment and society. We participate in the development of international standards by engaging with regulators and other standard setters.

International standards

We recognise a set of key international principles and standards from the OECD and the UN.

The G20/OECD Principles of Corporate Governance concern effective governance, such as shareholder rights, equitable treatment of shareholders, disclosure and transparency, and the responsibilities of the board. The OECD Guidelines for Multinational Enterprises are a set of government-endorsed recommendations for companies that operate internationally.

The UN Global Compact is a broad coalition between the UN and the business world that promotes corporate social responsibility and the UN Sustainable Development Goals. These goals provide a common framework for addressing key global challenges. How national authorities choose to mobilise knowledge, technology and capital to realise these goals will impact on the global economy and the fund's long-term performance.

The UN Guiding Principles on Business and Human Rights outline roles and responsibilities for states and businesses with regard to human rights. The UN Conference on Trade and Development (UNCTAD) has also published Principles on Promoting Responsible Sovereign Lending and Borrowing.

Development of international standards

We participate in consultations and engage regularly with international organisations and regulators in our most important markets. When we meet standard setters, we are interested to learn about their strategic priorities and specific initiatives to promote well-functioning markets and good corporate governance. At the same time, we share our experience as a global investor.

In 2021, we had meetings with the Task Force on Climate-Related Financial Disclosures (TCFD), the International Financial Reporting Standards (IFRS) Foundation, the European Commission, the European Securities and Markets Authority (ESMA), the UK Financial Reporting Council (FRC) and national standard setters in Germany and Sweden.

We participated in 14 public consultations in areas related to responsible investment, such as corporate governance, climate reporting and responsible business practices. We publish all of our consultation responses on our website: www.nbim.no.

Good corporate governance

We support initiatives to promote good corporate governance in the markets we invest in. To safeguard the fund's economic interests, it is essential that our rights as a minority shareholder are protected. Responding to a consultation by the Tokyo Stock Exchange, we supported a gradual increase in the independence of Japanese boards and called for further improvements in boards' skills and diversity. In our response to the UK Financial Conduct Authority (FCA), we expressed support for making it easier for companies to list. While we expect voting rights to be proportionate to cash flow rights, we supported the proposal for share classes with different voting rights during a transition period, provided that further safeguards are introduced to protect minority investors. As a shareholder, we rely on relevant, accurate and timely information on a company. In light of this, in our response to a public consultation on reporting and auditing in the UK, we lent our support to improvements in the quality and scope of auditing.

Better reporting on climate risk

Climate change brings not only transition risks and physical risks, but also new opportunities. How companies handle the effects of climate change could impact their long-term return and in turn us as an investor. We therefore expect company boards to integrate relevant risks and opportunities into their strategy, risk management and reporting. In this context, we supported proposals from the US Securities and Exchange Commission (SEC) to improve companies' climate disclosures, and proposals from the Chinese Securities Regulatory Commission (CSRC) to strengthen corporate sustainability reporting. We also supported the IFRS Foundation's work on developing international standards for reporting on sustainability and climate change, which subsequently led to the creation of a dedicated International Sustainability Standards Board (ISSB) which consolidates existing initiatives such as the Carbon Disclosure Standards Board and the Value Reporting Foundation, the body behind the SASB standards. The ISSB aims to develop common standards which could eventually mean better and more complete information in the market.

Responsible business

The OECD Guidelines for Multinational Enterprises are an important standard for responsible business conduct, and we contributed to the OECD's review of the guidelines. In a response to the European Commission, we welcomed the ambition to develop due diligence requirements for companies and their supply chains. Harmonisation at EU level will bring a more level playing field for companies. We support a principles-based, cross-sectoral approach anchored in existing international standards for responsible business. We also welcomed the EU's work on developing a social taxonomy for sustainable finance and emphasised the need for better reporting.

We recognise a set of key international principles and standards from the OECD and the UN.

Submissions

Recipient	Topic	Submitted
Australian Prudential Regulation Authority	Executive remuneration	22.01.2021
International Corporate Governance Network	Global governance principles	29.01.2021
The European Commission	Sustainable corporate governance	03.02.2021
Tokyo Stock Exchange	Japan's corporate governance code	06.05.2021
Japan Financial Services Authority	Japan's guidelines for investor and company engagement	06.05.2021
China Securities Regulatory Commission	Standards for publicly listed companies' disclosures	07.06.2021
US Securities and Exchange Commission	Climate change disclosures	13.06.2021
UK Department for Business, Energy and Industrial Strategy	Audit and Corporate Governance	06.07.2021
IFRS Foundation	Sustainability standards	13.07.2021
Institutional Shareholder Services	Voting policy	26.08.2021
EU Platform on Sustainable Finance	Social taxonomy	31.08.2021
OECD	Guidelines for Multinational Enterprises	13.09.2021
UK Financial Conduct Authority	Primary Markets Effectiveness	14.09.2021
Canadian Securities Administrators	Climate-related disclosures	16.12.2021

Expectations

We have clear expectations of the companies and markets we invest in. Companies must have effective governance, and our rights as a shareholder must be protected. Companies must also understand how they impact on the environment and society, and address negative impacts.

We updated our expectations on children's rights to include health, nutrition and clean water as areas that companies can impact both positively and negatively.

Some forms of economic activity can impose substantial indirect costs on other companies and on society as a whole. The inability of companies to internalise such costs is a market failure. The clearest example is emissions that contribute to climate change. Child labour and other forms of social exploitation violate fundamental human rights. Tax evasion and corruption also have negative impacts on society and the economy.

Starting from internationally agreed standards, we set our own priorities as an investor. We formulate expectations of companies, positions on governance issues and guidelines for our voting. These public documents communicate our priorities to the wider market and ensure predictability for the companies we invest in.

Expectation documents

Our expectations are primarily directed at company boards. The board should take overall responsibility for company strategy and address challenges presented by environmental and social issues. The board should also integrate material risks in these areas into the company's strategy, risk management and reporting.

These expectations form a basis for our dialogue with companies, and we assess companies' work against the expectations each year. Our expectations are based on standards such as the UN Global Compact and the OECD Guidelines for Multinational Enterprises. They also largely coincide with the UN Sustainable Development Goals.

Biodiversity

In August 2021, we published a new set of expectations for how companies should take biodiversity and sustainable use of ecosystems into account in their business activities. Increasing losses of species and deterioration of ecosystems may reduce companies' ability to create value for investors in the long term. Companies should therefore understand both their dependency and their impact on nature, and integrate these considerations into their governance structure, strategy, risk management, measurement and reporting. This year also saw us joining the Taskforce on Nature-related Financial Disclosures (TNFD), an industry-led initiative to develop a framework for reporting and acting on nature-related risks.

Updated expectations

We updated our expectations on children's rights to include health, nutrition and clean water as areas that companies can impact both positively and negatively. In our climate change expectations, we clarified that companies should have a climate plan with targets for reducing emissions. We also stressed that companies' targets and strategies for the low-carbon transition should take account of the Paris Agreement.

Position papers

To support our ownership activities, we publish position papers that clarify our stance on selected corporate governance issues. How we respond to these issues affects how we vote on board candidates and other important decisions at shareholder meetings.

Board diversity

In 2021, we published a new position paper on board diversity. Diversity brings to the board different perspectives and mindsets that can contribute to better decisions. It can also increase a company's credibility. The board should have a formal nomination process to identify potential candidates who can add diversity. Boards where either gender has less than 30 percent representation should consider setting targets for gender balance and report on progress towards them.

Corporate Governance Advisory Board

Åse Aulie Michelet, Harald Norvik and Svein Rennemo continued as external members of the fund's Corporate Governance Advisory Board in 2021. The board serves as an advisory forum for the Chief Governance and Compliance Officer, who chairs it. The board advises on corporate governance strategy, exercise of ownership rights, and principles and practices relevant to listed companies in the equity portfolio.

The board had three meetings in 2021 and discussed matters such as the fund's approach to climate risk, effective boards and shareholder rights.

Investor alliances and industry initiatives

We work together with other investors where appropriate to develop international standards and promote responsible business conduct. Our aim is for these alliances to be consistent with the fund's mandate and support our management objective, and they must not require disproportionate resources. We may team up with other investors to discuss responsible business practices, but we do not collaborate on investment decisions or voting at shareholder meetings. Nor do we participate in initiatives aimed primarily at regulators.

We also support initiatives that bring companies together to build knowledge and find common standards for sustainable business practices. These initiatives work best when numerous companies in a particular industry or value chain face the same challenges.

Dialogue with civil society

Academic institutions, the media and civil society influence international standards and are also important sources of information. We encourage stakeholders to share information with us that they believe could be relevant for our investments. We had a regular dialogue with civil society during the year, receiving useful information in areas such as coal-related activities, bank financing of companies with high deforestation risk, children's rights and nutrition, surveillance technology, and the mining industry's impact on protected areas. We arranged two multilateral meetings and a number of bilateral meetings with civil society in Norway during the year where we obtained input and provided information on our work. We value this dialogue and the input and information we receive.

Participation in organisations and initiatives

Organisation / initiative	Description	Activity in 2021
Asian Corporate Governance Association (ACGA)	Membership organisation for investors and companies	• Grantor
Better Buildings Partnership (BBP)	Collaborative network of UK commercial landlords	• Member
B-Team Working Group on responsible tax practice	Initiative focused on responsible corporate tax behaviour and tax transparency	• Contributed to a note outlining tax information and data of relevance to investors
Carbon Risk Real Estate Monitor (CRREM)	Research initiative on climate transition risk	• Member, Global Scientific & Investor Committee
CDP Climate; CDP Forest; CDP Water	Environmental reporting initiatives	• Signatory and member
Climate Disclosure Standards Board (CDSB)	Framework for company reporting on environmental topics	• Member Water Technical Working Group
Council of Institutional Investors (CII)	Association of investors	• Member
European Corporate Governance Institute (ECGI)	Academia-practitioner research network	• Member
European investors in non-listed real estate (INREV)	Industry association for non-listed real estate in Europe	• Member • Chair of ESG Committee.
Extractive Industries Transparency Initiative (EITI)	International organisation for transparency in extractive industries	• Board member representing investors
Harvard Law School Program on Corporate Governance	Academia-practitioner research network	• Presented NBIM's corporate governance and sustainability priorities
Institutional Investor Group on Climate Change (IIGCC)	Investor initiative (Europe)	• Supporting partner
International Corporate Governance Network (ICGN)	International association of investors	• Member
Norsif	Norwegian sustainable investment forum	• Member
Principles for Responsible Investment (PRI)	International principles	• Founding signatory
Shift Valuing Respect Project	Development of tools and assessment methods for evaluating and measuring company efforts to respect human rights	• Participated in workshops with other investors on the use of the tools developed, and applied these tools in NBIM's human rights due diligence and ownership activities
Social & Labor Convergence Program	Multi-stakeholder initative for collecting and verifying data on social and labour conditions in apparel industry supply chains	• Signatory
Sustainability Accounting Standards Board (SASB)	International standard for sustainability reporting	• Member of Investor Advisory Group
Task Force on Climate-Related Financial Disclosures (TCFD)	International principles for reporting on climate risk	• Signatory

Organisation / initiative	Description	Activity in 2021
Task Force on Nature-related Financial Disclosure (TNFD)	International principles for reporting on nature risk	• Member of Taskforce
Transition Pathway Initiative	Investor initiative on climate risk	• Member of Steering Group
Transparency International Value-Based Compliance Initiative	Development of guidance for companies on integrating culture and values in anti-corruption efforts	• Member of the advisory committee • Provided input to a forthcoming publication on how companies may integrate values and culture in their anti-corruption work
UN Global Compact	International principles	• Signatory
UN Global Compact Action Platform on Sustainable Ocean Business	Multi-stakeholder initiative for ocean sustainability	• Member
UN Working Group on Business and Human Rights	Support the implementation of the UN Guiding Principles on Business and Human Rights	• Contributed to the implementation of the UNGPs by institutional investors
UNICEF-NBIM Network for children's rights in the apparel and footwear industry	UN initiative on child rights in global supply chains	• Developed a guidance tool for companies on integrating children's rights in responsible sourcing policies and practices
UNICEF-NBIM Network on children's rights and nutrition in the food retail sector	UN initiative on children's rights to nutrition and health	• Promoted children's rights to nutrition and health in dialogue with companies • Placed emphasis on topics such as develoment and labelling of products that impact children
United Nations Environment Programme Finance Initiative (UNEP FI)	Multi-stakeholder initiative for sustainable finance	• Signatory
UNPRI collaborative stewardship initiative on social issues and human rights	Investor collaboration on company engagement on human rights	• Member of the advisory committee for the initiative

Research

We support research to increase understanding of corporate governance and sustainability, and how they affect financial risks and returns. We use insights from academic research to inform our investment strategy.

Academic research can help improve market standards, provide access to important data and strengthen our own responsible investment priorities. We finance research projects and collaborate with academic institutions to shed light on areas that may be of particular importance for responsible investment.

Research funding

In 2021, we supported two research projects on climate risk and three on corporate governance and ownership structure.

The road to net zero

Measuring the fund's exposure to climate risk is a key part of our work on responsible investment. We have therefore instigated a pilot project led by Saphira Rekker at University of Queensland Business School to compare methods for measuring long-term transition risks relative to emission pathways consistent with the goals of Paris agreement. The project will use the steel industry as an example and help us understand how the different methods, assumptions, climate scenarios and time horizons as well as measurement errors impact on risk assessments. Insights from the project will support our work on active ownership, integrating climate risk into investment decisions, and monitoring risks in the portfolio.

Pricing of climate risk

As a long-term investor, we want to understand the impact of climate change on the pricing of assets, and how we can best address environmental risks in an investment portfolio.

We are therefore supporting a research project led by Nobel laureate Robert Engle and Johannes Stroebel at New York University (NYU). The aim of the project is to find ways of protecting portfolios against financial risks stemming from climate change. Engle and Stroebel have been looking at what changes fund managers make to their equity holdings following extreme weather, and whether these changes can be used to hedge climate risk. The project is due to be completed in 2022.

At a conference arranged by the Volatility and Risk Institute at NYU, Engle and Stroebel discussed results from the research project with other leading researchers, representatives of standard setters and market participants.

Ownership structure

As a shareholder in more than 9,000 companies, we want to understand how institutional shareholding and diversified ownership affect these companies. We have been supporting three new research projects looking at this trend in financial markets.

A project under the European Corporate Governance Institute set up a forum for researchers to analyse how Covid-19 has affected corporate governance, decision making and earnings. The papers presented looked at various aspects of the pandemic, such as the impact on dividends. A project at the École Polytechnique Fédérale de Lausanne (EPFL) is looking at institutional investors' preferences and how they affect companies, especially when it comes to environmental, social and governance issues. Finally, a project at the University of Oxford, together with researchers from NHH Norwegian School of Economics, the University of Cambridge, Yale School of Management and the University of Cologne, has taken a novel approach by using laboratory experiments to examine the relationship between companies and investors. Initial experiments evaluated how changes in pay structure affect management behaviour.

3 Portfolio

Integration

We integrate environmental, social and corporate governance considerations into the management of the fund. We gather data on markets, industries and companies to gain a broader understanding of risks and opportunities in our investments. This information forms the starting point for our active ownership with individual companies.

The fund is invested widely in more than 9,000 companies and 65 markets. We view sustainability as an important driver of risks and opportunities in many industries and markets. We systematically monitor the portfolio's exposure to significant risks. We assess companies' disclosure on governance structure, strategy, risk management and targets in light of our expectations. We encourage companies to move from words to numbers, so that we can understand the financial risk associated with their environmental and social performance. We look particularly at the climate risk in the portfolio and how this could affect the fund's long-term return. We analyse greenhouse gas emissions from companies in the fund's portfolio and various climate scenarios for the fund.

We analyse risks related to governance and sustainability across countries, industries and companies. This helps us decide which tools are most suitable for following up selected companies, such as further monitoring, dialogue or voting. In some cases, we may choose to divest from a company.

Sustainability data

We obtain data on companies' exposure and management of governance and sustainability risks from their own reports and from external data providers. We also use publicly available reports from authorities, research institutes and civil society, and we bring in external specialists when we need more sophisticated analysis. We have been collecting data on environmental, social and governance issues from a variety of external suppliers at country, sector and company level since 2014. Our ESG database has grown from around 300,000 unique data points in 2014 to roughly 3 million today. By combining this information with portfolio and benchmark data, we get a more complete picture of companies' exposure to sustainability risks and how our investment in a company contributes to the relative risk of the fund.

