NORGES BANK
INVESTMENT MANAGEMENT

Responsible investment

Government Pension Fund Global

2020

No. 07

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

2020 at a glance

11,871
shareholder meetings voted at

98.0
percent of shareholder meetings voted at

2,877
company meetings

650
written communication with companies

98.9
billion kroner in environmental investments

34.3
percent return on environmental investments in the equity portfolio

4,158
assessments of company reporting

92,388
thousand tonnes of CO_2 equivalents in equity portfolio's carbon footprint

15
new exclusions

32
new divestments

16
consultation responses

4
academic projects

Establishing principles

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. Our expectation documents and voting guidelines make clear our priorities as a long-term investor.

Exercising ownership

Our goal is to promote long-term value creation at the companies in our portfolio. We use our voting rights to support effective boards. In our dialogue with companies, we discuss the board's responsibilities and shareholders' rights. We work with companies to increase the information available to the market and encourage good business practices.

Investing sustainably

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. We see opportunities in companies that enable more environmentally friendly economic activity. There are also companies we choose not to invest in for ethical or sustainability reasons.

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An active owner

The coronavirus pandemic has stress-tested companies around the globe. As the world's largest shareholder, we have seen this at close hand. Some companies are struggling, while others are growing fast on the back of stronger demand.

Many different factors determine how a company will perform in the long run. One of the most important, besides financial strength, is good governance. Companies that think ahead and prepare for changes in the market have better long-term prospects.

As a fund for future generations, we need to look beyond the turmoil of the past year. We invest broadly to smooth out fluctuations in the market. We look for companies that can weather a crisis and be profitable well into the future. For this, we need an in-depth knowledge of the companies in our portfolio.

Responsible investment management is enshrined in our mandate from the Ministry of Finance. This requires us to make active choices. Active management is therefore a key part of the fund. We use our voting rights to elect the best board. We have a close dialogue with the management of the world's largest companies, and it means that they listen to us.

It has been important to have a close dialogue with companies' board and management during this turbulent year. We have clear expectations of companies, and we have used our voting rights to safeguard and enhance the fund's long-term value.

As the fund's incoming CEO, I have been impressed by the ownership team and the work they have done, especially in recent years. Our aim now is to build further on this to remain a world-leading organisation capable of discharging the immense responsibility we have as a shareholder in more than 9,000 companies.

Nicolai Tangen

Nicolai Tangen
CEO, Norges Bank Investment Management

Long-term active ownership pays off in troubled times

We have continued to work hard on active ownership from our home offices. We published five new position papers, three asset manager perspectives and more detailed voting guidelines during the year. We held 2,877 meetings with companies. We introduced systematic screening of the entire portfolio against our expectations and followed this up with individual companies. We also voted on 121,619 resolutions at shareholder meetings and began to publish an explanation whenever voting against the board's recommendation.

Better reporting on sustainability is a priority for the fund. The global economy will continue to face major environmental and social challenges after the pandemic. We have long had a spotlight on the relationship between sustainability and value creation. We want to understand the environmental and social factors that could affect companies' profitability in the longer term, and how companies address relevant risks and opportunities. In March, we published our position on corporate sustainability reporting, calling for further standardisation to ensure relevant and comparable disclosures.

2020 was a challenging year for companies, but we saw many maintain their focus on sustainability and even launch new initiatives. Companies must continue to tackle environmental and social challenges even in troubled times if they are to create value in the long term.

Proactive measures by individual companies are good to see, and this is part of a development that we have observed over many years. Each year, we perform around 4,000 detailed assessments of companies' governance structure, strategies, risk management and sustainability objectives. These show that companies did not put work in this area on hold in 2020. For example, we saw a marked improvement in climate disclosure from the previous year.

This is promising and suggests that the pandemic has not weakened companies' work on sustainability but may even have strengthened it. It also goes to show that long-term active ownership pays off.

Carine Smith Ihenacho
Chief Corporate Governance Officer

The fund's future value is dependent on the value created by the about 9,000 companies we invest in.

Overview

Our mission is to safeguard and build financial wealth for future generations. In delivering a long-term return, we are dependent on sustainable growth, well-functioning markets and good corporate governance.

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 also consider environmental, social and governance issues that could have an impact on the fund's performance over time. We integrate these issues into our work on standards, our active ownership and our investing. This report looks at responsible management of the fund's equity and fixed-income investments. Responsible investment in real estate is covered by the fund's annual report.

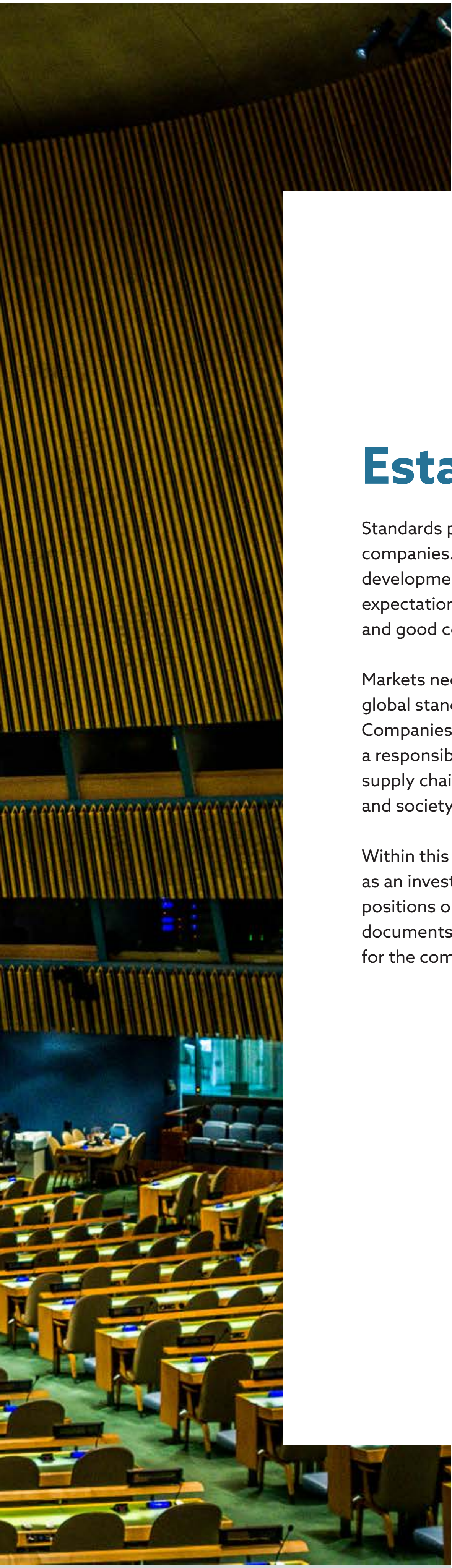
Our motivation

The fund invests for the long term. It exists to help finance the Norwegian welfare state for future generations and therefore has a long investment horizon. We have an interest in companies being able to meet the needs of the present without compromising the ability of future generations to meet their own needs. The transition to a more sustainable global economy can make the companies in our portfolio more robust and contribute to the fund's long-term return.

The fund invests globally. It has holdings in companies in 69 countries to spread risk and capture global growth. We benefit from open markets that enable global value creation and efficient allocation of capital from investors to companies. Markets that are less prone to shocks and facilitate sustainable development also contribute to the fund's long-term return.

The fund invests widely. It has holdings in more than 9,000 companies spanning every sector. However, the fund's percentage holdings in these companies are small, so we must delegate most decisions to their boards and management. This requires boards to discharge their 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 future value of the fund is dependent on the value created by the companies we invest in.

Internationally agreed standards on corporate governance promote long-term value-creation. We recognise a set of international principles and standards from the UN and the OECD.

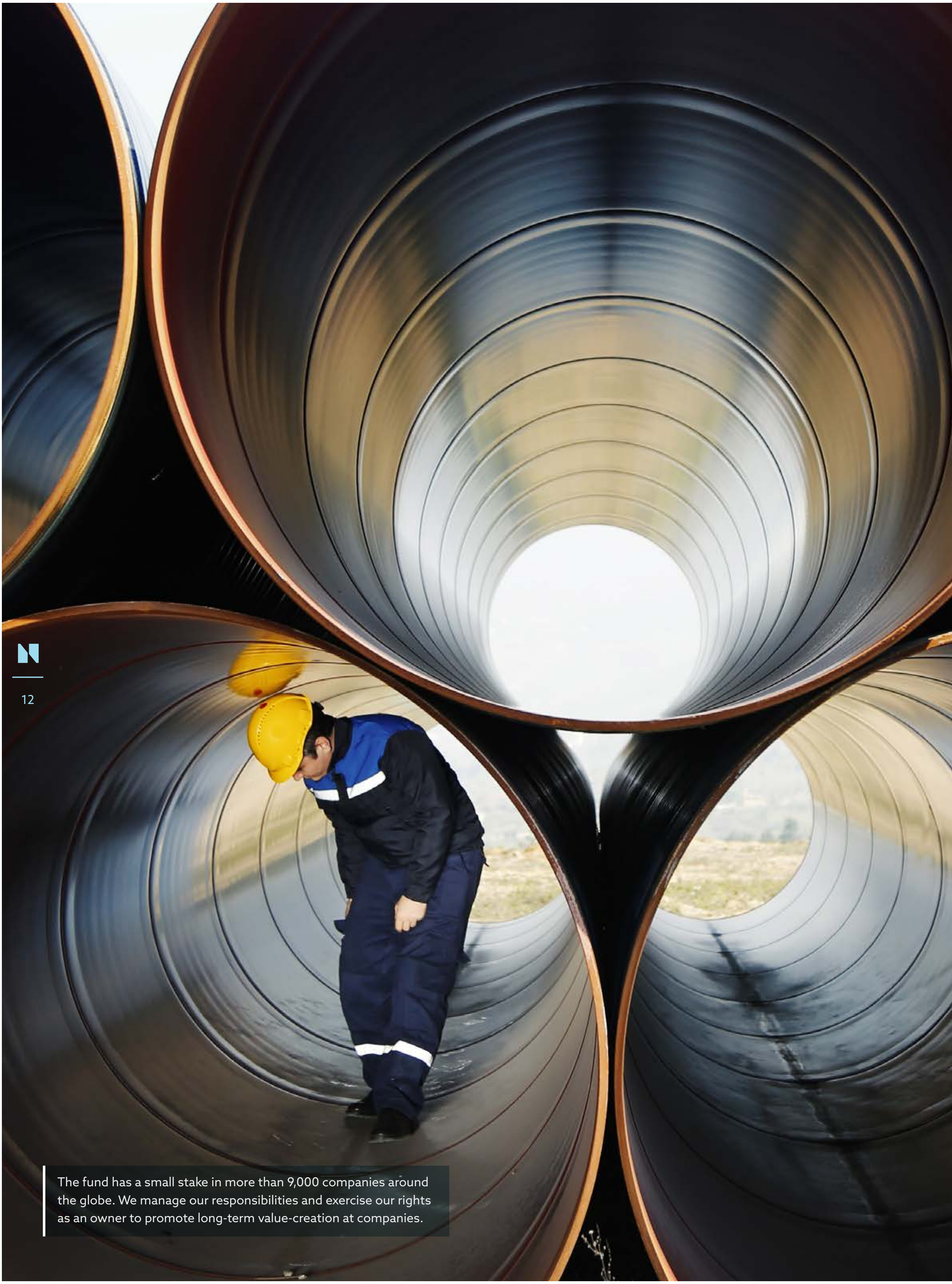


Establishing principles

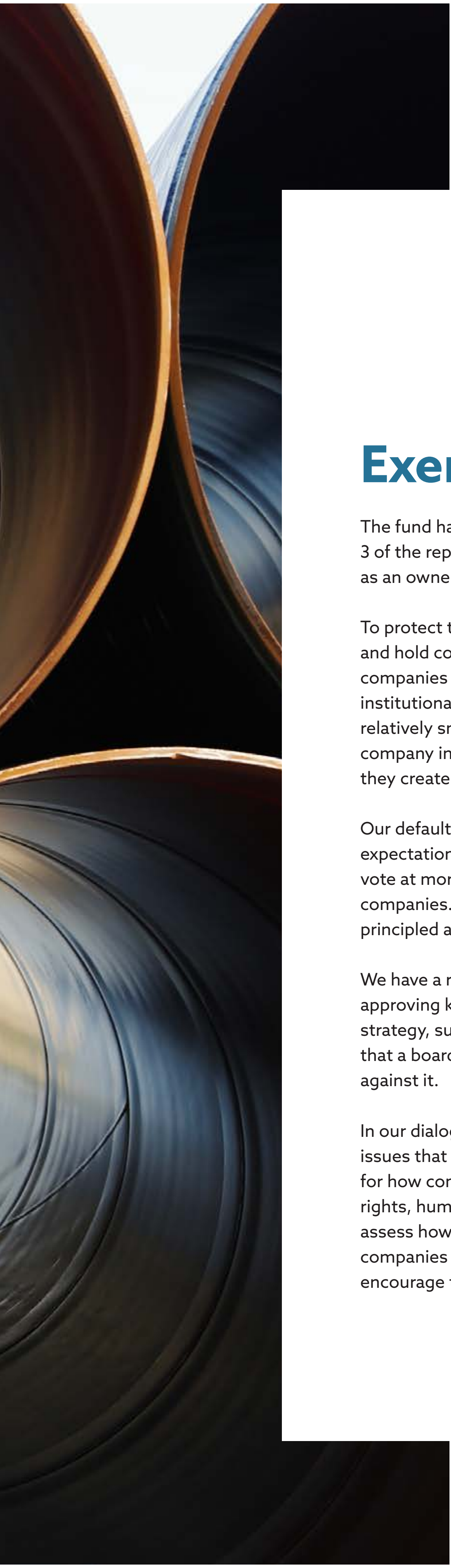
Standards promote consistency across markets and can raise the bar for all companies. In Section 2 of the report, we explain how we participate in the development of international standards and use them, together with our own expectations and positions, to guide companies. Our goal is well-functioning markets and good corporate governance.

Markets need to deliver solutions that are both efficient and 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 have a responsibility to all of their stakeholders, not least to their employees and in their supply chains. Companies should also report on how they impact on the environment and society.

Within this framework of internationally agreed standards, we set our own priorities as an investor on the basis of our mandate. 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.



The fund has a small stake in more than 9,000 companies around the globe. We manage our responsibilities and exercise our rights as an owner to promote long-term value-creation at companies.



Exercising ownership

The fund has a small stake in more than 9,000 companies around the globe. In Section 3 of the report, we explain how we manage our responsibilities and exercise our rights as an owner. Our aim is to promote long-term value creation at companies.

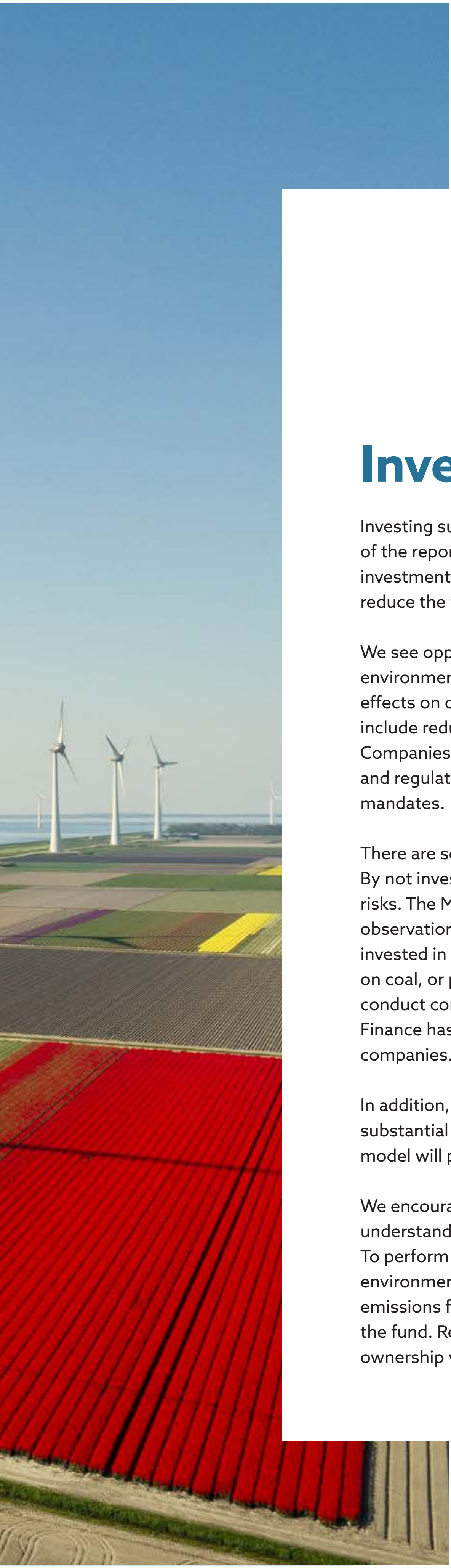
To protect the fund's long-term interests, we make use of our rights as a shareholder and hold company boards to account. Financial markets are changing. Many companies have grown very large and become multinational. At the same time, institutional investors such as the fund have become major shareholders by holding relatively small stakes in thousands of companies worldwide. We cannot know every company in our portfolio in detail, but the fund's future value depends on the value they create.

