

# 2021



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# OWNERSHIP REPORT

## AN ACTIVE, RESPONSIBLE OWNER AND CREDITOR

Our owner has set a clear objective: to deliver the highest possible returns over time. We achieve this through active management and by being an active, responsible owner and creditor.

The investment mandate for the Government Pension Fund Norway states that Folketrygdfondet is to deliver the highest possible returns over time. For the purposes of our day-to-day investment activities, we have translated this into two sub-goals:

- To achieve a better return than the market in general (excess return compared to benchmark indices).
- To support long-term value creation in companies and in the market.

These goals form the foundation of our investment philosophy. We engage in active management to achieve the goal of excess returns, while the goal of promoting corporate value creation is achieved through active, responsible ownership and the development of best practices and well-functioning markets. We find that the two goals are interdependent. Being an active owner makes us a better manager.

Our long-term returns depend on our portfolio companies' ability to deliver strong results over the long term, and on efficient and well-functioning markets. This is why we take an integrated approach to responsible investment.

This involves conducting systematic follow-up of material opportunities and threats linked to environmental, social and governance (ESG) issues, and being an engaged owner that helps maximise companies' potential. This approach also benefits other shareholders and creditors. In our capacity as an owner, we engage with the individual portfolio companies irrespective of any over- or under-weighting relative to our benchmark index. This facilitates a higher long-term return for the Government Pension Fund Norway, in line with our mandate.

### How we organise our responsible investment activities

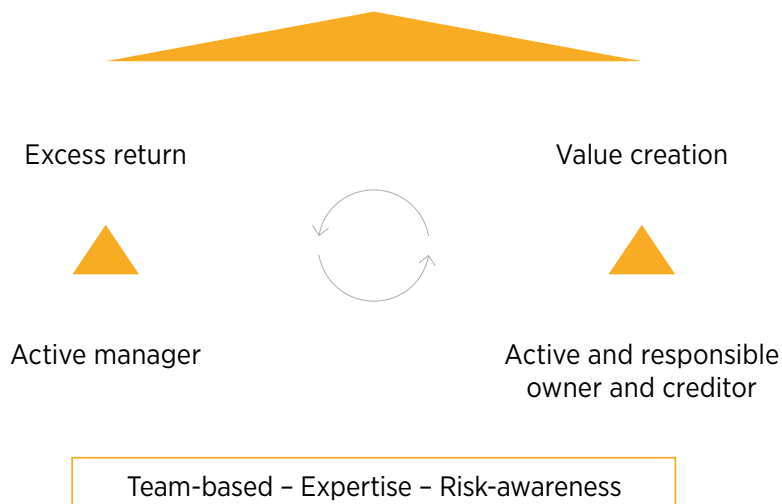
Folketrygdfondet's board has adopted responsible investment principles which explain how we exercise our role as owner and creditor and integrate environmental and social considerations into our management of the Government Pension Fund Norway. Responsibility for implementing the principles across the portfolio lies with Folketrygdfondet's CEO. In Folketrygdfondet's eierskapsutøvelse (Folketrygdfondet's exercise of ownership rights), the administration describes how we operationalise the principles in Folketrygdfondet's investment activities. Operational implementation has been delegated to the Chief Investment Officer Equities and the Chief Investment Officer Fixed Income. The equities department also has a dedicated ESG staff member.

Folketrygdfondet's portfolio managers are responsible for covering material topics, including climate risk, in their investment analyses and company dialogues. In practice, this occurs through close cooperation within each department, in line with Folketrygdfondet's team-based management model.

The finance and risk management department is closely involved in decisions concerning voting at general meetings and bondholder meetings. The compliance and legal department also participates in the assessment of general meetings of Nordic companies, and has overall supervisory responsibility for Folketrygdfondet's responsible investment procedures.

OUR INVESTMENT PHILOSOPHY SUMMARISED

# HIGHEST POSSIBLE RETURNS OVER TIME



## ORGANISATION

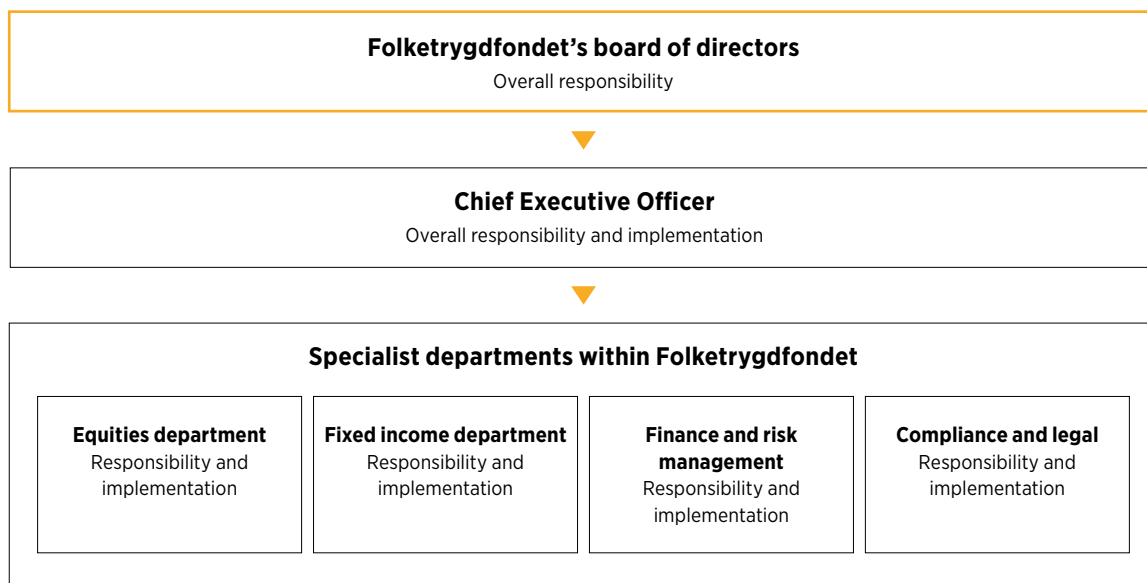


Illustration 9

- Dialogue
- General meetings
- Nomination committees and governing bodies
- Portfolio climate risk
- Good practice development
- The fixed income portfolio

RESPONSIBLE INVESTMENT INSTRUMENTS

	ESG integrated into management	Exclusion	Dialogue with companies	Voting at general meetings/ bondholder meetings	Promote well-functioning markets
Norwegian equities	●	—	●	●	●
Nordic equities	●	●	●	●	●
Norwegian bonds (corporate)	●	—	●	●	●
Nordic bonds (corporate)	●	●	●	●	●
Government bonds	—	—	N/A	N/A	—
Other instruments	N/A	●	N/A	N/A	●

Folketrygdfondet shall not invest in companies excluded pursuant to the guidelines on observation and exclusion from the Government Pension Fund Global. An overview of exclusions is available on [ftf.no](#). No companies were excluded or re-included during the period.

Illustration 10

WE TAILOR OUR RESPONSIBLE INVESTMENT APPROACH TO OUR DIFFERENT FINANCIAL INSTRUMENTS

The size of the circle indicates the relative size of the instrument.

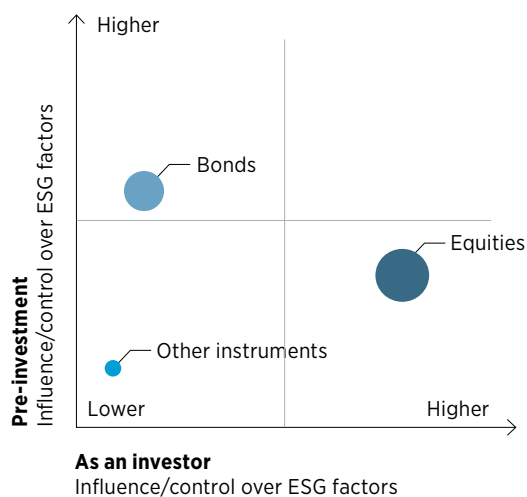
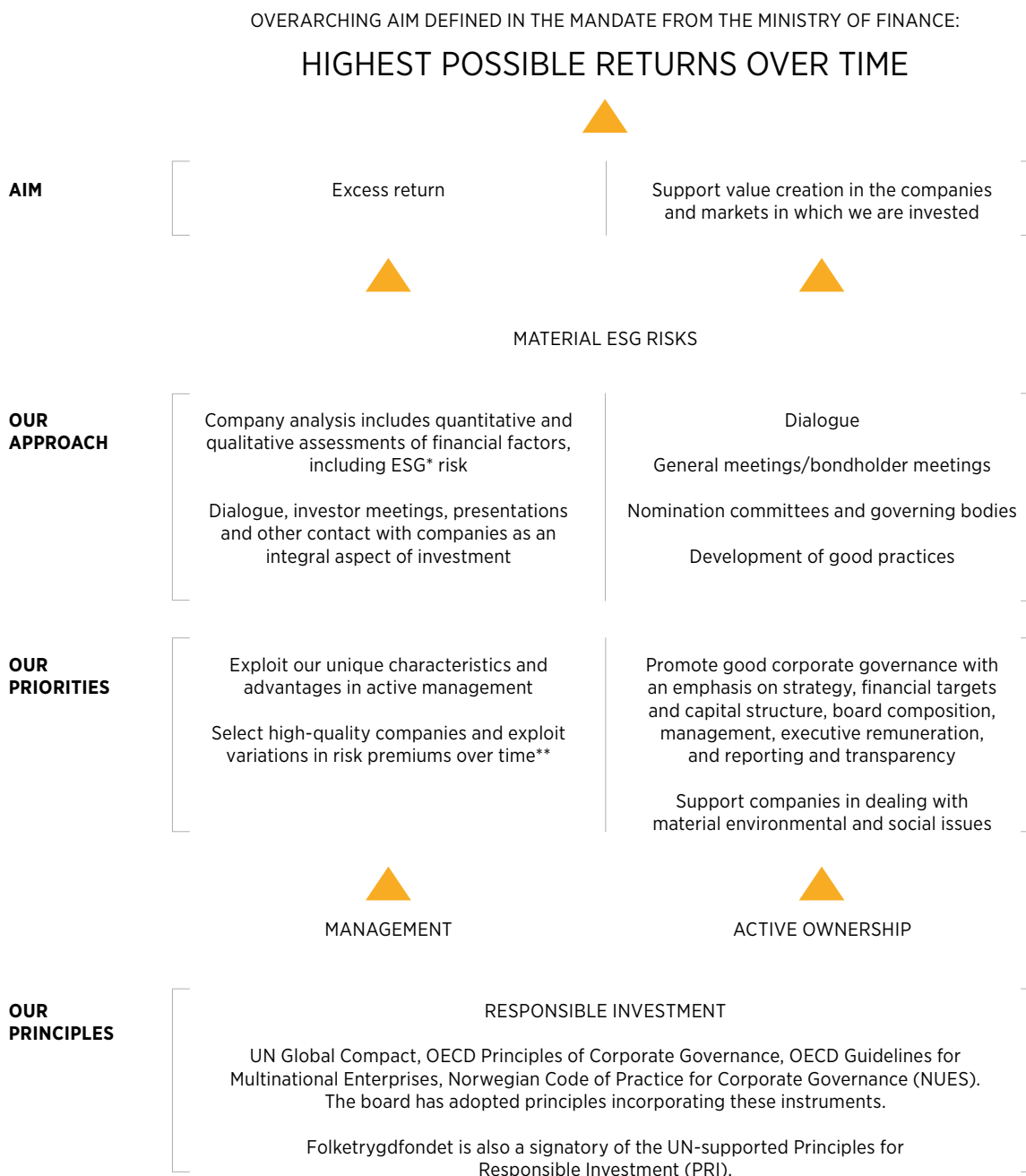


Illustration 11

OUR RESPONSIBLE INVESTMENT APPROACH



**Explanation of terms**

\* ESG: Environmental, social and governance issues.

\*\* Exploit variations in risk premiums over time: exploiting the opportunities offered by variations in risk in the market over time. Buying securities when prices reflect excessively high risk and selling when prices reflect excessively low risk.

- Dialogue
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**We tailor our responsible investment activities to our various portfolios**

The investment mandate and our unique characteristics guide our selection of measures to promote responsible investment.

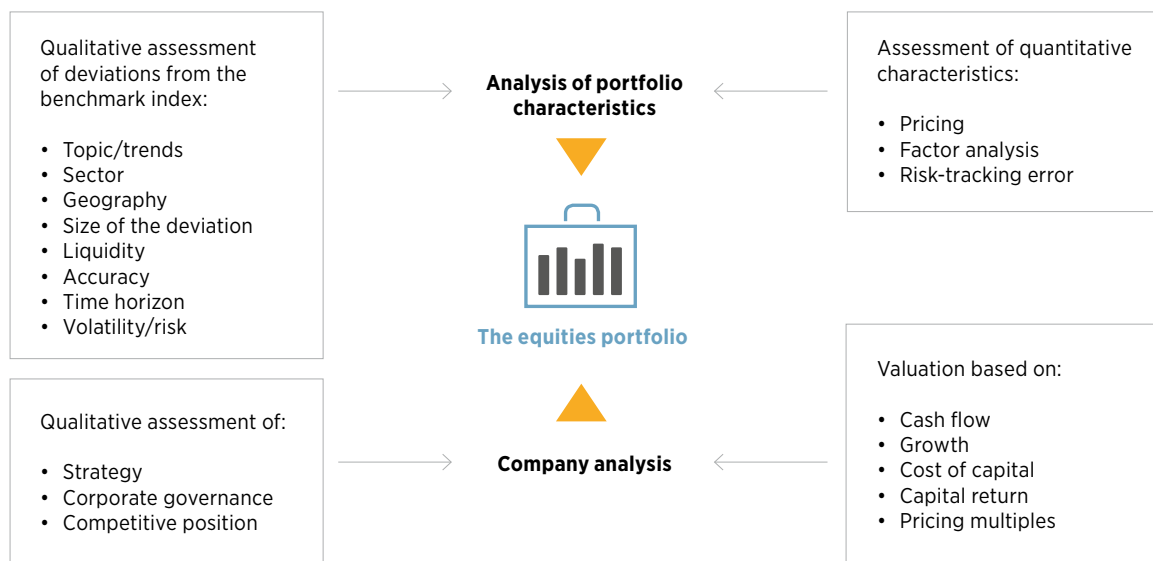
We adapt our efforts and the tools we use to our different financial instruments and portfolios. This is necessary to ensure that our responsible investment efforts serve the overarching aim of achieving the highest possible returns over time. In this assessment, we look to factors such as our influence over ESG issues pre- and post-investment. We prioritise contributing to well-functioning, legitimate, and efficient markets for all our financial instruments and portfolios. This includes supporting the development of strong national responsible investment standards.