The market for sustainability data is constantly evolving, and we are in regular contact with both new and established data providers. We differentiate between primary data on how a company is impacting or being impacted by specific aspects of sustainability, and composite metrics that attempt to provide a more general score of how a company is managing sustainability. In 2021, we began to look at how artificial intelligence, such as machine learning and natural language processing, can help us collect more sustainability data and analyse it more efficiently.

Corporate sustainability disclosure

We carry out extensive analysis of companies' own reporting every year. We are dependent on companies reporting adequately on their exposure, risk management and results. We select companies in certain sectors that are particularly exposed to sustainability risks. We assess their disclosure on governance structure, strategy, risk management and targets in the light of our expectations. We carried out a total of 4,196 company assessments in 2021. The companies assessed accounted for 75.8 percent of the equity portfolio's market value at the end of the year.

These assessments give us information about companies' practices and performance that we can use in our risk monitoring and follow up in our dialogue with companies and in our voting. They also provide insights that we can use in our dialogue with regulatory authorities and in joint initiatives with companies or investors. We contact companies with poor performance and urge them to make improvements, for example by participating in established reporting initiatives. We wrote to 110 companies in 2021 about their reporting and practices in the light of our expectations.

We saw a markedly greater improvement among the companies we contacted about poor sustainability reporting in 2020 than among those we did not contact. The average improvement in performance at the companies we contacted was 11.9 percentage points. The overall improvement at the companies covered by our assessments was 4.7 percentage points.

Assessment of company reporting 2021

Topic[1]	Number of assessments	Average score out of 100[2]	Change from 2020	Sectors with best reporting	Sectors with weakest reporting
Child rights	500	53	7	Personal Products Brewers Automobiles	Medical Equipment Consumer Electronics Iron and Steel
Human rights	701	55	6	Pharmaceuticals Banks Gold Mining	Consumer Electronics Marine Transportation Medical Equipment
Anti-Corruption	250	49	0	Diversified Industrials General Mining Conventional Electricity	Automobiles Machinery: Industrial Casinos and Gambling
Tax transparency	200	34	5	Integrated Oil and Gas Banks Asset Managers and Custodians	Medical Supplies Computer Hardware Semiconductors
Water Management	500	53	1	Personal Products Pharmaceuticals Brewers	Building Materials: Other Hotels and Motels Alternative Electricity
Climate change	1 500	72	6	Paper Conventional Electricity Integrated Oil and Gas	Transportation Services Cement Marine Transportation
Ocean sustainability	250	53	2	Containers and Packaging Hotels and Motels Food Retailers and Wholesalers	Fertilizers Specialty Retailers Restaurants and Bars
Deforestation	268	59	4	Paper Soft Drinks Containers and Packaging	Diversified Industrials Farming, Fishing, Ranching and Plantations Auto Parts

[1] Biodiversity not included due to limited sample.
[2] Only companies assessed in both 2020 and 2021.

Good results on sustainability disclosure Examples from various sectors

Childrens' righs	Climate change	Water management	Ocean sustainability
PepsiCo Inc	United Airlines Holdings Inc	African Rainbow Minerals Ltd	Kering SA
Adidas AG	Fortum Oyj	Acciona SA	DS Smith PLC
Telefonica SA	Siam Cement PCL/The	Mondi PLC	Nestle SA
Woolworths Group Ltd	Allianz SE	Formosa Petrochemical Corp	Carrefour SA
VF Corp	Enagas SA	Colgate-Palmolive Co	Atlas Corp

Human rights	Tax and transparency	Anti-corruption	Deforestation
Telefonaktiebolaget LM Ericsson	BP PLC	Newmont Corp	Essity AB
Reckitt Benckiser Group PLC	Repsol SA	Novartis AG	L'Oreal SA
Unilever PLC	Banco Bilbao Vizcaya Argentaria SA	Iberdrola SA	Kao Corp
Koninklijke Philips NV	Royal Dutch Shell PLC	Siemens AG	Danone SA
Microsoft Corp	Rio Tinto PLC	Bureau Veritas SA	Unilever PLC

Children's rights

We assessed companies' policies and systems for preventing child labour, and their transparency on governance structure, due diligence and risk assessments, stakeholder dialogue, responsible marketing policies, and grievance mechanisms.

It is positive that 63 percent of companies now have policies referring to children's rights, including bans on child labour. No fewer than 83 percent reported that they actively seek out opportunities to further children's rights. On the other hand, only 8 percent shared information on how they monitor and follow up incidents of child labour in their operations or supply chains, and only 10 percent of companies had responsible marketing policies to prevent unethical advertising aimed at children.

Overall, we saw an improvement of 7 percentage points in companies' reporting on children's rights in 2021. There was a particular improvement in the indicators for governance structure, with more companies having policies on dialogue with stakeholders and referring to recognised international principles and standards in their policies.

Human rights

We assessed companies' reporting on human rights against indicators for governance structure, policies, information on due diligence and risk assessments, grievance mechanisms, and stakeholder dialogue.

72 percent of companies now have human rights policies for their own operations and their supply chains approved at board level, but only 20 percent disclosed regular reporting to the board on human rights-related issues and activities. 62 percent had developed policies for suppliers that include an expectation of respect for human rights, and 68 percent took account of human rights in their purchasing processes.

We saw an improvement of 6 percentage points in companies' reporting on human rights in 2021. There were improvements in most industries, especially in the indicators for risk management, where more companies reported on expectations of, and collaboration with, suppliers on human rights. More companies had policies referring to international principles and standards and described how human rights are addressed in business decisions. A growing number of companies reported on training for employees on human rights issues. Many also reported on the use of grievance mechanisms.

Tax transparency

We assessed companies' tax reporting against indicators such as tax management policies, attitude to tax planning, management of tax risks, the board's involvement in tax matters, and country-by-country reporting of taxes paid.

It is positive that 54 percent of companies have now published tax management policies. Country-by-country reporting of tax paid is an important part of our expectations of companies, but only 11 percent of companies reported the amounts paid to the tax authorities in each of the countries in which they operate. In the technology sector, only 29 percent of companies had tax management policies, and none provided country-by-country reporting.

We saw an overall improvement in companies' tax transparency of 5 percentage points in 2021. There was a particular improvement in the indicators for risk management, with more companies reporting on their use of low-tax environments and closed jurisdictions.

Anti-corruption

We assessed companies' reporting on anti-corruption against indicators for transparency on governance structure, policies for preventing corruption, risk assessments and reporting on corruption-related incidents, external evaluation of anti-corruption programmes, and dialogue with stakeholders.

Most were relatively open about how the board and management address corruption risks. 91 percent had anti-corruption policies and strategies, 94 percent reported on staff training to prevent and detect corruption, and 92 percent had established internal whistleblowing systems.

It is positive that all of the banks assessed had anti-corruption training in place. Most had also integrated anti-corruption and anti-money laundering measures into their risk framework and were open about their dialogue with stakeholders on preventing corruption.

We saw no improvement in the overall reporting on anti-corruption in 2021. There was some improvement on individual indicators such as reporting on corruption-related incidents and dialogue with stakeholders. While more companies carried out internal evaluations of their anti-corruption programmes, reporting on the results of these evaluations was still weak.

Water management

We assessed companies' reporting on water management by looking at areas such as the scope of their policies, whether water risk assessments included relevant agricultural value chains, and whether quantitative targets have been set for water consumption.

We found that 63 percent of companies reported regularly to the board on their work on water management, 60 percent had publicly available policies on water management, and 57 percent had incorporated water-related challenges into their long-term strategy. This shows that many companies are now working on water risk as an integral part of their business operations.

In the mining industry, 92 percent of companies reported on their water consumption and sources, 72 percent had set targets for reducing their water consumption, and 88 percent reported on programmes implemented to reduce water-related risk in their operations.

We saw an overall improvement in companies' reporting on water management of 1 percentage point in 2021. There was a particular improvement in the indicators for targets, with 56 percent of companies having set quantitative water-related targets, up from 48 percent in 2020.

Climate change

We assessed companies' reporting on climate change against indicators for the oversight of the board, processes for addressing climate risk and opportunities, use of scenario planning, policies on lobbying, metrics such as greenhouse gas emissions and reduction targets, and whether reporting complies with the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations.

We found that 27 percent of companies reported information in line with the TCFD recommendations. 58 percent stated that they carried out scenario analyses, but only 6 percent reported that these were based on quantitative analyses. It is positive that 77 percent of companies had set quantitative targets for reducing greenhouse gas emissions. Of these, 44 percent were long-term but only 32 percent were science-based.

91 percent of integrated oil and gas companies had set quantitative targets for cutting emissions from their own operations, while 68 percent reported using an internal carbon price in their investment decisions. This shows that work on transition risk is an integral part of their investment planning.

Overall, we saw an improvement in companies' reporting on climate risk of 6 percentage points in 2021.

Overall, we saw an improvement in companies' reporting on climate risk of 6 percentage points in 2021. There was a particular improvement in the indicators for governance structure, with more companies reporting on how board and management are tackling climate-related challenges. More companies reported their greenhouse gas emissions, and the number reporting Scope 3 emissions climbed from 52 to 74 percent. The percentage of companies stating that their emissions had been verified by an independent third party increased as well.

We also assessed reporting on deforestation. The indicators included policies on deforestation, risk indicators, metrics for consumption and traceability of forest-linked materials, supplier engagement and traceability, and use of certifications.

We found that 57 percent of companies had policies on deforestation risk, and 71 percent were working with suppliers to improve sourcing capabilities for sustainable raw materials.

In the pulp and paper industry, 95 percent of companies had committed to reducing or ending deforestation in their value chains and used certification schemes to ensure sustainable sourcing.

We saw an overall improvement in companies' reporting on deforestation risk of 4 percentage points in 2021. There was a particular improvement in the indicators for risk management, with more companies reporting on risk control and mitigation, including how deforestation risk is integrated into a company's risk management framework, deforestation risk assessments, and participation in deforestation-related initiatives.

Ocean sustainability

We assessed companies' reporting on ocean sustainability against indicators such as strategy for avoiding illegal, unreported and unregulated fishing, use of relevant certifications, and reporting on consumption of plastics.

We found that 62 percent of companies had policies that made clear reference to sustainable use of the oceans. 47 percent reported that ocean-related risks are included in their risk framework. This indicates that ocean-related issues are increasingly on companies' agenda.

It is positive that all food retailers and wholesalers had programmes in place to address ocean-related risks in their value chains. These programmes largely concerned the use and recycling of plastics and packaging, and certification schemes to ensure that seafood comes from sustainable sources.

Overall, we saw a small improvement in companies' reporting on ocean sustainability of 2 percentage points in 2021. There was an improvement in the indicators relating to targets, with more companies setting quantitative targets and reporting on progress towards them. We also noted a slight increase in the number of companies explaining how board and management oversee work on ocean-related challenges.

Biodiversity

We assessed companies' reporting on biodiversity and ecosystems for the first time in 2021. We analysed 27 companies whose operations depend or impact on nature.

The indicators which were most reported surrounded governance structure and management's responsibility for addressing biodiversity and ecosystems in the company's business activities. It is positive that 81 percent of the companies assessed reported quantitative metrics relating to biodiversity and ecosystems. These metrics were seldom comparable across companies however, even within the same industry. Only 37 percent of the companies assessed attempted to quantify their exposure to biodiversity and ecosystems, for example by reporting on their presence in, or purchases from, geographical areas with particular biodiversity.

Chart 1 Results for companies we assessed on children's rights in 2021. Number of companies.

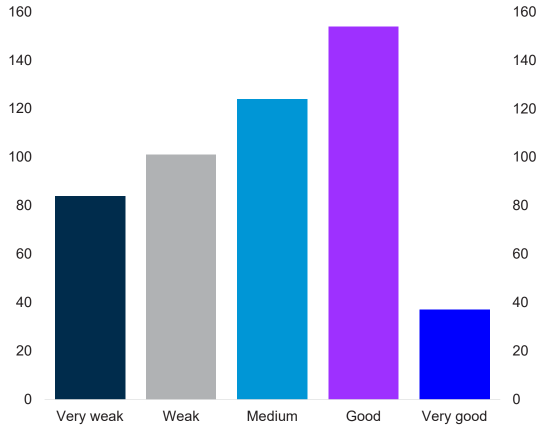


Chart 2 Results for companies we assessed on water management in 2021. Number of companies.

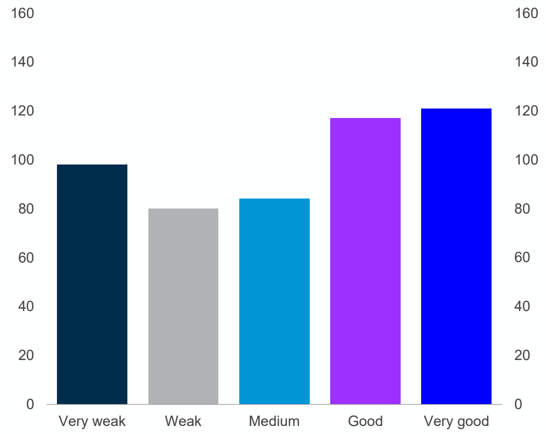


Chart 3 Results for companies we assessed on climate change in 2021. Number of companies.

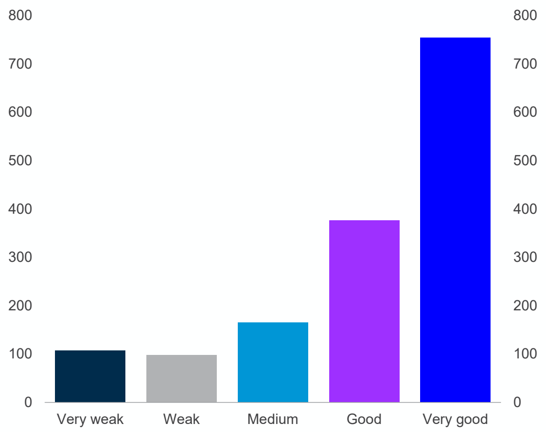


Chart 4 Results for companies we assessed on human rights in 2021. Number of companies.

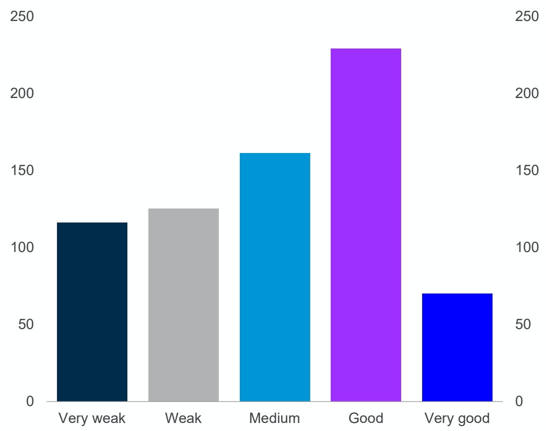


Chart 5 Results for companies we assessed on tax transparency in 2021. Number of companies.

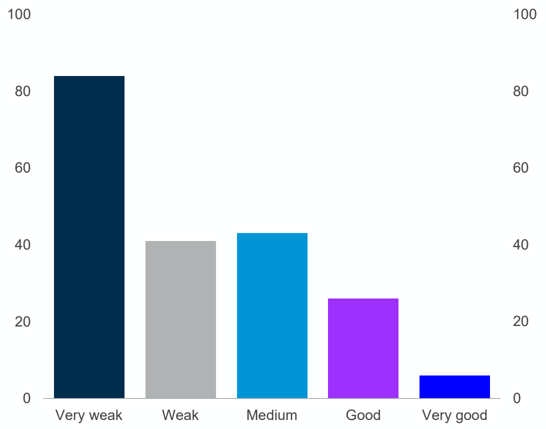


Chart 6 Results for companies we assessed on anti-corruption in 2021. Number of companies.