Our default position is to support the company while also expressing our expectations. Active ownership is a matter of both voting and dialogue. Each year, we vote at more than 11,000 shareholder meetings and hold around 3,000 meetings with companies. Our use of our voting rights and our dialogue with companies are principled and transparent.

We have a right to influence companies, above all by appointing the board and approving key decisions at the company. We expect the board to set company strategy, supervise management and be accountable to shareholders. If we believe that a board is not acting in our long-term interests as an investor, we may vote against it.

In our dialogue with companies, we raise environmental, social and governance issues that may be relevant to the fund's long-term return. We have clear expectations for how companies should address climate change, water management, children's rights, human rights, tax transparency, anti-corruption and ocean sustainability. We assess how companies report on their work in these areas. We follow up selected companies to understand better how they are dealing with relevant risks, and to encourage them to improve their reporting.

Environmental, social and governance issues can have an impact on companies' performance. We work to identify, measure and manage risks and opportunities that could affect the fund's ability to generate a long-term return.



Investing sustainably

Investing sustainably is an integral part of the fund's investment strategy. In Section 4 of the report, we explain how environmental and social information can inform our investment decisions. Our aim is to identify long-term investment opportunities and reduce the fund's exposure to unacceptable risks.

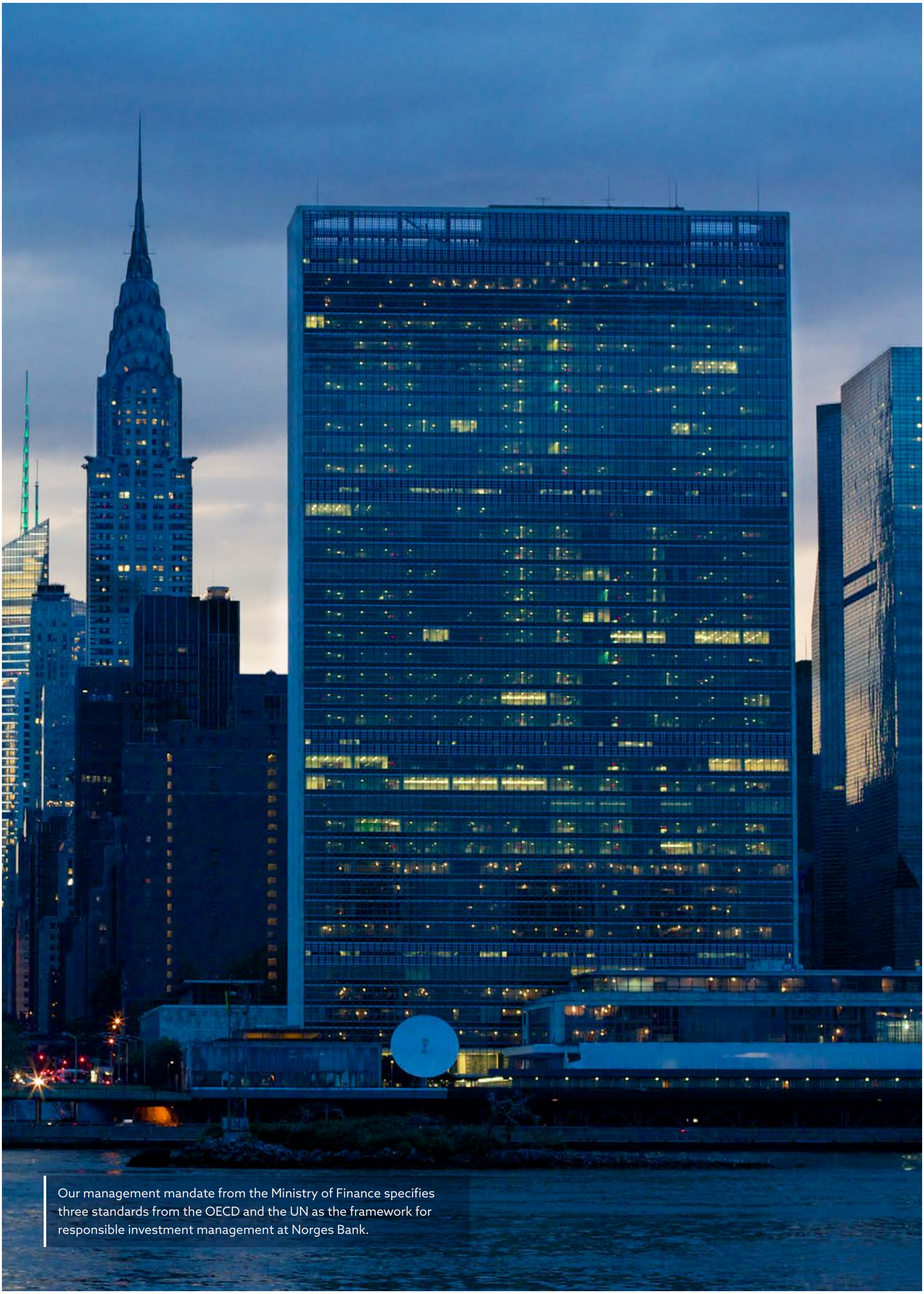
We see opportunities in investing in companies with solutions that enable more environmentally friendly economic activity. These investments can have positive effects on other companies and society in general. These positive externalities can include reduced emissions, lower energy costs and more efficient use of resources. Companies producing these technologies may profit in turn from changes in demand and regulation. We invest in such companies partly through dedicated environmental mandates.

There are some industries and companies in which the fund should not be invested. By not investing in such companies, we reduce the fund's exposure to unacceptable risks. 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.

In addition, the fund itself may decide to divest from companies that impose substantial costs on other companies and on society as a whole or whose business model will probably not be sustainable in the longer term.

We encourage companies to move from words to numbers, so that we can better understand the financial risks associated with the environmental and social behaviour. To perform analyses of this kind, we need relevant, comparable and reliable data on environmental, social and governance topics. We analyse the greenhouse gas emissions from companies in our portfolio and conduct various climate scenarios for the fund. Reliable data from companies and in-depth analysis are cornerstones of our ownership work.

2 | Establishing principles



Our management mandate from the Ministry of Finance specifies three standards from the OECD and the UN as the framework for responsible investment management at Norges Bank.

Standards

We benefit from international standards that promote long-term value creation. We contribute to the development of such standards and publish expectations of the companies we invest in.

Standards provide greater consistency across markets and can raise the bar for all companies. We aim to contribute to well-functioning markets and good corporate governance. We participate in the development of standards by engaging with regulators and other standard setters.

International standards
We recognise a set of key international standards. Our management mandate from the Ministry of Finance specifies three standards from the OECD and the UN as the framework for responsible investment management at Norges Bank.

OECD
The G20/OECD Principles of Corporate Governance mainly 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 aim is to support sustainable development through responsible business conduct, trade and investment.

UN
The UN Global Compact is a broad coalition between the UN and the business world that promotes corporate social responsibility and the UN's Sustainable Development Goals. We are a participant in the Global Compact and take part in the UN's work on developing international standards.

Norges Bank refers to two further UN standards in its own principles for responsible investment. The 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.

As a long-term and global investor, the fund has an inherent interest in sustainable development. The Sustainable Development Goals provide a common framework for addressing key global challenges. How national authorities choose to mobilise knowledge, technology and capital to realise the goals will impact on the global economy and the fund's long-term performance.

Development of international standards

We contribute to the development of relevant 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 can communicate our own priorities. In 2020, we had meetings with the OECD, the UN Global Compact, the European Commission, the International Accounting Standards Board, the Global Reporting Initiative and the Sustainability Accounting Standards Board, as well as national standard setters in France, Germany, Sweden, the UK and the US.

We responded to 16 public consultations relating to responsible investment during the year. These consultations concerned topics that are important to us, such as common standards for sustainability reporting, shareholder rights and responsible business practices. We publish all of our consultation responses on our website: www.nbim.no.

Common standards for sustainability reporting

Better reporting on sustainability is a priority for the fund. As an investor, we depend on accurate, relevant and timely information on the companies we invest in. We want to understand the environmental and social issues that could affect companies' long-term profitability, and how companies address relevant risks and opportunities. In 2020, we published a paper on sustainability reporting as part of our *Asset Manager Perspective* series. We noted that the quantity of reporting is increasing, but that there is a need for further standardisation to obtain information that is relevant and comparable. We called for reporting requirements based on globally accepted, financially material and standardised sustainability metrics.

Sustainability disclosures should be subjected to similar internal governance procedures to financial disclosures, with final sign-off by the board. As a starting point, companies can look to the industry-specific standards developed by the Sustainability Accounting Standards Boards (SASB) and base broader environmental and social disclosures on standards from the Global Reporting Initiative (GRI).

Increasing attention is being paid to sustainable development and companies' role in society. We responded to 13 consultations on sustainability reporting during the year. For example, we participated in consultations from the International Financial Reporting Standards Foundation and the European Commission on new and more extensive standards for sustainability disclosures. Corporate sustainability reporting will be important in realising the EU's sustainable finance strategy.

Shareholder rights

Good corporate governance is essential for protecting our investments. Through our membership of the International Corporate Governance Network (ICGN), we are helping strengthen shareholder rights in all markets. We participated in the work on updating ICGN's Global Governance Principles during the year. We stressed the need for effective boards that are accountable to shareholders, long-term incentive plans for management, and increased corporate sustainability reporting.

In a submission to the stock exchange in Hong Kong, we argued that all shareholders in a company should ideally have equal rights. We nevertheless supported the extension of weighted voting rights for strategic shareholders subject to certain restrictions – for example, that these rights must not be perpetual but require periodic shareholder approval.

Responsible business conduct

As a long-term investor, we have an interest in responsible and transparent corporate tax practices. There is ongoing debate in many markets on how companies should report publicly on the taxes they pay.

The OECD continued its work on country-by-country tax reporting in 2020, and we responded to its public consultation in March, stressing the need for well-functioning and predictable tax disclosure frameworks.

We also contributed to a number of initiatives that aim to draw attention to how companies manage tax. Together with Dutch pension fund, ABP, we set up an investor network where we meet 20 other investors twice a year to discuss investors' expectations of companies when it comes to tax, and to exchange experience from our dialogue with companies on tax issues.

The Global Reporting Initiative (GRI) published a new standard on tax reporting in 2020, covering both disclosures on governance and strategy and public country-by-country reporting. GRI also published proposals to update its Universal Standards, including reporting on companies' human rights due diligence processes. We supported the proposals, as they could contribute to better corporate reporting on respect for human rights.

We also lent our support to UN PRI's plans to promote implementation of the UN Guiding Principles on Business and Human Rights among institutional investors. We stressed that it should base its work on existing OECD guidance but also look more closely at the options available to minority investors when it comes to encouraging companies to respect human rights. We noted that institutional investors are governed by mandates that set clear financial targets and also impose other constraints on their investment activities, such as on portfolio construction and risk exposure.

Submissions

Recipient	Topic	Submitted
IFRS Foundation	Sustainability Reporting	17.12.2020
PRI	PRI Signatory Survey 2020	24.11.2020
UK Financial Conduct Authority	Climate-related Disclosures	21.09.2020
PRI Association	Human Rights Framework for Institutional Investors	18.09.2020
International Corporate Governance Network	Review of Global Governance Principles	15.09.2020
Global Sustainability Standards Board	Revision of GRI Universal Standards	09.09.2020
The European Commission	Renewed sustainable finance strategy	09.07.2020
The European Commission	Report of the High-Level Forum on capital markets union	25.06.2020
Global Reporting Initiative	Work Programme 2020-2022	18.06.2020
The European Commission	Revision of the EU Non-Financial Reporting Directive	02.06.2020
Hong Kong Exchanges and Clearing Limited	Weighted voting rights for corporate entities	27.04.2020
Sustainable Finance Committee of the German Federal Government	Report of the Sustainable Finance Committee	30.03.2020
OECD	Review of Country-by-Country Reporting	05.03.2020
The European Commission	Impact Assessment on the Revision of the Non-Financial Reporting Directive	25.02.2020
PRI Association	Reporting Framework Review – Phase II	28.02.2020
Eumedion	Non-financial reporting	01.02.2020

Membership of organisations and initiatives

Topic	Organisation	Description
Corporate governance	Asian Corporate Governance Association (ACGA)	Membership organisation for investors and companies
	African Corporate Governance Network (ACGN)	Network of director membership organi-sations
	Council of Institutional Investors (CII)	Association of investors
	European Corporate Governance Institute (ECGI)	Academia-practitioner research network
	Harvard Law School Program on Corporate Governance	Academia-practitioner research network
	International Corporate Governance Network (ICGN)	International association of investors
Sustainability	CDP Climate; CDP Forest; CDP Water	Environmental reporting initiatives
	Institutional Investor Group on Climate Change (IIGCC)	Investor initiative (Europe)
	Norsif	Norwegian sustainable investment forum
	Extractive Industries Transparency Initiative (EITI)	International organisation for transparency in extractive industries
	Task Force on Climate-related Financial Disclosure (TCFD)	International principles
	Principles for Responsible Investment (PRI)	International principles
	Transition Pathway Initiative	Investor initiative on climate risk
	Sustainability Accounting Standards Board (SASB)	International standard for sustainability reporting
	United Nations Environment Programme Finance Initiative (UNEP FI)	Multi-stakeholder initiative for sustainable finance
	UN Global Compact	International principles
	UN Global Compact Action Platform on Sustainable Ocean Business	Multi-stakeholder initiative for ocean sustainability

Expectations

We publish expectations of companies and guidelines for our voting. These documents communicate our priorities to the market and provide predictability around our long-term ownership.

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. Examples include climate change and environmental degradation. 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.

Expectation documents
Since 2008, we have published clear expectations of the companies we invest in. Their purpose is to set out how we expect companies to address relevant global challenges in their business. These expectations form a basis for our dialogue with companies, and we assess companies' work against the expectations each year.

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 strategy, risk management and reporting.

Our expectations of companies 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.

Updated expectations
We updated our climate change expectations during the year to include more on sustainable land use and land degradation. Many companies have operations or value chains that contribute to changes in land use or are exposed to changes in ecosystems due to climate change. Our expectations in this area are a continuation

of our long-term focus on deforestation. We also clarified our expectation that companies should report on their long-term climate strategy and on emissions reduction targets taking into account the goals of the Paris Agreement.

In the expectations on human rights, we included a more detailed description of how some business model features carry inherent human rights risks. We also clarified our expectations for diversity and inclusion. A diverse and inclusive working environment can contribute to profitable business operations, better risk management and respect for both human rights and labour rights.

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.

New position papers

We published five new position papers in 2020 spanning board independence, unequal voting rights, share issuance, related-party transactions and sustainability reporting. These position papers explained around 39 percent of our votes against the board's recommendation.

All shareholders should have the right to vote on fundamental decisions at a company in order to protect their interests. If voting rights are unevenly distributed, they should be aligned over time with the economic risk to shareholders. When a company issues new shares, all shareholders should be treated equally. Existing shareholders should have the right to approve new share issuances so that they can evaluate significant capital decisions and prevent dilution of their holdings. When a company carries out transactions with related parties, this can lead to conflicts of interest and, in the worst case, expose shareholders to abuse. Related-party transactions should therefore take place on market terms and be in the interests of all shareholders.

Independent boards are essential for protecting shareholders' interests in a company. The board must be in a position to set company strategy and monitor management without conflicts of interest.

The board should ensure that company reporting includes financially material sustainability disclosures and other information on significant social and environmental consequences of company operations. The board should ensure regular provision of quantitative sustainability data. This reporting should be based on internationally recognised frameworks and standards.

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 regular dialogue with civil society during the year, receiving useful information at company, market and sector level on topics such as tax, anticorruption, marine disposal of mine waste, oil spills from shipping, responsible marketing, labour rights, banks' policies on emissions-intensive sectors, deforestation and indigenous peoples' rights. We organised two meetings with civil society in Norway during the year where we received input and shared information on our work. We value this dialogue and the input and information we receive.

Research

We are keen to develop our understanding of good corporate governance and sustainability, and how they impact on financial risks and returns. We therefore fund research and collaborate with academic institutions 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 prioritise research in areas that may be particularly important for long-term financial value creation.

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 two-year research project led by Nobel laureate Robert Engle at New York University. The project builds on previous work on developing portfolios that can protect against financial risks stemming from climate change. Engle and his research team developed two data series of climate news during the year to investigate how climate news can impact financial markets. One counts articles about climate change, while the other compares the words used in articles with the words used in a broad selection of climate references.

The underlying hypothesis is that climate news is a good indicator of climate risk. The researchers have used the data partly to assess whether different equity funds have a high correlation with this measure of climate risk. The data are available on the university's website.

Ownership structure

As a shareholder in more than 9,000 companies, we want to understand how institutional shareholding and diversified ownership affect these companies.