For fixed income instruments, we have the greatest influence before we invest, since bondholders do not have ownership rights. We therefore focus on robust pre-investment ESG analysis to identify issues that may affect creditworthiness. For our equity investments, on the other hand, we have the greatest opportunity to influence ESG factors once invested, through our ownership rights. This makes active ownership

a priority for the equity portfolio. Other tools are used in connection with liquidity investments and currency hedging. Due to the low anticipated impact of ESG factors and the short investment horizon, these areas are not a priority in our responsible investment efforts, with the exception of procedures for recalling loaned-out shares prior to general meetings. In this context, we concentrate on promoting well-functioning and efficient markets.

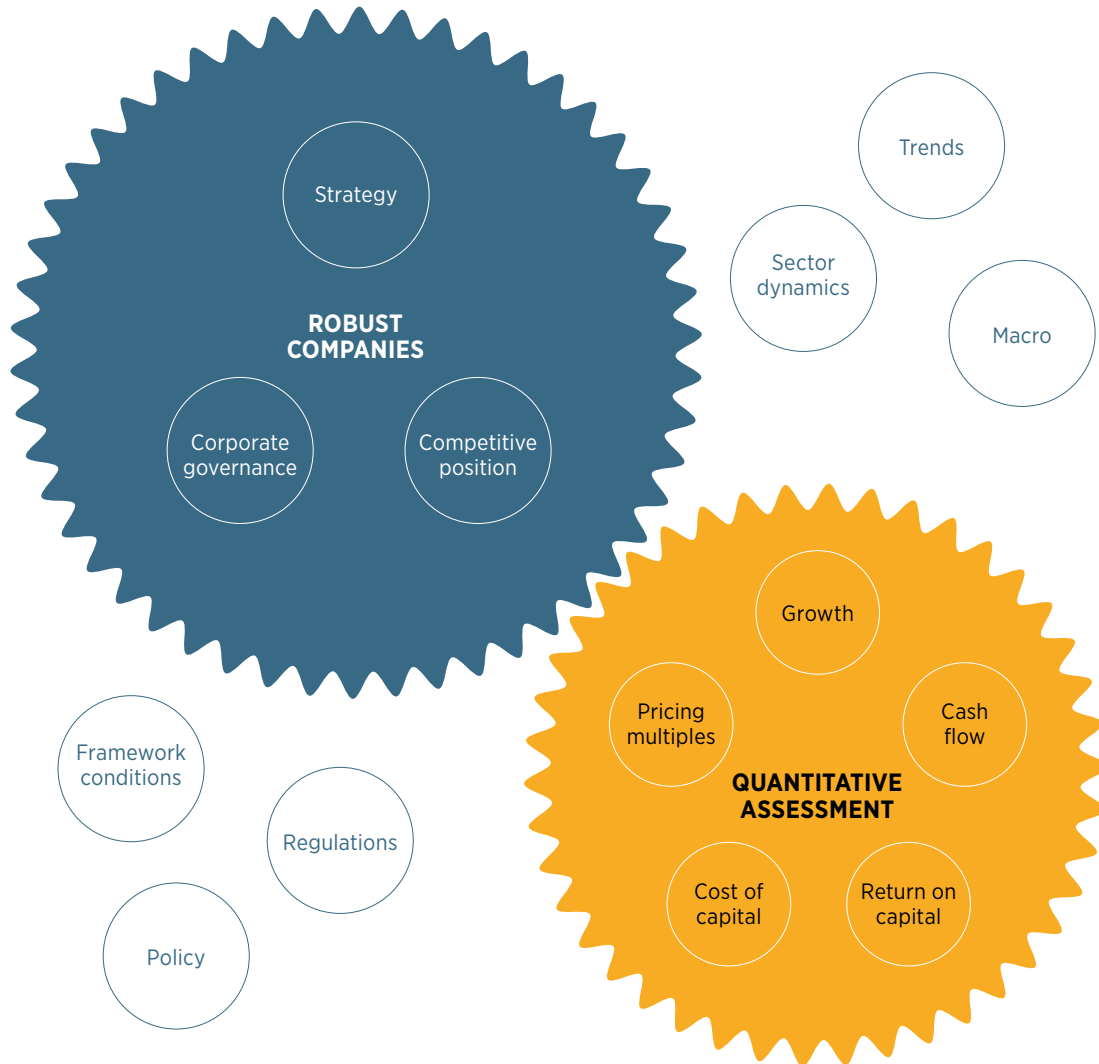
The adaptation of responsible investment activities to Folketrygdfondet's distinctive characteristics is discussed further in the strategic plan for management of the Government Pension Fund Norway, which emphasises Folketrygdfondet's long investment horizon as a primary argument in favour of our integrated approach to responsible investment. ESG issues are examined in our assessments of potential high-quality investment targets, and to shed light on possible downside risk linked to failure to address ESG issues. The in-depth company knowledge Folketrygdfondet has gained from several decades of active management give us a broader perspective on individual companies' ESG efforts and allows us to be a demanding owner.

**OUR APPROACH TO ACTIVE MANAGEMENT**





OUR COMPANY ANALYSIS SUMMARISED



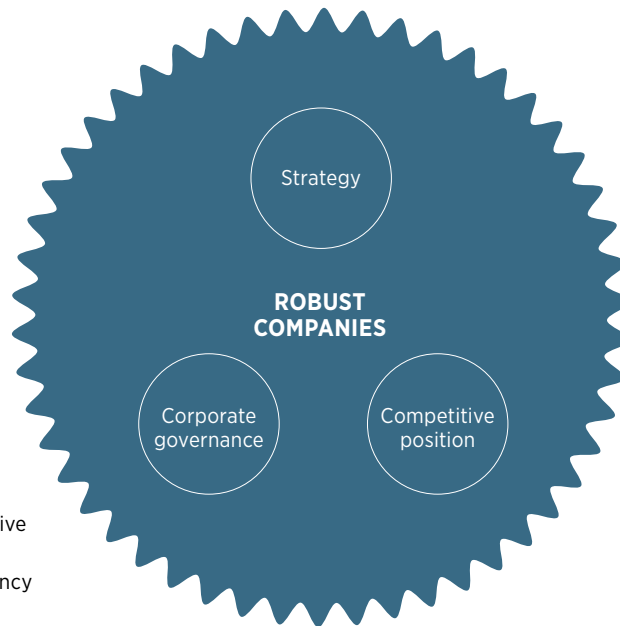
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**Robust companies**

As an active manager, we both select investment targets and over- and under-weight companies compared to the benchmark index. Our investment decisions reflect financial analysis, including ESG analysis, and ongoing contact with relevant companies.

Our aim is to beat the market over the long term, i.e., to generate excess returns by exploiting our unique characteristics and advantages as an asset manager. To implement our mandate, we also focus on portfolio companies' ability to create value over the long term. Our long-term returns depend on strong, consistent performance by the companies in which we invest, and on efficient and well-functioning markets.

**KEY TOPICS IN OUR QUALITATIVE ANALYSIS:**



- Board composition
- Management and executive remuneration
- Reporting and transparency
- Social responsibility
- Ownership structure

- Clear, well-founded strategy for long-term value creation
- Return on capital and growth targets
- Efficient capital structure
- Integrated risk assessment
- Sustainable business model
- Consistent dividend policy

- Growth opportunities
- Competitive advantages
  - Barriers to entry
  - Pricing power
  - Cost leadership
  - Ability to change/adapt

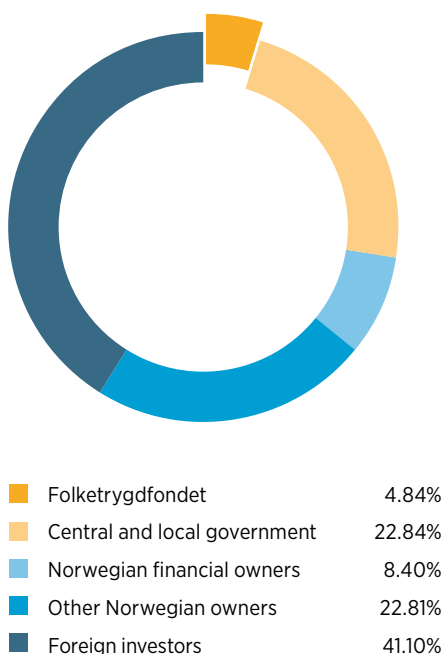
## NORDIC OWNER WITH A PRIMARY FOCUS ON THE OSLO STOCK EXCHANGE

Folketrygdfondet is one of the largest financial investors on the Oslo Stock Exchange, as a top-three shareholder in 48 companies listed on the Oslo Stock Exchange or Euronext Growth Oslo. Folketrygdfondet has far smaller shareholdings on the other Nordic exchanges.

The Government Pension Fund Norway follows clear guidelines laid down in the mandate from the Ministry of Finance. The fund capital is invested in securities listed in Norway, Denmark, Finland, and Sweden. The investment distribution is 85 percent in Norway and 15 percent in the

other Nordic countries. The investment mandate specifies that the highest permitted shareholding in any Norwegian company is 15 percent, and five percent for companies from the other Nordic countries.

### OWNERSHIP ON THE OSLO STOCK EXCHANGE

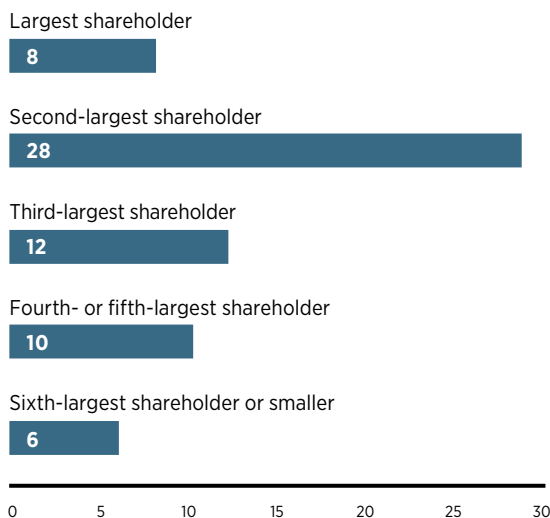


Sources: VPS and Folketrygdfondet as at 31 December 2021

Figure 23

### FOLKETRYGDFONDET'S OWNERSHIP INTERESTS ON THE OSLO STOCK EXCHANGE AND EURONEXT GROWTH OSLO

Number of companies in which Folketrygdfondet is among the largest shareholders.



Sources: Company websites, VPS and stock exchange notices.

When a nominee account is specified as one of the largest shareholders, Folketrygdfondet estimates its placement. Owners with shared ownership interests are grouped together when Folketrygdfondet has information indicating this is correct.

Figure 24

Dialogue  
 General meetings  
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 Good practice development  
 The fixed income portfolio

### FOLKETRYGDFONDET'S OWNERSHIP INTERESTS ON THE OSLO STOCK EXCHANGE AND EURONEXT GROWTH OSLO

Companies in which Folketrygdfondet owned more than five percent of equity or was among the three largest shareholders as at 31 December 2021.

Company name	FTF's shareholding	FTF's shareholder ranking
Europris	11.73%	1
Nordic Semiconductor	11.38%	1
Veidekke	11.01%	2
Storebrand	10.86%	1
Bakkafrost	9.93%	1
Scatec	9.91%	3
Borregaard	9.69%	1
Fjordkraft	9.59%	1
Kitron	9.48%	1
Nordic Nanovector	9.30%	1
Bonheur	9.03%	3
Mowi	8.72%	2
AF Gruppen	8.66%	4
Schibsted	8.57%	2
Tomra Systems	8.52%	2
TGS-NOPEC Geophysical	7.96%	2
Subsea 7	7.92%	2
Orkla	7.72%	2
BW LPG	7.66%	2
SpareBank 1 SR-Bank	7.65%	2
Atea	7.47%	2
Bouvet	7.28%	2
Kongsberg Gruppen	7.13%	2
Yara International	7.07%	2
Norsk Hydro	6.91%	2
Norwegian Air Shuttle	6.61%	3
Crayon Group	6.42%	3
DNB	6.25%	3
Frontline	5.65%	2
SalMar	5.65%	2
Lerøy Seafood	5.43%	2
Pexip	4.94%	2
Grieg Seafood	4.86%	2
Aker	4.72%	2
Telenor	4.72%	2
Elkem	4.63%	2
Komplett	4.61%	2
Gjensidige Forsikring	4.29%	2
DNO	4.08%	2
Golden Ocean	4.04%	2
Equinor	3.72%	2
Aker Clean Hydrogen	3.64%	2
Treasure	3.57%	3
Aker BP	3.44%	3
Elopak	3.34%	3
Stolt-Nielsen	2.79%	3
Aker Carbon Capture	2.68%	3
Aker Horizons	2.60%	3
Wallenius Wilhelmsen	2.46%	3
Treasure	3.50%	3
Olav Thon Eiendomsselskap	2.73%	2
Stolt-Nielsen	2.54%	2
Wallenius Wilhelmsen	2.46%	3

Sources: Company websites, VPS and stock exchange notices.

When a nominee account is specified as one of the largest shareholders, Folketrygdfondet estimates its placement. Owners with shared ownership interests are grouped together when Folketrygdfondet has information indicating this is correct. Folketrygdfondet's ownership interest includes loaned-out shares. (As at 31 December 2021, shares amounting to 1.1 percent of the market value of the Fund's Norwegian shares were loaned out.)

### FOLKETRYGDFONDET'S SHAREHOLDINGS IN INDIVIDUAL COMPANIES

The size of each bar reflects Folketrygdfondet's shareholding in that company as at 31 December 2021.