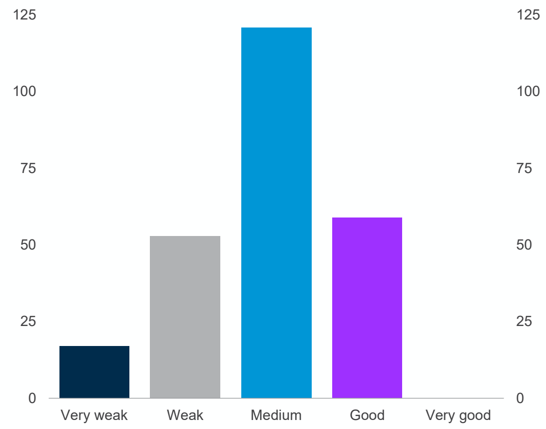


Chart 7 Results for companies we assessed on ocean sustainability in 2021. Number of companies

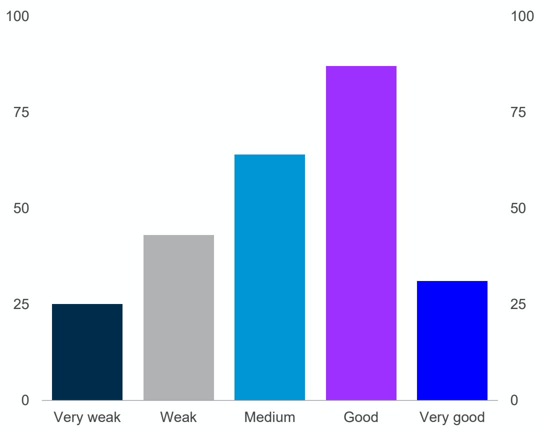
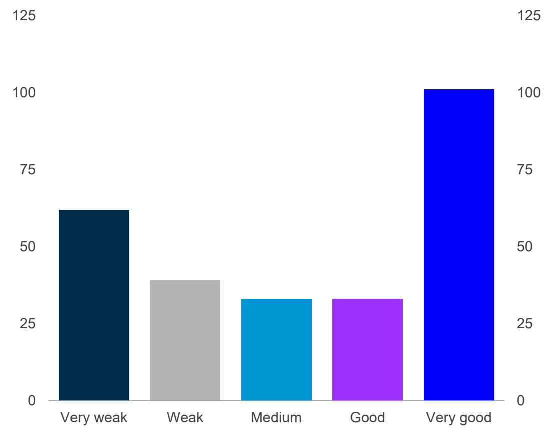


Chart 8 Results for companies we assessed on deforestation risk in 2021. Number of companies.



Analysing sustainability

When we analyse companies' sustainability, we generally put particular emphasis on climate-related risks. This reflects both the possibility of catastrophic outcomes and the global consensus expressed in the Paris Agreement that global warming needs to be kept well below 2°C.

The climate risk in the portfolio can be divided into physical risks and risks related to the transition to a low-carbon economy. These risks have different time horizons. The risk we face as an investor is not the same as the risk faced by individual companies. The price of the assets an investor buys, and the degree to which this price reflects climate risk, affects the financial risk. A broadly diversified and market-weighted portfolio will, in principle, have roughly the same financial climate risk as the underlying markets and industries in which it is invested.

Climate scenarios

Scenario analysis is used to illustrate different future outcomes for climate risk and better understand climate risk over long time periods. It can shed light on both physical and transition risks in the portfolio. Climate scenarios are based on factors that are often subject to considerable uncertainty, such as climate models, expected technological progress and potential regulatory changes. They provide an illustration of possible outcomes but are not predictions of the future.

There is no standard method for applying climate scenario analysis to investment portfolios. Ideally, the scenarios should be based on well-founded assumptions about future greenhouse gas emissions, physical climate changes and macroeconomic conditions. The scenarios must also use reasonable assumptions for companies' future development based on their industry and region, regulatory and technological developments, and their facilities and assets. To interpret the results, it is essential to have a good understanding of the model's core assumptions, uncertainties in the data, and interactions between the drivers in the model.

To analyse the equity portfolio's transition risk, we look at climate scenarios reflecting the goals in the Paris Agreement. In 2021, we obtained estimates from a model developed by index provider MSCI for the potential loss in value for the fund's equity portfolio in climate scenarios where temperatures rise by 1.5°C, 2°C or 3°C by 2080. We also looked at a 2°C scenario with a late policy response, where carbon prices follow the 3°C scenario until 2030 and then rise rapidly in the years after that. To analyse physical climate risk, we considered a scenario with rising emissions and more severe global warming.

Table 1 Estimated reduction in value of the equity portfolio by 2080 under under different scenarios, as of 31. december 2021.

Scenario	Estimated reduction in value, percent by 2080	Estimated reduction in value, billions of kroner by 2080
Transition risk: 1,5°C	6	500
Transition risk: 2°C	4	350
Transition risk: 2°C (delayed)	7	600
Transition risk: 3°C	1	100
Physical risk: RCP 8.5	9	800

The losses in the fund's equity portfolio are estimated by MSCI at between 1 and 9 percent. These results tell us something about the potential impact of climate change on long-term returns in different climate scenarios, but they need to be interpreted with caution. They say nothing about whether the market has already priced in climate risk to some extent. Nor do they take account of individual companies' climate plans or historical changes in their emissions. Given that the estimated losses are expressed in terms of present value, and the greatest losses from physical climate changes in particular are expected to be incurred well into the future, the discount rate used will have a significant impact on the results. Another weakness is that the model analyses transition risk and physical risk independently, even though the relationship between them will be dynamic. Furthermore, the model does not include potentially significant economic consequences of climate change that are hard to quantify, such as migration, food shortages and political turmoil.

These estimated losses can also tell us something about which climate scenarios would have the biggest impact on the future value of the portfolio. The model indicates that the losses will be greatest with a late policy response leading to warming of 2°C. In other words, the fund stands to benefit from an early and gradual transition to a low-carbon economy rather than a delayed and abrupt transition. Losses in a scenario with continuously rising emissions and substantial global warming are estimated at 9 percent. This estimate is very uncertain, and we assume it is too low given that the macroeconomic consequences of heat waves, droughts, water shortages, extreme weather and losses of biodiversity and natural resources are not adequately reflected in the model.

Carbon footprint

We analyse greenhouse gas emissions from the companies we invest in. This gives us insights into risks and opportunities in the market, but provides only a snapshot and does not take account of industry structure, companies' plans and other salient factors.

We start with Scope 1 and 2 greenhouse gas emissions from each individual company in the equity portfolio, measured as tonnes of CO_2-equivalents, but we also present our analysis of Scope 3 emissions – those in a company's value chain.

Reporting on greenhouse gas emissions still varies in frequency and quality. Emission data are generally published in connection with a company's annual report early the following year. The pandemic has made the data for 2021 even more uncertain and less comparable than in previous years. When analysing emission data for 2021, the most up-to-date numbers will come from companies' annual

Table 2 Scope 1 and 2 emissions by sector as at 31 December 2021.

Sector	Equity portfolio Tonnes CO_2-equivalents	Benchmark index Tonnes CO_2-equivalents	FTSE Global All Cap Tonnes CO_2-equivalents
Basic Materials	25,502,816	23,998,486	3,279,191,153
Consumer Discretionary	6,031,921	5,765,212	809,427,000
Consumer Staples	2,964,576	3,328,381	403,553,376
Energy	18,629,981	16,497,278	2,555,822,034
Financials	984,273	1,123,089	131,104,845
Health Care	865,669	867,848	83,555,515
Industrials	19,090,970	22,564,094	2,654,865,113
Real Estate	798,503	556,445	79,665,502
Technology	2,429,649	2,291,477	272,155,908
Telecommunications	705,548	706,175	99,388,928
Utilities	12,164,486	17,231,964	5,213,700,819
Weighted total	**90,168,392**	**94,930,449**	**15,582,430,192**

Table 3 Scope 1 and 2 emissions intensity by sector, weighted by market value of fund holdings. Equity portfolio, benchmark index and FTSE All Cap as at 31 December 2021.

Sector	Equity portfolio Tonnes CO_2-equivalents per million dollars in sales revenue	Benchmark index Tonnes CO_2-equivalents per million dollars in sales revenue	FTSE Global All Cap Tonnes CO_2-equivalents per million dollars in sales revenue
Basic Materials	803	761	791
Consumer Discretionary	55	55	57
Consumer Staples	84	82	78
Energy	466	499	618
Financials	18	18	21
Health Care	33	33	31
Industrials	190	216	193
Real Estate	96	100	103
Technology	45	43	39
Telecommunications	35	34	32
Utilities	1,096	1,230	2,130
Weighted total	**140**	**145**	**177**

Table 4 Scope 1 and 2 emissions in the fixed-income corporate portfolio and benchmark index as at 31 December 2021.

	Tonnes CO_2-equivalents	Average emissions intensity weighted by market value of fund holdings. Tonnes CO_2-equivalents per million dollars in sales revenue
Fixed income corporate portfolio	3,172,533	129
Benchmark index	4,575,974	167
Difference	-1,403,442	38

reports for 2020 published in the course of 2021, and 45 percent of emissions in the calculations presented here are based on company-reported data of this kind for 2020. However, 48 percent are based on company-reported data for 2019 and thus reflect activity before the pandemic. Many companies' activity levels and emissions were lower than normal in 2020 and 2021. This will be captured only partially in our calculations, underlining the challenges of using historical emission data. The final 7 percent of emissions are estimated using models, further increasing the uncertainty.

Total emissions and our percentage share

Based on our percentage holdings in each company, the equity portfolio's total emissions amounted to 90 million tonnes of CO_2-equivalents in 2021, down 2 percent on 2020. The decrease is believed to be largely a result of reduced activity on account of the pandemic. Emissions from the companies in the equity portfolio were 5 percent lower than for the benchmark index. The main reason for this difference is that the fund's investments in industrials and utilities had lower emissions than those in the benchmark index.

We have also calculated what the carbon footprint of the companies in the benchmark index would have been without any ethical exclusions under the Ministry of Finance's guidelines for observation and exclusion. These exclusions have reduced the benchmark index's carbon footprint by 18 percent, due mainly to exclusions under the coal criterion.

Carbon intensity

The companies in our equity portfolio emitted around 140 tonnes of CO_2-equivalents for every million US dollars of revenue in 2021, up 5 percent on the previous year. The increase is believed to be a result of revenue at some high-emitting companies falling further than their emissions.

The equity portfolio's carbon intensity was 4 percent below that of the benchmark index. The difference can largely be put down to our investments in industrial companies and utilities having a lower carbon intensity than the companies in the benchmark index. By way of comparison, the equity portfolio's carbon intensity was 21 percent lower than for the FTSE Global All Cap.

Emissions in the value chain

We also analyse emissions from the value chains of all of the companies in the portfolio, known as Scope 3 emissions. The data we use are largely model-based, and double counting and different methodological starting points mean that they cannot be included directly in the analysis of direct and indirect emissions. They nevertheless provide useful information, especially when we compare companies within an industry to identify which ones have the highest emissions. For example, a carmaker that produces electric cars will be very different to one that mainly produces conventional cars when we also look at emissions in the value chain. Our analyses show that oil and gas, industrial and consumer goods companies have the highest value chain emissions. They are also high in relative terms in the financial sector. Scope 3 emissions are much higher than Scope 1 and 2 emissions in these sectors.

Emissions in the corporate bond portfolio

The corporate bond portfolio's carbon intensity was 23 percent below that of the benchmark index, an improvement from 14 percent in 2020. This is mainly because our investments in industrial companies have a lower carbon intensity than the benchmark index.

When we invest in bonds, we lend capital to companies that have operations that may cause emissions of greenhouse gases. This lending does not, however, affect our percentage ownership in the company. To measure the carbon footprint of companies in the bond portfolio, we link the issuer of the bond to the parent company where the emissions actually occur. We then calculate the corporate bond portfolio's carbon intensity in an equivalent way to that for equities.

Risk management

We take three main approaches to identifying and managing environmental, social and governance risks in the portfolio. The first is to screen companies prior to inclusion in the fund's benchmark index. The second is continuous monitoring of companies in the portfolio and the benchmark index through daily analysis of incidents, as well as more in-depth thematic analyses of specific markets and sectors. The third is an annual review of companies against our sustainability expectations.

When we identify a company with high risk exposure, we carry out further research to assess whether to initiate a dialogue with the company, vote against the board or consider risk-based divestment. This is the chain of tools that we use in our responsible investment management.

In emerging markets, we may also consult our external managers, who have in-depth knowledge of the industries and companies they invest in. This is particularly important as it can often be harder to source relevant company data in these markets.

Pre-screening benchmark entrants

In 2021, we broadened the scope of our risk analyses to include companies that the fund's index provider FTSE Russell intends to add to the FTSE Global All Cap index. This index forms the basis for the benchmark index defined for the fund by the Ministry of Finance. Index changes are made by the index provider four times a year and announced four weeks in advance. The changes are a result of the provider's index rules and are not based on any form of due diligence.

In practice, our pre-screening of companies entering the index is a form of due diligence which enables us to identify companies with particularly high sustainability risks. The fund's mandate means that we would normally invest in most companies added to the index. In some cases, we may already have invested in these companies even if they are not part of the fund's benchmark index, as permitted by our management mandate.

Pre-screening companies helps make us aware of companies with high risk exposure before they enter the fund's portfolio. We can use this information both in our ownership activities and in our investment decisions. In some cases, the information may lead to the fund deciding to not invest in a company.

We began pre-screening all companies entering the index in the second quarter of 2021 and had assessed 442 companies by the end of the year. We mapped markets and industries with particular challenges in terms of environmental and labour conditions, looked at unwanted incidents, and reviewed analyses by our external data providers.

Of the companies added to the index in 2021, we identified nine that we did not want to be invested in, including three that were already in the portfolio. These companies spanned industries as diverse as infrastructure, transport and consumer goods. We identified systematic failures on pollution and human rights, and found that these companies would present a financial risk to the fund in the longer term.

One major challenge is that information about the companies entering the index is often limited. Many of these companies are small or only recently listed. In some cases, this means that our screening has to rely more on information about risk exposure at the sector level. Our analyses are therefore associated with considerable uncertainty. Pre-screening has nevertheless increased our overall ability to identify and manage risks in the portfolio.

Portfolio monitoring

Since 2015, we have used an internal framework to identify companies with particularly high risk exposure both in the portfolio and in the underlying index. We look particularly for companies in high-risk industries and markets with weak regulation, and companies with business models we do not consider to be long-term sustainable. For example, a clothing manufacturer in a developed market will be subject to more stringent requirements for environmental performance and labour rights than one in an emerging market. Risk exposure in a particular industry can therefore vary from market to market. And within the same market, a clothing manufacturer and a financial institution will have different risk exposure.

This mapping of industries and markets will often be the starting point for more detailed analysis of specific issues at individual companies. These thematic analyses give us a better understanding of the fund's risk exposure and result in a list of companies to be considered for further attention in the form of risk monitoring, active ownership or risk-based divestment. In 2021, we analysed companies with particular exposure to risks relating to biodiversity, labour rights, tax transparency and corruption.

In addition to this broad mapping of high-risk sectors, we monitor companies continuously for serious sustainability incidents. These might be breaches of laws, regulations or norms, or accidents caused by negligence. We identified 121 such incidents in 2021. We looked particularly at incidents such as reported pollution, deforestation, human rights violations, negative impacts on local communities, health and safety breaches, and serious corruption and fraud. We also monitor on a daily basis both new investments in companies outside the fund's benchmark index and companies in the portfolio that have been suspended from the exchange for various reasons. Relevant information is shared internally and can impact on both ownership activities and investment decisions.

We pay particular attention to our largest investments. We monitor developments in our holdings in individual companies and prepare separate reports on companies when our holdings pass 5 percent for the first time. There were 12 such companies in 2021. We assess each of these companies' exposure to various risks, including environmental and social risks.

Annual due diligence

Each year, we carry out a review of the portfolio where we assess companies against our expectations. The aim is to identify companies that could have a significant adverse impact on the environment or society, and to prioritise action to reduce the risk from owning such companies. In each area where we have published expectations of companies, we identify the most important risk factors and define relevant metrics. We combine these datasets to identify companies with the highest risks in each area. We evaluate each company identified and prioritise them for further work. One starting point for these evaluations is whether active ownership is a suitable approach. Other relevant actions might be continued monitoring, sharing information with the independent Council on Ethics for the Government Pension Fund Global, or, after further assessment and only where appropriate given the fund's risk limits, divestment. The decision will be influenced by factors such as severity, whether the company has already taken remedial action, the size of our investment, and portfolio managers' familiarity with the company.

In 2021, we identified 308 issues at 283 companies where we considered further action. In some cases, the sustainability risks spanned more than one of our expectations. We decided to monitor developments in 96 cases, initiate dialogue in 92 cases, and consider divestment in 15 cases. Together with our other risk-monitoring activities and our active ownership work, this process forms an important part of our due diligence as required by the OECD Guidelines for Multinational Enterprises.