Financial markets are changing. Over the past decade, ownership of listed companies has become more fragmented, with institutional investors becoming major shareholders. These investors, which include the fund, own small stakes in thousands of companies worldwide.

With ownership spread across so many companies, institutional investors cannot have a detailed knowledge of all the companies they invest in. Index-based investment strategies can also reduce the incentive to monitor individual companies.

We wanted to learn more about how this can affect companies and announced funding for a three-year research project. The call for proposals attracted an unusual level of interest from academia. Over the next few years, we will be supporting projects at the European Corporate Governance Institute, the École Polytechnique Fédérale de Lausanne and the University of Oxford. The projects aim to shed light on how the ownership structure has changed, how this is affecting companies, and how institutional investors can engage effectively with companies on corporate governance.

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 2020. The board serves as an advisory forum for the Chief Corporate Governance Officer, who chairs it. The three external members bring extensive board and management experience from listed companies both in Norway and abroad.

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 2020 and considered matters such as the fund's stance on shareholder rights, companies' capital management, and shareholder resolutions on sustainability issues. It also discussed the fund's public voting guidelines with a particular emphasis on effective boards and protection of shareholders.

Corporate Governance Advisory Board. From left: Svein Rennemo, Carine Smith Ihenacho, Harald Norvik, Åse Aulie Michelet.

3 | Exercising ownership

The future value of the fund is dependent on the value created by the companies we invest in. Voting is the most important tool we have for active ownership.

Voting

We voted at 11,871 shareholder meetings in 2020. Voting is one of the most important tools we have as a shareholder for safeguarding the fund's assets.

We own a small slice of more than 9,000 companies. As a minority shareholder, we are one of many contributors of equity capital to a company. For companies to function effectively, most decisions are delegated to the board. Shareholders have the right to choose who sits on the board and act in their best interests. Shareholders also have the right to approve fundamental changes at the company that could affect their investments.

Our default position when voting is to support the board. We help elect a board that is responsible for the whole of the company's operations. As an investor in thousands of companies, we rely on the board to do a good job.

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.

We also 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. A vote against the board sends a clear signal to the company and the market. In addition to voting, we engage in dialogue to communicate our expectations to companies.

Voting principles

We aim to be consistent and predictable in our voting at companies' 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. It 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 being open about how we have voted. Our voting decisions are published on our website the day after the shareholder meeting.

In 2020, we began to publish an explanation when voting against the board's recommendation. These explanations are based on our public voting guidelines and are intended to bring greater transparency around our priorities as a shareholder.

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. In the vast majority of markets, we do not receive any confirmation that our votes have been received. We are working with regulators and service providers to improve the voting process and ensure that our votes are registered.

The Corona pandemic lead in the second quarter to many companies' postponing their shareholder meetings, particularly in markets requiring physical meetings. However, all companies in our portfolio were able to hold their shareholder meeting during the year, and we voted at 98.0 percent of them. This is an increase compared to 2019 when we vote at 97.8 percent of shareholder meetings. When we do not vote at a shareholder meeting, 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. Of the resolutions we voted on in 2020, 97.5 percent were proposed by the companies and 2.5 percent by shareholders.

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. The platform includes all of the resolutions to be voted on, the board's position on these resolutions, and the relevant deadlines.

Consideration of resolutions

The majority of the resolutions we are to 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. Automation also means that we can ensure a high degree of consistency and that we can measure trends in corporate governance and market practices over time.

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 596 companies in 2020. These companies included our largest investments and together made up around 50 percent of the equity portfolio's market value. Portfolio managers can also use their ongoing dialogue with companies to back up our voting.

Voting intentions

Shareholders can communicate their support or opposition by announcing publicly ahead of a meeting how they intend to vote. We published our voting intentions in one case in 2020.

We expressed our support for a proposal from the board of Barclays PLC committing the bank to tackling climate change. The proposal set out the ambition of net-zero financed emissions by 2050, with the bank aligning its financial services with the goals and deadlines in the Paris Agreement and reporting annually on its progress.

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 has increased the return on the equity portfolio in 2020 by 0.05 percentage point, which amounted to 3.2 billion kroner.

When the fund lends equities, however, 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 extensive 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 in order to 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 2020

We voted on 121,619 resolutions at 11,871 shareholder meetings in 2020. We voted in line with the board's recommendation in 95.1percent of cases and at 73.4 percent of meetings. This was on a par with our voting in 2019.

Effective boards

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

We voted on 45,966 board candidates in 2020. This is equivalent to 37.8percent of all resolutions we voted on. We voted in line with the board's recommendation in 94.6 percent of director elections, compared with 94.1 percent in 2019.

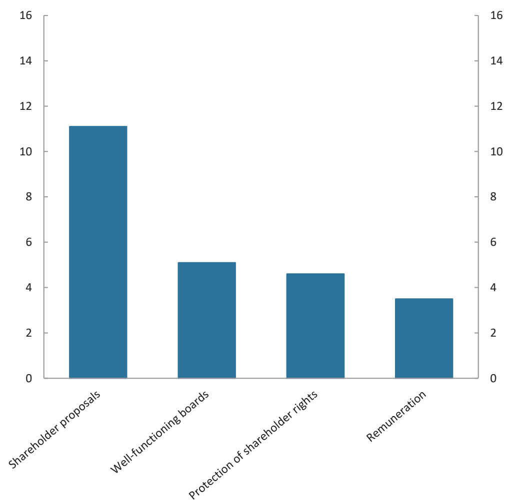
The board and its committees must be sufficiently independent of management and large shareholders, and have no other conflicts of interest. We have observed a gradual increase in independent board members in a number of markets, including Germany and Japan. A lack of independence on the board or its committees was the main reason for us to vote against candidates, contributing to 1,079 votes against the board in 2020.

We advocate a clear separation of roles and responsibilities between chairperson and CEO. This is necessary for the board to supervise 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 669 votes against the board in 2020. Combined roles are particularly common in the US but have decreased from 44 percent of companies in the Russell 3000 index in 2012 to 32 percent in 2020.

Board members should be well prepared for meetings and participate actively in discussions. Thi 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 465 board candidates in 2020.

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. In 2020, we began voting against the chair of the nomination committee at large European and US companies with no women on the board. This led us to vote against nomination committee members at 16 companies.

Chart 1 Share of votes against management by topic. Percent.



We also vote against individual directors to hold them to account for the board's conduct. This resulted in 160 votes against the board in 2020. For example, we voted against members of remuneration committees where there was a history of problematic executive remuneration, members of board committees where shareholders did not have the right to propose binding resolutions, and members of audit committees where the external auditor found problems with the annual financial statements. In all of these cases, our conclusion was that the board had not acted in shareholders' interests.

Appropriate management incentives

Remuneration plays an important role in attracting talented executives and motivating them to do their best for the company. The board is responsible for recruiting the CEO and deciding on appropriate 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.

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 5,370 resolutions on CEO remuneration in 2020. We voted against 6.5 percent of these resolutions, compared with 9.5 percent in 2019. The decrease can be explained by more countries introducing voting on executive remuneration and by few of these resolutions being controversial. Altogether, we voted on 13,105 resolutions on the remuneration of directors, executives and other employees.

We noted considerable shareholder interest in executive remuneration again in 2020. In markets where shareholders get to vote on executive pay, these resolutions attracted an average of 91.0 percent support, up from 90.2 percent in 2019. More markets, especially in Europe, have given shareholders greater opportunities to vote on executive remuneration.

Protection of shareholders

Protection of shareholder rights is a fundamental requirement at listed companies. Shareholders must have the right to approve fundamental changes that could affect their investments. We expect shareholders to receive accurate, relevant and timely information, new share issuances to treat all shareholders equitably, and strategic transactions to contribute to value creation.

We voted on 45,894 resolutions concerning shareholder rights in 2020. We voted against the board's recommendation in 4.6 percent of these cases, compared with 4.4 percent in 2019.

We also voted against 257 amendments of companies' governing documents where we considered the changes not to be in shareholders' interests, or 6.5 percent of the total, compared with 6.8 percent in 2019. In some cases, we voted against the resolution because we did not have enough information to assess it.

To ensure good reporting, most markets require a company's annual report to be approved by an external auditor appointed by shareholders. We voted against the appointment of an auditor in 195 cases in 2020, or 3.3 percent of the total, compared with 3.9 percent in 2019. 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 463 share issuances in 2020, or 4.2 percent of the total, compared with 5.3 percent in 2019. Most of these cases were 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 102 resolutions on anti-takeover measures in 2020, or 14.9 percent of the total, compared with 13.5 percent in 2019.

Shareholder resolutions

Resolutions submitted by shareholders made up 2.5 percent of the resolutions we voted on in 2020. Corporate governance matters accounted for 91.3 percent of these, and sustainability issues for the remaining 8.7 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' interests 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 49.2 percent of governance-related shareholder resolutions there in 2020, compared with 59.7 percent in 2019.

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 an increase in the number of governance-related shareholder resolutions in the US. We voted on 321 in 2020, compared with 290 in 2019. Shareholder support for these resolutions has increased over time, with 14.0 percent gaining majority support in 2020. We backed 53.3 percent of these.

We supported 42 shareholder resolutions calling for an independent chairperson, including at some of our largest holdings, such as Amazon.com Inc, Facebook Inc and AT&T Inc. 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

Over time, we have seen an increase in the number of shareholder resolutions addressing environmental and social issues, with the number of items stabilising this year. 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. Resolutions submitted by shareholders made up 0.2 percent of the resolutions we voted on in 2020.

We formulated three key criteria during the year for assessing shareholder resolutions. First, the issue should be material for the company. Second, the resolution should not attempt to micromanage strategy or impose detailed methods or unrealistic targets for implementation. Third, the proposal should be considered in the light of the company's current commitments and practices. These criteria will help us approach numerous and diverse resolutions consistently and reach well-founded decisions.

We voted on 262 shareholder resolutions on sustainability issues in 2020, compared with 265 in 2019. We voted in favour of 35.1 percent of these, compared with 39.9 percent in 2019.

Most resolutions of this kind are tabled in the US. According to consulting firm ISS, around 42 percent of such resolutions in 2020 were withdrawn ahead of the shareholder meeting, often after the company committed to amend its practices in line with the proponent's request.

According to ISS, support for these resolutions averaged 26.5 percent in 2020, compared with 27.7 percent in 2019. Although the level of support appears to have stabilised, the levels are still significantly higher than in 2012, when support averaged 16.3 percent. This may indicate that the quality of the resolutions has improved over time, and that they are generally seen as more relevant.

A small, but growing share of these resolutions win majority support. In 2020, 24 sustainability resolutions were passed at companies in which the fund had holdings, up from 12 in 2019. These included climate-related resolutions at Dollar Tree Inc and Enphase Energy, and resolutions calling for greater transparency on lobbying and political contributions at six companies, including Western Union Co, Centene Corp and Alaska Air Group. A resolution at Chevron Corp asked management to report on whether the company's lobbying was consistent with the goals of the Paris Agreement. We supported this resolution, which won 53.5 percent of the vote. We also voted in favour of a resolution at Procter & Gamble Co calling for better reporting on deforestation risks in the company's supply chains. This resolution was supported by 67.7 percent of the vote.

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 Facebook Inc calling for greater transparency about the human rights risk assessments related to their products and platforms. These were supported by 31.1 and 7.2 percent of votes respectively. Based on our expectations on children's rights, we also supported a new resolution calling on Facebook to assess the risk of exploitation of children on the company's platforms. This resolution won 12.6 percent of the vote.

Table 1 Voting at shareholder meetings. Per region.

	2020		2019	
Region	Shareholder meetings	Percent	Shareholder meetings	Percent
Africa	291	54.0	304	47.4
Asia	6,036	99.6	5,117	99.3
Europe	2,518	97.9	2,543	98.3
Latin America	512	97.3	915	98.1
Middle East	276	96.7	272	97.8
North America	2,104	99.8	2,244	99.9
Oceania	377	98.9	388	99.2
Total	**12,114**	**98.0**	**11,783**	**97.8**

Table 2 Votes against board recommendations among the fund's top 50 holdings in 2020.

Company	Portfolio rank	Country	Resolutions voted against	Subject of resolution(s)
Apple Inc.	1	US	1	Shareholder protection
Amazon.com, Inc.	3	US	7	Enhanced Reporting, Shareholder protection, Combined CEO/Chair
Alphabet Inc.	4	US	7	Board, Remuneration, Shareholder protection
Facebook, Inc.	6	US	6	Enhanced reporting, Shareholder protection, Combined CEO/Chair
Tesla, Inc.	12	US	3	Enhanced reporting, Shareholder protection
Johnson & Johnson	15	US	2	Combined CEO/Chair
LVMH Moet Hennessy Louis Vuitton SE	19	France	2	Shareholder protection, Board
The Procter & Gamble Company	21	US	2	Combined CEO/Chair, Enhanced reporting
JPMorgan Chase & Co.	22	US	3	Combined CEO/Chair, Enhanced reporting
Visa Inc.	24	US	2	Combined CEO/Chair, Board
The Home Depot, Inc.	30	US	2	Combined CEO/Chair, Enhanced reporting
T-Mobile US, Inc.	33	US	1	Remuneration
The Walt Disney Company	34	US	1	Remuneration
Bank of America Corporation	35	US	2	Shareholder protection, Combined CEO/Chair
Sanofi	40	France	1	Remuneration
Linde Plc	41	US	1	Board

Table 2 cont. Votes against board recommendations among the fund's top 50 holdings in 2020.

Company	Portfolio rank	Country	Resolutions voted against	Subject of resolution(s)
Comcast Corporation	42	US	3	Combined CEO/Chair, Enhanced reporting
PayPal Holdings, Inc.	43	US	1	Shareholder protection
Netflix, Inc.	48	US	3	Shareholder protection, Enhanced reporting, Board
Adobe, Inc.	50	US	1	Combined CEO/Chair

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.

We held a total of 2,877 meetings with 1,209 companies in 2020. 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.

The Corona pandemic made it necessary to hold most of our meetings on digital platforms. Our experience was that digital meetings worked well. Restrictions on travel also made companies' boards and management being more available for dialogue. Nevertheless, the cancellation of many investor conferences lead to fewer meetings in 2020 than in the year before.

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 650 companies in the portfolio in 2020.

Thematic dialogues

In our dialogue with companies, we prioritise a number of strategic themes that we follow up over a number of years. In 2020, we focused on effective boards, executive remuneration, capital allocation, climate change and environment, human rights, anti-corruption and tax.

Corporate governance

We held 1,273 meetings with 703 companies in 2020 where we discussed the role and composition of the board and appropriate management incentives. We also had written communication with 361 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

Table 3 Company meetings by sector in 2020. FTSE classification.

Sector	Company meetings	Share of equity portfolio. Percent
Basic materials	197	3.2
Consumer goods	352	8.7
Consumer services	225	8.3
Financials	797	13.5
Health care	250	8.5
Industrials	445	10.0
Oil and gas	115	2.2
Technology	287	13.5
Telecommunications	68	1.8
Utilities	141	1.9
Total	**2,877**	**71.7**

attended 95.9 percent of these meetings in 2020. This helps us view the board's efforts in the context of the company's strategy, capital allocation and risk management.

We engage in regular dialogue with the boards of the largest companies in our portfolio. We held a total of 152 meetings with boards in 2020.

Our three priorities were capital allocation, members' time commitment and availability, and diversity on the board.

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

Table 4 Company meetings in 2020.

Category	Topic	Number of meetings	Share of equity portfolio. Percent
Environment	Climate change	536	26.0
	Deforestation	28	3.2
	Water management	90	5.3
	Ocean sustainability	24	1.0
	Biodiversity	11	1.5
	Circular economy	71	4.8
	Other environmental topics	347	17.3
Social issues	Human rights	118	16.3
	Children's rights	17	1.2
	Tax and transparency	62	11.0
	Anti-corruption	55	6.5
	Consumer interests	54	5.3
	Data privacy	18	5.9
	Human capital	133	11.7
	Other social topics	382	19.6
Governance	Effective boards	254	20.1
	Remuneration	177	16.3
	Protection of shareholders	94	12.2
	Enhanced reporting	49	3.1
	Capital management	546	27.0
	Other governance topics	654	**30.4**

risk profile. We have seen that expansionary monetary policy in many markets has led companies to take on more debt. As a long-term investor, we consider it important for companies to have sustainable levels of debt even in an economic downturn. We discussed capital structure and dividend payouts with 408 companies in 2020.

Board members' time commitment

In our position paper on board members' time commitment, we argue that there is a limit to how many board roles one person can handle. Virtually all directors aim to do their best for a company, but some overcommit and so do not have enough time to prepare for or participate actively in board discussions.

In 2020, we engaged with the largest companies in our portfolio where we had voted against board candidates due to excessive commitments. We observed that some directors at RLJ Lodging Trust, TripAdvisor Inc and Acceleron Pharma Inc had numerous roles at other listed companies. We raised board members' time commitment at meetings with these companies and sent letters to the board chair at 19 companies to explain our voting.