■ Norway ■ Denmark ■ Sweden ■ Finland

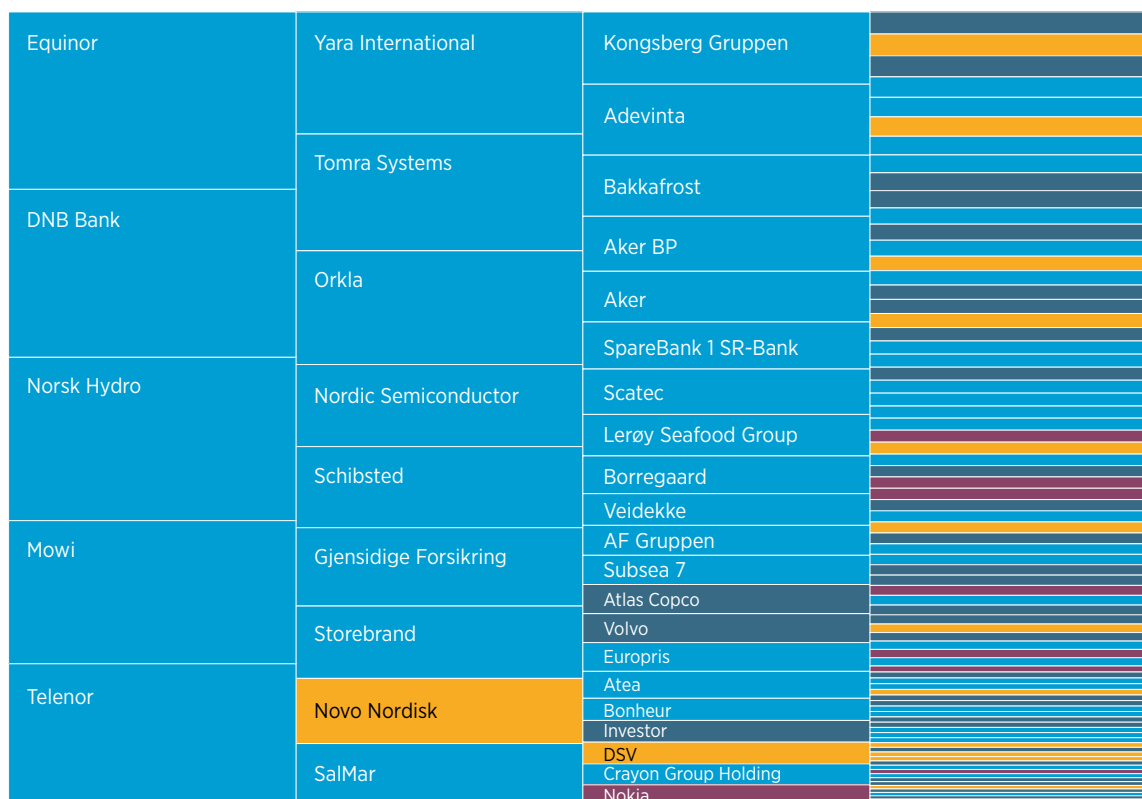


Figure 25

### FOLKETRYGDFONDET'S LARGEST NORDIC INVESTMENTS

Company name	FTF's shareholding	Stock exchange
GN Store Nord	1.08%	Nasdaq Copenhagen
Lundin Energy	0.59%	Nasdaq Stockholm
Boliden	0.52%	Nasdaq Stockholm
SKF	0.44%	Nasdaq Stockholm
Swedish Orphan Biovitrum	0.40%	Nasdaq Stockholm
Intrum	0.38%	Nasdaq Stockholm
Vestas Wind Systems	0.37%	Nasdaq Copenhagen
Essity AB	0.36%	Nasdaq Stockholm
H Lundbeck	0.35%	Nasdaq Copenhagen
Orion Oyj	0.34%	Nasdaq Helsinki
Peab	0.34%	Nasdaq Stockholm
Volvo	0.33%	Nasdaq Stockholm
Stora Enso	0.33%	Nasdaq Helsinki
Nokia	0.32%	Nasdaq Helsinki
Telia	0.32%	Nasdaq Stockholm
Ericsson	0.28%	Nasdaq Stockholm
Wihlborgs Fastigheter	0.26%	Nasdaq Stockholm
Carlsberg	0.26%	Nasdaq Copenhagen
Assa Abloy	0.25%	Nasdaq Stockholm
SimCorp	0.25%	Nasdaq Copenhagen

## HOW WE EXERCISE OUR OWNERSHIP RIGHTS

Meetings with board chairs and management are the most common tool Folketrygdfondet uses in its active ownership. Other important arenas include general meetings, corporate assemblies, and nomination committees.

Folketrygdfondet aims to be a demanding, reliable, and responsible owner.

### Arenas

Active, constructive dialogue with portfolio companies is consistent with Folketrygdfondet's role as a large, long-term investor. Through meetings and other contact with the board chair and management, companies get to know us and we get to know them. The primary aim in most of our dialogues is to learn more about the companies. It is important for us to know the companies, so that we can make sound investment decisions, assess capital requirements and identify areas in which we can exert influence. To make the dialogue as productive as possible for both parties, we have drafted a number of guidance documents on key topics.

We devote considerable time and resources to active ownership, and always seek to ensure that the portfolio companies are aware of our expectations. We communicate the importance of addressing ownership issues and other material ESG topics in our broader active ownership efforts, but also in specific cases in which the companies do not appear to be acting in line with our expectations. We address material risks in various ways, including through direct meetings with companies, joint initiatives with other investors and voting at general meetings.

### The portfolios

Our active ownership in Danish, Finnish and Swedish companies follows the same principles as in Norwegian companies. However, Folketrygdfondet's shareholdings in the other Nordic markets are smaller and spread across a larger number of companies, and we adapt our active ownership activities accordingly. Further, the role of bondholder differs from the role of shareholder, not least because only shareholders have ownership rights. Relations between bondholders and issuers are governed by the relevant loan agreements, and there is limited dialogue with an issuer unless an undesirable event such as default occurs. Our bondholder engagement is therefore different from our shareholder engagement.

### Active ownership challenges

ESG issues are rarely clear-cut, and it can take time to achieve solutions in line with our expectations. It is a priority for Folketrygdfondet that the portfolio companies initiate and take ownership of change processes. In addition, in our experience many investors have similar goals, and it is therefore difficult to isolate the individual contribution made by Folketrygdfondet's active ownership. Nevertheless, companies increasingly understand our financial motivation for focusing on ownership issues and the handling of material ESG risk, and often have a mature approach to these topics.

ACTIVE OWNERSHIP IN SEVERAL ARENAS:

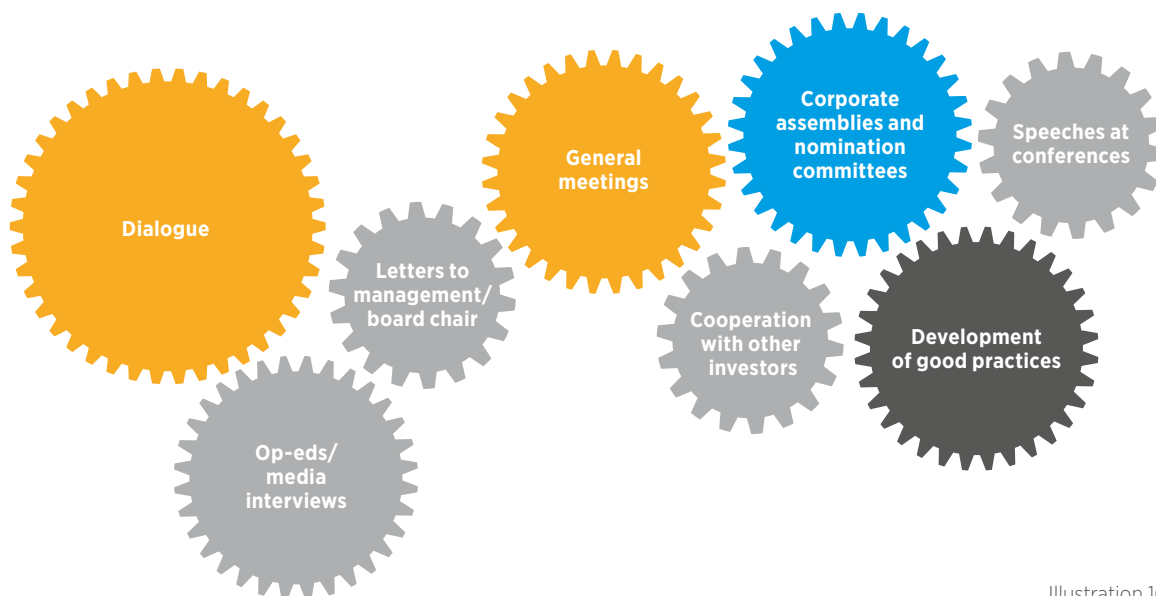


Illustration 16

OUR ACTIVE OWNERSHIP OBJECTIVES:



	<b>Objective 1. “We know the portfolio companies”</b>	<b>2. “They know us”</b>
<b>How</b>	Know the companies	Influence the companies
<b>Purpose</b>	Increase our understanding of the companies	Improve the companies’ awareness of and compliance with our principles and expectations
<b>Arena</b>	Dialogue	General meetings, dialogue, nomination committees, promote good practices
<b>Indicator</b>	Excess return	Support value creation in the companies in which we invest

- Dialogue
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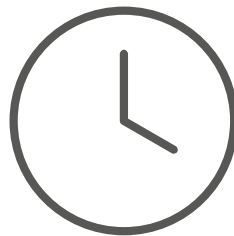
ACTIVE OWNERSHIP CHALLENGES:

Complexity



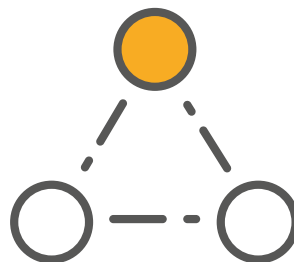
ESG-related issues are seldom clear-cut.

Long-term perspective



Change processes often take time, as does finding solutions that match Folketrygdfondet's expectations.

Distribution of roles and responsibilities



We emphasise dialogue and expect companies to initiate change processes.

We focus on preserving the appropriate distinction between the role of the board and that of the shareholders acting through the general meeting.



Dialogue

## COMPANY DIALOGUE

Folketrygdfondet seeks to be a constructive and reliable owner for the portfolio companies. We aim to ask challenging questions on important issues, and to be available to the companies.

Folketrygdfondet is a large, long-term investor, and active and constructive dialogue with our portfolio companies is one of our most important activities as an owner. Meetings and other contact with board chairs and management allow the companies get to know us, and vice versa. This is discussed further in *Folketrygdfondets eierskapsutøvelse* (Folketrygdfondet’s exercise of ownership rights), which describes Folketrygdfondet’s approach to company dialogue.

This dialogue enables us to understand a company’s strategy, operations, growth opportunities and risk profile, and thereby makes us a better active manager, not least because we can evaluate the portfolio companies’ capital needs and strategic priorities.

We apply the same active ownership principles to our Norwegian and Nordic equity investments. However, we distinguish between active ownership within and outside Norway. One reason for doing so is that we generally have smaller ownership interests in Nordic companies.

Folketrygdfondet held 252 dialogue meetings with 102 companies last year – 212 meetings with 68 companies listed in Norway and 40 meetings with 34 companies listed in the other Nordic countries.

### DIALOGUE OVERVIEW

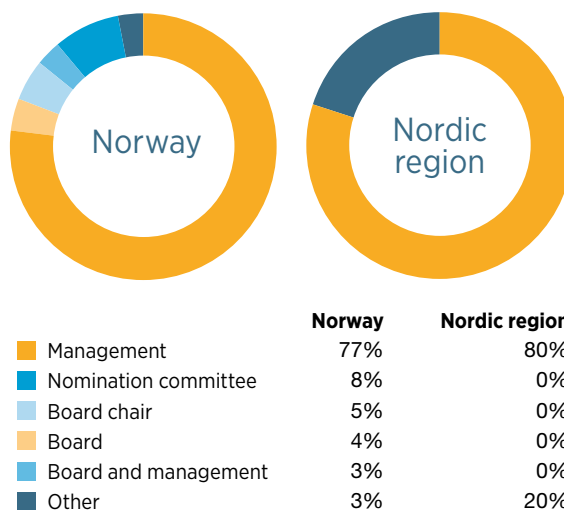


Figure 26

### OTHER DIALOGUE MEETINGS BY COUNTRY

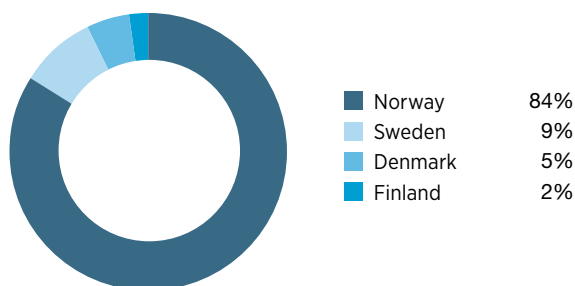


Figure 27

**Dialogue**

General meetings  
Nomination committees and governing bodies  
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**Our approach**

Folketrygdfondet generally conducts company dialogues alone. Nevertheless, we cooperate with other investors when this is a more effective way to help raise market standards and/or when doing so will save the company time by enabling it to communicate with several major shareholders simultaneously.

Our dialogue priorities are determined by company analyses and assessments of portfolio characteristics. In accordance with the investment mandate, we have been communicating clear expectations as to the handling of ownership, environmental and social issues for several years. To make our dialogue with companies as effective as possible, we have developed guidance documents on:

- strategy, capital structure and financial targets
- anti-corruption
- executive remuneration schemes
- human rights and workers' rights
- climate issues
- environmental issues
- arranging of loan capital

Our meetings with companies often take place at a high level. We prioritise this form of working and devote considerable time and resources to direct company contact. In our ownership capacity, we use such meetings to discuss both specific incidents in a company and key ownership questions, including capital structure and financial targets.

Prior to all meetings with Norwegian companies, Folketrygdfondet reviews the meeting agenda to ensure the inclusion of relevant ESG issues. In other words, meetings with board chairs may cover not only financial targets and capital structure, but also the rights of workers in the supply chain. Where a more in-depth sustainability dialogue is needed, we schedule a meeting with relevant specialists at the company. In our experience, this model communicates that Folketrygdfondet takes an integrated view of sustainability, and that sustainability is an integral part of our investment philosophy.

**What do we hope to achieve?**

Our primary active ownership objective is to help the portfolio companies overcome material ESG challenges and thereby secure the best possible foundation for long-term value creation. In Folketrygdfondet's experience, it is difficult to measure the effect of our active ownership over time separately from our investment results. This is both because corporate change processes are often complex and prolonged and because Folketrygdfondet's role as an owner is integrated into our investment philosophy.