External managers

Investments in emerging markets play a key role in diversifying the risk in our equity portfolio and gaining exposure to small- and mid-cap companies. One challenge here is that information on sustainability is often more limited, as reporting requirements may be less stringent in these markets. External managers with local knowledge therefore play an important role in enabling us to invest in these markets and manage the associated risks.

Our mandates for external managers require them to consider environmental, social and governance issues in their investment decisions, and this requirement is followed up annually. External managers are familiar with our expectations of companies and raise relevant topics in their dialogue with them.

The Borssele 1 & 2 offshore wind farm located in the Netherlands. Our first investment in unlisted renewable energy infrastructure.

Investments

We identify long-term investment opportunities by analysing companies' operations and the impact they have on the climate and the environment. We see opportunities in companies that enable more environmentally friendly economic activity.

Environment-related mandates

The Ministry of Finance requires the fund to have dedicated environment-related investment mandates. At the end of 2021, we had 107.7 billion kroner invested in shares in 86 companies under these mandates.

These equity investments returned 21.6 percent in 2021 and have produced an annualised return since inception in 2010 of 10.4 percent. The environment-related mandates are now managed entirely in-house.

We identify and analyse the universe for these environmental investments using information from companies, industry specialists and external data providers. Our investments will then be a dynamic subgroup of this universe based on expected future financial performance and equity returns.

We fund these investments by reducing our holdings in companies that are not part of the investment universe for the environment-related mandates. Put another way, we invest more in companies that are more eco-friendly, and less in those that are less eco-friendly in the same industry. The return on the environment-related equity mandates was 2.4 percentage points less than on the companies sold to fund them.

We invest in three main types of environmental activity: low-carbon energy and alternative fuels, clean energy and energy efficiency, and natural resource management. Companies must have at least 25 percent of their business in one of these areas to be included in our environmental universe. These three categories also largely coincide with the UN Sustainable Development Goals for climate, clean energy and resource management.

Low-carbon energy and alternative fuels
Power generation and transport are major contributors to greenhouse gas emissions. Technological advances in these areas can significantly reduce global emissions. Companies are developing more and more capacity for the production of energy from renewable sources such as wind, solar, hydro, geothermal and waste. We are increasingly seeing national and local authorities publishing plans to be carbon-neutral and reach other climate targets by 2030-2050. There is also considerable interest from companies in buying renewable energy directly from producers on long-term contracts.

Companies operating in these segments include EDP/EDPR, Northland Power and Solaria Energia.

Clean energy and energy efficiency
Investments in solutions to climate challenges have traditionally been made mainly in energy production and concentrated on clean and renewable energy. More recently, opportunities on the demand side have begun to attract more attention.

The transport industry is making progress, partly through more efficient traditional combustion engines and hybrid technologies. Major advances are also being made in electric vehicles. Thanks to technological innovations and investment, we are seeing a strong rise in the number of electric models coming to market.

Demand for energy efficiency technology in construction and industry has also increased. Substantial reductions in energy consumption can be achieved through better insulation, lighting, heating and ventilation systems, as well as automation and solutions that control these processes. In 2021, there was a particular increase in interest in hydrogen both for storing energy and as a source of energy for heavy vehicles.

Companies operating in these segments include ST Micro, Legrand and Denso.

Table 5 Return on the environment-related equity mandates, funding and other return series. Annualised data, measured in the fund's currency basket. Percent.

	Since 01.01.2010	Last 5 years	Last 3 years	2021
Return on the environment-related equity mandates	10.4	19.9	30.4	21.6
Return on the financing of the environment-related equity mandates[1]	5.8	10.5	15.9	24.0
Return on the FTSE Environmental Technology 50 index	11.3	24.6	40.8	15.1
Return on the FTSE Environmental Opportunities All-Share index	14.3	19.7	30.2	24.2
Return on the MSCI Global Environment index	15.0	26.3	41.6	19.9
Return on the benchmark index for equities	10.6	12.8	19.0	20.0

[1] The financing of the environment-related equity mandates includes dedicated allocation to environment-related equity mandates in the equity management.

Table 6 Largest equity holdings in the low-emission energy and alternative fuel segment in the fund's environmental portfolio as at 31 December 2021.

Company	Country	FTSE Global sector	Millions of kroner	Share of portfolio Percent
NextEra Energy Inc	US	Utilities	5,605	5.2
Iberdrola SA	Spain	Utilities	4,460	4.1
EDP - Energias de Portugal SA	Portugal	Utilities	1,379	1.3
Enel SpA	Italy	Utilities	1,282	1.2
Northland Power Inc	Canada	Utilities	822	0.8
Neoen SA	France	Utilities	785	0.7
EDP Renovaveis SA	Portugal	Utilities	209	0.2

Table 7 Largest equity holdings in the clean energy and efficiency technology segment in the fund's environmental portfolio as at 31 December 2021.

Company	Country	FTSE Global sector	Millions of kroner	Share of portfolio Percent
Eaton Corp PLC	US	Industrials	5,106	4.7
Legrand SA	France	Industrials	4,778	4.4
TE Connectivity Ltd	US	Technology	3,446	3.2
Infineon Technologies AG	Germany	Technology	3,401	3.2
Daikin Industries Ltd	Japan	Industrials	2,965	2.8
Keyence Corp	Japan	Industrials	2,902	2.7
Parker-Hannifin Corp	US	Industrials	2,669	2.5
Schneider Electric SE	France	Industrials	2,652	2.5
Siemens Gamesa Renewable Energy SA	Spain	Energy	2,290	2.1
Denso Corp	Japan	Consumer Discretionary	2,283	2.1

Table 8 Largest equity holdings in the natural resource management segment in the fund's environmental portfolio as at 31 December 2021.

Company	Country	FTSE Global sector	Millions of kroner	Share of portfolio Percent
Koninklijke DSM NV	Netherlands	Consumer Staples	2,608	2.4
West Fraser Timber Co Ltd	Canada	Basic Materials	2,341	2.2
Veolia Environnement SA	France	Utilities	2,005	1.9
Graphic Packaging Holding Co	US	Industrials	1,938	1.8
Waste Connections Inc	Canada	Utilities	1,882	1.7
LKQ Corp	US	Consumer Discretionary	1,467	1.4
CNH Industrial NV	Italy	Industrials	1,432	1.3
Tetra Tech Inc	US	Industrials	1,352	1.3
Westrock Co	US	Industrials	1,259	1.2
DS Smith PLC	UK	Industrials	1,107	1.0

Natural resource management

Efficient utilisation of natural resources is important for water management, waste management, recycling, agriculture and forestry. Meeting the world's need for high-quality water efficiently is a global challenge. The infrastructure to achieve this requires heavy investment, particularly as demand for water is expected to grow substantially. In areas with scarce water resources, it is important to have solutions that enable recycling of water through treatment processes and efficient pumping, measurement and control solutions.

Recovering energy from waste and making good use of organic materials are two ways in which waste can be a resource. One notable example is the collection of methane gas from landfills. Efficient land management and agricultural production are also needed to ensure availability of food for a growing population while limiting adverse environmental impacts.

Companies operating in these segments include DSM, West Fraser and GFL Environmental.

Renewable energy infrastructure

Meeting the goals of the Paris Agreement will require a fundamental transformation of the global community's energy use. The transition demands both a decrease in the use of fossil fuels and advances in the technology for renewable energy. By investing in unlisted renewable energy infrastructure, the fund can contribute to the low-carbon transition while further diversifying risk. These investments are expected to generate stable inflation-adjusted cash flows and help sustain the fund's long-term performance and international purchasing power.

The fund made its first investment in unlisted renewable energy infrastructure in April 2021 with the acquisition of a 50 percent stake in the Borssele 1 & 2 wind farm off the Dutch coast for 1,375 million euros, or around 13.9 billion kroner. With an installed production capacity of 752 MW, the wind farm produces enough electricity for around 1 million Dutch households.

We also considered other possible investments during the year. Environmental, social and health and safety risks are an integral part of the review of these investment opportunities. Our assessments are based on international standards such as the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles for Business and Human Rights.

As an investor, we will monitor how our investments impact on people and the environment, including any unwanted incidents. With Borssele 1 & 2, the focus in 2021 was on ensuring safe operation after start-up, and operator Ørsted reports that it worked on managing the wind farm's impact on biodiversity. GRESB, formerly the Global Real Estate Sustainability Benchmark, has developed a framework for

assessing the sustainability of individual infrastructure investments. Together with Ørsted we are exploring the possibilities for carrying out measurements of this kind for Borssele 1 & 2.

Responsible real estate management

Unlisted real estate investments amounted to 2.5 percent of the fund at the end of 2021. We invest in office and retail properties in selected cities around the world, and in logistics properties that are part of global distribution networks. We invest and manage our portfolio responsibly and sustainably in order to help achieve our objective of the highest possible return over time and reduce the long-term risk in the portfolio.

Real estate investments have a longer time horizon than most of the fund's investments and may be affected by both physical climate risks and risks associated with the transition to a low-carbon economy. Physical risks include both acute events such as extreme weather and more gradual changes such as rising sea levels. Besides directly damaging the buildings we invest in, developments of this kind can have adverse effects such as higher insurance premiums, building closures and changes in population patterns. One common denominator for the cities we invest in is that the local authorities have set concrete targets for emission reductions in both the short and the long term. We are also seeing more and more tenants set a long-term goal of net zero emissions.

We have three goals for our unlisted real estate portfolio: remain a leader in responsible real estate management, increase the share of renewable energy used in our buildings, and ready our buildings for net zero emissions.

To measure improvements in the management of our real estate portfolio, we use the international benchmark developed by GRESB. In 2021, we scored a total of 84 out of 100, compared with 79 in 2020. We performed 6 percent better than comparable investment portfolios also reporting to GRESB. In addition, 82 percent of our large office and retail properties had green certifications at the end of the year.

We began work in 2021 on stress-testing the real estate portfolio against decarbonisation pathways consistent with the Paris Agreement using the Carbon Risk Real Estate Monitor (CRREM) framework. We also further strengthened the integration of environmental and sustainability considerations into the investment process. This means that we map historical energy consumption and compare a building's emissions with CRREM's decarbonisation pathways before making an investment decision.

Responsible real estate management

We aim to make measurable improvements in the sustainable management of the buildings we invest in. This means thinking in new ways about how buildings use energy. One example is the first project we are developing in New York, at 555 Greenwich Street, where four simple steps will reduce emissions from heating and cooling the building: use the structure of the building for active thermal energy storage, produce geothermal energy from pile foundations, install air-source heat pumps for more efficient cooling and heating, and make the building 100 percent electric. This will cut energy use by 25 percent and greenhouse gas emissions by 45 percent. We believe that the same principles could be used on a larger scale for the 12 existing buildings in the Hudson Square portfolio and achieve the same reduction in energy consumption and emissions.

Net zero

We strive continuously to cut emissions from the operation of the buildings in our real estate portfolio, and we believe that reduced emissions will contribute to lower operating expenses, lower risk and higher valuations in the real estate portfolio over time. Our tenants are often companies that themselves have a long-term goal of net zero emissions, and so we believe that energy-efficient buildings will increasingly be an expectation among the tenants we wish to attract.

To achieve the long-term target of net zero emissions, we have integrated this aim into the business plans for buildings due for renovation. We have also looked for ways to transform older buildings into modern premises attuned to tomorrow's requirements for energy and the environment.

Renewable energy

One important step in preparing our buildings for zero emissions is to increase the share of renewable energy that we use. Renewable energy can either be bought in or generated in-house. One example of how we can generate our own renewable energy is fitting solar panels to the roofs of industrial warehousing. We installed 8 MW of solar energy capacity in our logistics portfolio in 2021, making a total of 38 MW of renewable energy, equivalent to the electricity consumption of 6,420 households. We also enter into contracts with power companies that guarantee the production of power from renewable sources corresponding to the building's electricity consumption. We demand a guarantee of origin and comply with international standards for these guarantees. The markets where we bought in renewable energy in 2021 were Tokyo, London and New York.

Altogether, we have made 366 divestments from companies since 2012.

Divestments

We may decide to divest from a company to reduce the fund's exposure to unacceptable risks. This applies particularly to business activities that impose substantial costs on society as a whole and that we do not consider sustainable in the long term.

Companies that are not sustainable often have business models that are misaligned with prevailing technological and regulatory developments, as well as consumer trends in the markets where they operate. Risk-based divestment may be an appropriate response following a broad evaluation of the impact on the fund. The size of the investment will often be a deciding factor. Divestment as a form of risk management is used primarily for relatively small investments where we do not consider other actions to be suitable.

Risk-based divestments

We divested from 52 companies in 2021 following assessments of environmental, social and governance risks. Nine of these decisions were based on pre-screening of companies about to be included in the fund's benchmark index. Altogether, we have divested from 366 companies since 2012.

Risk-based divestments are made within the overall limit for deviation from the benchmark index. We use a risk framework to detect sectors in our portfolio with high exposure to sustainability risks. We conduct extensive analysis to identify companies with business models that are not sustainable and expose the portfolio to unacceptable risks. In 2021, we looked at areas such as human- and labour rights, biodiversity and deforestation, corruption and tax transparency.

We expanded the framework for risk-based divestments during the year to include companies being added to the fund's benchmark index. Risk-based divestments are investment decisions that generate relative risk for the fund, because the companies we sell remain part of the fund's benchmark index.

Climate change

Companies whose operations or value chains result in particularly high greenhouse gas emissions not only harm the environment but are also exposed to stricter regulation and other market changes. This could lead to higher operating costs or decreased demand. Coal power producers and mining companies that produce thermal coal for power production will face challenges in the transition to a low-carbon economy.

In 2021, we divested from four companies where it was difficult to quantify their exposure to coal, but where we had clear indications that their exposure was unacceptably high, thus posing a financial risk to the fund in the longer term.

Biodiversity

Deforestation has serious adverse effects on both the environment and the local community. Forests are an important part of the ecosystem and help maintain biodiversity, store carbon and produce oxygen. In some regions, deforestation is a major contributor to climate change. It can also impact negatively on the local community and indigenous rights.

We divested from seven companies in 2021 where a high risk of deforestation and loss of biodiversity was a key factor. These included companies operating plantations in

Risk-based divestments in 2021

Expectation	Theme	Criteria	2021
Climate change	Coal-based power production	Relevant percentage of business mix allocated to electricity production	
		Coal at relevant percentage of fuel-mix	2
	Thermal coal mining	Owns/operates thermal coal mines	
		Relevant business mix allocated to thermal coal extraction	2
Water management	Water management	Indications of insufficient risk management related to water use	1
Biodiversity and ecosystems	Biodiversity and ecosystems	Exposure to high risk sectors and markets	7
Ocean sustainability	Ocean sustainability	Indications of insufficient risk management related to use of the ocean	1
Anti-corruption	Anti-corruption	Exposure to high-risk sectors and markets	
		Indications of insufficient risk management related to corruption and corporate governance	4
Tax transparency	Tax transparency	Elevated risk of aggressive tax planning	4
Human rights	Human rights	Exposure to high-risk sectors and markets	
		Indications of insufficient risk management related to human rights, labour rights or health, safety and environment	29
Other	Other	Exposure to unacceptably high risk from an environmental, social or governance perspective but not linked to any of our Expectation documents.	2

areas of great biodiversity or on land belonging to indigenous peoples, or whose operations had caused significant pollution of protected areas.

Water management

Water scarcity and water pollution can present a financial risk for companies, particularly for water-intensive companies operating in water scarce areas. These companies are generally also subject to strict regulation and may come into conflict with the local community if their management of water resources is not considered responsible and fair.

We divested from one company in 2021 on the grounds of serious water pollution and poor protection of exposed areas.

Ocean sustainability

The ocean covers most of the planet's surface, producing more than half of the world's oxygen and regulating global temperatures. It is an important part of the global economy, providing natural resources, means of transport and other economic activity. Companies that depend on or impact the ocean must therefore manage their use of the ocean sustainably.

We divested from one company in 2021 as a result of serious ocean pollution caused by repeated failures in its operations.

Tax transparency

Corporate tax practices can ultimately affect the fund's returns. Companies that assign disproportionate importance to tax planning are often more exposed to changes in tax rules. The disputes and legal proceedings that can ensue from such changes are both costly for the company and time-consuming for its management. As a long-term investor, we are looking for real value creation over time and not the short-term gains that might be achieved with aggressive tax planning.