Board diversity

Diversity contributes to effective boards and is a sign of a healthy nomination process. We engaged with large companies in Europe and North America during the year where there were no women on the board and so we voted against the chair of the nomination committee. Domino's Pizza Group PLC, Southern Copper Corp and Conzzeta AG are examples of companies with no women on the board at the time of their annual shareholder meeting in 2020.

In Sweden, we participate in the nomination process for the boards of some of our largest investments. In 2020, we continued our work on the nomination committees at Boliden AB, Essity AB, Volvo AB and Svenska Cellulosa AB SCA. We also joined the nomination committee at Nordic Entertainment Group AB, where we were the largest shareholder.

Our priority is a good nomination process to identify candidates who can meet the company's needs, rather than proposing specific individuals.

Appropriate management incentives

Executive remuneration is subject to some form of shareholder approval in many advanced markets and was once again the most common topic that companies raised with us. We discussed executive pay with 142 companies and responded to 153 written enquiries concerning our expectations in this area at specific companies.

At our meetings with companies, we encouraged them to prioritise long-term shareholding, straightforward structures and the greatest possible transparency. We also followed up a number of companies that faced strong shareholder opposition to their remuneration plans in 2019.

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 issues that are relevant to companies' value creation. We held 1,138 meetings with 633 companies on environmental and social issues in 2020. We also had written communication with 456 companies.

Climate change and environment

The United Nations Environment Programme (UNEP) estimates that 70 percent of tropical deforestation is driven by the production of agricultural commodities, such as beef, soya, palm oil, paper and timber. We initiated dialogue during the year with seven consumer goods companies that rely upon one or more of these commodities in their manufacturing. We expect companies to be open about how they identify, evaluate and manage deforestation risks both in their own operations and in their supply chains. In these dialogues, we stressed the need for better traceability of commodities in the supply chain, and the importance of ensuring that suppliers comply with buyers' policies. We also highlighted the importance of monitoring suppliers' compliance with international initiatives, standards and certification schemes. Shiseido Co Ltd, NH Foods Ltd and General Mills Inc were among the companies we contacted. We also continued our dialogue with selected banks on their policies for lending to companies that contribute to deforestation. We urged the banks to strengthen their due diligence and to report on climate and deforestation risks.

We continued our dialogue with cement producers to understand how they are approaching the transition to a low-carbon economy and how they are ensuring sustainable use of water and sand in their production processes. According to the International Energy Agency (IEA), the cement industry accounts for around 7 percent of global greenhouse gas emissions. A growing number of cement

We expect companies to be open about how they identify, evaluate and manage deforestation risks.

We contacted plastics and packaging producers to learn how the current focus on plastic waste is impacting their business, and what steps they are taking to reduce negative effects on the environment.

producers we have engaged with have committed to cutting their emissions in line with the climate targets of the Paris Agreement. These include HeidelbergCement AG, LafargeHolcim Ltd and Taiwan Cement Corp.

We initiated dialogue with 16 banks during the year on how they are addressing climate risk in their loan and financing portfolios. Climate risk can, to varying degrees lead to increased credit, market and financing risks for banks, especially if they have substantial exposure to emissions-intensive activities. We see that banks are increasingly working to quantify greenhouse gas emissions from their financing activities. These analyses give the banks a basis for setting time-bound targets for reducing financed emissions. Morgan Stanley is an example of a bank that set an ambition during the year to reach net-zero financed emissions by 2050.

We initiated dialogue with 13 iron and steel producers on how they are addressing climate risks and opportunities in the low-carbon transition. We also engaged with companies on their interaction with policymakers on climate policy. According to the IEA, the industry accounts for 7 percent of global greenhouse gas emissions. Steel is also the world's most recycled material and will play a key role in the transition to a low-carbon and more circular economy. ArcelorMittal SA, SSAB AB and Nucor Corp are among the companies we are speaking to. They are working on technological solutions to reduce emissions; for example, using hydrogen as a fuel, carbon capture and storage and electrolysis for iron production.

We contacted 13 European heavy industry companies to discuss our expectation that they approach climate measures and lobbying in a transparent and constructive manner. We asked these companies to review climate-related lobbying by their trade associations on a regular basis and to present areas where there are misalignments and how these are being addressed. Koninklijke DSM NV, Bayerische Motoren Werke AG and Volkswagen AG were among the companies we contacted. Some companies are reporting more on direct and indirect lobbying activities and on the board's role in monitoring these activities. Companies are also placing more importance on assessing the alignment of their policy positions with those of stakeholder groups on climate-related issues.

We continued our dialogue with shipping companies on the energy transition and responsible recycling of ships. Several of these companies set ambitious targets for emissions reductions during the year. DFDS A/S is an example of a company that has set a target of being carbon-neutral by 2050 and has a clear policy on ship recycling.

We also continued our dialogue with companies in the automotive industry on how they can seize opportunities in the climate transition by offering low-emission vehicles whilst also addressing risks in their supply chains. Human rights violations are a particular challenge in the cobalt supply chain. One of the companies we engaged with was Volvo AB, which unveiled a new climate strategy in 2020, including the goal of reducing its greenhouse gas emissions in line with the goals of the Paris Agreement. General Motors Co is an example of a company that bases its approach to cobalt sourcing on several years of experience working with conflict minerals. Volkswagen AG introduced a new system for human rights due diligence in 2020.

We continued our dialogue with companies in the apparel industry on sustainable business models and measures to reduce emissions and water pollution. The UN has estimated that the apparel industry will account for around 25 percent of global greenhouse gas emissions in 2050, up from around 10 percent today. This value chain also accounts for 2 percent of the world's water consumption and a high proportion of micro-plastics in the ocean. Some of these companies, including Kering SA, Industria de Diseño Textil SA and Hennes & Mauritz AB, have signed the UN Fashion Industry Charter for Climate Action and committed to cutting their greenhouse gas emissions by 30 percent by 2030.

We initiated dialogue with nine Asian and African fisheries companies during the year. Large parts of the world's fish stocks are overfished, and some companies are at risk of reduced access to this resource in the future. Illegal, unregulated and unreported fishing and human rights violations can also occur in some companies' value chains. The companies we contacted, which include Nippon Suisan Kaisha Ltd and Maruha Nichiro Corp, are generally aware of these risks, but traceability and certification of their raw materials vary.

Access to sufficient quantities of fresh water is critical in many industries. We therefore initiated dialogue with twelve companies in water-intensive industries during the year on their reporting on water consumption, targets for reductions and management of water-related risks. These included Antofagasta PLC and NextEra Energy Inc.

Human rights

Misleading marketing of breast-milk substitutes can pose a risk to children's fundamental rights. We continued our dialogue on responsible marketing of these products in 2020 and contacted three new companies. We noted substantial differences in companies' policies on responsible marketing and approach to the WHO Code. We continued to encourage companies to adopt policies on responsible marketing of breast-milk substitutes and to be more open about how they comply with them. Some companies, including Nestlé SA and Health & Happiness H&H International Holdings Ltd, reported during the year on implementation of and compliance with their policies.

Children are a growing user group for digital tools and online products and services. This could present a risk to their health and rights and, in turn, constitute a business risk for telecommunications companies. We therefore identified 13 telecommunications companies for a new dialogue on their policies and systems for assessing and managing risks related to children's rights.

We continued our dialogue with electronics companies on the risk of forced labour both in their own operations and in their supply chains. The companies are generally concerned about this risk, and several have updated their policies in this area. Some are involved in relevant industry initiatives and use the tools these provide in their risk assessments and monitoring. HP Inc described its due diligence processes and set concrete targets in its first stand-alone report on human rights, while Lam Research Corp carried out a pilot project to raise awareness of the risk of forced labour in the supply chain and supported suppliers in preventing and eliminating it.

There is a debate in many markets around the regulatory framework for organising workers as employees or independent contractors. We began a new dialogue with seven companies providing food delivery and transport services on their approach to organising their workforce. The aim was to understand their choice of business model and how they view risks related to regulatory developments, lobbying and respect for labour rights. Delivery Hero SE, Uber Technologies Inc and Just Eat Takeaway.com NV were among the companies contacted.

The UN Guiding Principles on Business and Human Rights give companies with operations in conflict-affected areas a special responsibility to avoid causing or contributing to violations of international humanitarian law and human rights. We identified seven companies for dialogue about their due diligence efforts when operating in such areas and the actions they have taken to mitigate or prevent any negative impacts.

Anti-corruption and tax

We continued our dialogue with 14 banks potentially at risk of having their products and services misused for money-laundering purposes in some countries. The aim was to learn what steps the banks are taking to identify and mitigate these risks. The banks contacted provided a clear overview of areas where there is a risk of financial crimes. Most had worked on upgrading technology to enable them to identify and report suspicious transactions. However, there are still many regulatory challenges preventing banks from sharing information with the authorities or other banks, which makes it harder to fight financial crime.

We continued our dialogue on the risk of corruption in the use of agency agreements by companies that supply equipment and services to the oil industry. We learned that the use of intermediaries in the sector has decreased substantially in recent years. We also gained insight into the checks the companies make before entering into agency agreements. We used this information to assess the robustness of their approach to due diligence.

Companies in the industrial sector are exposed to corruption risks, especially when bidding for public contracts to supply industrial products, equipment and machinery and associated services. We continued a dialogue with Alstom SA and General Electric Company during the year on the implementation of their anti-corruption programmes. We also initiated a dialogue with eight companies on how the board monitors corruption risks, and asked them for information on their corruption risk assessments in the context of public procurement.

We continued our dialogue with 15 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. Three of the companies – Chevron, BNP Paribas and BASF SE – have now published policies in this area.

We expect companies to be open about any 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 have therefore identified and initiated dialogue with 31 companies on their presence in low-tax environments and closed jurisdictions, asking them to explain what activities they have there and why they chose those jurisdictions. This included meetings with companies in the health care and technology sectors. We asked the companies about their policies and decision-making processes for activities in these markets.

Incident-based dialogue

We also follow up unwanted incidents that could indicate weak corporate governance or management of environmental and social risks. One example of such an incident in 2020 is the destruction of indigenous cultural heritage in the Juukan Gorge in Australia as part of Rio Tinto PLC's operations. We also followed up claims of shortcomings in the assessment and management of risks to the environment and the local population in HeidelbergCement AG's value chain in Indonesia. A third example is Fortum OYJ's subsidiary Uniper SE's opening of a new coal-fired power station in Germany. We also contacted the State Bank of India regarding its potential involvement in financing the Carmichael coal mine in Australia. We stressed our expectation that companies should have clear policies and assessment criteria for financing projects with elevated environmental or social risks.

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 varieties of seed in India. We had regular contact with UPL in 2020, including two meetings.

In the course of the year, Advanta continued its information campaign for farmers, suppliers, local authorities and other stakeholders, and brought in external expertise to evaluate and strengthen this work. The company also joined a new industry initiative to combat child labour and ensure decent working conditions in seed production in India, and commissioned a baseline study of the root causes for child labour in seed production to support the company's continued work in this area.

In our dialogue with the company, we raised the need to prevent child labour in the supply chain and the company's approach to monitoring the supply chain. Advanta has updated its standard agreements with farmers and improved its procedures for monitoring the supply chain for possible child labour.

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 and Shell 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 2020.

Spills from pipelines operated by Eni decreased during the year. The company has worked on strengthening its dialogue with the local community and security forces in recent years, and improved its monitoring of and response times to spills. Spills due to operational errors were again low in 2020, but slightly higher than in 2019 due to corrosion. The company is working on installing new pipelines in exposed areas.

Spills from pipelines operated by Shell were relatively stable in 2020. Spills due to operating errors were again low, but spills due to sabotage and theft remain high. Shell and its partners in Nigeria have implemented various measures, including preventive maintenance, better protection of wellheads and closer collaboration with local communities. The company is working with the Nigerian authorities to clean up legacy pollution in Ogoniland and is paying its share of the clean-up costs. This work has now begun but will take several years to complete.

The aim of our dialogue with AngloGold Ashanti is to encourage the company to clean up legacy pollution and operate the Obuasi mine in Ghana in accordance with internationally recognised standards. We held one meeting to discuss these matters in 2020 in addition to ongoing correspondence. The company reported good progress in both its modernisation programme and the restoration of disturbed areas, although the Covid-19 pandemic has brought delays.

Gross corruption

In August 2020, the Executive Board asked Norges Bank Investment Management to follow up PetroChina Co Ltd's anti-corruption work as part of our active ownership efforts. The decision followed a recommendation from the Council on Ethics in February 2020 that the company should be excluded from the fund.

The aim of the dialogue is to monitor what the company's board and management are doing to prevent corruption through effective systems and measures. We have had two meetings with the company since the Executive Board's decision. We first met representatives of management, where we presented the decision and the company provided information on the general progress of its anti-corruption work. We then had a meeting with the department responsible for combating corruption, where we discussed corruption risks and related measures.

We have a dialogue with companies to contribute to a reduction in the number and volume of oil spills.

Selected company dialogue on strategic topics

Category	Expectation	Company	Details	Start
Environ-ment	Climate change	Bayerische Motoren Werke AG	Climate lobbying	2020
		Arkema SA	Climate lobbying	2020
		Australia & New Zealand Banking Group Ltd	Banks financed emissions	2020
		Morgan Stanley	Banks financed emissions	2020
		APERAM SA	Low-carbon transition in steel industry	2020
		HeidelbergCement AG	Low-carbon transition in cement industry	2019
	Water management	Adidas AG	Environmental impacts of fashion industry	2020
		NextEra Energy Inc	Targets on water consumption	2020
		Air Liquide SA	Targets on water consumption	2020
	Ocean sustainability	Dongwon Industries Co Ltd	Sustainable fisheries	2020
		Nichirei Corp	Sustainable fisheries	2020
		Euronav NV	Transition risk and responsible ship recycling	2019
Social issues	Children's rights	Mondelez International Inc	Child labour and deforestation in the cocoa supply chain	2019
		Health & Happiness H&H International Holdings Ltd	Responsible marketing of infant formula	2018
		Reckitt Benckiser PLC	Responsible marketing of infant formula	2018
	Human rights	Honda Motor Co Ltd	Low carbon transition and cobalt sourcing	2018
		Apple	Human rights policies and reporting	2020
		Western Digital Corp	Forced labour risk management	2019
	Tax and transparency	BASF SE	Published global tax policy	2019
		BNP Paribas	Published global tax policy	2019
		Infineon Technologies AG	Transparency on low-tax jurisdictions	2020
	Anti-corruption	Alstom	Implementation of anticorruption policy	2020
		Novartis AG	Development of anti-corruption indicators	2020
		Banco Santander SA	AML risk assessments	2020

Category	Expectation	Company	Details	Start
Governance	Effective boards	Royal Dutch Shell	Board composition and nomination process	2020
		SAP SE	Board composition and independence	2019
		Danone SA	Separation of CEO and Chair roles	2019
	CEO remune-ration	Alphabet Inc	Simple and long term executive remuneration	2020
		AstraZeneca PLC	Simple and long term executive remuneration	2020
		Informa PLC	Simple and long term executive remuneration	2020
	Shareholder rights	Suez SA	Anti-takeover mechnisms	2020
		Covestro AG	Pre-emption rights in capital issuance	2020
		Groupe Bruxelles Lambert SA	Differentiated voting rights	2020

Follow-up

We work with companies, investors and other stakeholders to improve the information made available to the market and promote responsible business practices. This is particularly relevant where many companies in the same industry or value chain face the same challenges.

To analyse sustainability, we need companies to report adequately on their exposure, actions and results. We assess companies' disclosure on governance structure, strategies, risk management and targets against our public expectations.

In 2020, we conducted a total of 4,158 assessments of companies' reporting. We assessed the reporting of 1,521 companies on climate change, 694 on human rights, 500 on water management, 494 on children's rights, 250 on anticorruption, 250 on ocean sustainability, 249 on deforestation and 200 on tax. The companies assessed accounted for 74.8 percent of the equity portfolio's market value at the end of the year. We have been assessing companies' reporting on environmental and social issues since 2008.

These assessments give us information that we can use in our voting, strategic dialogue and follow-up of risk incidents. More generally, they uncover practices and trends that are useful when following up and further developing our expectations of companies. They also provide a basis for our input to standard setters and industry initiatives. We contact companies with weak or limited disclosure and encourage them to improve it, for example by participating in established reporting initiatives. We sent letters to 127 companies during the year about their reporting on topics covered by our expectation documents.

We saw a markedly greater improvement among the companies we contacted about poor sustainability reporting in 2019 than among those we did not contact. The average improvement in performance at the companies we contacted was 9.8 percentage points. The overall improvement at the companies covered by our assessments was 6.5 percentage points. The difference was greatest at companies we contacted about tax transparency, climate change and water management, and smallest for human rights and children's rights. Overall, we saw improvements at 50 percent of the companies we contacted.

We support initiatives that bring companies together to find common standards for sustainable business conduct. These initiatives work best when numerous companies in a particular industry or value chain face the same challenges. The starting point for our expectations of companies is that boards should establish suitable strategies, control functions and reporting procedures. Our initiatives cover topics such as supply chain management and disclosure.