Both active management and active ownership presuppose thorough knowledge of the portfolio companies. In our experience, the goals of active management and active ownership are mutually reinforcing. Our active management therefore makes us a better owner, and our active ownership makes us a better active manager.

This is discussed further under the individual dialogue topics below.

**DIALOGUE MEETINGS PER SECTOR 2021**

Industry	Number of dialogues	Proportion of all meetings
Industrial	52	21%
Information technology	37	15%
Consumer goods	33	13%
Finance	28	11%
Materials	25	10%
Healthcare	21	8%
Energy	15	6%
Communications	16	6%
Consumables	10	4%
Supply	10	4%
Property	5	2%

Table 18

## HOW WE SELECT SUSTAINABILITY TOPICS

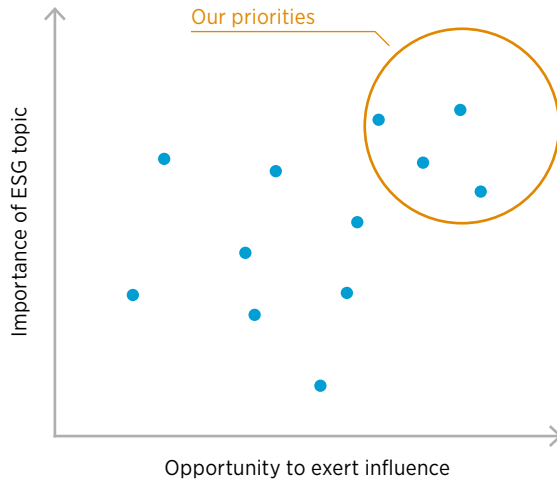


Illustration 19

### Folketrygdfondet's guidance documents

#### **Updated expectations – board and executive remuneration**

In 2021, Folketrygdfondet updated its expectations regarding the board and executive remuneration arrangements of portfolio companies. The update incorporates our work on strategy, capital structure and financial targets by comparing corporate strategies with management and board incentives. In summary, Folketrygdfondet welcomes simple remuneration schemes that ensure alignment of management and shareholder interests. A substantial proportion of total annual executive remuneration should take the form of shares with a long lock-in

period. Further, lock-in periods should be independent of employment end dates. As regards board remuneration, Folketrygdfondet expects individual board members to own shares in the company. We communicate this to board members and potential board candidates in the course of our work on 16 nomination committees.

Folketrygdfondet's updated expectations are available on [ftf.no](http://ftf.no).

**Dialogue**

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## **STRATEGY, CAPITAL STRUCTURE AND FINANCIAL TARGETS**

Well-founded strategic priorities are a prerequisite for efficient capital utilisation and profitability over time. That is why we expect the portfolio companies to adopt long-term financial targets and to communicate these clearly to the market. We also see this as important for long-term value creation.

### **What do we hope to achieve?**

Our objective is maximum value creation both within the portfolio companies and in the market generally. Accordingly, we want companies to communicate long-term targets for their return on capital, growth and capital structure, to detail their tax policies and risk assessments, and to provide well-reasoned explanations for their strategic priorities. We assume that companies have a long-term strategy and a sustainable business model based on robust risk assessments, including of climate risk. The strategy should include a clear, consistent dividend policy. This is expanded on in the document *Folketrygdfondets forventninger knyttet til selskapenes strategi, kapitalstruktur og finansielle mål* (Folketrygdfondet's expectations regarding portfolio companies' strategies, capital structure and financial targets), which is available on [ftf.no](http://ftf.no).

From our perspective as an asset manager, this focus on communication is also about obtaining reliable data from companies. We want to have the best possible insight into the assessments, criteria and objectives that underpin the companies' strategies for long-term competitiveness, growth and profitability.

### **What are we doing?**

We seek to be a driving force for more effective capital allocation in companies and within the market, and we will contribute to long-term value creation. We and other investors will not take over the board's role and responsibilities. What we can do is to ask the right questions and expect good answers.

### **Developments in 2021**

Folketrygdfondet's expectations regarding strategies, capital structure and financial targets have become well-integrated into ongoing portfolio company dialogues. We have also noted increased awareness of our expectations in the market, including among other investors.

As stated above, Folketrygdfondet used the updated expectations regarding board and executive remuneration in its dialogues with portfolio companies in 2021. The view that both board members and executives should own shares is a recurring topic. The portfolio companies' strategies for the transition to a low-carbon economy were another high-priority topic in dialogues in an increasing number of industries. These dialogues have been registered as concerning both "strategy" and "climate risk".

### **Plan for 2022**

Folketrygdfondet will continue its ongoing dialogue with management teams and board chairs on this topic. In addition, we will prioritise communication of our updated expectations regarding board and executive remuneration.

**TOPICS IN NORWEGIAN DIALOGUE MEETINGS SINCE 2019**

212 dialogues with Norwegian companies:

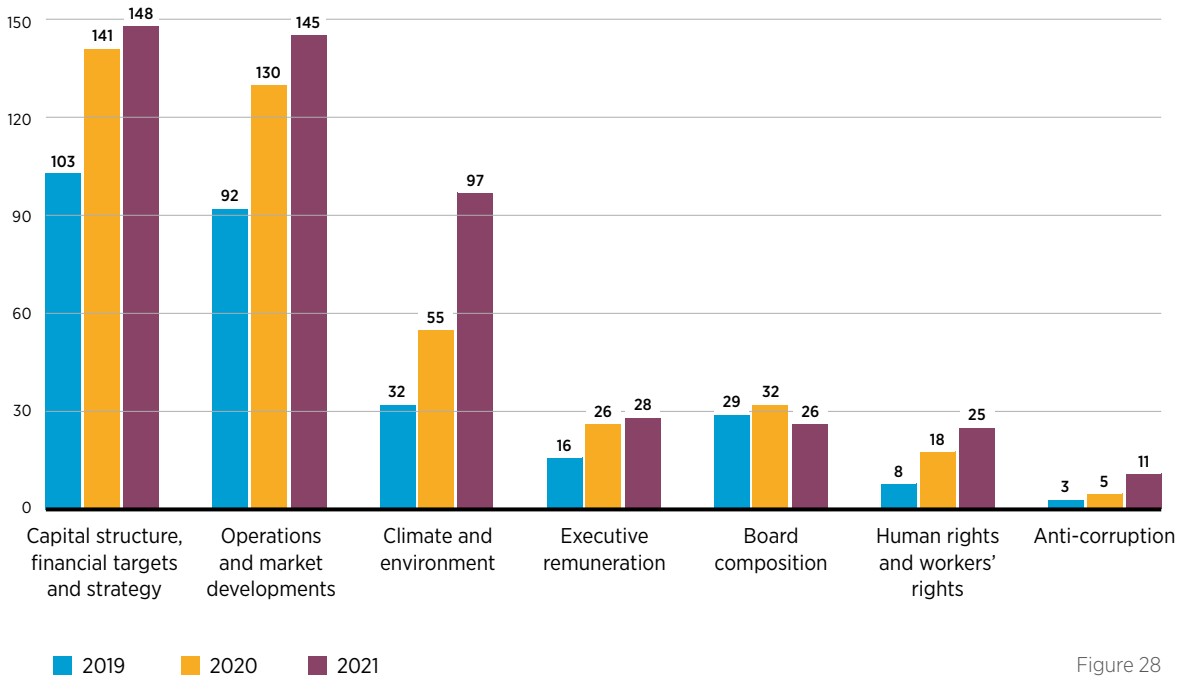


Figure 28

**TOPICS IN NORDIC DIALOGUE MEETINGS SINCE 2019**

40 dialogues with Nordic companies:

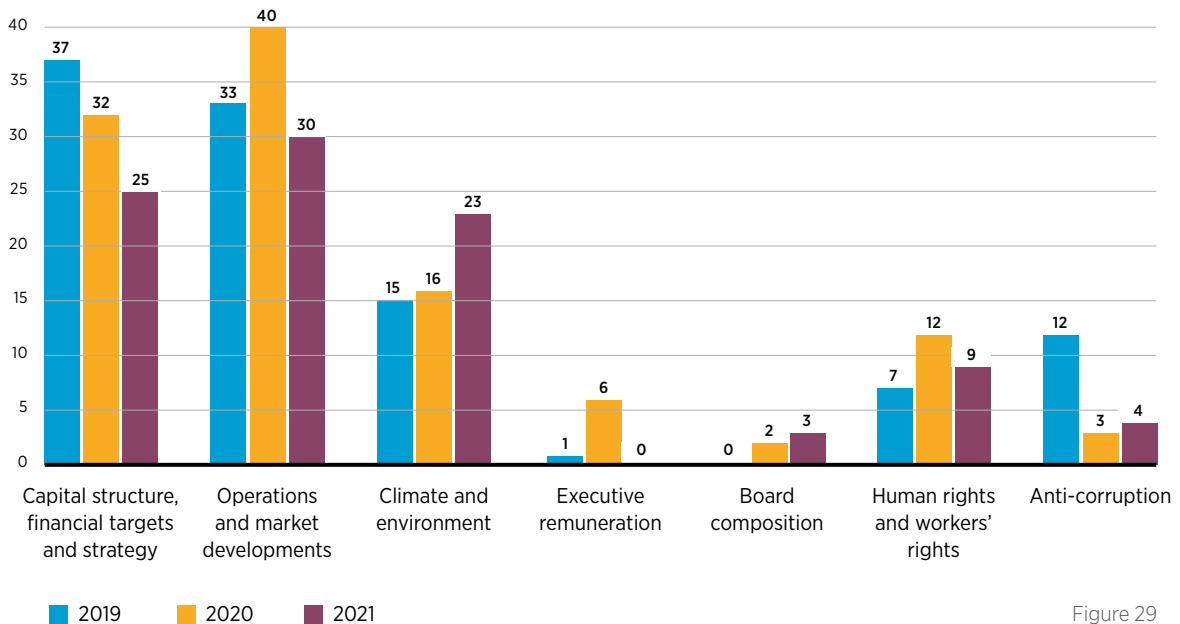


Figure 29

**Dialogue**

General meetings  
Nomination committees and governing bodies  
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**CLIMATE AND ENVIRONMENT**

Climate was a recurring topic in Folketrygdfondet's responsible investment work in 2021.

Climate risk is a material consideration for several of our portfolio companies. The significance of different climate risks for individual companies varies, depending on factors such as core activities. The same is true of risks associated with other environmental topics. For example, biodiversity is often a key concern for companies in many maritime industries.

**What do we hope to achieve?**

Our priority is to ensure that the portfolio companies understand the impact of their activities on the environment, and the extent to which their business models and strategies are exposed to climate and environmental risk. The companies must consider which analyses and measures are required in order to identify and address climate and environmental risk. This is expanded on in the document *Folketrygdfondets forventninger til selskapenes arbeid med klima og miljø* (Folketrygdfondet's expectations regarding companies' work on climate and environmental issues), which is available on [ftf.no](http://ftf.no).

**What are we doing?**

Folketrygdfondet supports the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

As a large, universal shareholder in Norwegian and Nordic companies, Folketrygdfondet needs such information to make sound investment decisions and to understand how climate risk may constitute a systemic risk in the markets in which Folketrygdfondet invests. Our focus is on ensuring that the portfolio companies understand the environmental impact of their activities in the form of greenhouse gas emissions, and the extent to which their business models and strategies are exposed to climate risk. The companies must consider what analyses and measures are required in order to identify and address climate risk.

Folketrygdfondet also conducts dialogues with companies on environmental topics which are not linked directly to climate change. One example is Folketrygdfondet's longstanding dialogue with aquaculture companies regarding issues such as feed, escaped fish and fish lice.

**Developments in 2021**

Climate change and the environment are increasingly important factors in corporate value creation. This is reflected in Folketrygdfondet's dialogue with the portfolio companies. Between 2019 and 2021, the number of meetings concerning climate and environmental topics increased from 32 to 97 in Norway, and from 15 to 23 in the other Nordic countries. The majority of these meetings formed part of Folketrygdfondet's ongoing follow-up. In 2021, we also engaged in joint active ownership with several Norwegian investors, focusing on companies in industries identified by the TCFD as particularly exposed to climate-related threats and opportunities, including the materials, energy and construction and civil engineering sectors.

In connection with the COP 26 summit in Glasgow, Folketrygdfondet made companies' net-zero-emissions targets a separate topic in its dialogues. Portfolio companies are increasingly adopting such emissions targets. Among other things, several companies in Norway and the Nordic region published science-based targets in 2021. Folketrygdfondet supports this type of long-term planning and expects portfolio companies to publish interim reports on their performance compared to long-term targets. Moreover, in our experience the focus on zero emissions by 2050 is helping to extend companies' planning horizon. This positive development is in line with Folketrygdfondet's expectations regarding the portfolio companies' strategies, capital structure and financial targets.

**Plan for 2022**

In our active ownership dialogue in 2022, we will prioritise discussion of climate risk in our ongoing follow-up of company board and management teams. The focus will be on how companies are positioning themselves with regard to new regulatory provisions, and on the technological transition to a low-emission society. This dialogue will be closely linked to Folketrygdfondet's expectations regarding both portfolio companies' climate-related and environmental work and their strategies, capital structure and financial targets.

<b>Index: follow-up of TCFD recommendations</b>	<b>Folketrygdfondet's response</b>
<b>Governance</b>	
a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term	Mandate for the management of the Government Pension Fund Norway, Ownership report, page 2 ("How we organise our responsible investment activities")
b) Describe management's role in assessing and managing climate-related risks and opportunities	Principles for responsible investment <i>Folketrygdfondets eierskapsutøvelse</i> (Folketrygdfondet's exercise of ownership rights) Ownership report, page 2 ("How we organise our responsible investment activities")
<b>Strategy</b>	
a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term	Ownership report, pages 34-40 ("Portfolio climate risk")
b) Describe the integration of climate-related risks and opportunities into the organisation's businesses, strategy, and financial planning	Ownership report, pages 34-40 ("Portfolio climate risk")
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a scenario of 2°C or lower	Ownership report, pages 34-40 ("Portfolio climate risk")
<b>Risk management</b>	
a) Describe the organisation's processes for identifying and assessing climate-related risks	Ownership report, pages 34-40 ("Portfolio climate risk") Strategic plan, pages 9-12
b) Describe the organisation's processes for managing climate-related risks	Ownership report, pages 34-40 ("Portfolio climate risk")
c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's risk management systems	Ownership report, pages 34-40 ("Portfolio climate risk")
<b>Metrics and targets</b>	
a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	Ownership report, pages 34-40 ("Portfolio climate risk")
b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	Ownership report, pages 34-40 ("Portfolio climate risk")
c) Describe the metrics used by the organisation to measure climate-related risks and opportunities and performance by reference to such metrics	Ownership report, pages 34-40 ("Portfolio climate risk")

Table 19

**Dialogue**

General meetings  
Nomination committees and governing bodies  
Portfolio climate risk  
Good practice development  
The fixed income portfolio

**ANTI-CORRUPTION**

Corruption undermines value growth in society and harms the operations of involved companies. At the individual level, the financial consequences of corruption may include exclusion from markets, lost contracts, fines and prolonged legal proceedings.