In 2021, we divested from four companies with an elevated risk of taxes not being paid where the economic value was created. These were also companies with very poor or non-existent reporting on tax risks.

Anti-corruption

Corruption has harmful effects on society by giving companies unfair advantages and exposing them to reputational risks, fines and loss of contracts.

We divested from four companies in 2021 due to strong indications of poor corporate governance and mismanagement of corruption risks. Two of the companies had reported inaccurate and misleading information in an attempt to falsely improve their market position. We found that all four had business models that exposed the fund to unacceptable risks.

Human rights

We assess companies' exposure and risk management when it comes to human rights, labour rights and impact on communities. Since 2012, we have looked at areas such as poor labour conditions, including health and safety in the workplace, respect for property rights, and the production and marketing of harmful goods and services.

A number of countries have introduced laws and guidelines in recent years that are making companies increasingly accountable for preventing serious human rights abuses and forced labour in their global value chain. Policy makers in the US, the EU and the UK are working on tightening the rules on forced labour and other abuses in the value chains. Thus, companies are increasingly being held to account for the human rights performance of their suppliers in other countries, which adds a new dimension of risk for companies with complex supply chains.

We divested from 29 companies in 2021 where unacceptable labour conditions were a significant factor. We considered the risk of continued human rights violations to be high.

Other unacceptable risks

We also consider unacceptable risks not covered by our expectation documents. These include new risk factors to which we have not previously been exposed.

In 2021, we divested from two companies on account of unacceptable regulatory risks in the form of potentially reduced access to international capital markets.

Water scarcity and water pollution can present a financial risk for companies.

The risk exposure was considered so high that we decided to divest from these companies.

Impact on the fund's equity returns

The purpose of risk-based divestments is to reduce the fund's exposure to companies that operate in ways that are not considered sustainable. In addition to reducing risk, these divestments may affect the return on our equity management.

Since 2012, risk-based divestments as a whole have increased the cumulative return on equity management by around 0.44 percentage point, or 0.02 percentage point annually. Risk-based divestments linked to climate change and human rights have increased the cumulative return on equity management by 0.28 and 0.08 percentage point respectively, while those linked to corruption have decreased the cumulative return on equity management by 0.03 percentage point, and those relating to water management have had a negligible impact.

Chart 9 Return impact of risk-based divestments on the equity management, compared to a portfolio not adjusted for risk-based divestments. Measured in dollars. Percentage points.

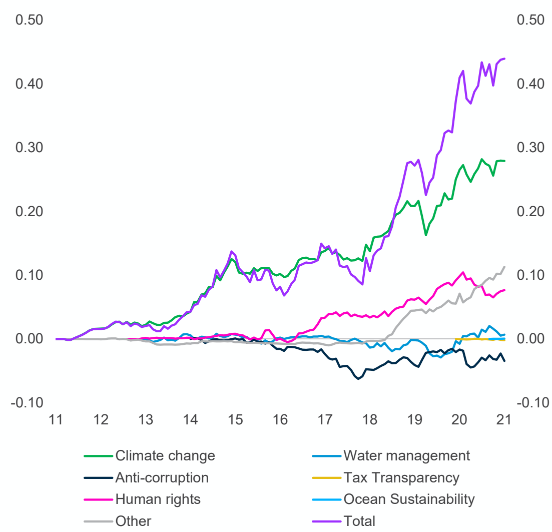


Table 9 Contribution to return impact of risk-based divestments on the equity management as at 31 December 2021. Market value in billions of kroner. Contribution measured in dollars. Percentage points.

Expectation	Number of companies divested[1]	Market value in the reference portfolio if not sold	2021	2012–2021 annualised
Climate change	174	15	-0.01	0.01
Water management	47	6	0.01	0.00
Biodiversity and ecosystems	7	1		
Ocean sustainability	1	0	0.00	0.00
Anti-corruption	27	7	-0.01	0.00
Tax and transparency	11	0	0.00	0.00
Human rights	67	7	-0.02	0.00
Other	32	3	0.01	0.00
Total	**366**	**40**	**-0.02**	**0.02**

[1] Includes companies that are not in the benchmark.

4 Companies

Dialogue

As a long-term investor, we engage in regular dialogue with our largest companies. The aim is to promote good corporate governance and responsible business practices.

The fund owns a small slice of more than 9,000 companies around the globe. To protect the fund's long-term interests, we make use of our rights as a shareholder and hold company boards to account. We prioritise a number of strategic themes in our dialogue that we pursue over a number of years. We follow up incidents that could reflect poor risk management, and we use our ownership rights to reduce the risk of violations of ethical norms.

In our dialogue with companies, we raise environmental, social and governance issues that may be relevant to the fund's long-term return. We follow up selected companies to understand better how they are dealing with relevant risks, and to encourage them to improve their reporting.

We held a total of 2,628 meetings with 1,163 companies in 2021. The size of our investments gives us access to board members, senior management and specialists at companies. We are interested in understanding how companies are governed and how they address key sustainability issues.

Due to the pandemic, we had to hold most of our meetings on digital platforms. We found that digital meetings worked well. The restrictions on travel also meant that companies' boards and management were more available for dialogue. As in 2020, however, the cancellation of investor conferences led to fewer meetings with companies than in the past.

Besides meetings, we communicate with companies in writing. We distribute our expectation documents and position papers to selected companies to inform them of our priorities. We also respond to enquiries from companies requesting further information, especially on our position on board elections and executive pay. We had written communication with 486 companies in the portfolio in 2021.

Thematic dialogues

In our dialogue with companies, we prioritise a number of strategic themes that we follow up over a number of years. In 2021, we focused on effective boards, appropriate management incentives, capital allocation, climate and environment, human rights, anti-corruption and tax.

Corporate governance

We held 1,365 meetings with 731 companies during the year where we discussed the role and composition of the board and our rights as a shareholder. We also had written communication with 121 companies presenting our priorities and answering questions about our ownership activities.

It is important in our dialogue with companies to have an in-depth understanding of their operations and their industry. Dialogue on corporate governance is an integral part of the fund's management. Our portfolio managers attended 93.5 percent of these meetings in 2021. This helps us view the board's efforts in the context of the company's strategy, capital allocation and risk management.

We have a regular dialogue with the boards of the largest companies in the portfolio. We held a total of 172 meetings with boards in 2021.

Effective boards
An effective board is the cornerstone of a well-run company. The board should be able to exercise independent judgement without conflicts of interest. It should carry out its duties efficiently and have an appropriate mix of expertise and experience. Its members should be accountable to shareholders for the results of their decisions. We had 268 meetings about board composition in 2021, compared with 254 in 2020. The companies in question included Credit Suisse Group AG, Lonza AG and Exxon Mobil Corp.

We put particular emphasis on board independence and diversity, and sought confirmation that all directors were available to contribute actively to discussions. We also discussed the board's plans to recruit new members with relevant skills to support the company's strategy.

In Sweden, we participate in the nomination process for the boards of some of our largest investments. We continued to serve on the nomination committees of Boliden AB, Essity AB, Nordic Entertainment Group AB, Svenska Cellulosa AB SCA and Volvo AB during the year. Our priority is a good nomination process to identify candidates who match the company's needs, rather than proposing specific individuals.

Appropriate management incentives
Executive remuneration is subject to some form of shareholder approval in many developed markets and was once again the most common topic that companies raised with us. We discussed executive pay with 184 companies, compared with 178 in 2020, including Eni SpA, General Electric Co and HSBC Holdings PLC.

At our meetings with companies, we encouraged them to prioritise long-term shareholding, straightforward structures and the greatest possible transparency. We have observed over time that many companies are increasingly using shares to create long-term incentives. Lock-in periods are also growing, especially in the US and Germany. On the other hand, we noticed in 2021 that some companies, especially in the US, were adjusting the targets in their incentive schemes to even out the effect of weak results during the pandemic. We put questions about these adjustments and called for straightforward long-term incentive structures that can weather the entire business cycle.

We also followed up a number of companies that faced strong shareholder opposition to their remuneration plans in 2020.

Capital allocation
One of the board's most important roles is to ensure that the company's capital structure is tailored to the company's goals, strategy and risk profile. We noticed in 2021 that many companies increased payments of dividends to shareholders after a period of considerable economic uncertainty. Regulators in many countries also lifted the restrictions on dividends imposed in 2020. We discussed capital structure and dividends with 974 companies during the year, including BP PLC, GlaxoSmithKline PLC and SIG Combibloc Group AG.

Sustainability

Our long-term investment horizon means that we have an interest in sustainable development. We take our public expectation documents as our point of departure and raise specific issues that are relevant to companies' value creation. We held 1,350 meetings with 712 companies on environmental and social issues in 2021. We also had written communication with 402 companies. We normally select groups of companies in industries with particular business risks or opportunities. We hold meetings with the board or management to understand the companies' strategy and risk management. We sum up experience from these meetings and regularly evaluate changes in the companies' practices against the goals we set for the dialogue. Once we have completed each dialogue, we draw up a status report and ideally continue to discuss the topics in question in our ongoing communication with the individual companies.

Climate and environment

We continued our dialogue with consumer goods companies that use commodities such as palm oil, soya and beef in their production, increasing the number of companies covered from seven to 12. We expect these companies to be open about how they identify, evaluate and manage deforestation risk both in their own operations and in their supply chains. One of the companies we engaged with, Unilever PLC, has set itself the goal of a deforestation-free supply chain by 2023 and is working to achieve this using a number of tools, including new technology for improved traceability, monitoring of suppliers, and certification of raw materials.

We concluded our dialogue with cement producers to learn how they are approaching the transition to a low-carbon economy. We expect companies to develop climate plans that take into account the goals in the Paris Agreement and to report regularly on how these plans are being implemented, for example in production processes, energy use, lobbying practices and investments in R&D. Seven of the companies we engaged with have set more ambitious emission reduction targets, including five that have set science-based targets to reduce their emissions in line with the Paris Agreement. In addition, seven of the companies have strengthened their reporting on climate risk by implementing the TCFD recommendations. Asia Cement Corp and Cemex SAB de CV are examples of companies included in this dialogue which have committed to cutting their emissions in line with the Paris Agreement.

We completed our dialogue with banks during the year on how they are addressing climate risk in their loan and financing portfolios. We expect banks to be transparent about their strategies for calculating, reporting and reducing greenhouse gas emissions from the activities they finance.

Table 10 Company meetings by topic in 2021.

Category	Topic	Number of meetings	Share of equity portfolio. Percent
Environment	Climate change	797	33.2
	Deforestation	49	3.9
	Water management	94	5.3
	Ocean sustainability	18	4.8
	Biodiversity	48	8.8
	Circular economy	190	1.7
	Other environmental topics	241	10.9
Social issues	Human rights	133	15.2
	Children's rights	40	5.6
	Tax and transparency	73	7.9
	Anti-corruption	34	5.5
	Consumer interests	129	6.0
	Data privacy	34	8.0
	Human capital	301	20.1
	Other social topics	216	11.0
Governance	Effective boards	267	24.1
	Remuneration	183	22.0
	Protection of shareholders	68	11.4
	Enhanced reporting	144	10.2
	Capital management	973	38.0
	Other governance topics	427	23.3

All of the banks in this dialogue expressed an ambition of net zero financed emissions by 2050. Seven had published medium-term targets for reducing financed emissions in carbon-intensive parts of their loan and financing portfolios as a step towards achieving this ambition. Banco Santander SA, for example, committed in 2021 to net zero financed emissions by 2050 and set a goal of phasing out its global exposure to thermal coal mining by 2030.

We began a new dialogue with consumer goods producers during the year on how they are addressing risks and opportunities relating to the use of natural resources. Our new expectation document on biodiversity requires companies with agricultural operations or value chains to have a policy on sustainable farming and a clear plan for how it is to be implemented. Nestlé SA is an example of a company that made a commitment in 2021 to work across its supplier network to promote more sustainable production practices with an emphasis on regenerative agriculture.

We also started up a dialogue with 11 companies that are among the biggest contributors to the equity portfolio's carbon footprint, to understand their plans for cutting their greenhouse gas emissions. We expect these companies to work on reducing emissions from their activities over time and to take account of the Paris Agreement in their long-term business strategy and investment plans. Petróleo Brasileiro SA, South32 Ltd, TUI AG and Inter RAO UES JSC were among the companies we contacted.

In our dialogue with iron and steel producers, we sought to understand how these companies are addressing climate risks and opportunities. We also discussed their interaction with policymakers on climate policy. ArcelorMittal SA, SSAB AB, voestalpine, BlueScope Steel Ltd and Nucor Corp were among those we spoke to. These companies are working on technological solutions to reduce emissions, including using hydrogen as a fuel, carbon capture and storage, and electrolysis for iron production.

We continued our dialogue with nine European heavy industry companies to discuss our expectation that they engage with policymakers on climate policy in a transparent and constructive manner. We asked the companies to review climate-related lobbying by their trade associations on a regular basis, and to report on areas where they face dilemmas and how these are being addressed. Koninklijke DSM NV, Bayerische Motoren Werke AG and BASF SA were among the companies we contacted.

We also initiated a dialogue during the year with seven integrated oil and gas companies to understand how they are planning for the transition to a low-carbon economy. We expect these companies to set targets that take into account the Paris Agreement and to evaluate their strategy for the low-carbon transition. BP PLC and Royal Dutch Shell PLC are examples of companies that have set targets of this kind and prepared a plan for reducing their emissions.

We completed our dialogue with shipping companies on the energy transition and responsible recycling of ships. Several of the companies have set ambitious emission reduction targets and introduced policies to prevent ships from being dismantled in ways that can harm people and the environment. AP Moeller – Maersk A/S and Euronav NV are examples of companies that are taking action to cut emissions.

We also completed our dialogue with companies in the apparel industry on sustainable business models and measures to reduce emissions and water pollution. We expect companies to have clear guidelines for assessing and managing climate risks and other important environmental impacts in their value chains, and to have a business strategy that takes account of the transition to a circular economy. Adidas AG is one example of a company which set science-based targets in 2021 to reduce its emissions in line with the Paris Agreement.

We carried on our dialogue with fisheries companies on sustainable use of the ocean. We expect these companies to have assessed the sustainability of the fish stocks on which they depend, and to consider action to increase traceability and certification. Oceana Group Ltd is one company which has reported on the state of the fish stocks it relies on.

We also continued our dialogue with companies in water-intensive industries on their reporting on water consumption, targets for reductions and management of water-related risks. We asked the companies to consider setting qualitative and quantitative targets for their water use. Marathon Petroleum Corp is one company which has set a concrete target for lowering water consumption at its facilities.

Human rights

We continued our dialogue with companies on responsible marketing of breast-milk substitutes. We found that some have updated their policies on responsible marketing of these products and published more information on compliance, but there were still variations between companies. The companies we contacted included Ausnutria Dairy Corp Ltd and China Feihe Ltd.

We carried on our dialogue with telecom companies on risks to children's rights online. We expect companies to consider how their products and services affect children, and we encourage them to include children's rights in their due diligence work and reporting. Tele2 AB and Vodafone PLC are two companies that have identified children's rights as a priority and have carried out due diligence and taken other action to reduce risks in this area.

We continued our dialogue with companies providing delivery and transport services on their approach to organising their workforce. The aim was to understand their choice of business model and their approach to regulatory risks and lobbying, and to encourage them to ensure respect for labour rights. The companies we contacted included Lyft Inc and FedEx Corp.

According to the UN Guiding Principles on Business and Human Rights, companies with operations in conflict-affected areas should carry out enhanced human rights due diligence. We continued and expanded our dialogue with companies with operations or business relationships in such areas. The aim is to increase our understanding of their due diligence efforts and the actions they have taken to mitigate risk. Among the companies we spoke to are Booking Holdings Inc, Tokyo Tatemono Co Ltd and HeidelbergCement AG. In our dialogue so far, we have found that companies are increasingly carrying out due diligence and commissioning external human rights risk assessments, but often fail to perform a comprehensive risk assessment before entering a particular area or business relationship.

We expanded our dialogue on the risk of forced labour in the supply chains of consumer goods companies. We expect these companies to have policies and systems to address supply chain risks, and would like to understand company efforts to secure full traceability of their supply chains down to the commodity level. Puma SE, Kering SA and Kraft Heinz Co were among the companies we contacted. We are seeing that companies are increasingly focusing on supply chain risks in their policies and systems, but some are struggling to gain the required level of insight into their supply chains.