Children's rights

We look particularly at companies that have operations or supply chains in industries with a high risk of child labour, or otherwise impact on children's rights through their operations, products and services, or marketing. In 2020, we assessed a total of 494 companies in the basic

Good results on sustainability disclosure.
Examples from various sectors.

Childrens' righs	Climate change	Water management
Nestle SA	Banco Santander SA	Mondi PLC
PepsiCo Inc	Danone SA	Coca-Cola HBC AG
Hershey Co/The	UPM-Kymmene Oyj	Dr Reddy's Laboratories Ltd
Hennes & Mauritz AB	Koninklijke DSM NV	TOTO Ltd
Adidas AG	Colgate-Palmolive Co	Kikkoman Corp

Ocean sustainability	Human rights	Tax and transparency
DS Smith PLC	Unilever NV	Pearson PLC
Kering SA	Diageo PLC	Partners Group Holding AG
Sanford Ltd/NZ	Microsoft Corp	Chevron Corp
DFDS A/S	Koninklijke Philips NV	eBay Inc
Nichirei Corp	Newmont Corp	International Business Machines Corp

Anti-corruption
AstraZeneca PLC
Edwards Lifesciences Corp
Repsol SA
Johnson & Johnson
Fiat Chrysler Automobiles NV

Children are the key to future prosperity, but also the most vulnerable members of society.

materials, consumer goods and services, industrial, health care, oil and gas, financial, telecom and technology industries.

Besides policies and systems for addressing child labour, the assessments looked at transparency on governance structure, due diligence and risk assessments, stakeholder dialogue, policies on responsible marketing and grievance mechanisms. We base our assessments on publicly available information from the companies.

In 2020, we identified 22 companies with very good reporting and 114 with good reporting, while 117 the companies had very weak reporting on how they address children's rights. We found that around 60 percent of the companies had policies that referred to children's rights, including the prohibition of child labour. Some 85 percent of companies described support for organisations or projects to promote children's rights, while 35 percent had policies on dialogue with stakeholders. Only 6 percent shared information on how they monitor and address child labour in their operations or supply chains.

There were considerable differences between sectors. Overall, companies in the telecom and technology sectors provided the most information on their approach to children's rights. European companies generally reported in more detail than those elsewhere. All in all, we saw some improvement in reporting on children's rights from previous years.

Children's rights in global supply chains

In 2017, we established a network for children's rights in the apparel and footwear industry together with UNICEF. Child labour is a challenge in the industry's supply chain, but children's rights can also be affected in other ways, for example by working conditions for their parents or caregivers. The network has brought together a group of leading companies and experts in the field to share experiences, consider how the industry has impact on children's rights, and discuss how companies can address the associated challenges.

In 2020 we published a guidance tool for companies on how they could integrate children's rights in their responsible sourcing policies and practices. The guidance is aimed at companies wanting to protect children's rights in their supply chains through good policies and governance systems. It includes metrics that companies can use to monitor and report on their own processes and results at factory level.

We continued the network dialogue on measures to protect children's rights with several of the participating companies, including VF Corp, Next PLC, Adidas AG and Hennes & Mauritz AB. Among other things, the group discussed challenges, opportunities and good practices in the areas highlighted by the guidance document.

In 2020 we identified 114 companies with very good results on water management and equally many with good results.

Water management

We assessed 500 companies in the basic materials, chemicals, food and beverage, retail, pharmaceuticals, industrial goods and services, oil and gas, and utilities industries during the year. Areas covered included the scope of the companies' policies, whether water risk assessments included relevant agricultural value chains, and whether quantitative targets have been set for water consumption.

As in previous years, companies' reporting varied considerably. In 2020, we identified 114 companies with very good results and 93 with good results. We saw the best reporting on governance, and somewhat weaker reporting on strategies, risk management and targets. Around 70 percent of companies reported involvement of the board and senior executives in water management, while only a fifth reported that they carry out detailed risk assessments including all relevant parts of the value chain. Two thirds of the companies reported how much water they consumed. Companies in Europe reported better than those elsewhere. The industries with the best reporting were utilities, pharmaceuticals and basic materials.

We have noticed an improvement in companies' reporting on water management in recent years. The trend was not as marked in 2020, but we are seeing more companies in the portfolio reporting detailed information through CDP's water programme. All in all, 92 percent of the companies assessed published some relevant information on water management.

Reporting on water pollution

While water consumption can be measured in litres, it is harder for companies to measure and report on pollution from their operations and value chains. We have been working with CDP's water programme for a number of years on developing reporting practices in this area, especially in agriculture. CDP has been working on new metrics to be included in its questionnaire, and we arranged a roundtable with companies to discuss these metrics in September 2020.

Nike Inc, Carrefour SA and Heineken NV were among the companies that took part in the roundtable, where we discussed which parameters for water quality and treatment can be measured and reported on in a standardised way. CDP summarised the findings from the roundtable on its website, including the importance of sufficient flexibility in the questionnaire for companies to tailor reporting to their specific business. We are also participating in CDP's Water Advisory Council to contribute to the further development of its water questionnaire and water programme.

In 2020, we assessed the reporting on climate risk by 1,521 companies.

Climate change
In 2020, we assessed the disclosure of 1521 companies in 19 industries, which is four more industries than in 2019. These industries were: automotive, basic materials, chemical, construction and building materials, banks, financial services, insurance, real estate, food and beverage, personal and household goods, technology, retail, health care, media, telecom, industrial goods and services, oil and gas, power production, and travel and leisure. The indicators we looked at included the role of the board, processes for addressing climate risk and opportunities, use of climate scenario planning, policies on lobbying, climate metrics such as greenhouse gas emissions and reduction targets, and whether reporting complied with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

We are seeing substantial improvements in companies' reporting on climate change across almost all industries. In 2020, almost 42 percent of the companies had very good reporting and 24 percent had good reporting. In general, we saw better reporting on governance and risk management processes than on strategies and metrics. There was still variation in the level of climate reporting both between companies and industries. Companies in telecommunications, personal and household goods, and health care had the best reporting overall. The reporting of companies in construction and building materials, insurance, oil and gas, and industrial goods and services was generally weaker.

Around 17 percent of the companies reported information in line with the TCFD recommendations. 48 percent of the companies stated that they perform climate scenario analyses, which is an increase of 13 percentage points compared to 2019. Less than half of the companies used an internal carbon price in their investment decisions, but the share of companies with emissions reduction targets increased to 67 percent.

We assessed 249 companies' reporting on deforestation risks. We looked at companies in nine industries: food and beverage, personal and household goods, retail, forestry and paper, restaurants, industrial goods and services, banks, construction and building materials, and tyre production. The indicators included policies on deforestation, risk indicators, metrics for consumption and traceability of forest materials, supplier collaboration and reporting, and use of certifications. We found that 25 percent of the companies had very weak reporting on deforestation. Companies in industrial goods and services, personal and household goods, restaurants, and forestry and paper had better reporting than those in the other industries, although there was substantial variation within industries. Generally speaking, European companies' reporting was better than that of companies based in other markets.

Climate information for the financial sector
In 2019, we became a strategic partner of the Transition Pathway Initiative (TPI), an investor-led initiative that provides independent analysis of carbon management practices and performance in emissions-intensive industries. Together with the Grantham Research Institute at the London School of Economics and Political Science (LSE), TPI has developed and published a tool that investors can use to assess companies' preparedness for the transition to a low-carbon economy. We are part of TPI's steering group and support the development of publicly available tools to help increase our understanding of portfolio companies' strategies to address climate risks.

Human rights

We assessed 694 companies' reporting on their policies and systems for assessing and managing the risk of negative human rights impacts in 2020. We looked at companies in the basic materials, consumer goods and services, financial, health care, industrial goods and services, oil and gas, technology, telecom and utilities industries.

Companies' reporting was assessed against a number of indicators, including governance structure, policies, information on due diligence and risk assessments, grievance mechanisms and stakeholder dialogue. The assessments were based on publicly available information from the companies.

The assessments revealed considerable variation in reporting between the companies on how they respect human rights. We identified 55 companies with very good reporting and 181 with good reporting, while 290 companies had weak or very weak reporting. There were also variations between industries. Generally speaking, we found that companies in the financial, oil and gas, and health care industries reported more comprehensively on their policies and processes for respecting human rights.

Overall, 53 percent of the companies had policies referring to international principles and standards for human rights, and 39 percent had policies approved at board level, while 60 percent shared some information on their processes for identifying and assessing possible negative impacts on human rights in their operations or value chains.

Business and human rights

In 2017, we entered into an agreement with Shift, a non-profit organisation working with the UN Guiding Principles on Business and Human Rights, on finding better ways of evaluating companies' efforts to prevent and manage violations of human rights, including the development of more accurate assessment methods and performance indicators.

In 2020, Shift published a new version of its tool for assessing human rights risks that are integral to certain features of companies' business models. We used this tool in our ownership dialogue on human rights during the year. Shift also updated its indicators for rights-respecting governance and culture. We participated in consultations where we discussed these resources and how investors can use them.

2021 marks the tenth anniversary of the UN Guiding Principles on Business and Human Rights. Ahead of this anniversary, we organised a workshop for public pension funds together with the UN's Working Group on Business and Human Rights in November 2020. Participants exchanged experiences from their work on human rights and discussed the unique challenges and opportunities faced by public pension funds.

The global apparel supply chain

Good labour conditions are essential for a sustainable apparel industry. However, there is no universal standard for collecting social and labour data in clothing supply chains. We continued to support the Social & Labor Convergence Program (SLCP) in 2020. SLCP is industry-led and has been working with a broad group of stakeholders to develop standardised processes and a common method for collecting and verifying data on social and labour conditions in the apparel industry's supply chains.

SLCP updated its tool during the year and worked on enhancing data quality. It has found that many companies with the same suppliers are increasingly using the same assessments. SLCP also worked with the ILO's Better Work programme on integrating SLCP's approach into Better Work's tool for assessing labour conditions. SLCP also continued to make its framework available in new markets, taking the total to 30 markets at the end of the year. More than 35 companies, including Nike Inc, VF Corp, Asics Corp and Zalando SE, are using SLCP data from their supply chains.

In 2020, we assessed 694 companies' reporting on their policies and systems for assessing and managing the risk of negative human rights impacts.

Tax transparency

We assessed the reporting of 200 companies in the technology, pharmaceuticals, consumer goods and services, financial, oil and gas, and mining industries in 2020. Our expectations on tax transparency are premised on companies paying taxes where economic value is created, that boards are responsible for company tax approaches and that companies report publicly on the taxes they pay in each country. In our assessments, the companies' reporting was assessed against a number of 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.

Our analysis revealed considerable variation in the level of tax disclosure both between companies and between industries. 69 percent of the companies still had weak or very weak reporting on tax. 53 percent had published tax management policies, up from 49 percent in 2019. Once again, however, fewer than 10 percent of companies had published a country-by-country report showing the amount paid to the tax authorities in each of the countries in which they operate. Although the analysis did not reveal major changes in tax transparency overall, we did see significant changes at a company level.

Tax disclosure

We have participated in a working group on responsible tax practices led by the B Team since 2018. There are around 20 companies in this group, which focused on three issues in 2020: corporate tax disclosure, dialogue between investors and companies on tax, and responsible tax practices among tax advisers. The B Team has published principles for responsible tax practices. By participating in this working group and supporting The B Team's work, we hope to contribute to more companies endorsing the principles, which are a good match for our own expectations on tax transparency.

Our analysis revealed considerable variation in the level of tax disclosure both between companies and between industries.

Anti-corruption
We assessed the reporting of 250 companies in the oil and gas, mining, construction and civil engineering, industrial goods and services, telecom, financial and pharmaceuticals industries in 2020. The companies' reporting was assessed against 14 indicators, including transparency on governance structure, policies for combating corruption, risk assessments and reporting on corruption-related incidents, external evaluation of anti-corruption programmes, and dialogue with stakeholders.

We found that 28 percent of the companies had weak or very weak reporting on anti-corruption. Most were relatively open about how the board and management address corruption risks. We also found that many companies make their anti-corruption policies and strategies public. Some reported in more detail on measures to prevent and detect corruption, such as staff training and internal whistleblowing systems.

The companies provided less information on their follow-up of anti-corruption actions and the results of internal and external evaluations of the efficacy of these actions. European companies in the utilities, oil and gas, and telecom industries were generally more open about their anti-corruption work, but we saw no major differences between industries and markets in 2020.

Anti-corruption indicators and reporting
We continued the industry initiative on indicators for reporting on anti-corruption efforts in the pharmaceuticals industry during the year. The aim of the initiative is to promote discussion of how companies can measure the efficacy of their anti-corruption programmes, and to develop methods and indicators for corporate reporting on the effects of their anti-corruption efforts. Alexion Pharmaceuticals Inc, AstraZeneca PLC, Bristol Myers Squibb Co, Eli Lilly and Co, GlaxoSmithKline PLC, Merck KGaA, Novartis AG and Novo Nordisk A/S participated in the initiative and expressed a desire for more standardised and comparable reporting, which would help identify leading practices and build trust between companies, investors and other stakeholders. The companies participating in the initiative held six meetings during the year to discuss anti-corruption indicators, resulting in the publication of a guidance note proposing indicators for measuring the efficacy of companies' anti-corruption efforts in five areas: culture, risk management, third parties, compliance and oversight.

We also continued to participate in the Extractive Industries Transparency Initiative, which aims to prevent corruption in the oil and gas and mining industries.

Ocean sustainability

In 2020, we assessed reporting on ocean use by 250 companies in the mining, chemicals, tyre production, food and beverage, retail, travel and leisure, containers and packaging, shipping, waste management, and oil and gas industries. To varying degrees, these companies base their operations on the ocean, rely on marine resources, or may have a negative impact on the ocean through pollution of water systems or the production of plastic packaging. Their reporting was assessed against a number of indicators, such as strategy for avoiding illegal, unreported and unregulated fishing, use of relevant certifications, and reporting on consumption of plastics.

37 percent of the companies assessed had good or very good reporting on relevant ocean-related topics. This was up from 21 percent in 2019, reflecting growing awareness of the challenges companies face. Ocean sustainability is still an area with very little standardised reporting.

The indicators on which most companies reported were governance structure and risk management. Relative to 2019, we saw a particular increase in companies explaining how the board and management supervise work on ocean-related challenges. There was also a sharp rise in the number of companies setting quantitative targets, such as for recycling plastic packaging. The industries with the best reporting were containers and packaging, hotels and beverage production. Most hotel chains use certification schemes to ensure that seafood comes from sustainable sources. Specialist retailers generally had the poorest reporting, with only 20 percent having assessed risks related to the ocean and waste.

Action Platform on Sustainable Ocean Business

The fund has participated in the UN Global Compact's Action Platform on Sustainable Ocean Business since 2018. Other participants include companies from sectors with activities connected with the ocean, UN institutions, non-profit organisations and research bodies. We have contributed actively to the platform's work on developing international principles for ocean sustainability.

We supported the platform's work in five areas in 2020: a more sustainable seafood industry, the transition to zero-emission shipping, harnessing more renewable energy from the ocean, stopping waste from entering the ocean, and mapping and sharing data on the health of the ocean and ocean resources. Our contributions to the platform build on our expectations on ocean sustainability, published in 2018.

Chart 2 Results for companies we assessed on children's rights in 2020. Number of companies.

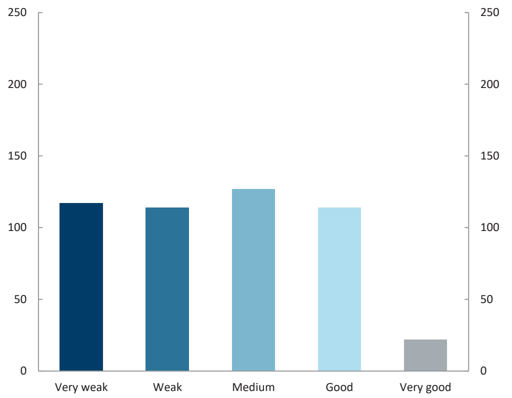


Chart 3 Results for companies we assessed on water management in 2020. Number of companies.

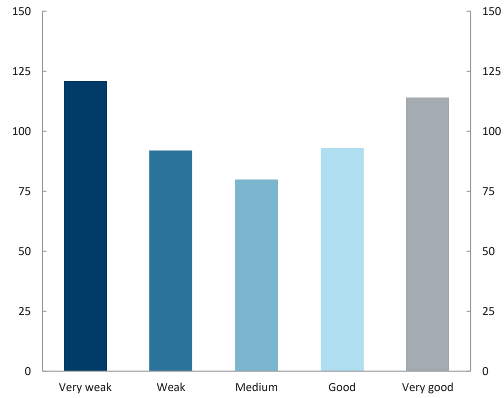


Chart 4 Results for companies we assessed on climate change in 2020. Number of companies.