As a financial investor, Folketrygdfondet therefore considers it vital that companies take anti-corruption efforts seriously. The portfolio companies are expected to combat all forms of corruption, including blackmail and bribery.

**What do we hope to achieve?**

In its capacity as an investor, Folketrygdfondet applies the clear requirement that the companies in which it invests may not be involved in corruption.

**What are we doing?**

The portfolio companies bear independent responsibility for protecting their operations, assets and reputations against corrupt practices. Companies must identify, address and report on material challenges. To clarify our expectations, we have prepared an anti-corruption guide (please see [ftf.no](http://ftf.no), English pages). We address corruption risk in our dialogue with the boards and management teams of the portfolio companies where relevant.

**Developments in 2021**

Folketrygdfondet discussed anti-corruption efforts with companies in a range of sectors in 2021. Our dialogues primarily concerned companies' measures to prevent corruption, rather than how previous cases have been handled. We also discussed anti-corruption measures with companies in other high-risk sectors. Typical risk factors include operating in countries with a high risk of corruption, operating in industries characterised by large contracts with public-sector entities, and using sale agents. Folketrygdfondet expects companies with exposure to one or more such factors to exercise greater care. Folketrygdfondet's aim for its dialogues is to understand how companies are working to prevent, detect and mitigate the risk of corruption and other financial crimes, including money laundering.

**Plan for 2022**

In 2022, we will continue to use our company dialogues to communicate our updated expectations. Folketrygdfondet uses a risk-based approach to set priorities for its dialogues with portfolio companies regarding corruption, money laundering and other financial crimes.

**HUMAN RIGHTS AND WORKERS' RIGHTS**

We expect the portfolio companies to respect human rights and workers' rights. The appropriate measures depend on where in the supply chain risk arises.

Violations of human rights and workers' rights have a negative impact on economic growth, promote social inequality, and foster political and civil unrest. For companies, the consequences of involvement in such violations may include operational disruption due to delays, reduced productivity and lower quality. Companies may also suffer reputational harm.

**What are we doing?**

Portfolio company boards and management teams are responsible for ensuring that fundamental human and workers' rights are respected throughout the organisation, and that respect for such rights is integrated into the corporate culture. This includes assessing whether the business is at risk of involvement in human rights or workers' rights violations and where in the supply chain any such risks arise. To clarify our expectations of the companies, we have prepared a guide on human rights and workers' rights. We discuss risks associated with human rights and workers' rights in our dialogue with company boards and managers where relevant.

**Developments in 2021**

Folketrygdfondet's dialogue with portfolio companies in 2021 included several serious cases concerning operations in states that provide weak protection of human and workers' rights. We expect our portfolio companies to prepare due diligence assessments before launching new operations, and to update these regularly. Our experiences in 2021 indicate that worsening short-term conditions may test companies' contingency plans.



In Folketrygdfondet's experience, companies communicate openly about the challenges they face in this area and have a mature approach.

**Plan for 2022**

In 2022, Folketrygdfondet will continue to monitor certain portfolio companies' handling of serious cases. We also expect the adoption of Norway's new Transparency Act to result in increased attention on companies' due diligence assessments for their own operations and supply chains. These topics are likely to dominate our dialogues in 2022.

**DIALOGUE WITH COMPANIES LISTED IN NORWAY, BY TOPIC**

Portfolio	Number of companies		
	2021	2020	2019
Strategy, capital structure and financial targets	63	55	46
Climate and environment	45	24	24
Human rights and workers' rights	19	17	7
Anti-corruption	8	5	3

Table 20

**COMPANIES LISTED IN DENMARK, SWEDEN AND FINLAND, BY TOPIC**

Portfolio	Number of companies		
	2021	2020	2019*
Strategy, capital structure and financial targets	24	28	33
Climate and environment	21	14	13
Human rights and workers' rights	8	12	7
Anti-corruption	4	3	8

\*The figures for Nordic dialogues in 2019 include meetings with investor relations representatives only, which were excluded in subsequent years.

Table 21

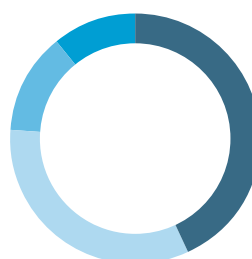
General meetings

## WE PROTECT SHAREHOLDER INTERESTS

In 2021, Folketrygdfondet voted at a total of 185 general meetings of companies listed in Norway, Sweden, Denmark, and Finland.

Voting at the general meetings of all the portfolio companies is a central aspect of Folketrygdfondet's active ownership, and this remained a priority in 2021. Whenever possible, we try to attend the general meetings of portfolio companies listed on the Oslo Stock Exchange in person. This proved impossible after the Covid-19 pandemic struck. However, we have noted that companies are increasingly facilitating participation through digital meetings, including functionality for asking questions. This is a positive development, since the general meeting is the primary arena for shareholder-company interaction. As regards general meetings Folketrygdfondet is normally unable to attend in person, for example of Nordic portfolio companies, these new digital solutions offer scope for greater engagement by Folketrygdfondet in important issues at general meetings. Folketrygdfondet would welcome permanent adoption of such solutions after the pandemic.

**GEOGRAPHICAL DISTRIBUTION OF GENERAL MEETINGS (ORDINARY AND EXTRAORDINARY)**



Norway	80
Sweden	61
Denmark	24
Finland	20

Figure 30

### Our approach

	Norwegian companies	Nordic companies
Voting at the general meetings of portfolio companies	X	X
Attendance	We attend in person wherever possible or, alternatively, we send a proxy with voting instructions	We always send a proxy with voting instructions
Thorough review of all agenda items prior to every general meeting, and voting in accordance with principles, guidelines, and assessments	X	X
Loaned shares	We recall all loaned-out shares in the relevant company prior to a general meeting	We recall loaned-out shares in the relevant company if an agenda item raises a matter of principle and we intend to vote against the proposal
Publication of voting decisions on ftf.no when we vote against board proposals	Der praktisk mulig, i forkant av generalforsamlingen	After the general meeting
Letters to company boards and, where relevant, nomination committees when we vote against board proposals	X	X



### Developments in 2021

In most cases where we vote for board proposals at general meetings, we do so because we have concluded that the proposals are well-founded and consistent with adopted strategies. This also applies to shareholder proposals, where Folketrygdfondet often follows board recommendations.

In some instances, however, we see that board proposals challenge shareholder interests and recognised good governance principles. Folketrygdfondet considers it important to be a strong representative of minority shareholders in listed Norwegian companies. Equal treatment of all shareholders is a fundamental value for

us. Along with other minority shareholders, we have a clear interest in ensuring that applicable rules are followed and that the interests of all shareholders are safeguarded.

The table below shows Folketrygdfondet's voting on board-proposed agenda items. Table 25 provides an overview of votes against board proposals – and related voting statements – in the Norwegian market, while Table 26 summarises votes against board proposals in the other Nordic countries by matter type. Folketrygdfondet publishes a complete list of voting statements on [ftf.no](http://ftf.no) for all matters where we have voted against board proposals, including in Nordic companies.

#### BOARD PROPOSALS

	For	Against	Abstained	Total	For (%)	Against (%)	Abstained (%)
Norway	1,038	23	2	1,063	97.6%	2.2%	0.2%
Sweden	1,389	31	0	1,420	97.8%	2.2%	–
Denmark	379	1	0	380	99.7%	0.3%	–
Finland	210	3	0	213	98.6%	1.4%	–
<b>Total</b>	<b>3,016</b>	<b>58</b>	<b>2</b>	<b>3,076</b>	<b>98.0%</b>	<b>1.9%</b>	<b>0.1%</b>

Table 23

#### Publication of voting intentions

If pre-general meeting dialogue is unsuccessful, we vote against relevant proposals and publish a voting statement. In 2021, for the third year in a row and wherever practicable, we published Folketrygdfondet's voting intentions on [ftf.no](http://ftf.no) prior to general meetings at which we intended to vote against one or more board proposals.

For capacity reasons, Folketrygdfondet publishes its voting statements relating to Nordic companies on [ftf.no](http://ftf.no) after the general meetings in question. For same reason, we have not initiated dialogues with affected companies before such meetings. Given that Folketrygdfondet's shareholdings in Norwegian companies are generally larger than those in Nordic companies, Folketrygdfondet has chosen to prioritise general-meeting dialogue and advance announcements relating to Norwegian companies.

#### Letters to boards of directors

We sent letters containing voting statements to company boards in both Norway and the other Nordic countries in 2021. Where Folketrygdfondet voted against the same agenda item previously, we did not resend the same letter, but instead published a voting statement on [ftf.no](http://ftf.no). The purpose of sending such letters is two-fold: to communicate clearly by explaining the corporate governance principles we apply, and to invite recipient companies to engage in dialogue if there are factors they consider important with respect to Folketrygdfondet's voting at the next year's general meeting. The feedback we have received indicates that companies appreciate being informed of the reasons behind our voting decisions.

*Shareholder proposals*

The use of shareholder proposals varies in the Nordic countries. For example, while shareholder proposals are commonplace in Sweden, only 10 were submitted in Norway in 2021 (all at the general meeting of Equinor ASA). No shareholder proposals were submitted in relation to the Finn-

ish portfolio companies in 2021. In our experience, proposals of this kind often concern issues falling outside the scope of shareholder decision-making pursuant to general principles on the allocation of roles in listed companies. In total, Folketrygdfondet voted for one shareholder proposal in 2021: a request to the board to prepare better tax reports.

## SHAREHOLDER PROPOSALS

	For	Against	Abstained	Total	Proportion by country (%)	For (%)	Against (%)	Abstained (%)
Norway	0	10	0	10	25.6%	0%	100%	0%
Sweden	0	22	0	22	56.4%	0%	100%	0%
Denmark	1	5	1	7	17.9%	14.3%	–	–
Finland	0	0	0	0	0%	–	–	–
<b>Total</b>	<b>1</b>	<b>37</b>	<b>1</b>	<b>39</b>	<b>100%</b>	<b>2.6%</b>	<b>94.6%</b>	<b>3%</b>

Table 24

**What have we achieved?**

Folketrygdfondet invests substantial resources in dialogue with companies prior to general meetings. We focus particularly on our Norwegian portfolio companies, as we are often among their largest shareholders. In Norway, we inform companies in advance when we intend to vote against one or more board proposals.

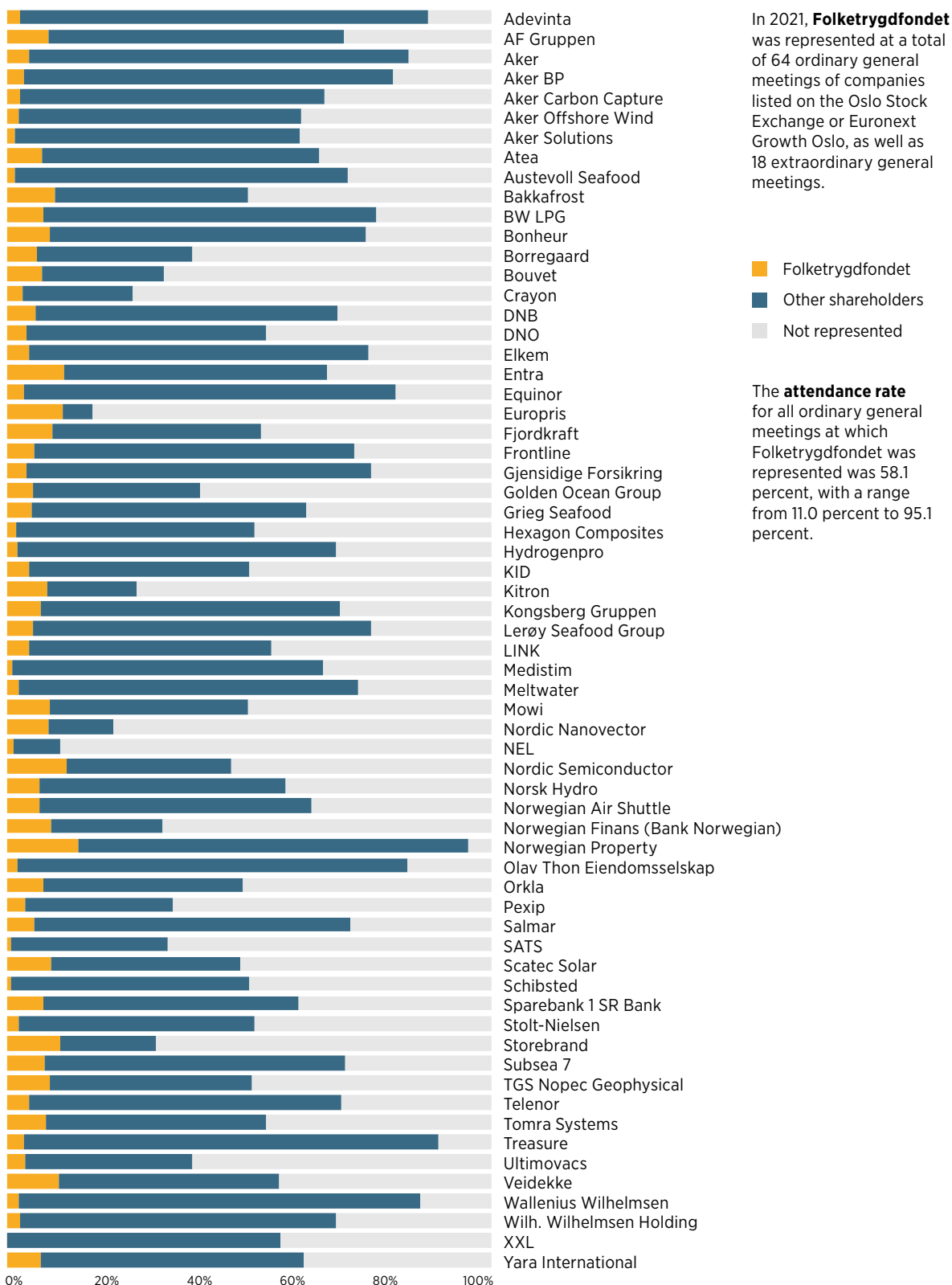
On several occasions, companies have amended agenda items in line with our expectations. In our view, the best outcome is revision of agenda items which are not in the best interests of shareholders prior to the general meeting, or their exclusion from the agenda. Despite Folketrygdfondet's role as a major shareholder, it is rare for shareholders as a whole to vote down agenda items which Folketrygdfondet opposes.