Anti-corruption and tax

We continued our dialogue with eight companies on corruption risks in the industrial sector. Companies in this sector are particularly exposed to corruption risks, especially when bidding for public contracts to supply industrial products, equipment and machinery and associated services. The aim of the dialogue was to understand how the boards of these companies monitor corruption risks. We also urged the companies to be transparent about their management of corruption risks in the context of public procurement. The companies we have spoken to include Raytheon Technologies Corp, Schneider Electric SE and Siemens AG. So far in this dialogue, we have seen some companies refine and improve their approach to identifying corruption risks. We have also seen companies reducing their use of agents and intermediaries to win public contracts.

We continued to engage with companies to encourage them to develop and publish policies on how they handle tax risks, in line with our public expectations on tax transparency. Such policies are no guarantee of responsible tax practices but do enable us to follow up companies' targets and principles over time. Ten of the companies have now published policies on tax management or reported on it in their sustainability reports.

We carried on our dialogue with companies on their presence in low-tax environments and closed jurisdictions. Some companies are registered in such countries, while others have subsidiaries there. Both cases may facilitate tax avoidance and give rise to tax risks, but there can also be other reasons for a company to be present in these jurisdictions. We therefore asked the companies to explain what activities they had in these jurisdictions, and why they chose them. The companies we spoke to included Boston Scientific Corp, Eaton Corp, Electronic Arts Inc, HP Inc and Infineon Technologies AG. We also wrote to the boards of a number of companies. We have noticed in this dialogue that some companies have chosen to transfer activities from countries with no income taxes to countries which have higher tax rates but still offer incentives that affect how much tax companies pay.

Incident-based dialogue

We also follow up unwanted incidents that could indicate weak corporate governance or management of environmental and social risks. Examples of this work in 2021 include Adani Ports & Special Economic Zone Ltd's operations in Myanmar, TotalEnergies SE's approach to the development of the East African Crude Oil Pipeline, The Bank of New York Mellon Corp's potential financing of the Carmichael mine in Australia, and emissions of the greenhouse gas fluoroform by The Chemours Company. We followed up McDonald's Corp's efforts to prevent gender-based violence and sexual harassment in its operations and at franchisees, which is also the subject of an ongoing case being considered by Norway's National Contact Point for responsible business conduct.

Dialogue on ethical criteria

The ethical guidelines issued by the Norwegian Ministry of Finance state that, before making a decision on observation or exclusion, Norges Bank should consider whether other measures, including the exercise of ownership rights, may be more suited to reduce the risk of continued norm violations, or whether such alternative measures may be more appropriate for other reasons.

Serious violations of human rights

In April 2018, Norges Bank's Executive Board decided to ask Norges Bank Investment Management to raise the risk of child labour with UPL Ltd as part of our active ownership work. The aim of our dialogue with UPL is to reduce the use of child labour at its subsidiary Advanta Seeds Pty Ltd, which produces various types of seed in India. We had regular contact in 2021, including two meetings with representatives from both UPL and Advanta.

The companies continued to develop and improve their information campaigns during the year, and updated their policies and contracts with farmers. They prioritised improvements to supply chain monitoring, including new tools and staff training. The companies continued to participate in the industry initiative ECHO Forum, and commissioned an external evaluation with field surveys of child labour in seed production which had promising results.

Thematic dialogues on social and environmental topics

Dialogue	Themes	Number of companies	Started	Status
Tax policies	Anti-corruption and tax	15	2019	Ongoing
Corruption risk in the industrials sector	Anti-corruption and tax	8	2020	Ongoing
Low tax jurisdictions	Anti-corruption and tax	32	2020	Ongoing
Environmental impact of cement and concrete	Climate and environment	12	2019	Completed
Environmental impact of fashion industry	Climate and environment	12	2019	Completed
Climate transition and responsible ship recycling	Climate and environment	10	2019	Completed
Bank financing of high emitters	Climate and environment	17	2020	Completed
Low carbon transition in the steel industry	Climate and environment	14	2020	Ongoing
Climate lobbying in EU heavy industries	Climate and environment	9	2020	Ongoing
Forest risk commodities in consumer goods	Climate and environment	12	2020	Ongoing
Net zero targets for high emitters	Climate and environment	11	2021	Ongoing
Sustainable fisheries	Climate and environment	10	2020	Ongoing
Water metrics and targets	Climate and environment	13	2020	Ongoing
Environmental risks and opportunities in global food systems	Climate and environment	13	2021	Ongoing
Integrated oil and gas climate engagement	Climate and environment	7	2021	Ongoing
Working arrangements in food delivery and transport companies	Human rights	6	2020	Ongoing
Enhanced due diligence in conflict areas	Human rights	21	2020	Ongoing
Child safety online	Human rights	11	2021	Ongoing
Forced labour risks in electronics and consumer supply chains	Human rights	40	2019	Ongoing
Responsible marketing of infant formula	Human rights	13	2018	Ongoing

Severe environmental damage

In October 2013, the Ministry of Finance asked Norges Bank to include oil spills and environmental conditions in the Niger Delta in our ownership work with the oil and gas companies Eni SpA and Royal Dutch Shell PLC for a period of five to ten years. In 2018, Norges Bank decided to continue to engage with mining company AngloGold Ashanti Ltd for a further three years.

The aim of our dialogue with Eni SpA and Royal Dutch Shell PLC is to contribute to a reduction in the number and volume of oil spills and ensure immediate and effective remediation of spills. We followed this up at three meetings with the companies in 2021.

The number of spills from pipelines operated by Eni SpA was stable during the year, while the volume of spills decreased slightly. The company reported that the security situation had deteriorated, due partly to high oil prices, making it harder both to produce oil and to prevent spills. Eni has worked on strengthening its dialogue with the local community and the various security forces in recent years, and improved its monitoring and response times for spills. The year saw fewer spills due to operating errors.

Spills from pipelines operated by Royal Dutch Shell PLC decreased in 2021 but were still high. Royal Dutch Shell PLC and its partners in Nigeria have implemented various measures, including maintenance, better protection of wellheads and closer collaboration with local communities. The clean-up of affected areas was hampered by the pandemic, and the backlog has increased considerably. The company is working with the Nigerian authorities to clean up legacy pollution in Ogoniland and is continuing to pay its share of the clean-up costs.

Royal Dutch Shell PLC announced early in 2021 that it was considering selling its onshore business in Nigeria. We stressed the importance of a buyer continuing to operate responsibly.

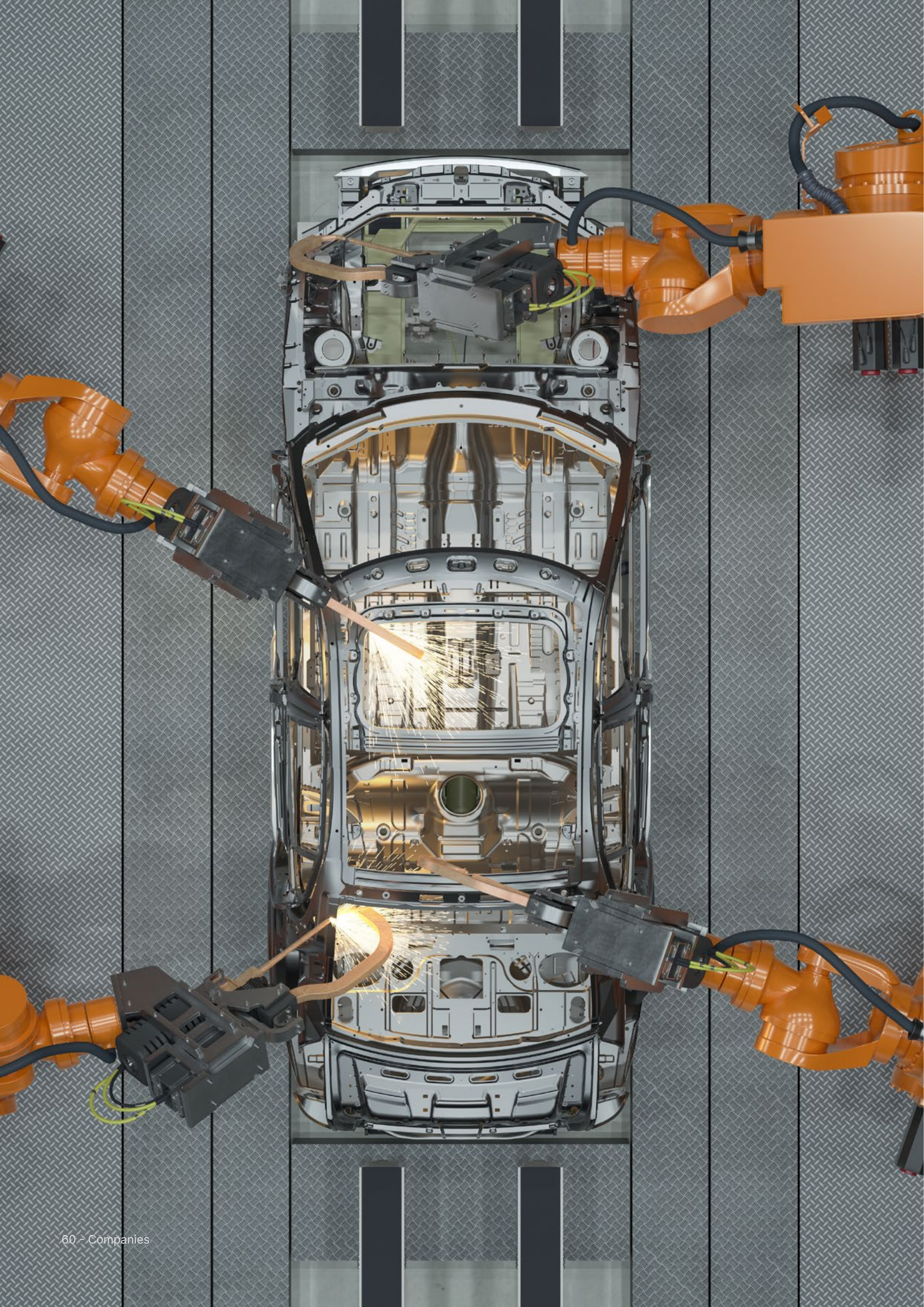
We continued our dialogue with AngloGold Ashanti in 2021. The aim of the dialogue is to encourage the company to clean up previous pollution and operate the Obuasi mine in Ghana in accordance with internationally recognised standards. We held two meetings with the company during the year in addition to ongoing correspondence. The company reported good progress in both its modernisation programme and the restoration of polluted areas, although the pandemic continued to cause delays.

Gross corruption

In March 2021, the Executive Board decided to ask Norges Bank Investment Management to include anti-corruption in its ownership work with ThyssenKrupp AG over a period of four years. The aim of this dialogue is to ascertain that the company's board and management have taken effective action to prevent corruption. There is a particular focus on risk assessments and actions relating to third-party relationships. We also want to understand how the company's governance structure affects its anti-corruption work, as allegations of corruption may be a sign of underlying legal, operational or governance risks and high risk tolerance.

We had two meetings in 2021 with the company's chairman and representatives of the department responsible for anti-corruption. We also had a dialogue with one of the company's largest shareholders. We have the impression that the company is working actively on reducing the risks associated with third parties, especially sales agents and consultants offering services related to offset agreements.

In August 2020, the Executive Board decided to ask Norges Bank Investment Management to follow up anti-corruption work at PetroChina Co Ltd as part of our active ownership efforts. The aim of the dialogue is to explore how the company's board and management prevent corruption with effective systems and measures. We have had two meetings with the company since the Executive Board's decision. Due to the pandemic, it has not been possible to take up PetroChina's invitation to visit the company in China to continue this dialogue.



Voting

We voted at 11,601 shareholder meetings in 2021. Voting is one of the most important tools we have as a shareholder for promoting long-term value creation at companies and safeguarding the fund's assets.

The fund is invested in more than 9,000 companies spanning every sector. However, the fund has only a small percentage holding in each company and delegates most decisions to the company's board and management. This requires the board to discharge its duties effectively, and management to have the right incentives. Good corporate governance protects our rights as an investor and breeds confidence in the market.

The main way we can influence companies as a shareholder is by electing the board and approving important decisions.

Our default position is to support the company while also expressing our expectations. We expect board members to act independently and without conflicts of interest, to have the right balance of experience and skills to carry out their duties, and to be accountable for their decisions. The board is also responsible for the company's sustainability.

We expect shareholders to be afforded the opportunity to approve fundamental changes at the company, to be given accurate, relevant and timely information, and to be treated equitably in decisions on capital structure.

We will nevertheless vote against the board if we consider that it is not able to function effectively or if our rights as a shareholder are not adequately protected. This might also lead us to vote in favour of shareholder resolutions that are not supported by the board.

Voting principles

We aim to be consistent and predictable in our voting at shareholder meetings.

Consistency means that the voting decisions we take can be explained by our principles. When we apply our principles, we take account of a company's circumstances and best practices in the local market. Being consistent does not mean that we vote the same way every year or on every issue and at every company.

Predictability means that companies can understand why we vote the way we do. Our voting guidelines are publicly available on our website www.nbim.no. We also create predictability by publishing our votes five days before a shareholder meeting.

Voting process

Given the high number of shareholder meetings, we are dependent on a reliable voting process. We strive constantly to improve this process.

Shareholder meetings

We aim to vote at all shareholder meetings at companies in our portfolio. The global securities market ensures that capital is allocated efficiently across national borders, but shareholders' voting rights are still subject to local regimes. Furthermore, voting is often manual, with little use of digital solutions to make the process more efficient. For our votes to reach each shareholder meeting and be counted, we rely on a number of intermediaries, making the process slow and uncertain. We are working with regulators and service providers to improve the voting process and ensure that our votes are registered.

We aim to vote at all shareholder meetings at companies in our portfolio. In 2021, we voted at 97.1 percent of shareholder meetings, down slightly from 98.0 percent in 2020. When we do not vote, this is generally because voting would lead to share blocking, thereby restricting our ability to trade, or because other rules make it difficult to exercise our voting rights.

Voting by proxy

Most companies permit shareholders to vote at shareholder meetings without attending in person. This system enables us to vote at companies all around the world.

We use an online platform where an external agent brings together all necessary information about upcoming shareholder meetings.

Consideration of resolutions

The majority of the resolutions we vote on fall within the scope of our published voting guidelines. Extensive data on companies and detailed guidelines put us in a position to automate most voting decisions. This is necessary in order to handle a vast number of resolutions in a short period with reasonable resources.

In some cases, the guidelines are less relevant due to the nature of the resolution. We identify such cases, analyse them individually and vote according to our principled position on good corporate governance. Executive remuneration, mergers and acquisitions, and shareholder resolutions on sustainability are examples of where we must often exercise judgement in the application of our principles.

Where our portfolio managers have an in-depth knowledge of the company, we use this information in the voting process. Information from portfolio managers helps us apply our principles more accurately at the individual company. Portfolio managers participated in voting decisions at 605 companies in 2021. These companies included our largest investments and together made up 53.4 percent of the equity portfolio's market value.

Voting intentions

In 2021, we began to publish our voting intentions five days before each meeting. When we vote against the board's recommendation, we provide an explanation based on our public voting guidelines. The idea is to provide greater transparency around our priorities as a shareholder. Our voting intentions can be found on our website www.nbim.no. Visitors can search on individual companies or download the complete dataset of all our votes since 2013 and request daily updates on our voting instructions five days before the meeting.

Voting at shareholder meetings

Once we have decided how we wish to vote, we use the digital platform to send instructions to our agent, which then forwards them to the shareholder meeting.

Securities lending and voting

The global market for borrowing and lending equities contributes to increased liquidity and more efficient pricing of companies, which are important for well-functioning securities markets. The fund participates in this market, and lending equities brings us a stable return. This lending increased the return on the equity portfolio in 2021 by 0.03 percentage point, or around 3.5 billion kroner.

When the fund lends equities, we are then unable to exercise the voting rights that go with the shares. So that we meet our responsibilities as a shareholder, our largest investments and companies where we are among the largest shareholders are generally excluded from the lending programme. Nor do we lend shares when we are engaged in intensive dialogue with the company. We do not lend more than 20 percent of the investment portfolio, and we always retain some shares in each company so that we can vote at shareholder meetings.

The fund has clear guidelines and procedures for limiting the risk of lent securities being misused for tax avoidance. We do not vote shares that we receive as collateral.

Voting in 2021

We voted on 116,525 resolutions at 11,601 shareholder meetings in 2021. We voted in line with the board's recommendation in 95.2 percent of cases and at 72.9 percent of meetings. This was on a par with our voting in 2020.