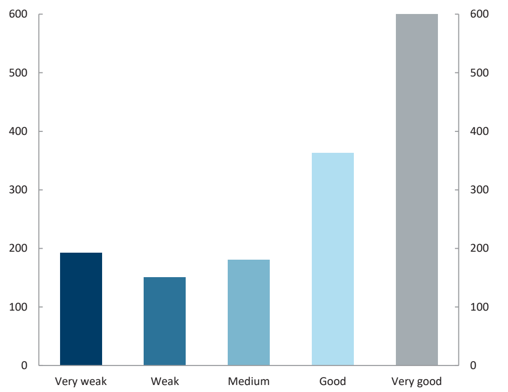


Chart 5 Results for companies we assessed on human rights in 2020. Number of companies.

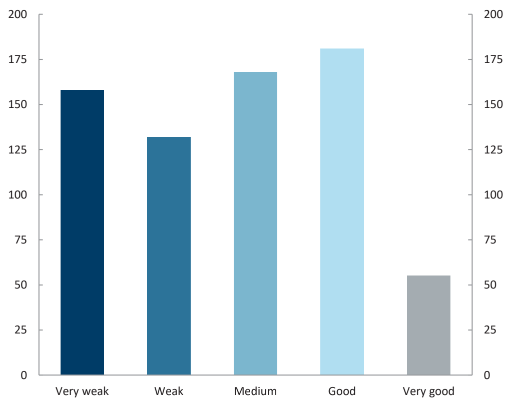


Chart 6 Results for companies we assessed on tax and transparency in 2020. Number of companies.

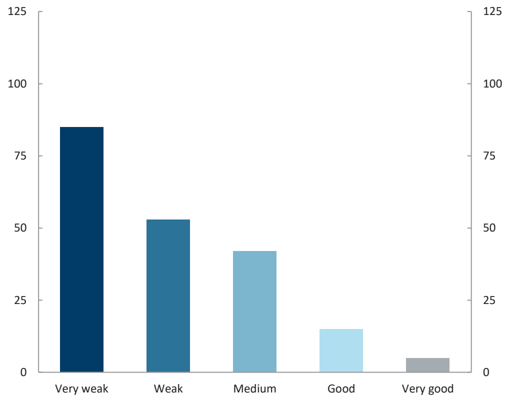


Chart 7 Results for companies we assessed on anti-corruption in 2020. Number of companies.

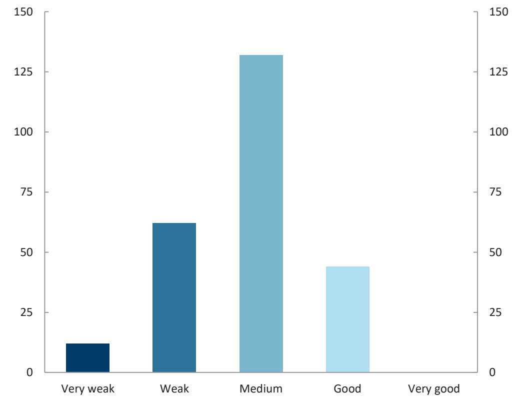


Chart 8 Results for companies we assessed on ocean sustainability in 2020. Number of companies.

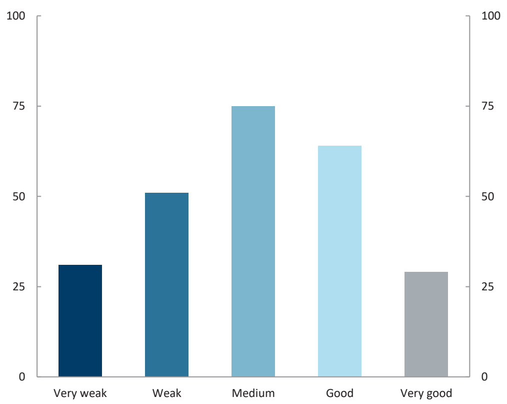
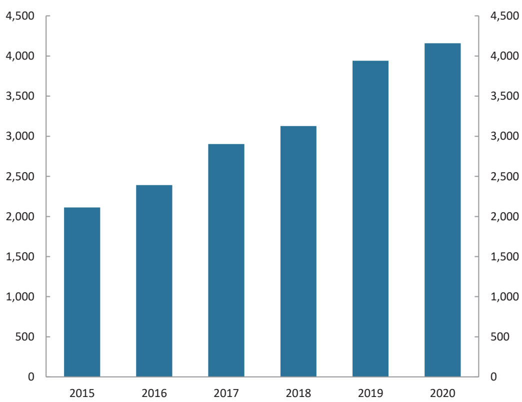


Chart 9 Assessments of companies' reporting 2015-2020. Number of assessments.



4 | Investing sustainably

Risk assessments

Corporate sustainability reporting is gradually moving from words to numbers. This is helping us to understand the risks and opportunities in our investments.

Companies' ability to create value in the long-term is affected by their ability to understand the long-term risks they are exposed to, and to adapt their strategies and business models accordingly. We view sustainability as an important driver of risks and opportunities in many industries and markets.

Sustainability data

We obtain data on companies' handling of environmental and social risks from their own reports and from external data providers. Authorities, research institutes and civil society also publish analyses, and we bring in external specialists when we need more sophisticated analysis. In addition, we have developed an internal database of non-financial data from a variety of external suppliers which is updated regularly.

Climate risk data

The portfolio's climate-related risks can be divided into physical risks and risks related to the transition to a low-carbon economy. These risks have different time horizons. Physical risks include exposure to extreme weather events such as floods, droughts or heat waves. Transition risks include regulatory changes, technological innovations and evolving consumer preferences. 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 sectors in which it is invested.

One general challenge facing analyses of climate risk is the limited availability of high-quality and relevant data. To gain a better understanding of this risk, we obtain analyses and participate in projects to assess and, where possible, quantify physical and transition risks at companies. We support initiatives to increase corporate disclosure and investor access to data on climate risks.

Climate scenarios

Scenario analyses are used to illustrate different future outcomes for climate risk and better understand climate risk over long time periods. These analyses can shed light on both physical and transition risks in the portfolio. They 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.

We are working on developing different methods and tools for climate scenarios that can give us a broad and deep understanding of how climate risk might affect individual companies and the portfolio as a whole. There is no standard method for investors' scenario analyses. 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 installations and assets. 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.

Carbon footprint

We have been analysing the carbon footprint of companies in our portfolio since 2015. This analysis provides an insight into the level of greenhouse gas emissions from the companies in which we are invested. It can also shed light on risks and opportunities across industries.

We follow the recommendations for asset managers from the Task Force on Climate-related Financial Disclosures (TCFD) when calculating the fund's carbon footprint. We start from the greenhouse gas emissions of each individual company in the equity portfolio, measured as tonnes of CO_2-equivalents. These emissions data are supplied by analysis firm Trucost and cover companies' Scope 1 and Scope 2 emissions. We also present our analysis of Scope 3 emissions – those in a company's value chain. Here, there are big gaps in the data, and extensive use of modelling is needed for calculations at sub-portfolio or industry level. We use data from MSCI for our Scope 3 analysis.

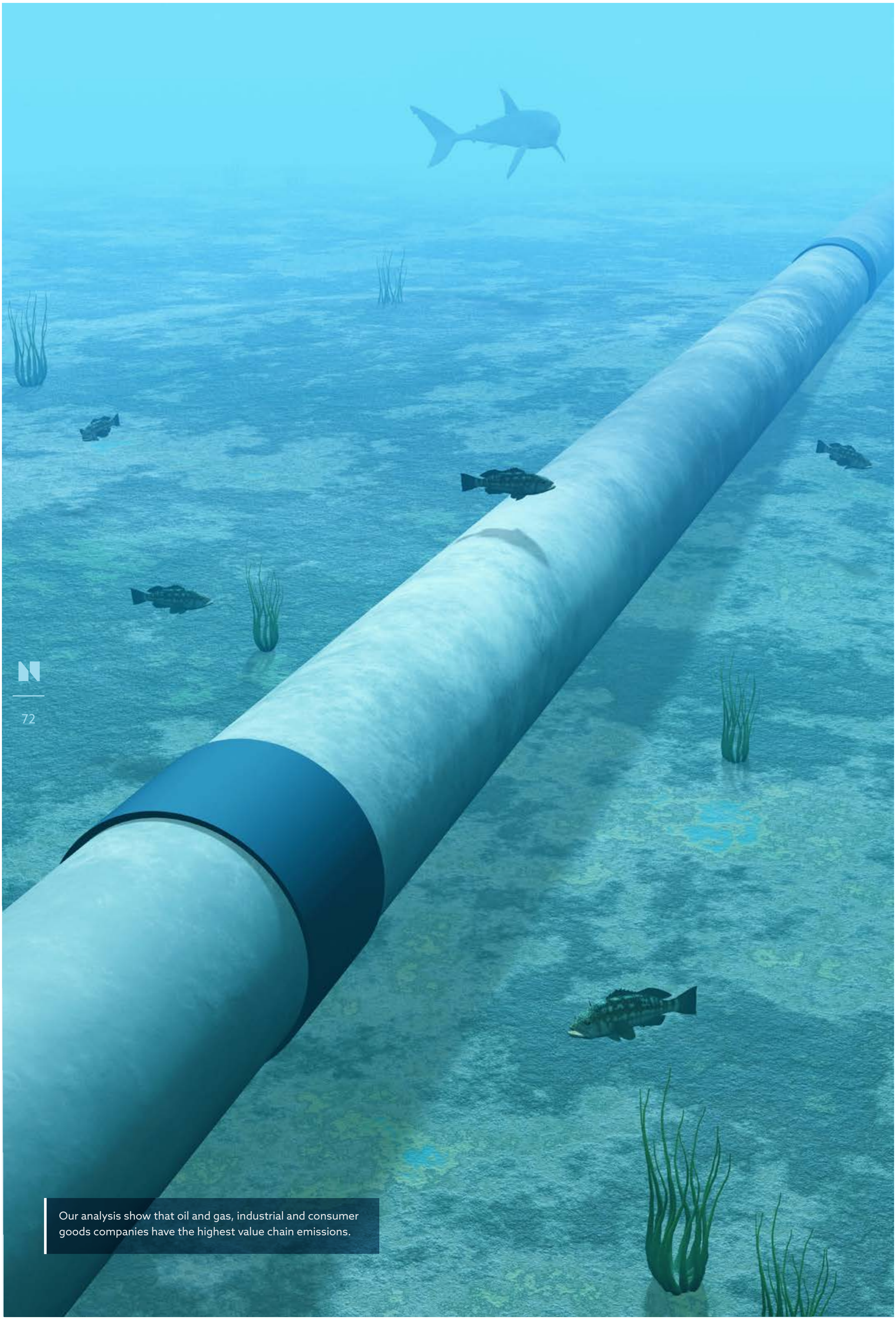
At portfolio level, we calculate emissions in relation to the fund's holding and companies' revenue. We report emissions data at sector level for the fund, for the benchmark index and for the FTSE Global All Cap index, which is the starting point for the benchmark index defined by the Ministry of Finance. This analysis of greenhouse gas emissions provides only a snapshot, however, and does not take account of companies' strategy, industry structure and other factors.

Reporting on greenhouse gas emissions still varies in frequency and quality. Emissions data are generally published in connection with a company's annual report early the following year. When analysing emissions data for 2020, the most up-to-date numbers will therefore come from companies' annual reports for 2019 published in 2020. Many companies still do not report emissions data. In this analysis, 10 percent of emissions are taken directly from companies' own reports or from CDP, and 55 percent are based on relevant information provided by companies. A further 34 percent are estimated using models, which results in greater uncertainty. Under 1 percent of the figures are simply based on the median for the sector. In these cases, uncertainty about actual emissions is considerable.

Total emissions and our percentage share

Based on our percentage holdings in each company, the equity portfolio's total emissions amounted to 92.4 million tonnes of CO_2-equivalents in 2020. This is just under double Norway's total emissions in 2019 of 50.3 million tonnes of CO_2-equivalents as reported by Statistics Norway. Emissions from companies in the equity portfolio were 14 percent lower than they were in 2019. This is mainly due to the decision by the Ministry of Finance to remove oil and gas exploration and production companies from the fund's benchmark, but also a result of the management of the environmental mandates. The emissions are 12 percent lower than for the benchmark index. We sold shares in high emitting companies to finance our environmental investments, which typically have lower emissions.

These emissions are driven largely by industries with high energy consumption, such as mining and metals, heavy industry, oil and gas, and power production. Within these high-emission


Our analysis show that oil and gas, industrial and consumer goods companies have the highest value chain emissions.

industries, there are in turn a number of large companies that account for the bulk of emissions.

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 133 tonnes of CO_2-equivalents for every million US dollars of revenue. This is referred to as the equity portfolio's carbon intensity.

The equity portfolio's carbon intensity was 9 percent below that of the benchmark index. The difference can largely be put down to our investments in basic materials, industrials 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 24 percent lower than that of the FTSE Global All Cap.

The carbon intensity of the companies in the equity portfolio and the benchmark index decreased by 15 and 10 percent respectively from 2019 to 2020. This is also a byproduct of shifts in portfolio holdings.

It is worth noting that carbon intensity is affected by changes in the prices of the products companies sell. For example, an oil company's carbon intensity will decrease when oil prices rise, even if its emissions are constant. Similarly, a company that sells luxury cars will have a lower carbon intensity than one that sells cheaper cars, even if both produce the same number of cars.

Emissions in the value chain

In 2020, we began to analyse emissions in 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 a sector 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 analysis show that oil and gas, industrial and consumer goods companies have the highest value chain emissions. They are high in relative terms in the financial sector as well. We can also see that value chain emissions in these sectors are much higher than direct emissions and emissions from their energy use.

Emissions in the corporate bond portfolio

The corporate bond portfolio's carbon intensity is 14 percent below that of the benchmark index. 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 release 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 multiply the company's emissions by the value of our lending divided by the value of all corporate bonds. We then add these figures together to produce totals for the fund and the benchmark index. The

Table 5 Scope 1 and 2 emissions by sector as at 31 December 2020.

Sector	Equity portfolio Tonnes CO_2 equivalents	Benchmark index Tonnes CO_2 equivalents	FTSE Global All Cap Tonnes CO_2 equivalents
Basic materials	22,984,220	25,957,184	4,140,865,269
Consumer goods	5,396,146	5,850,930	678,178,690
Consumer services	6,554,141	6,239,298	885,156,109
Financials	2,083,062	2,065,431	242,285,956
Health care	923,572	903,143	76,184,189
Industrials	19,975,633	24,033,019	2,641,064,927
Oil and gas	17,579,784	17,947,425	2,261,814,154
Technology	1,962,891	1,912,250	194,158,725
Telecommunications	686,295	778,156	115,751,158
Utilities	14,241,901	19,446,712	5,269,027,713
Sum	**92,387,646**	**105,133,548**	16,504,486,889

Table 6 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 2020.

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	689	711	767
Consumer goods	67	68	73
Consumer services	62	61	59
Financials	41	38	43
Health care	34	33	31
Industrials	195	230	215
Oil and gas	436	453	530
Technology	46	44	40
Telecommunications	44	45	43
Utilities	956	1 137	2 013
Weighted total	**133**	**145**	**175**

result is a measure of the carbon footprint of the corporate bond portfolio. Finally, we disclose the corporate bond portfolio's carbon intensity, calculated in an equivalent way to that for equities.

Sustainability risk assessments
We constantly monitor the portfolio's exposure to environmental, social and governance risks in the countries, industries and companies in which the fund is invested.

Some companies have inherently higher sustainability risks given the industries and markets they operate in. This is particularly the case in emerging markets, where regulation and enforcement in areas such as emissions, pollution, labour conditions and corruption may not be as robust as in more developed markets. There may also be industries in developed markets where some companies violate fundamental ethical norms or impose substantial costs on society through their operations.

Investments in emerging markets play a key role in the fund's investment diversification and exposure to fast-growing small and medium-sized companies. External managers with local expertise play a key role in gaining appropriate exposure to these markets. We set as a requirement in the mandates for managers to consider environmental, social and governance issues in their investment decisions, which is followed-up annually. We also conducted an assessment of sustainability risks in the externally-managed portfolios. In 2020 the assessment covered more than 1300 companies in emerging markets.