Our active ownership objective for general meetings is alignment of board proposals with our expectations. This applies particularly to our expectations regarding strategy, capital structure and financial targets, board and executive remuneration, and board composition. We keep a record of instances where companies make amendments in line with our communicated expectations.

In 2021, we registered several instances where agenda items were revised or where items were dropped from the agenda following Folketrygdfondet's decision to vote against them at last year's general meeting. Examples include the introduction of a cap on an emissions authorisation. As at the end of 2021, Folketrygdfondet was represented on 16 nomination committees and three corporate assemblies. We have noted several improvements in the board composition of individual companies in this context.

ATTENDANCE 2020 – COMPANIES LISTED ON THE OSLO STOCK EXCHANGE AND EURONEXT GROWTH OSLO

Ordinary general meetings of listed companies that Folketrygdfondet attended



## NORWEGIAN COMPANIES WHERE FOLKETRYGDFONDET VOTED AGAINST BOARD PROPOSALS

Company	Date	Type of matter   Why we voted against	Percentage of votes against	
			Folketrygdfondet	Total
Stolt-Nielsen Limited	15 April 2021	Board composition		
		<p><b>Item 3g:</b> Election of Niels G. Stolt-Nielsen as a board member</p> <p><i>Reason:</i> Niels G. Stolt-Nielsen is the CEO of Stolt-Nielsen Limited. The Norwegian Code of Practice for Corporate Governance states that the board of directors should not include executive personnel. One of the board's main tasks is the supervision of company management, which includes appointment and dismissal of the CEO. Folketrygdfondet considers that board members can only supervise company management adequately if they are not recruited from among management.</p>	3.5	3.5
		<p><b>Item 4:</b> Board authorisation to appoint new board members</p> <p><i>Reason:</i> The board of Stolt-Nielsen Limited is requesting authorisation from the general meeting to appoint new board members. Folketrygdfondet considers, as a matter of principle, that board members should be elected by the shareholders at a general meeting.</p>	3.5	4.6
		<p>Ultimovacs</p> <p>15 April 2021</p> <p>Executive remuneration and authorisation to issue shares</p>		
		<p><b>Item 4:</b> Approval of guidelines on the setting of executive pay and other remuneration</p>	10.0	19.8
		<p><b>Item 12:</b> Board authorisation to increase share capital in connection with incentive programmes</p> <p><i>Reason:</i> Folketrygdfondet takes a positive view of remuneration schemes which are targeted and performance-linked. Incentive schemes should be linked to personal targets, company targets and targets designed to ensure strong value creation for shareholders over time. Moreover, option schemes and other share-based programmes should be capped by the board of directors and should not be unreasonable in scope.</p> <p>Since Ultimovacs' option scheme has no such cap, Folketrygdfondet concluded that the proposal could entail an excessive transfer of value from shareholders to the company's employees.</p>	10.0	19.7
Norwegian Property	16 April 2021	Executive remuneration and authorisation to issue shares		
		<p><b>Item 6:</b> Approval of guidelines on the setting of executive remuneration</p>	15.5	15.5
		<p><b>Item 11c:</b> Board authorisation to increase the share capital as part of implementing an incentive scheme for employees and/or board members</p>	15.5	15.5
		<p><b>Item 13b:</b> Board authorisation to acquire treasury shares as part of implementing an incentive scheme for employees and/or board members</p> <p><i>Reason:</i> As a matter of principle, Folketrygdfondet takes the view that board members should not be issued with options, and further that board members should not accept separate assignments for the company in addition to their board appointment. This is also expressed in section 11 of the Norwegian Code of Practice for Corporate Governance, which points out that such arrangements may undermine the independence of the board, particularly in relation to company management.</p> <p>Guidelines on salary and other executive remuneration state that one board member has an individual option agreement. Under the arrangement, the board member in question is to provide advisory services to the company in addition to the board appointment and is to be compensated for this through an option agreement. As both the issue of options to board members and the conclusion of agreements on advisory services with board members are contrary to the view taken by Folketrygdfondet on grounds of principle and the recommendation in the Norwegian Code of Practice for Corporate Governance, Folketrygdfondet voted against the proposals in Items 6, 11c and 13b.</p>	15.5	15.5
Wallenius Wilhelmsen	21 April 2021	Composition of nomination committee		
		<p><b>Item 9:</b> Election of nomination committee members</p> <p><i>Reason:</i> As a matter of principle, Folketrygdfondet considers that a nomination committee can only perform its functions if it is independent of the board of directors. This is not the case in this instance, as one of the members of the nomination committee is also a candidate for re-election to the board of directors.</p>	2.9	3.7

Company	Date	Type of matter   Why we voted against	Percentage of votes against	
			Folketrygdfondet	Total
Hexagon Composites	28 April 2021	Executive remuneration, composition of nomination committee and authorisation to issue shares		
		<b>Item 6:</b> Board guidelines on the setting of executive pay and other remuneration	3.7	11.4
		<i>Reason:</i> Folketrygdfondet takes a positive view of remuneration schemes which are targeted and performance-linked. Incentive schemes should be linked to personal targets, company targets and targets designed to ensure strong value creation for shareholders over time. Moreover, option schemes and other share-based programmes should be capped by the board of directors and should not be unreasonable in scope.		
		Since the guidelines lack a clear specification of the annual and total cap on the share and option programme, Folketrygdfondet concluded that the share and option programme is too broad in scope and could therefore entail an excessive transfer of value from shareholders to the company's employees.		
		<b>Item 11.2:</b> Election of nomination committee members, Knut Trygve Flakk	3.7	4.1
		<i>Reason:</i> In Folketrygdfondet's view, nomination committee members must be independent of individual board members. Nomination committee independence is important to ensure that all shareholders can have the necessary confidence in nomination committee processes and recommendations. A clear division of roles and responsibilities between the board of directors and the nomination committee is of fundamental importance for the work of the nomination committee. Since Knut Trygve Flakk had been nominated for re-election as the company's board chair, Folketrygdfondet voted against his simultaneous election as a member of the company's nomination committee.		
		<b>Item 12:</b> Board authorisation to increase share capital	3.7	14.4
		<b>Item 13:</b> Board authorisation to acquire own shares	3.7	3.9
<i>Reason:</i> Reference is made to the voting statement relating to Item 6. Folketrygdfondet concluded that the scope of the share and option programme for Hexagon Composites employees is unclear. Folketrygdfondet therefore voted against the proposed resolutions 12 and 13.				
SATS	11 May 2021	Executive remuneration, composition of nomination committee and authorisation to issue shares		
		<b>Item 7:</b> Election of nomination committee members	2.7	5.5
		<i>Reason:</i> As a matter of principle, Folketrygdfondet considers that a nomination committee can only perform its functions satisfactorily if it is independent of the board of directors. The independence consideration was not reflected in the proposed nomination committee, as one of the members of the nomination committee was also a candidate for re-election to the board of directors.		
		<b>Item 9:</b> Approval of guidelines on the setting of executive remuneration	2.7	2.7
		<i>Reason:</i> The board is required to prepare guidelines on the setting of pay and other remuneration for the CEO, other executives and employees who are members of the board of directors. The nomination committee proposes board fees for approval by the general meeting. This division of roles and responsibilities is intended, among other things, to ensure optimal protection of the interests of the company and the shareholders.		
		The board's proposed guidelines on the setting of executive remuneration granted board members the opportunity to participate in a share programme designed for the CEO and executives, and this could potentially result in an unclear division of roles and responsibilities between the board and management.		
		<b>Item 10:</b> Expansion of the group's investment programme for employees	2.7	2.7
		<i>Reason:</i> The general meeting on 26 May 2020 approved a share programme for executives with associated authorisations. Once the authorisations had been fully utilised, the board of directors decided to expand the programme further and to award shares subject to approval by the general meeting. Folketrygdfondet considers that the board has to request general meeting approval before such programmes are implemented, not afterwards.		
		<b>Item 11.1:</b> Authorisation in connection with the investment programme	2.7	2.7
		<b>Item 12:</b> Board authorisation to acquire own shares	2.7	2.7
<i>Reason:</i> Both Item 11.1 and Item 12 concerned authorisations incorporating the circumstances specified as the reason in respect of Item 9.				

Company	Date	Type of matter   Why we voted against	Percentage of votes against	
			Folketrygdfondet	Total
Frontline	26 May 2021	Board composition		
		<p><b>Item 2:</b> Board authorisation to appoint new board members</p> <p><i>Reason:</i> Folketrygdfondet is fundamentally of the view that board members should be elected by the shareholders at a general meeting.</p>	8.0	12.8
Golden Ocean Group	26 May 2021	Board composition		
		<p><b>Item 2:</b> Board authorisation to appoint new board members</p> <p><i>Reason:</i> Folketrygdfondet is fundamentally of the view that board members should be elected by the shareholders at a general meeting.</p>	13.8	26.2
DNO	27 May 2021	Executive remuneration and authorisation to issue shares		
		<p><b>Item 6:</b> Setting of remuneration of members of the board of directors, audit committee, HSE committee and remuneration committee</p> <p><i>Reason:</i> The fee proposed for the board chair reflected the fact that the board chair was in practice acting as an executive board chair. This arrangement is not in accordance with Folketrygdfondet's expectations regarding board independence.</p> <p>Section 8 of the Norwegian Code of Practice for Corporate Governance states that the board of directors should not include executive personnel. One of the board's main tasks is the supervision of company management. Folketrygdfondet considers that board members can only supervise company management adequately if they are not recruited from among management.</p>	7.7	12.1
		<b>Item 10:</b> Board authorisation to increase share capital	7.7	12.1
		<b>Item 12:</b> Board authorisation to issue convertible bonds	7.7	11.4
		<i>Reasons:</i> The size of the authorisation was excessive, at 15%. The total scope of the share issue authorisations in Items 10 and 12 was also excessive. Folketrygdfondet therefore voted against the proposal.		
Hydrogen-Pro	31 May 2021	Executive remuneration and authorisation to issue shares		
		<b>Item 8:</b> Board authorisation to acquire own shares – share incentive programme	3.2	5.7
		<b>Item 11:</b> Board authorisation to increase share capital – share incentive programme	3.2	5.7
		<p><i>Reason:</i> Folketrygdfondet is fundamentally opposed to the issue of options to board members. This also follows from section 11 of the Norwegian Code of Practice for Corporate Governance, which states that such arrangements may undermine board independence.</p> <p>Since the 2020 annual report of HydrogenPro AS states (in Note 12) that board members have been allocated share options in the company, Folketrygdfondet voted against the authorisation to acquire own shares in connection with the option programme.</p>		
XXL	3 June 2021	Executive remuneration and authorisation to issue shares		
		<p><b>Item 4:</b> Approval of guidelines on the setting of executive pay and other remuneration</p> <p><i>Reason:</i> Folketrygdfondet takes a positive view of executive and board share ownership schemes that align the interests of executives and shareholders, ensure good corporate governance and secure value creation over time. Folketrygdfondet also expects boards of directors to adopt schemes that are simple and clear, include a cap on allocations and are reasonable in scope.</p> <p>The proposed share programme is uncapped and has a potential scope of up to 5 percent of the share capital of a subsidiary, XXL Sport og Villmark ASA. The scheme is extensive and relates to shares in a subsidiary rather than XXL ASA.</p>	0.3	0.5
		<b>Item 5:</b> Setting of board remuneration	0.3	2.5
		<i>Reason:</i> Folketrygdfondet generally takes a positive view of executive and board share ownership, but in Item 5 the nomination committee of XXL proposed that board members be permitted to participate in a share incentive programme designed for the CEO and executives. Since the board had designed the programme and would be responsible for its implementation, the proposal in Item 5 could result in an unclear division of roles and responsibilities between the board and management. Folketrygdfondet therefore voted against Item 5 relating to board remuneration.		