Effective boards

Director elections account for nearly 40 percent of the resolutions we vote on. These are the most important votes we cast.

We voted on 46,170 board candidates in 2021. This is equivalent to 39.6 percent of all resolutions we voted on. We voted in line with the board's recommendation in 94.4 percent of director elections, compared with 94.6 percent in 2020.

The board and its committees must be sufficiently independent of management and large shareholders, and have no other conflicts of interest. We stepped up our expectations for board independence in Japan during the year to promote better corporate governance. A lack of independence on the board or its committees was the main reason for us to vote against candidates, contributing to 949 votes against the board in 2021.

We advocate a clear separation of roles and responsibilities between chairperson and CEO. This is necessary for the board to oversee management without conflicts of interest. Combination of the role of chairperson and CEO was the second most important reason for voting against candidates, contributing to 646 votes against the board in 2021. Combined roles are particularly common in the US but have fallen from 44 percent of companies in the Russell 3000 index in 2012 to 31 percent in 2021.

Board members should be well prepared for meetings and participate actively in discussions. This requires time and availability, and so there will always be a limit to how many board roles one person can handle. Directors having excessive commitments or not attending enough meetings led to us voting against 507 board candidates in 2021.

Diversity contributes to effective boards and is a sign of a healthy nomination process. A board with a gender imbalance may be a sign that the company does not have good processes for identifying suitable candidates. We stepped up our expectations for board diversity in 2021. We voted against the chair of the nomination committee at large- and mid-cap European and US companies without at least two women on the board. This meant that we voted against members of the nomination committee at 142 companies.

We may also vote against individual directors to hold them to account for the company's conduct. This resulted in 206 votes against the board in 2021. For example, we voted against boards that had not acted in shareholders' interests or managed the company responsibly, against remuneration committee members where there was a history of problematic executive pay, and against audit committee members where the external auditor had found problems with the annual financial statements.

We also voted against the board at six companies on account of inadequate reporting or management of climate risk. In all of these cases, our conclusion was that the board had not acted in shareholders' interests.

Appropriate management incentives

"Say on pay" arrangements give shareholders in some countries a right or a duty to consider executive pay and express their views by voting. The introduction of the EU's Shareholder Rights Directive II has led to a growing number of votes on remuneration plans in Europe.

In our position paper, we argue that the CEO should be given incentives to create long-term value for the company. Remuneration plans should be long-term and include a substantial equity component with a lengthy lock-in period. Remuneration plans should also be easy to understand and clear about how much the CEO is paid each year.

We voted on 5,483 resolutions on CEO remuneration in 2021. We voted against 7.3 percent of these resolutions, compared with 6.5 percent in 2020. The increase was due partly to our critical stance on companies adjusting targets or results during the pandemic, and on plans with a very small equity component. Altogether, we voted on 13,603 resolutions on the remuneration of directors, executives and other employees.

We noted considerable shareholder interest in executive remuneration once again in 2021. Large government support packages and high unemployment during the pandemic have led to a debate about the level of executive pay in some countries. In markets where shareholders get to vote on executive pay, these resolutions attracted an average of 89.3 percent support, down from 91.0 percent in 2020. In the US, support for executive pay dropped to 89.2 percent from 90.3 percent in 2020, and 4.2 percent of remuneration plans failed to win a majority, compared with 2.3 percent in 2020.

Protection of shareholders

We voted on 43,868 resolutions concerning shareholder rights in 2021. We voted against the board's recommendation in 4.3 percent of these cases, compared with 4.6 percent in 2020.

We also voted against 367 amendments of companies' governing documents where we considered the changes not to be in shareholders' interests. In some cases, we voted against the resolution because we did not have enough information to assess it. All in all, we voted against 10.3 percent of these resolutions, compared with 6.5 percent in 2020.

To ensure good reporting, most markets require a company's annual financial statements to be approved by an external auditor appointed by shareholders. We voted against the appointment of an auditor in 189 cases in 2021, or 3.3 percent of the total, unchanged from 3.3 percent in 2020. The main reason for voting against an auditor was that we had not received sufficient information to assess the auditor's independence.

New shares should be offered proportionally to existing shareholders. Where a board proposes waiving shareholders' pre-emption rights, this needs to be in the common interest of the company and its shareholders. We voted against the board on 329 share issuances in 2021, or 3.6 percent of the total, compared with 4.2 percent in 2020. This was mainly where the board proposed waiving pre-emption rights in major new issuances.

We expect strategic transactions such as mergers and acquisitions to contribute to value creation and treat all shareholders equitably. We believe that the market for corporate control helps discipline management. Anti-takeover measures are generally not in shareholders' interests, and the introduction of such measures should at the very least be subject to shareholder approval. We voted against 53 resolutions on mergers and acquisitions on account of anti-takeover measures in 2021, or 8.5 percent of the total, compared with 14.9 percent in 2021.

Shareholder resolutions

Resolutions submitted by shareholders made up 2.0 percent of the resolutions we voted on in 2021. Corporate governance matters accounted for 88.6 percent of these, and sustainability issues for 10.6 percent.

Governance resolutions

Our point of departure is that shareholders have delegated most decisions to the board. For this delegation to function effectively, boards must be accountable for their decisions and ensure that shareholders' rights are protected. We support shareholder resolutions on governance matters where they are well-founded and aligned with our principles. The most relevant shareholder resolutions are tabled in the US. We voted in favour of 39.8 percent of governance-related shareholder resolutions in the US in 2021, compared with 49.2 percent in 2020.

Shareholders propose resolutions on governance matters to protect their rights. These resolutions typically concern the right to call extraordinary meetings, the right to propose competing board candidates, or calls for an independent chairperson.

We saw a slight increase in the number of governance-related shareholder resolutions in the US. We voted on 324 in 2021, compared to 321 in 2020. Shareholder support for these resolutions has increased over time, with 14.9 percent gaining majority support in 2021. We backed 57.0 percent of these.

We supported 38 shareholder resolutions calling for an independent chairperson, including at some of our largest holdings, such as Meta Platforms Inc, Johnson & Johnson and JPMorgan Chase & Co. None received enough votes to be passed. Our voting in favour of an independent chairperson at such companies reflects our principled position that the roles of chairperson and CEO should not be combined.

Sustainability resolutions

We have seen an increase in the number of shareholder resolutions addressing environmental and social issues over the years, but there was a slight decrease from 2020 to 2021. These resolutions span a wide range of topics, from climate scenario analyses to assessments of supply chain risks and the use of recyclable packaging. Many of these proposals are well-founded initiatives that we can support, while others concern matters of less relevance or seek to micromanage the company. Sustainability resolutions submitted by shareholders made up 0.2 percent of the resolutions we voted on in 2021.

We voted on 242 shareholder resolutions on sustainability issues in 2021, compared with 262 in 2020. We voted in favour of 31.4 percent of these, compared with 35.1 percent in 2020.

Most resolutions of this kind are tabled in the US. According to consulting firm ISS, 47.7 percent of such resolutions in 2021 were withdrawn ahead of the shareholder meeting, often after the company committed to amending its practices in line with the proponent's wishes.

According to ISS, support for these resolutions averaged 27.7 percent in the first half of 2021, compared with 26.7 percent in 2020. This increased level of support may indicate that the quality of the resolutions has improved and that they are generally seen as more relevant.

A small but growing share of these resolutions win majority support. In 2021, 44 sustainability resolutions passed at companies in which the fund had holdings, up from 24 in 2020. These included climate-related resolutions at Rio Tinto Ltd and Philips 66 calling on these companies to set emission reduction targets. There were also resolutions calling for greater openness on lobbying and politically motivated donations at companies such as Netflix, Royal Caribbean Cruises Ltd and United Airlines Holdings Inc. A resolution at Exxon Mobil Corp asked management to report on whether the company's lobbying was consistent with the Paris Agreement. We supported this resolution, which won 64.2 percent of the vote.

The year also saw some new types of resolution concerning diversity and inclusion. We voted in favour of resolutions at United Parcel Service Inc and Union Pacific Corp to improve evaluation and reporting of their work in this area. These attracted support of 33.1 and 81.4 percent respectively.

How technology companies handle environmental and social issues has attracted increasing attention in recent years. We voted in favour of resolutions at Amazon.com Inc and Meta Platforms Inc calling for greater transparency about the risk of human rights violations related to their products and platforms. These attracted 35.3 and 19.5 percent of the vote respectively.

Table 11 Votes against board recommendations among the fund's top 50 holdings in 2021.

Company	Portfolio rank	Country	Resolutions voted against	Rationale
Microsoft Corp	2	US	3	Sustainability reporting, Chairperson independence
Alphabet Inc	3	US	4	Sustainability reporting, Board time commitment, Voting rights, Remuneration
Amazon.com Inc	4	US	4	Sustainability reporting
Facebook Inc	6	US	4	Sustainability reporting, Chairperson independence, Voting rights
Tesla Inc	8	US	5	Sustainability reporting, Board accountability, Governing documents
Roche Holding AG	9	Switzerland	1	Shareholder protection
Tencent Holdings Ltd	14	China	1	Remuneration
Berkshire Hathaway Inc	15	US	2	Sustainability reporting
Novartis AG	18	Switzerland	1	Shareholder protection
LVMH Moët Hennessy Louis Vuitton SE	19	France	4	Remuneration, Board accountability, Related party transactions
UnitedHealth Group Inc	22	US	1	Remuneration
TOTAL SE	16	France	1	Chairperson independence
Home Depot Inc/The	26	US	2	Sustainability reporting, Chairperson independence
Johnson & Johnson	24	US	2	Chairperson independence
JPMorgan Chase & Co	20	US	2	Chairperson independence
Bank of America Corp	21	US	2	Chairperson independence, Governing documents
Pfizer Inc	37	US	2	Chairperson independence
Alibaba Group Holding Ltd	28	China	1	Board committee independence
Exxon Mobil Corp	29	US	5	Sustainability reporting, Chairperson independence
Chevron Corp	35	US	3	Sustainability reporting, Chairperson independence
Walmart Inc	41	US	1	Sustainability reporting
Equity Residential	45	US	1	Board time committment
Thermo Fisher Scientific Inc	50	US	1	Chairperson independence
Visa Inc	47	US	3	Chairperson independence, Board time commitment, Governing documents

Exclusion

We exclude companies whose products or conduct violate fundamental ethical norms. By not investing in these companies, we reduce the fund's exposure to unacceptable risks that could damage its credibility.

Decisions on exclusion may be motivated by information indicating that companies are violating fundamental ethical norms. The Ministry of Finance has issued ethically motivated guidelines for observation and exclusion of companies from the fund. The fund must not be invested in companies that produce certain types of weapon, base their operations on coal, or produce tobacco. Nor may the fund be invested in companies whose conduct contributes to violations of fundamental ethical norms. The Ministry of Finance has set up an independent Council on Ethics to make ethical assessments of companies. The Council on Ethics sends its recommendations to Norges Bank. Norges Bank's Executive Board makes the final decision on exclusion, observation or active ownership.

Ethical exclusions

Norges Bank makes decisions on the observation and exclusion of companies after receiving a recommendation from the Council on Ethics, which has five members and a secretariat. Norges Bank and the Council on Ethics exchange information regularly and co-ordinate contact with the companies in which we are invested. In 2021, Norges Bank excluded 12 companies, placed three companies under observation, and decided on active ownership for one company, while reversing the exclusion of five companies and removing another four from observation.

Product-based exclusions

The fund must not invest in companies which themselves, or through entities they control, manufacture weapons that violate fundamental humanitarian principles through their normal use, or sell weapons or military materiel to certain countries. Nor may the fund invest in companies that produce tobacco. There is also a product-based coal criterion that applies to companies in two categories: mining companies that derive 30 percent or more of their revenue from the production of thermal coal, and power companies that derive 30 percent or more of their revenue from coal-based power production. The coal criterion also includes mining and power companies that produce more than 20 million tonnes of thermal coal per year or have coal-based power generation capacity of more than 10,000 MW, regardless of total revenue or total power output.

Three exclusions under the product-based criteria were reversed in 2021, and four companies were removed from observation. A total of 104 companies that produce certain types of weapon, tobacco or coal, or use coal for power production, are currently excluded from the fund.

Conduct-based exclusions

Companies may also be excluded if there is an unacceptable risk of them contributing to or being responsible for particularly serious violations of fundamental ethical norms. Norges Bank's Executive Board bases its decisions on an assessment of the probability of future norm violations, the severity and extent of the violations, and the connection between the violation and the company in which the fund is invested.

The Bank may also consider the breadth of the company's operations and governance, including whether the company is doing what can reasonably be expected to reduce the risk of future norm violations within a reasonable time frame. Before the Bank takes a decision to exclude a company, it must consider whether other measures, such as active ownership, might be more suited to reduce the risk of continued norm violations, or whether such alternative measures may be more appropriate for other reasons.

In 2021, 12 companies were excluded on the grounds of conduct considered to constitute particularly serious violations of ethical norms, while two exclusions under the conduct criteria were reversed.

A total of 48 companies are currently excluded as a result of their conduct.

Ethical exclusions and observation in 2021

Category	Criterion	Number in 2021	Companies in 2021	Total 2002-2021
Exclusion	Production of specific weapon types	0		16
	Production of tobacco	0		16
	Thermal coal mining or coal-based power production	0		72
	Human rights violations	1	Honeys Holdings Co Ltd	7
	Serious violations of the rights of individuals in situations of war or conflict	6	Shapir Engineering and Industry Ltd, Mivne Real Estate KD Ltd, Elco Ltd, Ashtrom Group Ltd, Electra Ltd, Oil & Natural Gas Corp Ltd	8
	Severe environmental damage	5	China Traditional Chinese Medicine Holdings Co Ltd, Beijing Tong Ren Tang Chinese Medicine Co Ltd, Tong Ren Tang Technologies Co Ltd, China Grand Pharmaceutical and Healthcare Holdings Ltd, Yunnan Baiyao Group Co Ltd	22
	Greenhouse gas emissions	0		4
	Gross corruption	0		2
	Other particularly serious violations of fundamental ethical norms	0		2
	Severe environmental damage and human rights violations	0		3
Observation	Thermal coal mining or coal-based power production	0		13
	Human rights violations	0		3
	Serious violations of the rights of individuals in situations of war or conflict	1	Kirin Holdings Ltd Co	1
	Severe environmental damage	1	Marfrig Global Foods SA	2
	Gross corruption	1	Hyundai Engineering & Construction Co Ltd	2
	Severe environmental damage and human rights violations	0		1
Revoked exclusions	Production of specific weapon types	1	Hanwha Corp	5
	Production of tobacco	0		1
	Thermal coal mining or coal-based power production	2	Empire District Electric Company, Anglo American PLC	3
	Human rights violations	1	Atal SA/Poland	4
	Severe environmental damage	0		2
	Other particularly serious violations of fundamental ethical norms	0		3
	Severe environmental damage and human rights violations	1	Precious Shipping PCL	1
Observation ended	Thermal coal mining or coal-based power production	4	EDP – Energias de Portugal S.A., Endesa S.A., Portland General Electric Co (PGE), Enel SpA	4
	Gross corruption	0		3

A total of 104 companies that produce certain types of weapon, tobacco or coal, or use coal for power production, are currently excluded from the fund.

Impact on the fund's equity returns

Product-based exclusions have reduced the cumulative return on the equity benchmark index by around 1.1 percentage points, or 0.02 percentage point annually. It is first and foremost the exclusion of weapons manufacturers that has reduced returns, but the absence of tobacco companies has also played a role. Conduct-based exclusions have increased the cumulative return on the benchmark index for equities by around 0.9 percentage point, or 0.02 percentage point annually. The exclusion of companies due to severe environmental damage has contributed particularly positively. All in all, the equity benchmark index has returned 0.2 percentage point less than it would have done without any ethical exclusions. On an annualised basis, the return has been only negligibly (0.00 percent) lower.

The aim of our exclusions and divestments is to avoid investing in companies that produce certain types of products or are responsible for violations of ethical principles, and to reduce the fund's exposure to other unacceptable risks. This is the final stage in our responsible investment management. Our mission is to safeguard and build financial wealth for future generations, and all parts of our responsible investment management are to further this objective.

Chart 10 Return impact of equity benchmark index exclusions relative to an unadjusted index. Measured in dollars. Percentage points.