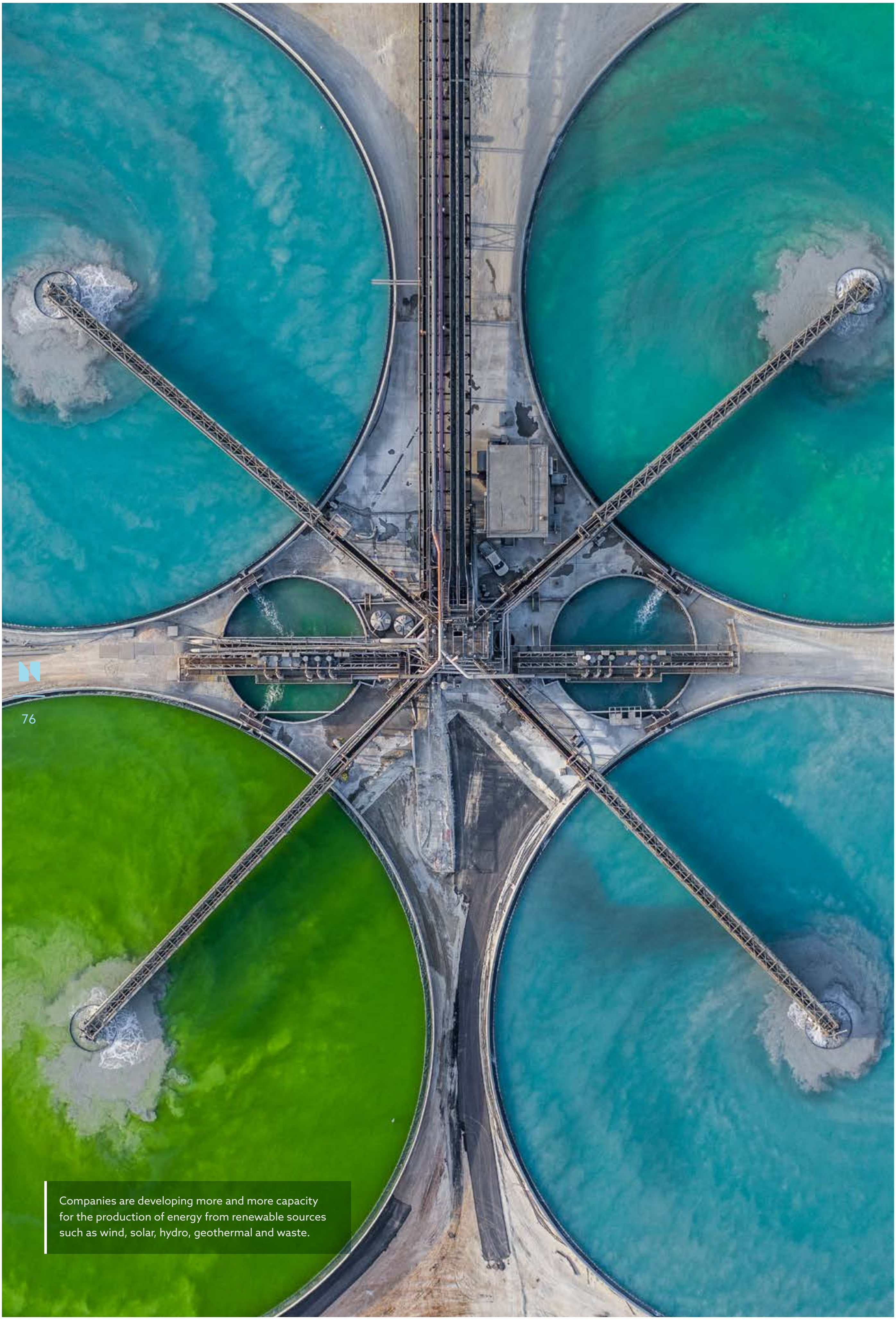
We map sustainability risks at companies in high-risk sectors across the portfolio. We have a framework for prioritising industries and markets for these broad portfolio analyses. These broad portfolio analyses can pick up investments in companies with particularly high long-term sustainability risks. Risk-based divestments 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 other actions are not considered suitable.

In addition to this broad mapping in high-risk industries, we have tools for monitoring companies associated with serious sustainability incidents. These might be breaches of laws, regulations or norms, or accidents caused by negligence. We identified 114 negative incidents in 2020 . We looked particularly at incidents such as alleged pollution, deforestation, human rights violations, negative impacts on local communities, health and safety breaches, and serious corruption and fraud.

We pay particular attention to investments where we have a high percentage holding and are among the largest shareholders. We monitor our holdings across the portfolio and prepare separate reports on companies where our holding exceeds 5 percent. These reports assess the company's exposure to various risks, including environmental and social risks.

We also carry out an annual review of the portfolio against our expectation documents. The aim is to identify companies that could have significant adverse impacts on the environment or society, and to prioritise action to reduce the risks 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 data to identify



Companies are developing more and more capacity for the production of energy from renewable sources such as wind, solar, hydro, geothermal and waste.

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, in the form of meetings or letters. Other relevant actions might be continued monitoring, sharing information with the Council on Ethics or, after further assessment, divestment if this is appropriate given the fund's risk limits. The decision will be influenced by factors such as severity, whether the company has already taken remedial action, the size of our investment, and the portfolio manager's familiarity with the company, where relevant.

In 2020, we prioritised action to address 202 issues at 189 companies. In some cases, we identified issues in relation to more than one of our expectation documents. We decided to monitor developments in 81 cases, initiate dialogue in 66 and consider divestment in 13. Together with our other risk-monitoring activities and active ownership work, this process forms part of our due diligence efforts as set out in the OECD's Guidelines for Multinational Enterprises.

Table 7 Scope 1 and 2 emissions in the fixed-income corporate portfolio and benchmark index as at 31 December 2020.

	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	4,123,457	137
Benchmark index	5,421,403	159
Difference	-1,297,946	-22

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.

Environmental mandates
At the end of 2020, we had 100 billion kroner invested in shares in 90 companies under dedicated environmental mandates.

Equity investments under the environmental mandates returned 34.3 percent in 2020. The annualised return on the equity investments since inception in 2010 has been 9.5 percent. The environmental mandates are now managed entirely in-house.

We identify and analyse the universe for environmental investments using information from companies, industry specialists and external data providers. Our goal is to determine to the extent to which these companies are exposed to environmentally friendly activities through their revenue or operations. Our environmental investments will then be a dynamic subgroup of this universe based on expected future financial performance and equity returns.

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 20 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 Ørsted A/S, Enel SpA and Neoen SA.

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 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.

Companies operating in these segments include Cree Inc, Schneider Electric SE and TE Connectivity Ltd.

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 in an efficient manner 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 negative environmental impacts.

Companies operating in these segments include Copart Inc, Essential Utility Inc and Pentair PLC.

Energy from waste and making good use of organic materials are two ways in which waste can be a resource.

Table 8 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	2020
Return on the environment-related equity mandates	9.5	18.0	18.7	34.3
Return on the financing of the environment-related equity mandates1	4.3	7.5	4.7	3.5
Return on the FTSE Environmental Technology 50 index	11.0	21.5	27.8	82.3
Return on the FTSE Environmental Opportunities All-Share index	13.4	17.5	16.8	35.6
Return on the MSCI Global Environment index	14.5	24.4	30.0	90.4
Return on the benchmark index for equities	9.8	10.5	8.6	11.7

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

Table 9 Top ten equity holdings in the low-emission energy and alternative fuel segment in the fund's environmental portfolio as at 31 December 2020.

Company	Country	FTSE Global sector	Millions of kroner	Share of portfolio Percent
Iberdrola SA	Spain	Utilities	6,702	6.8
NextEra Energy Inc	US	Utilities	5,333	5.4
Sempra Energy	US	Utilities	3,849	3.9
Linde PLC	US	Basic materials	2,509	2.5
EDP - Energias de Portugal SA	Portugal	Utilities	1,921	1.9
Enel SpA	Italy	Utilities	1,650	1.7
Engie SA	France	Utilities	1,215	1.2
Nikola Corp	US	Industrials	1,116	1.1
SSE PLC	UK	Utilities	850	0.9
Neoen SA	France	Utilities	677	0.7

Table 10 Top ten equity holdings in the clean energy and efficiency technology segment in the fund's environmental portfolio as at 31 December 2020.

Company	Country	FTSE Global sector	Millions of kroner	Share of portfolio Percent
Keyence Corp	Japan	Industrials	3,632	3.7
Thermo Fisher Scientific Inc	US	Health care	3,382	3.4
Daikin Industries Ltd	Japan	Industrials	3,138	3.2
Legrand SA	France	Industrials	2,950	3.0
Tesla Inc	US	Consumer goods	2,906	2.9
Eaton Corp PLC	US	Industrials	2,813	2.8
Siemens Gamesa Renewable Energy SA	Spain	Oil and gas	2,618	2.6
TE Connectivity Ltd	US	Industrials	1,996	2.0
QuantumScape Corp	US	Industrials	1,808	1.8
First Solar Inc	US	Oil and gas	1,717	1.7

Table 11 Top ten equity holdings in the natural resource management segment in the fund's environmental portfolio as at 31 December 2020.

Company	Country	FTSE Global sector	Millions of kroner	Share of portfolio Percent
Waste Connections Inc	Canada	Industrials	2,412	2.4
Koninklijke DSM NV	Netherlands	Basic materials	2,112	2.1
DS Smith PLC	UK	Industrials	1,969	2.0
LKQ Corp	US	Consumer goods	1,948	2.0
Veolia Environnement SA	France	Utilities	1,589	1.6
West Fraser Timber Co Ltd	Canada	Basic materials	1,364	1.4
Tetra Tech Inc	US	Industrials	1,209	1.2
Graphic Packaging Holding Co	US	Industrials	979	1.0
Essential Utilities Inc	US	Utilities	904	0.9
United Utilities Group PLC	UK	Utilities	857	0.9

Divestments

We divest from companies where we no longer wish to be a shareholder for ethical or sustainability reasons. By not investing in these companies, we reduce our exposure to unacceptable risks.

Decisions on divestment may be motivated by information suggesting that companies are violating fundamental ethical norms or have a business model that is wholly incompatible with long-term sustainability. 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, which then makes the final decision on exclusion, observation or active ownership.

Finally, Norges Bank itself may decide to divest from companies that impose substantial costs on other companies and on society as a whole, and so are not long-term sustainable. Companies not considered sustainable often have business models that are misaligned with prevailing technological, regulatory or environmental trends.

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 2020, Norges Bank excluded 15 companies, revoked the exclusion of three companies and placed a further four companies under 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.

Five further coal companies were excluded in 2020, and four companies were placed under observation based on the coal criterion. Two exclusions under the product-based criteria were revoked. A total of 106 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

Ethical decisions

Category	Criterion	Number in 2020	Companies in 2020	Total 2002-2020
Exclusion	Thermal coal mining or coal-based power production	5	AGL Energy Ltd, Anglo American PLC, Glencore PLC, RWE AG, Sasol Ltd	73
	Production of specific weapon types	0	0	17
	Production of tobacco	0	0	16
	Severe environmental damage	2	ElSewedy Electric Co, Vale SA	17
	Contributions to climate change	4	Canadian Natural Resources Limited, Cenovus Energy Inc, Imperial Oil Limited, Suncor Energy Inc	4
	Human rights violations	4	Centrais Eletricas Brasileiras SA (Eletrobras), Formosa Chemicals & Fibre Corp, Formosa Taffeta Co Ltd, Page Industries Ltd	8
	Gross corruption	0		2
	Other particularly serious violations of fundamental ethical norms	0		2
	Serious violations of the rights of individuals in situations of war or conflict	0		1
	Severe environmental damage and human rights violations	0		4
Observation	Thermal coal mining or coal-based power production	4	BHP Group Ltd/BHP Gropu Plc, Enel SpA, Uniper SE, Vistra Corp	17
	Severe environmental damage	0		1
	Human rights violations	0		3
	Gross corruption	0		1
	Severe environmental damage and human rights violations	0		1
Revoked exclusions	Thermal coal mining or coal-based power production	1	Drax Group Plc	1
	Production of specific weapon types	1	AECOM	4
	Production of tobacco	0		1
	Severe environmental damage	0		2
	Human rights violations	1	Texwinca Holdings Ltd	3
	Other particularly serious violations of fundamental ethical norms	0		3
Observation ended	Gross corruption	1	PetroChina Co Ltd	3

Bank 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.

Norges 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 Norges 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 2020, ten companies were excluded on the grounds of conduct considered to constitute particularly serious violations of ethical norms, while one exclusion under the conduct criteria was revoked.

A total of 38 companies are currently excluded due to their conduct.

Impact on the fund's equity returns

When companies are excluded from the fund for ethical reasons, they are also removed from the benchmark index.

Product-based exclusions have reduced the cumulative return on the equity benchmark index by around 1.1 percentage points, or 0.03 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 0.01 percent lower.

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

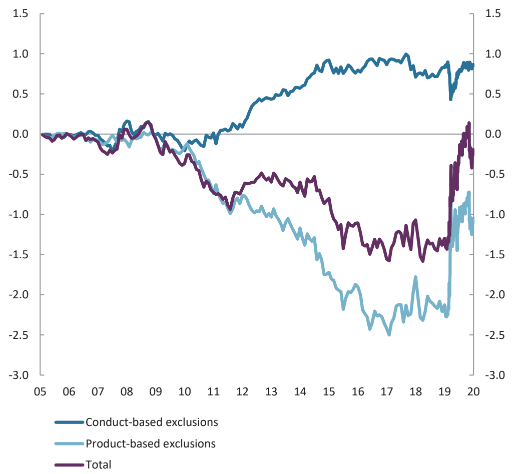


Table 12 Contribution to return impact of equity benchmark index exclusions by exclusion criterion as at 31 December 2020. Market value in billions of kroner. Contribution measured in dollars. Percentage points

Criterion	Number of excluded companies	Market value in benchmark if not excluded[1]	2020	2006–2020 annualised
Product-based exclusions	**106**	**176**	**0,57**	**-0,03**
Production of specific weapon types	17	68	0,31	-0,03
Production of tobacco	16	50	0,14	-0,01
Thermal coal mining or coal-based power production	73	58	0,13	0,01
Conduct-based exclusions	**38**	**38**	**-0,04**	**0,02**
Human rights violations	8	4	-0,02	-0,01
Serious violations of the rights of individuals in situations of war or conflict	1	0	0,00	0,00
Severe environmental damage	17	27	-0,03	0,03
Gross corruption	2	1	0,01	0,00
Other particularly serious violations of fundamental ethical norms	2	0	0,00	0,00
Severe environmental damage and human rights violations	4	1	0,00	0,00
Greenhouse gas emissions	4	6	0,00	0,00
Total	**144**	**214**	**0,53**	**-0,01**

[1] Market value and return impact include only companies that were part of the FTSE Global All Cap Index as of 31.12.2020.

Risk-based divestments

We divested from 32 companies in 2020 following assessments of environmental, social and governance risks. Altogether, we have divested from 314 companies since 2012.

We have developed an internal database of information on environmental, social and governance issues at country, industry and company level to systematically monitor the fund's exposure to unacceptable risks. Risk-based divestments are made within the overall limit for deviation from the benchmark index. Divestment may be appropriate if we consider the company to have particularly high long-term risks, our investment is not significant, and we believe that active ownership is not a suitable approach.

Each year, we use a risk framework to systematically select areas and industries where divestment may be appropriate. We conduct extensive analysis to identify companies with business models that are not long-term sustainable and bring unacceptable risks to the portfolio.

In 2020 we looked at corporations' tax practices, human- and labour rights, including predatory lending and poor working conditions. We also see companies with particularly high greenhouse gas emissions to be a growing risk given regulatory and market developments. Since 2012 this has led to divestment from companies with substantial revenue from coal-fired power production and industrial companies with relatively high greenhouse gas emissions. A large proportion of these divestments were made before the guidelines for the Council on Ethics were amended to include the coal criterion. In addition, we have divested from companies which have substantial revenue from palm oil and rubber production in areas of tropical deforestation and do not comply with standards for sustainability.

The names of companies subject to risk-based divestment are not disclosed, but the fund does publish a list of its holdings on its website each year.

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.

As a result of our work in this area, we divested from seven companies during the year where our analysis showed that there may be an elevated risk of tax not being paid where economic value is created. These were also companies that had very weak or non-existent reporting on tax and . This is the first time that we have made risk-based divestments on the grounds of tax transparency.

Human rights

We assess companies' exposure to social risks in areas such as human rights, labour rights and negative impacts on communities. All companies need to address social risks in their operations, not only in the way that they safeguard and respect the rights of workers at the company and in the supply chain, but also in the way that they protect communities affected by their activities. These include risks relating to health and safety in the workplace and other labour rights, respect for property rights, and the production and marketing of goods and services that could harm the local community or consumer. In addition to direct exposure to social risks, several OECD countries have in recent years introduced laws and guidelines which are making companies more accountable for ensuring that there is no forced labour in their global supply chains

In 2020 we divested from a number of companies associated with human rights violations and exploitation of vulnerable groups. We sold our shares in a mining company where there had been documented incidents that the company's operations over many years had caused serious damages to the local community and the environment.

We also analysed unacceptable labour conditions in the production of goods such as textiles, electronics and car parts. There is generally a high risk of very poor labour conditions in these industries, such as low wages, high workloads, inadequate health and safety, and generally poor working conditions. We divested from four companies where there had been documented incidents of unacceptable labour conditions and where we considered the risk of future violations of human rights to be high.

In 2020, we also looked at predatory lending practices to private consumers. We reviewed companies that offer short term consumer loans (e.g. payday loans), student loans and car loans to customers with low income and poor credit ratings, and where the terms were unreasonable and heavily favoured the lender. Excessive interest rates and fees, unethical marketing and unclear terms were some of the conditions we considered unacceptable. Further, companies operating in this manner are at risk of receiving fines or other forms of punishment for breaching consumer protection laws. Our analysis resulted in the divestment of an additional four companies.