Company	Date	Type of matter   Why we voted against	Percentage of votes against	
			Folketrygdfondet	Total
XXL	3 June 2021	Executive remuneration and authorisation to issue shares		
		<b>Item 10:</b> Board authorisation to increase share capital – share incentive programme	0.3	0.5
		<b>Item 12:</b> Board authorisation to acquire own shares	0.3	1.7
		<p><i>Reason:</i> In Item 10 and Item 12, the board was requesting authorisations which could be used to acquire shares for the investment/share incentive programme for executives, including board members.</p> <p>In line with the voting statements relating to Item 4 and Item 5, Folketrygdfondet voted against granting these authorisations.</p>		
Norwegian Air Shuttle	4 June 2021	Executive remuneration and authorisation to issue shares		
		<b>Item 6:</b> Board guidelines on the setting of salary and other executive remuneration	10.9	12.2
		<p><i>Reason:</i> Folketrygdfondet takes a positive view of remuneration schemes which are targeted and performance-linked. Incentive schemes should be linked to personal targets, company targets and targets designed to ensure strong value creation for shareholders over time. Moreover, option schemes and other share-based programmes should be capped by the board of directors and should not be unreasonable in scope.</p> <p>Since Norwegian's share option plan may result in the issue of new shares totalling up to 5% of the company's share capital and the cap is high, Folketrygdfondet concluded that the option programme is too broad in scope and could therefore entail an excessive transfer of value from shareholders to executives.</p>		
		<b>Item 13:</b> Board authorisation to acquire treasury shares	10.9	10.9
		<b>Item 15:</b> Board authorisation to increase share capital in connection with incentive programmes	10.9	12.2
		<p><i>Reason:</i> In Item 13 and Item 15 the board was requesting authorisations which could be used in connection with the company's incentive programmes.</p> <p>In line with the voting statements relating to Item 6, Folketrygdfondet voted against granting these authorisations.</p>		
Link Mobility	7 December 2021	Executive remuneration and authorisation to issue shares		
		<b>Item 4:</b> Board authorisation – Incentive schemes	6.8	29.0
		<b>Item 5:</b> Approval of amended guidelines on the setting of salary and other executive remuneration	6.8	28.7
		<p><i>Reason:</i> Folketrygdfondet takes a positive view of executive and board share ownership schemes that align the interests of executives and shareholders, ensure good corporate governance and secure value creation over time. Folketrygdfondet also expects boards of directors to adopt schemes that are simple and clear, include a cap on allocations and are reasonable in scope.</p> <p>Link Mobility already holds an authorisation to issue new shares totalling up to 5% of the company's share capital in connection with its executive remuneration scheme. Pursuant to this item, the potential allocation would be increased to 10%. The remuneration scheme is uncapped and may result in the issue of new shares totalling an additional 5% of share capital. Folketrygdfondet concluded that the scheme was too broad in scope and could therefore entail an excessive transfer of value from shareholders to the company's employees.</p>		

Table 25

**MATTERS WHERE FOLKETRYGDFONDET VOTED AGAINST BOARD PROPOSALS IN THE OTHER NORDIC COUNTRIES**

	Norway	Sweden	Denmark	Finland	Total
Executive remuneration	9	2			11
Authorisation to issue shares*	15		1		16
Nomination committee	3	1			4
Board remuneration	2	1		1	4
Dividend				1**	1
Against the entire board/one member		4		1	5
Against inclusion of the CEO on the board	1	23			24
Authorisation for the board to appoint its own members	3				3
<b>TOTAL</b>	<b>33</b>	<b>31</b>	<b>1</b>	<b>3</b>	<b>68</b>

\* Authorisations to issue shares include authorisations linked to company incentive programmes, as well as authorisations to acquire treasury shares and issue convertible loans.

\*\*Folketrygdfondet voted against board proposals concerning dividends in accordance with the board's recommendation.

Table 26

## REFINING COMMITTEE PARTICIPATION

Folketrygdfondet is represented on the nomination committees of 16 Norwegian companies. We also participated in three corporate assemblies in 2021.

Folketrygdfondet considers it important to help ensure that the boards of the portfolio companies have strong expertise and the right composition. Folketrygdfondet expects the companies in which it invests to have a nomination committee.

Company boards are becoming more professional, and it is crucial that boards collectively possess the necessary skills. Nomination committees have therefore assumed an increasingly central role in recent years. Folketrygdfondet has helped to drive this development forward, not least through its participation in the Eierforum group of institutional investors and through the Norwegian Corporate Governance Board (NUES).

Our top priority is to make sure that the portfolio companies have reliable processes in place to elect competent boards. We therefore prioritise participating in the nomination committees of some of the companies in which we have invested. However, the number of nomination committees has to be limited due to the time-consuming nature of the work involved. Folketrygdfondet does not participate in company boards, but was again represented in several corporate assemblies in 2021, in addition to the various nomination com-

mittees. Folketrygdfondet representatives were elected to one new nomination committee in 2021: Scatec ASA. In addition, Folketrygdfondet's representative in the corporate assembly of Telenor ASA was replaced during the year. Folketrygdfondet is broadly represented on the various nomination committees. The aim is to utilise staff members who are most familiar with individual companies, and to develop and refine expertise.

The number of nomination committees on which Folketrygdfondet is represented has increased from 7 to 16 since 2017, while the number of Folketrygdfondet staff involved has increased from five to 11. We therefore gave particular priority to systematising work in this area, and to our internal resource allocation, in 2020. Our representatives meet regularly to discuss common issues linked to nomination committee work. We have also introduced a systematic evaluation process by which individual staff members assess the work of their committee by reference to targets. Appointing more portfolio managers to such roles is building corporate governance experience across the organisation, and thereby bolstering our active investment expertise.

### FOLKETRYGDFONDET'S REPRESENTATIVES ON NOMINATION COMMITTEES AND GOVERNING BODIES IN 2021

#### Corporate assemblies

Equinor ASA	Chief Investment Officer Equities Nils Bastiansen	Deputy chair
Norsk Hydro ASA	CEO Kjetil Houg	Member
Telenor ASA	CEO Kjetil Houg	Deputy chair

#### Nomination committees

Entra ASA	Portfolio Manager Tine Fosslund	Member
Gjensidige Forsikring ASA	Portfolio Manager Pernille Moen Masdal	Member
Kongsberg Gruppen ASA	Portfolio Manager Karl Mathisen	Member
Mowi ASA	Deputy Director Equities Ann Kristin Brautaset	Member
Nordic Semiconductor ASA	Portfolio Manager Eivind Lotsberg	Member
Norsk Hydro ASA	Chief Investment Officer Equities Nils Bastiansen	Member
Norwegian Air Shuttle ASA	Chief Investment Officer Equities Nils Bastiansen	Member
Orkla ASA	CEO Kjetil Houg	Member
PGS ASA	Portfolio Manager Ole Jakob Hundstad	Member
Scatec ASA	Portfolio Manager Annie Bersagel	Member
Schibsted ASA	Deputy Director Equities Ann Kristin Brautaset	Member
Storebrand ASA	Chief Investment Officer Equities Nils Bastiansen	Member
Telenor ASA	Portfolio Manager Lars Tronsgaard	Member
TGS-NOPEC Geophysical Company ASA	Chief Compliance Officer and General Counsel Christina Stray	Member
Veidekke ASA	Portfolio Manager Tine Fosslund	Member
Yara International ASA	Deputy Director Equities Ann Kristin Brautaset	Member

## CLIMATE-RELATED SCENARIO ANALYSIS

### Background and investment model

Folketrygdfondet's mandate provides the starting point for the assessment of portfolio risk, including climate risk. Folketrygdfondet is a long-term active investor and measures its excess return by reference to benchmark indices. As an active investor, Folketrygdfondet can adjust its portfolio weightings in response to changes in the financial risk profile. Our strategy for achieving excess returns is discussed further in Folketrygdfondet's strategic plan (available on [ftf.no](http://ftf.no)), which identifies climate risk as particularly important.

Our investment decisions are based on a wide selection of data sources, analyses and company dialogues, and incorporate ESG analysis. Folketrygdfondet's ability to generate excess returns in the short, medium and long term is dependent on reliable assessments of market risk, including risk related to climate change. Such assessments are therefore an integral aspect of our management assignment. In addition, our long-term returns are entirely reliant on strong long-term performance by the portfolio companies.

### CORE ELEMENTS OF THE TCFD FRAMEWORK



#### Governance

The organisation's governance around climate-related risks and opportunities.

#### Strategy

The actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.

#### Risk management

The processes used by the organisation to identify, assess and manage climate-related risks.

#### Metrics and targets

The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

Illustration 20

### Climate risk project

Different scenarios for climate policy and atmospheric heating produce very different estimates of transition risk and physical risk. Accordingly, developing a robust methodology for climate-related scenario analysis is a prerequisite in order for such information to be useful and relevant for investors and companies. The use of climate-related scenario analysis is still at an early stage. To fulfil the requirements set out in the recommendations of the Task Force on Climate-related Financial Disclosures relating to quantitative analysis, including scenario analysis,

Folketrygdfondet published its first set of Paris Agreement Climate Transition Assessment (PACTA) results in 2020. PACTA is a free, annually updated tool developed by the 2° Investing Initiative with the support of UNPRI. Equity and bond holdings can be uploaded to the PACTA tool to calculate whether the portfolio is aligned with Paris Agreement targets. The aim is to generate insight into portfolio risks and opportunities related to climate change. Below, we review the analysis methods and results by reference to Folketrygdfondet's equity portfolio as at the end of 2021.

The tool also facilitates stress testing. The models are based on simple assumptions and attempt to quantify climate-related financial implications for the portfolio. Last year, Folketrygdfondet published the results of stress tests developed by the Bank of England (BoE). The BoE model is no longer included in the PACTA tool and has been replaced by the PACTA/Carbon Balance 2030 and Inevitable Policy Response (IPR) stress tests. The tool shows that the two stress tests entail a drop in the value of the equity portfolio of 6 to 7 percent (compared to 8 to 9 percent with the BoE stress test last year). The estimated losses are driven by the models' assumptions relating to equities in the oil and gas sector. The Carbon Balance 2030 and IPR models, as well as the BoE model used last year, employ different sectoral classifications and scenarios. This is reflected in the range of results.

**PACTA**

As stated, PACTA's objective is to provide an indication of whether the portfolio is aligned with the 2°C target in the Paris Agreement. The tool's purpose is therefore not to quantify financial portfolio risk or the climate impact of investments. Instead, the aim is to assess whether the portfolio composition is consistent with the industrial composition desirable in the real

economy to achieve the 2°C target. However, it can be questioned whether it is relevant to compare Folketrygdfondet's regional investment universe – consisting primarily of listed companies – with the industrial composition of the global real economy.

PACTA restricts itself to nine sectors deemed particularly important for achieving the 2°C target. These nine sectors can be sub-divided into two groups. The first group relies on production/extraction of fossil fuels and power production. The individual sectors are oil and gas production, renewable energy, coal power, coal production and car production. The second group comprises shipping, aviation, steel and cement. Emissions intensity is the driving force in this group. It is worth noting that the supporting data are only updated annually, meaning that our analysis is based on data on companies' production plans as at 31 December 2020. Given the volatility of energy prices, this is especially relevant in relation to 2020 and 2021.

Folketrygdfondet's fixed income portfolio is not included in this report because bonds in climate-relevant sectors only make up around 3 percent of the total fixed income portfolio. The figures below show the exposure of the equity portfolio to climate-relevant sectors.

**EXPOSURE TO CLIMATE-RELEVANT SECTORS**

The PACTA analysis covers 20% of the Government Pension Fund Norway's equity portfolio

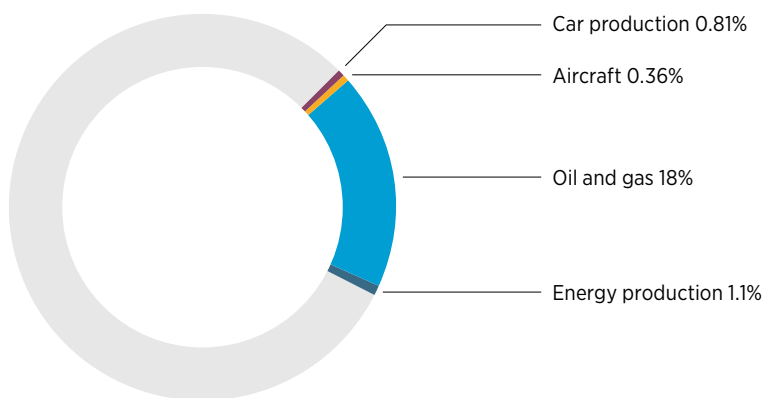


Figure 32

Figures for 2020 are shown in brackets.  
 Approximately USD 4.3 billion (USD 5.7 billion) of the equity portfolio is exposed to climate-relevant sectors, equivalent to approximately NOK 38.1 billion (NOK 48.6 billion). Fossil fuels clearly account for the largest proportion of this total.

The analysis then examines exposure to oil/gas, coal, power and car production. In this step, exposure is compared to iShares MSCI ACWI

ETF. This is illustrated in the figure below. It is clear that oil and gas are overweighted in the equity portfolio relative to the global index. In addition, power and cars are underweighted in relative terms. This reflects the differences in industrial composition between a Nordic and a global portfolio, rather than an active bet by Folketrygdfondet. The difference in exposure between the Government Pension Fund Norway and our benchmark index is minimal.

**EXPOSURE OF THE EQUITY PORTFOLIO TO HIGH-CARBON AND LOW-CARBON ACTIVITIES**

Percentage of portfolio, compared to iShares MSCI ACWI ETF

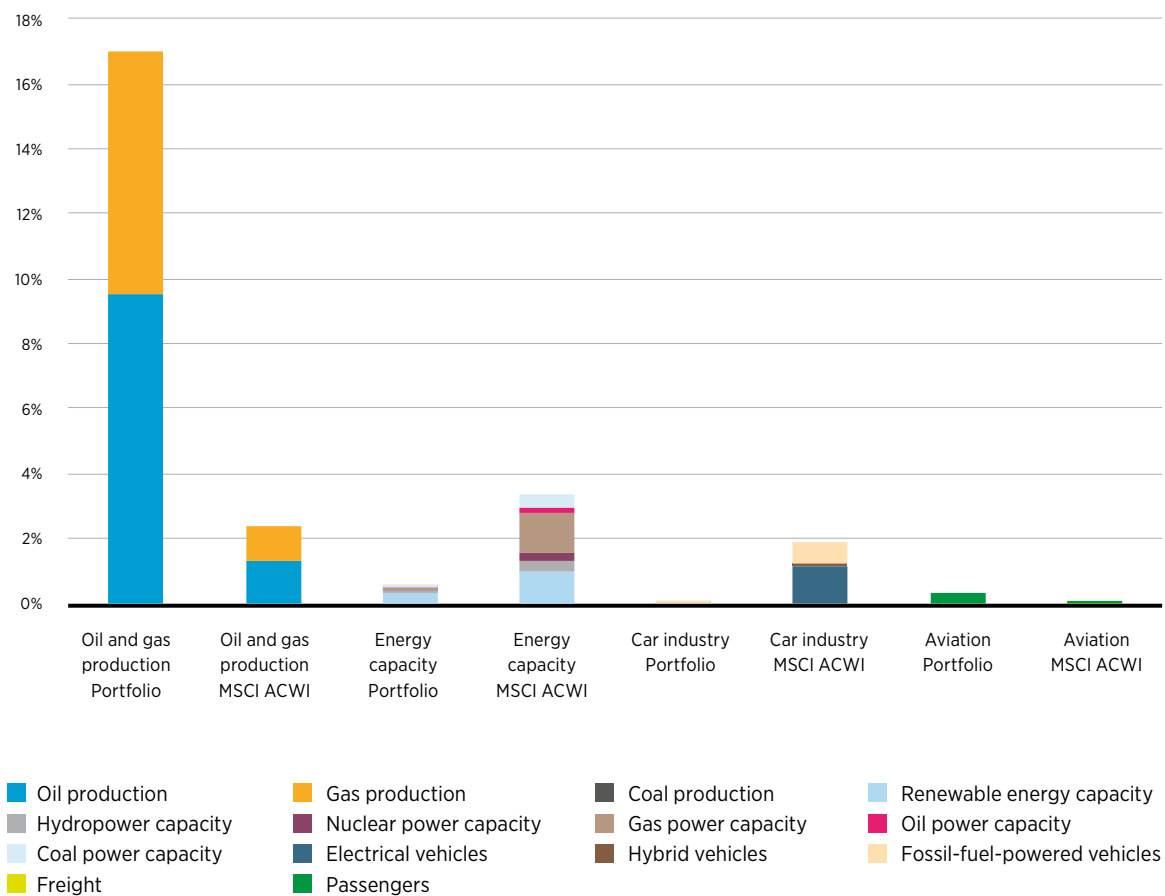


Figure 33

Based on the supporting data outlined above, PACTA forecasts production capacity in the equity portfolio and the iShares MSCI ACWI ETF benchmark portfolio before comparing this forecast to two IEA transition scenarios taken from the World Economic Outlook 2020, namely *the stated policies scenario* (SPS) and *the sustainable development scenario* (SDS). The forecast is based on current portfolio weightings for both individual companies and industries.