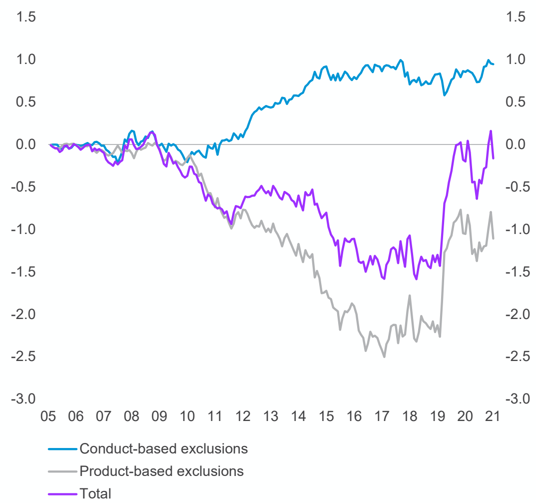


Table 12 Contribution to return impact of equity benchmark index exclusions by exclusion criterion as at 31 December 2021. Market value in billions of kroner. Contribution measured in dollars. Percentage points.

Criterion	Number of excluded companies from benchmark	Market value in benchmark if not excluded[1]	2021	2006–2021 annualised
Product-based exclusions	**104**	**188**	**0.04**	**-0.02**
Production of specific weapon types	16	68	0.10	-0.02
Production of tobacco	16	51	0.02	0.00
Thermal coal mining or coal-based power production	72	70	-0.07	0.00
Conduct-based exclusions	**48**	**45**	**-0.02**	**0.02**
Human rights violations	7	6	0.01	-0.01
Serious violations of the rights of individuals in situations of war or conflict	8	2	0.00	0.00
Severe environmental damage	22	29	0.02	0.03
Acts or omissions that on an aggregate company level lead to unacceptable greenhouse gas emissions	4	5	-0.02	0.00
Gross corruption	2	1	0.00	0.00
Other particularly serious violations of fundamental ethical norms	2	1	0.00	0.00
Severe environmental damage and human rights violations	3	2	-0.01	0.00
Total	**152**	**233**	**0.03**	**0.00**

[1] Market value and return impact include only companies that were part of the FTSE Global All Cap Index as of 31.12.2021.

Responsible investment in the management mandate

Chapter 1. General provisions

Section 1-2. The management objective
The Bank shall seek to generate the highest possible return, net of costs, measured in the currency basket of the investment portfolio, cf. Section 3-2, Sub-section 1, within the applicable investment management framework.

Section 1-3. General management principles
(**3**) Responsible management shall form an integral part of the management of the investment portfolio, cf. Chapter 4. A good long-term return is considered to depend on sustainable economic, environmental and social development, as well as on well-functioning, legitimate and efficient markets.

(**4**) The Fund shall not be invested in companies that are excluded under the provisions in the guidelines for observation and exclusion from the GPFG.

Section 1-4. Duty to advise and right to be consulted, etc.
(**5**) The Bank shall contribute to research aimed at increasing the knowledge of matters relevant to the long-term return on, and risk in, the investment portfolio, including responsible management research. The Executive Board shall establish guidelines for such work. The Ministry shall be informed of any plans for such research and shall be invited to provide input.

Chapter 4. Responsible management

Section 4-1. Responsible management activities
The Bank shall seek to establish a chain of measures as part of its responsible management efforts.

Section 4-2. Responsible management principles
(**1**) The Executive Board shall establish a set of principles for the responsible management of the investment portfolio. The principles shall be presented to the Ministry no less than three weeks prior to their adoption.

(**2**) In formulating the principles referred to in Sub-section 1, the Bank shall emphasise the long time horizon for the management of the investment portfolio, as well as its basis in broad diversification of the investments.

(**3**) The principles shall be based on environmental, social and corporate governance considerations in accordance with internationally recognised principles and standards, such as the UN Global Compact, the UN Guiding Principles on Business and Human Rights (UNGP), the G20/OECD Principles of Corporate Governance and the OECD Guidelines for Multinational Enterprises.

(**4**) The principles and the measures taken to further such principles shall be made public, cf. Section 4-1 and Section 6-1, Sub-section 4 h).

(**5**) As far as environmental considerations are concerned, the Bank shall in its management of the unlisted real estate portfolio attach weight to, inter alia, energy efficiency, water consumption and waste management.

Section 4-3. Contribution to the development of international standards
(**1**) The Bank shall contribute to the development of relevant international responsible management standards.

(**2**) The Executive Board shall establish guidelines for the Bank's efforts referred to in Sub-section 1, including any membership of, or corresponding affiliation with, organisations or groups, as well as for contact with government bodies in other countries. The guidelines shall be presented to the Ministry no less than three weeks prior to their adoption.

Section 4-4. Environment-related investments
(**1**) The Bank shall establish environment-related investment mandates. The market value of the environment-related investments shall normally be in the NOK 30-120 billion range.

(**2**) The environment-related investment mandates shall be focused on eco-friendly assets or eco-friendly technology, including climate-friendly energy, improving energy efficiency, carbon capture and storage, water technology and environment-related services such as management of waste and pollution, etc.

Section 4-5. Exclusion and observation decisions
The Executive Board shall make decisions on the observation or exclusion of companies, as well as the reversal of such decisions, pursuant to the guidelines for observation and exclusion from the GPFG. The Bank shall inform the Ministry of any decision on the exclusion of companies, as well as the reversal of such decisions, cf. Section 2-1, Sub-section 3.

Chapter 6. Public reporting

Section 6-1. Reporting requirements
(**4**) In addition to the requirements under Section 6-1, Sub-section 3, the Bank shall annually report on and specifically address the following (annual reporting):

h. The responsible management efforts, cf. Chapter 4, including the measures used and the effect of the exercise of ownership rights, as well as how the principles for responsible management are integrated in investment management. This reporting shall be approved by the Executive Board.

Reporting against the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD)

Governance	
The fund's mandate	• The management mandate for the fund given to Norges Bank by the Ministry of Finance includes requirements for responsible investment. Changes to the mandate or the guidelines for observation and exclusion may be subject to parliamentary scrutiny. The Ministry publishes an annual white paper on the management of the fund which discusses the further development of the investment strategy and presents work on responsible investment and climate risk.
Board oversight	• Climate change has been a focus area for Norges Bank since 2006, and the Bank's work on integrating climate risk into investment management is overseen by the Executive Board. • The Executive Board has issued principles for responsible investment management, follows up the fund's responsible investment strategy, and reviews the annual responsible investment report. • The Executive Board decides which companies are to be placed under observation or excluded from the fund. The guidelines for observation and exclusion include a product-based coal criterion and a conduct-based climate criterion. • The Executive Board has established an Ownership Committee with a preparatory and advisory role on matters pertaining to the fund's responsible investment activities and decisions on observation and exclusion. • In 2021, the Executive Board considered questions relating to the fund's climate risk and climate-related ethical exclusions at meetings and seminars as well as in four letters to the Ministry of Finance with analysis and advice.
Role of management	• The Chief Executive Officer (CEO) of Norges Bank Investment Management has overall responsibility for implementing the requirements set by the Executive Board. The CEO sets policies and issues mandates and job descriptions for members of the leader group. These include policies on responsible investment management and enterprise risk management. The latter contains a requirement that the assessment of environmental, social and governance (ESG) risks, including climate risk, is integrated into investment management. • The Chief Governance and Compliance Officer (CGCO) and Chief Risk Officer (CRO) both report directly to the CEO. The CGCO is responsible for the fund's work on responsible investment, including the fund's expectation documents on climate change, deforestation and biodiversity. The CRO is responsible for analysing, measuring and reporting investment risk for the fund, including climate risk. • The investment mandates issued to all of the fund's internal and external investment managers require investment decisions to reflect responsible investment practice and ESG risks, including climate risk.

Strategy	
Risks and opportunities	• Climate change is one of a number of risk factors for the fund. It can give rise to both transition risks and physical risks for the companies we invest in. • A broadly diversified and market-weighted portfolio such as the fund will, in principle, have approximately the same financial climate risk as the underlying markets and sectors it is invested in. • The fund's investment universe and benchmark index are subject to a number of climate-relevant adjustments. Coal miners and coal power producers are excluded from the fund's investment universe if they exceed set thresholds. Oil and gas exploration and production companies have been removed from the fund's benchmark index for equities. • The fund also has dedicated environment-related investment mandates (see page 39). • Through responsible investment, we work to identify climate-related risks and opportunities facing the fund, and to address these within the constraints of our mandate.
Investment strategy	• Our responsible investment strategy has three pillars: • Establishing principles: We set expectations of companies and work actively to develop standards to promote better climate risk management and reporting. Over time, we expect these efforts to contribute to more accurate pricing of the financial impact of climate change, and to promote better-functioning markets and the transition to a low-carbon economy. • Exercising ownership: We use our ownership rights to promote long-term value creation and reduce risk at the companies we invest in. This includes voting on climate-related resolutions at shareholder meetings and taking a materiality-based approach to engaging with companies on how they integrate climate considerations into their governance, strategy and reporting. • Investing sustainably: We work to identify, measure and manage risks and opportunities that could impact the fund's value. We assess companies' greenhouse gas emissions and climate disclosures, and regularly screen the portfolio for companies with elevated climate risk. We may choose to divest from certain companies on the grounds of unacceptable climate risk. Conversely, our environment-related mandates invest in technology or unlisted infrastructure that contributes positively to the low-carbon transition.
Resilience of investment strategy	• To analyse the equity portfolio's transition risk, we stress-test the portfolio against the goals in the Paris Agreement. Partly with the help of MSCI's Climate Value-at-Risk tool, we have looked at climate scenarios where global temperatures rise by 1.5°C, 2°C and 3°C by 2080. We have also considered a 2°C scenario with a late policy response, where carbon prices follow the 3°C scenario until 2030 and then rise rapidly in the years after that. When we stress-test the current equity portfolio against these different scenarios, we find that the point estimates for long-term losses are between 1 and 9 percent. This corresponds to between 100 and 800 billion kroner based on the current value of the fund. Each of the point estimates is associated with considerable uncertainty, and the actual outcomes may be very different. The interplay between physical risk and transition risk is also not captured by these scenario analyses. Methods for climate scenario analysis are still evolving, and we are continuing to work on our approach and tools to understand the fund's exposure in different scenarios. See also page 34 of this report. • The fund's real estate investments are directly exposed to both physical risks and transition risks. We estimate that around 4 percent of the value of the unlisted real estate portfolio is in locations that have experienced flooding at least once in the last century. We have taken steps to protect buildings in flood zones with temporary flood barriers, by moving equipment to higher floors, and through insurance arrangements. To address the regulatory risk, we measure emissions from our unlisted real estate investments and work on reducing them. Many of our tenants are international companies that have targets for reducing their carbon footprint. This may lead them to look for offices in energy-efficient buildings with low emissions. See also page 43 of this report.

Risk management	
Identification and assessment of risks	• We use a number of tools to identify and assess the climate risks facing the fund. • We estimate the portfolio's carbon footprint and carbon intensity annually, and we analyse the greenhouse gas emission profile of each of the 9,338 companies in which the fund is invested. • These companies have different levels of exposure to climate risk. In analyses we carried out in 2021, 76 percent of the market value of the fund's equity portfolio was in the group of companies that MSCI classifies as having neutral exposure to transition risk, 7 percent in the group considered to require operational transition, 7 percent in the group requiring product transition, and 6 percent in the group providing climate solutions. • We conducted 1,768 analyses of the reporting of companies in industries with climate exposure in 2021 to assess how well equipped they are to address climate risk, including deforestation risk (see Metrics and Targets below). • We screen our portfolio annually for companies with particularly carbon-intensive business models and poor climate risk management practices. These are then considered for follow-up through dialogue or risk-based divestment. See page 45 of this report for further details. • We monitor the portfolio continuously for ESG-related incidents. These are escalated according to internal procedures.
Management of risks	• We meet companies regularly to discuss their approach to climate-related risks and opportunities, and to encourage improved disclosure. In 2021, we engaged with 523 companies on climate-related topics. See the more detailed information on our dialogue on page 54 of this report and under Metrics and Targets below. • Climate-related considerations may lead us to divest from companies which we believe are particularly exposed to climate risk. Between 2012 and 2021, we divested from 174 companies that had particularly high greenhouse gas emissions or exposure to deforestation risks. We began in 2021 to pre-screen companies entering the fund's equity benchmark. Of the 52 divestments made in 2021, four were motivated by climate risk. • Some companies may be excluded from the fund's investment universe based on the ethically motivated guidelines for observation and exclusion. These include mining companies and power producers that base their operations on coal, and companies that contribute to severe environmental damage or unacceptable greenhouse gas emissions. The companies are assessed by an independent Council on Ethics. The final decision is taken by Norges Bank's Executive Board and published.

Metrics and targets	
Portfolio carbon footprint	• We began to measure and publish the equity portfolio's carbon footprint in 2015 and have since expanded the analysis to include corporate bonds. • The equity portfolio's carbon footprint in 2021 was 90 million tonnes of CO_2-equivalents, with a carbon intensity of 140 tonnes of CO_2-equivalents per million US dollars in revenue. The corresponding numbers for the benchmark index were 95 million tonnes of CO_2-equivalents and 145 tonnes of CO_2-equivalents per million US dollars in revenue. • This carbon footprint says nothing about how the companies in the portfolio plan to handle the low-carbon transition. For example, the analysis does not capture the fact that 56 of the 100 highest-emitting companies in the portfolio weighted by holdings at the end of 2021 have set targets for reducing their emissions, of which 33 were science-based.
Other metrics	• Our expectations document on climate change states that companies should have a climate plan with targets for reducing emissions, and their targets and strategies for the low-carbon transition should take account of the Paris Agreement. These expectations form the basis of our ownership activities. • We report a number of activity metrics in this annual responsible investment report, including company dialogues on climate-related topics (page 54) and companies divested from on the grounds of unacceptable climate- and deforestation-related risks (page 45). In 2020-2021, we engaged on climate-related issues with companies representing 54.2 percent of the equity portfolio's carbon footprint. • We voted against the re-election of directors in 2021 in six cases where companies did not report or manage climate risk adequately. • Through our annual climate assessments, we measured 1,500 portfolio companies' performance across 33 different indicators of how well they manage climate-related risks and opportunities, including metrics such as emission reductions. We also assessed 268 companies across 25 indicators of how well they manage risks related to deforestation. We follow up companies with weak reporting. In 2021, we contacted 42 companies asking them to improve their climate-related disclosures. Of the 37 companies contacted in 2020 and assessed again in 2021, 73 percent improved their reporting in 2021. • The fund had 107.7 billion kroner invested under dedicated environment-related mandates at the end of 2021. In April, the fund made its first investment in unlisted renewable energy infrastructure, acquiring 50 percent the Borssele 1 & 2 wind farm off the Dutch coast for around 13.9 billion kroner. • We track and publish the return on the environment-related equity mandates. Since 2010, they have returned 10.4 percent annually, compared to 5.8 percent for the equities sold to fund them. • We also track and publish the impact of ethical exclusions and risk-based divestments on the return on the benchmark index. Since 2012, risk-based divestments linked to climate change have increased the cumulative return on the benchmark index for equities by 0.28 percentage point. • Norges Bank did not exclude any companies under the conduct-based climate criterion during the year. No new companies were excluded or placed under observation under the product-based coal criterion, but two companies had their exclusion reversed and the observation of four companies was concluded. • We responded to ten public consultations on topics related to climate and sustainability during the year.
Targets	• The objective for the management of the fund is the highest possible return with acceptable risk. The mandate from the Ministry of Finance emphasises the importance of responsible investment management, but does not set specific climate-related targets for how the fund is to be invested. The mandate states that a good long-term return is considered to depend on sustainable economic, environmental and social development. • Climate change is something an investor like the fund needs to address. It is a challenge to ascertain how climate change will affect the fund's investments. The Ministry of Finance has initiated an extensive programme of work to increase understanding of how climate change, climate policy and the green transition might impact on the fund. An external expert group has issued recommendations in this context, and the Executive Board has provided input to the Ministry. This input can be found on our website along with two Asset Manager Perspectives and a position paper looking at different aspects of climate risk. One key recommendation from the expert group is that Norges Bank's responsible investment should have the long-term goal of working towards net zero emissions from the companies in which the fund is invested. Norges Bank supports this recommendation. The Ministry will sum up its work in 2022.

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Norges Bank Investment Management

Bankplassen 2,
Postboks 1179 Sentrum, NO-0107 Oslo
T: +47 24 07 30 00, www.nbim.no