Other unacceptable risks

We also consider other issues that could expose companies in our portfolio to unacceptable risks. These include new risk factors to which we have not previously been exposed. New issues will always emerge in a global portfolio of more than 9,000 companies. One example is the production of cannabis. This is an activity that we considered to fall under unacceptable risks, and we decided in 2019 to divest from companies involved in its production.

In 2020 we divested from 15 companies with unacceptable regulatory risks in the form of potentially reduced access to international capital markets. The risk exposure was considered so high that we decided to divest from these companies. In addition, we also made a decision to divest from a company entering our index due to potential exposure to tobacco.

Since 2012, we have divested from companies with substantial revenue from coal-based power production.

Risk-based divestments in 2020

Expectation	Theme	Criteria	2020
Climate change	Coal-based power production	Relevant percentage of business mix allcoated to electricity production	
		Coal at relevant percentage of fuel-mix	
	Thermal coal mining	Owns/operates thermal coal mines	
		Relevant business mix allocated to thermal coal extraction	
Anti corruption	Corruption	Exposure to high-risk sectors and markets	
		Indications of insufficient risk management related to corruption and corporate governance	
Tax transparency	Tax transparency		7
Human rights	Human rights	Exposure to high-risk sectors and markets	9
		Indications of insufficient risk management related to human rights, labour rights or health, safety and environment	
Other	Other	Activities exposed to unacceptably high risk from an environmental, social or governance perspective but not linked to any of our Expectation documents.	16

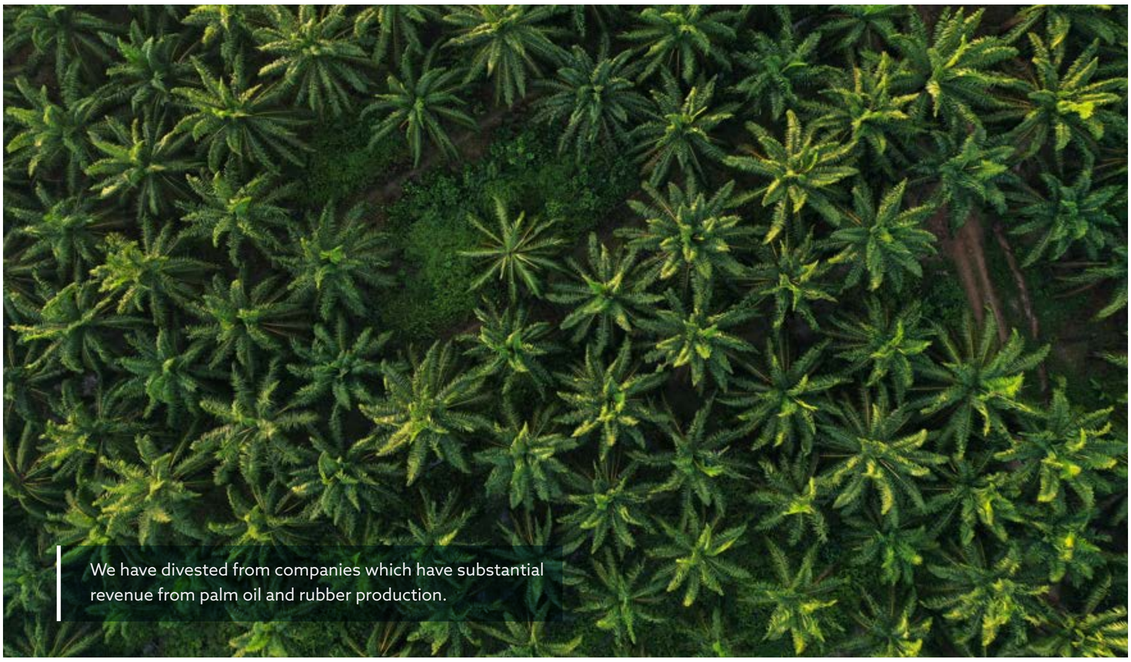
Impact on the fund's equity returns

The purpose of our risk-based divestments is to reduce our exposure to companies that operate in ways that are not considered sustainable. In addition to reducing risk, these divestments can affect the fund's returns. We can measure the impact of these divestments on the returns of the fund's equity management area by comparing the equity reference portfolio, with and without risk-based divestments applied.

Since 2012, risk-based divestments as a whole have increased the cumulative return on the equity reference portfolio by around 0.41 percentage point, or 0.02 percentage point annually.

Risk-based divestments linked to climate change and human rights have increased the cumulative return by 0.27 and 0.10 percentage point respectively, while those linked to corruption have decreased the cumulative return by 0.02 percentage point, while those relating to water management have had a negligible impact.

There are many factors that influence market developments in general and the share prices of individual companies. The impact of companies' approaches to environmental, social and governance issues is difficult to isolate and measure in the short term. At the same time, we believe that companies that integrate these issues into their strategy, risk management and



We have divested from companies which have substantial revenue from palm oil and rubber production.

reporting could contribute positively over time to the fund's return and to economic development in general.

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 11 Return impact of risk-based divestments on the reference portfolio for equities, compared to a portfolio not adjusted for risk-based divestments. Measured in dollars. Percentage points.

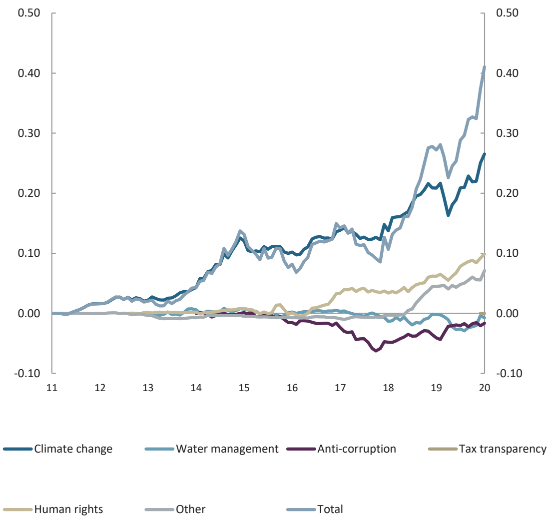


Table 13 Contribution to return impact of equity reference portfolio from risk-based divestments as at 31 December 2020. Market value in billions of kroner. Contribution measured in dollars. Percentage points.

Expectation	Number of companies divested [1]	Market value in the reference portfolio if not sold	2020	2012–2020 annualised
Climate change	170	12.80	0.01	0.01
Water management	46	5.92	0.00	0.00
Anti-corruption	23	6.17	0.02	0.00
Tax transparency	7	0.38	0.00	0.00
Human rights	38	4.30	0.01	0.01
Other	30	3.13	0.01	0.00
Total	**314**	**32.70**	**0.05**	**0.02**

[1] Includes companies that are not in the reference portfolio.

Responsible investment in the management mandate

Section 1. General provisions

Section 1-2. The management objective

The Bank shall seek to achieve the highest possible return after costs measured in the investment portfolio's currency basket, see Section 3-2, Sub-section 1, and within the applicable management framework.

Section 1-3. General management framework

(3) Responsible investment management shall be an integral part of the management of the investment portfolio, cf. Chapter 4. A good long-term return is considered dependent on sustainable development in economical, environmental and social terms, as well as well-functioning, legitimate and efficient markets.

(4) The Fund shall not be invested in companies excluded pursuant to the provisions in the Guidelines for Observation and Exclusion from the GPFG.

Section 1-4. Advisory duty and right to express an opinion, etc.

(5) The Bank shall contribute to research with the aim of developing greater knowledge of matters relevant to the investment portfolio's risk and return in the long term, including research within responsible investment management. The Executive Board shall establish guidelines for this work. The Ministry shall be informed of plans for such research and given an opportunity to comment.

Chapter 4. Responsible investment management

Section 4-1. Responsible management activities

The Bank shall seek to establish a chain of measures as part of its responsible management activities.

Section 4-2. Responsible management principles

(1) The Bank shall establish principles for the responsible management of the investment portfolio. The principles shall be presented to the Ministry at least three weeks prior to approval.

(2) In designing the principles pursuant to the first paragraph, the Bank shall emphasise the long-term horizon for the management of the investment portfolio and that the investment portfolio shall be broadly diversified.

(3) The principles shall be based on the considerations of good corporate governance and environmental and social conditions in investment management, in accordance with internationally recognised principles and standards such as the UN Global Compact, the OECD's Principles of Corporate Governance and the OECD's Guidelines for Multinational Enterprises.

(4) The principles and the use of instruments to support them shall be published, cf. Section 4-1 and Section 6-1, Sub-section 4 h).

(5) In its management of the unlisted real estate portfolio, the Bank shall, within the environmental field, consider, among other matters, energy efficiency, water consumption and waste management.

Section 4-3. Contribution to the development of international standards

(1) The Bank shall actively contribute to the development of relevant international standards in the area of responsible management.

(2) The Executive Board shall establish guidelines for the Bank's work pursuant to the first paragraph, including for membership of, or corresponding affiliation to, organisations or alliances, and for contact with authorities in other countries. The guidelines shall be presented to the Ministry at least three weeks prior to approval.

Section 4-4. Environment-related investments

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

(2) The environment-related investment mandates shall be directed towards environmentally-friendly assets or technology, including renewable energy, energy efficiency, carbon capture and storage, water technology and environment-related services such as waste and pollution management, etc.

Section 4-5. Decisions on exclusion and observation

The Executive Board shall make decisions on the observation or exclusion of companies, and on the revocation of such decisions, in accordance with the Guidelines for Observation and Exclusion from the GPFG. The Bank shall inform the Ministry about decisions on exclusion of companies and the revocation of such decisions, cf. Section 2-1, Sub-section 3.

Appendix

Information in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

GOVERNANCE	
The fund's mandate	– The management mandate given to Norges Bank by the Ministry of Finance includes requirements on responsible investment. Any changes to the mandate or the separately issued guidelines on ethical observations and exclusions are anchored in the Norwegian Parliament. Through an annual white paper, the government reports on the Fund's results and discusses the development of the framework for responsible investment, including climate risk specifically.
Board oversight	– Climate change has been a strategically important topic for Norges Bank since 2006, and the Bank's approach to addressing the associated risks is anchored at executive board level. – The executive board has oversight over the fund's responsible investment strategy, has laid down the principles of responsible investment, and reviews the annual responsible investment report. – The executive board makes decisions on observation and exclusion of companies from the fund. The guidelines for observation and exclusion also include a conduct-based climate criterion. - The executive board has established a preparatory and advisory ownership committee for matters pertaining to the fund's responsible investment activities and decisions regarding observation and exclusion.
Role of management	– The Chief Executive Officer (CEO) of Norges Bank Investment Management has the overall responsibility for implementing requirements defined by the executive board. The CEO sets policies and delegates mandates and responsibilities to the leader group of the fund. This includes the responsible investment policy and the policy on enterprise risk management. The latter specifies requirements on assessment and integration of environmental, social and governance (ESG) risks. – The Chief Governance & Compliance Officer (CGCO) and Chief Risk Officer (CRO) report directly to the CEO. The CGCO is responsible for the fund's work on responsible investment, including the fund's climate change expectations towards companies. The CRO is responsible for the monitoring, measurement and reporting of investment risk for the fund, hereunder climate risk. – The investment mandates issued to all the fund's internal and external investment managers have specific requirements to consider responsible investment and ESG risks and opportunities in investment decisions.

STRATEGY	
Risks and opportunities	– Climate change is one of a number of risk factors for the fund. It gives rise to both transition and physical risks for the companies where we are invested. – A broadly diversified and market-weighted portfolio such as the Government Pension Fund Global will, in principle, have approximately the same financial climate risk as the underlying markets and sectors it is invested in. – The fund's universe and benchmark are subject to certain climate-relevant adaptations. Coal miners and utilities are excluded from the fund's investment universe according to set thresholds. Oil and gas exploration and production companies have been removed from the fund's benchmark. – The fund also has dedicated environment-related investment mandates (see page 78). – Through our responsible investment strategy, the fund works to identify and address climate-related risks and opportunities facing the fund, and to address these within the remits of our mandate.
Investment strategy	– Three pillars underpin our responsible investment strategy: – Establishing principles: We set expectations of companies and work actively to develop standards that can drive better climate risk management and reporting. Over time, we believe these efforts will lead to more accurate pricing of the financial impacts of climate change, and support more efficient markets and the transition to a low-carbon economy. – Exercising ownership: We exercise our ownership rights to increase long-term value creation and reduce risks at the companies we invest in. This includes voting on climate resolutions at company meetings, and 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 can impact the fund's value. This includes large-scale assessments of companies' emissions profiles and climate disclosures and regularly screening the portfolio for companies with high inherent climate risk. We may choose to divest from certain companies due to unacceptably high climate risk. Conversely, through our Environmental Mandates we seek to own more in companies that contribute to the low-carbon transition.
Resilience of investment strategy	Through our work on climate scenarios, we have looked at scenarios where global temperatures rise by 1.5°C, 2°C and 3°C by 2100. Through a UNEP-FI Investor Pilot on scenario analysis, we assessed transition and physical climate impacts on our equity portfolio through to 2032. The findings and learnings were published in 2019 as part of an investor guide on TCFD disclosure. Climate scenario analysis is an evolving practice and is an area where we will continue to develop our approach in order to understand the fund's climate resilience. See also page 70 in this report for more details on our ongoing efforts here.

RISK MANAGEMENT

Assess risks	– We utilise a suite of complementary tools to identify and assess climate risks facing the fund. – We calculate our investments' carbon footprint and carbon intensity annually, analysing the emissions profile of each of the 9,123 companies in the fund. – We conduct 1,770 in-depth analyses of our holdings in climate-exposed sectors in order to assess their preparedness for managing climate risk, including deforestation (see Metrics & Targets). – We screen our portfolio annually for companies with particularly emissions-intensive business models and poor carbon management practices. These are then considered for follow-up through ownership activities or risk-based divestment. See page 86 in this report for further details. – We monitor our portfolio for climate- and ESG-related risks incidents and controversies on an ongoing basis. These are escalated according to internal procedures.
Manage risks	– We regularly engage with companies to address their approach to climate-related risks and opportunities, and to encourage improved disclosure. In 2020, we engaged with 564 companies on climate-related topics. See more details about our engagements on page 42 in this report. – Climate-related considerations may lead us to divest from companies which we believe are highly exposed to climate risk. Between 2012 and 2020, we divested from 170 companies with particularly high greenhouse gas emissions, or which contributed to deforestation. – Certain companies may be excluded from the fund's investment universe based on the ethically motivated guidelines for observation and exclusion. This includes mining companies and power producers that base their operations on thermal coal, and companies that contribute to severe environmental degradation or have unacceptably high greenhouse gas emissions. The companies are assessed by an independent Council on Ethics. The decisions are taken by Norges Bank and made public. In 2020, Norges Bank excluded 4 companies under the climate-based conduct criterion.

METRICS AND TARGETS

Portfolio carbon footprint	– We began publishing the carbon footprint of the fund's equity portfolio in 2015, and subsequently expanded this analysis to include corporate bonds. We follow TCFD's recommendations for asset managers when calculating the fund's carbon footprint. – The equity portfolio's 2020 carbon footprint stood at 92.4 million tonnes of CO_2-equivalents, and a carbon intensity of 133 tonnes of CO_2-equivalents per million US dollar in sales revenue. The corresponding numbers for the benchmark index were 105.1 million tonnes of CO_2-equivalents, and a carbon intensity of 145 tonnes of CO_2-equivalents per million US dollar in sales revenue.
Other metrics	– We track and publish the return on the environment-related equity mandates. Since 2010, these have returned 9.5 percent annually compared to 4.3 percent for their funding benchmark. – We track and publish the return impact of our ethical exclusions and risk-based divestments. Since 2012, risk-based divestments linked to climate change have increased the cumulative return on the equity reference portfolio by 0.27 percentage points. – We track and report a number of activity metrics in this annual RI publication, including company dialogues on climate-related topics (page 42) and companies subject to divestment due to unacceptable climate- and deforestation-related risks (page 86). Since 2019, we have engaged on climate-related issues with companies representing 47.5 percent of the equity portfolio's carbon footprint. – Through our annual climate assessments, we track 1,521 portfolio companies' performance across 29 different indicators of how well they manage climate-related risks and opportunities, including metrics such as carbon reduction targets. We also assess 249 companies across 25 indicators of how well they manage risks related to deforestation. We follow up companies with weak disclosures. In 2020 we contacted 43 companies asking them to improve their climate-related reporting. – In 2020 we responded to 10 public consultations on topics related to climate and sustainability.
Targets	– The management objective of the fund is to achieve the highest possible return subject to acceptable risk and responsible investment management. The mandate states that a good long-term return is considered dependent on sustainable development in economic, environmental and social terms. While the mandate emphasizes the need for responsible investment integration it does not prescribe portfolio-wide targets related to climate risk. As our understanding of the implications of climate change on our investments develops, we will continue to explore how specific climate-related targets can contribute to efficient management of these risks.

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