Five-year forecasts for oil, gas and renewables production are shown below. The solid lines represent the forecast for the Government Pension Fund Norway’s equity portfolio, while the broken lines indicate the global benchmark. The forecast is based on companies’ communicated investment plans for the next five years. The differently coloured regions indicate the resulting increase in global temperatures if the global real economy follows the same production trend. Yellow, for example, indicates the development required to achieve *the sustainable development scenario*, i.e., an outcome consistent with the Paris Agreement target of a temperature increase “far below” 2°C. The blue region, on the other hand, which represents *the stated policies scenario*, reflects production development in line with aggregated emissions targets to which states have already committed. The grey region represents production development indicating that states are not meeting their expressed emissions obligations. See [iea.org](http://iea.org) for further information on the different scenarios.

It is clear that oil production (upper figure) will rise sharply from 2023 to 2025 before declining rapidly. The trend is smoother for the benchmark portfolio. As regards Folketrygdfondet, it is worth noting that the portfolio’s concentration compared to a global benchmark means that production pathways are strongly impacted by the investment plans of individual companies. Longer-term production is naturally less certain, and not all companies provide relevant guiding. As regards gas production, an anticipated increase in production among companies in the equity portfolio in the period to 2022 is followed by a sharp drop until 2025 and 2026. The short-term increase represents a change compared to last year’s estimates. This is consistent with adjustment by companies to increased gas prices. However, the long-term trend of declining gas production is in line with the *sustainable development scenario*.

DEVELOPMENT OF FORECAST OIL PRODUCTION

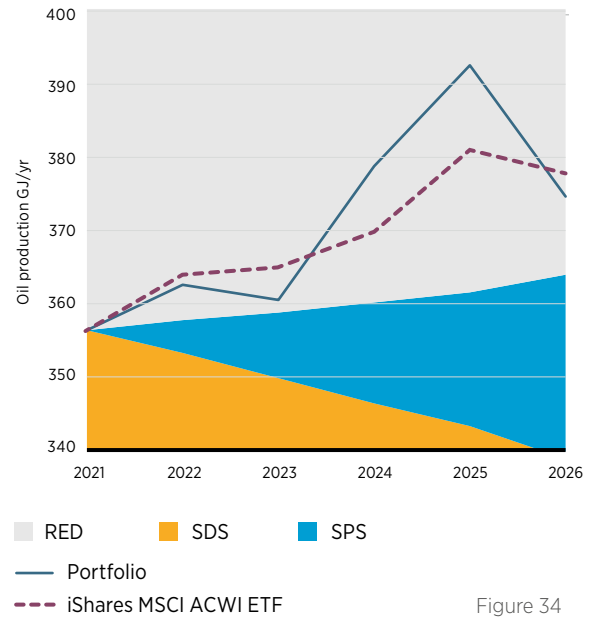


Figure 34

DEVELOPMENT OF FORECAST GAS PRODUCTION

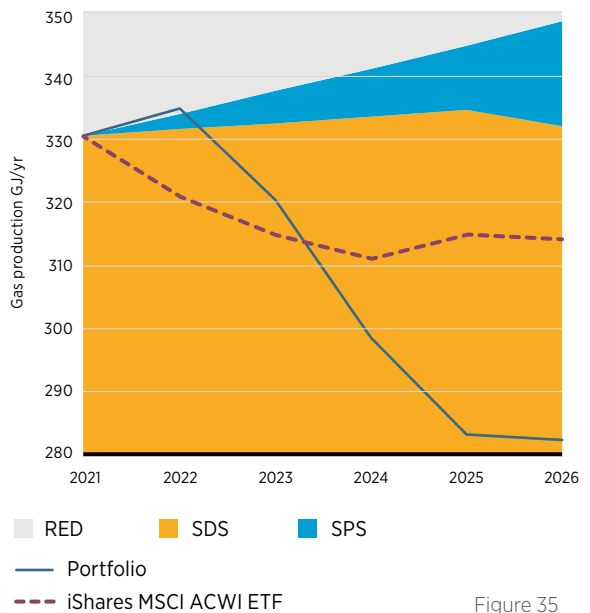


Figure 35

The graph below illustrates the exposure of the equity portfolio to renewable energy production. It shows that the anticipated percentage production increase among companies in the equity portfolio is in line with the percentage increase in global renewables production required to achieve Paris Agreement targets. Similar comparisons are made for other sectors,

**DEVELOPMENT OF FORECAST RENEWABLE CAPACITY**

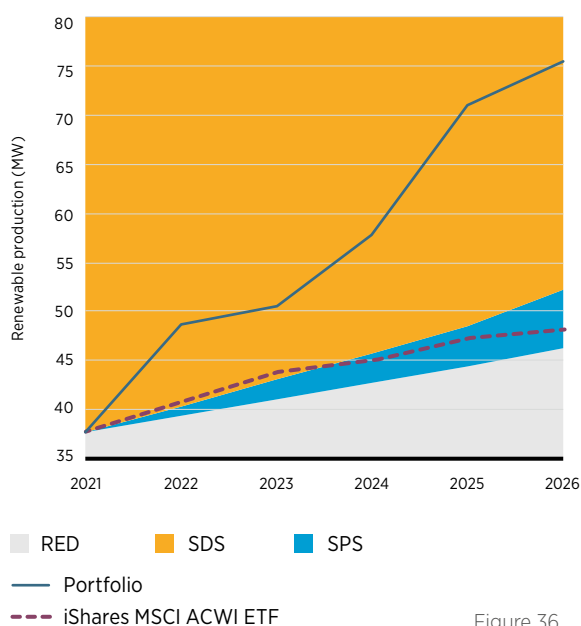


Figure 36

but these are less relevant to the Government Pension Fund Norway because Folketrygdfondet's benchmark index includes few or no investments in companies exposed to coal-based power production, the car sector, steel production or coal mining.

**PACTA/Carbon Balance 2030 and Inevitable Policy Response (IPR) stress tests**

As stated above, in 2020 Folketrygdfondet published the results of stress tests developed by the Bank of England (BoE). Since the BoE model is no longer included in the PACTA tool, we have used the Carbon Balance 2030 and IPR stress tests this year.

The Carbon Balance stress test is based on the 18 percent of the equity portfolio which is deemed to be invested in climate-relevant sectors. The estimated drop in value of -6.28 percent is driven by the assumption that a climate shock will reduce the value of the Fund's oil and gas equity investments by 45 percent. The contribution of other sectors to estimated portfolio losses is negligible.

The IPR stress test estimates the total drop in the value of the equity portfolio at -7.30 percent. Although the IPR test is based on analysis of some 88 percent of the equity portfolio, it is also driven by the model's assumptions relating to the oil and gas sector.

**STRESS TEST EQUITIES**

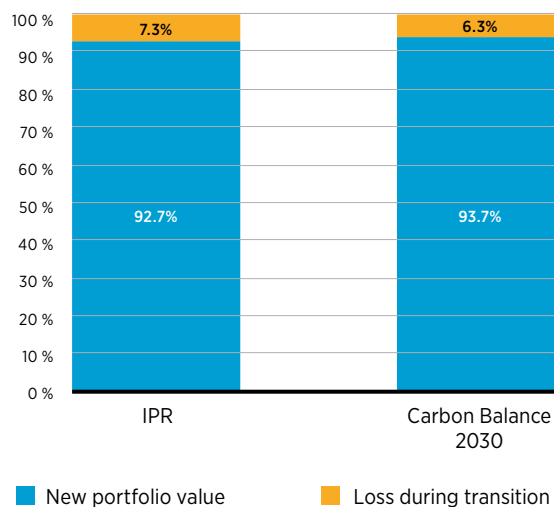


Figure 37

Stress test	Deemed climate-relevant	Percentage drop in value
PACTA/Carbon Balance 2030	18%	-6.28%
Inevitable Policy Response	88%	-7.30%

Table 28



The total drops in value calculated using the two tests are quite similar, lying in the range of 6 to 7 percent. If the analysis over-estimates climate risk in some industries, it may also under-estimate such risk in others. For example, the assumptions made in the above analysis do not take into account the secondary effect of estimated drops in value. Shares in banks with high lending-portfolio exposure to the most vulnerable sectors, for example, are also likely to suffer losses. Moreover, individual companies in industries with apparently limited climate-risk exposure may make large losses or gains depending on company-specific factors such as whether a company is dependent on an input factor produced by a sub-contractor impacted by a natural disaster.

## CONCLUSIONS AND CHALLENGES

Generally, Folketrygdfondet has found that analysis tools are becoming ever more sophisticated in terms of both climate-scenario modelling and data collection to estimate potential costs and revenues for industries in different scenarios. However, much remains to be done before the links between such risk and financial asset prices can be accurately calculated.

The stress tests come closest to achieving this. They seek to identify the immediate consequences for asset prices in affected industries of a market shock that makes all stakeholders aware that a given scenario will materialise. It then estimates relevant drops/gains in value using discretionary assumptions.

Subject to a proviso in respect of errors and deficiencies in the supporting data used by the analysis tools, we can reach the following conclusions based on the two analyses discussed above:

### PACTA

- The Government Pension Fund Norway's investment universe is more exposed to oil and gas production and hydropower production than the global benchmark. On the other hand, the Fund's investment universe is less exposed to the car sector and nuclear and coal-based power production than the global benchmark.

- As at the end of 2020, the oil-producing portfolio companies had communicated plans for a percentage increase in production which would breach the Paris Agreement if the same percentage increase were to be implemented by all oil producers globally.
- The communicated investment plans of gas-producing portfolio companies as at the end of 2020 implied a long-term decline in gas production which would be in line with the Paris Agreement if the same percentage decrease were to be implemented globally.
- The communicated investment plans of renewable energy-producing portfolio companies as at the end of 2020 implied an increase in total production consistent with the percentage increase in global renewable energy production required to achieve Paris Agreement targets.

### PACTA/Carbon Balance 2030 and Inevitable Policy Response stress tests

- The two stress tests estimate a total drop in the value of the equity portfolio of between 6 and 7 percent, primarily driven by the Fund's investments in the oil and gas sector.

### Carbon footprint

We have conducted emissions analyses of the Norwegian equity portfolio since 2013. The analysis for 2021 measures greenhouse gas emissions for the equity portfolio as a whole (weighted to reflect our ownership percentages) and makes a comparison with our benchmark index. Information access and quality are particular challenges in this regard. Among companies that report their emissions, difficulties arise with regard to a lack of standardisation and quality assurance. This is why Folketrygdfondet has prioritised better and more comprehensive climate reporting in its active ownership activities for several years.

Although an emissions analysis improves our understanding of climate-related risk in the portfolio, it also has significant limitations. For example, the analysis tells us nothing about how the companies in the portfolio are positioned with regard to legislative changes or the transition to a low-emission economy (transition risk). Further, it says little about how the portfolio will be impacted by physical climate change and resulting conse-

quences (extreme weather, drought, floods and changes in raw material supply).

The TCFD has addressed this complexity by recommending supplementation of emissions analyses with several additional tools, such as scenario analysis. Due to the weaknesses of the emissions analysis, it is used only as an indicator of climate risk, not as a metric by which the portfolio is managed. Folketrygdfondet's CO<sub>2</sub>e analysis\* is based on our equity portfolio as at 31 December 2021. The figures are calculated using Bloomberg's analysis tool for measuring the carbon footprint of securities portfolios.

We use the targets in the TCFD recommendations. In other words, the targets include the portfolio's CO<sub>2</sub> intensity, adjusted for both our share of each company's market value (equity method) and each company's relative size within the portfolio (weighted average CO<sub>2</sub> intensity). The analysis incorporates 2020 data on direct emissions (Scope 1) and indirect emissions from energy (Scope 2). Companies that do not report their emissions have been excluded from the analysis.

We use the following indicators in our emissions reporting related to equities:

1. The portfolio's absolute CO<sub>2</sub> emissions. The figure is based on the total emissions of the portfolio companies, adjusted to reflect our ownership percentages (tonnes of CO<sub>2</sub>e).
2. The portfolio's CO<sub>2</sub> efficiency. The figure is based on the portfolio companies' emissions compared to our investment (tonnes of CO<sub>2</sub>e/NOK million invested).
3. The weighted average of the portfolio's CO<sub>2</sub> intensity. The figure is based on the portfolio companies' total CO<sub>2</sub> emissions compared to sales (tonnes of CO<sub>2</sub>e/NOK million in sales), adjusted to reflect the value of the shareholding in each company compared to the portfolio value.
4. The portfolio's CO<sub>2</sub> intensity. The figure is based on the portfolio companies' total CO<sub>2</sub> emissions compared to sales (tonnes of CO<sub>2</sub>e/NOK million in sales), adjusted to reflect our share of the companies' market value.

#### CO<sub>2</sub>-ANALYSIS OF THE EQUITY PORTFOLIO AS AT 31 DECEMBER 2021 (31 DECEMBER 2020)

	2021	Portfolio 2020	Benchmark index 2021	2020	Difference 2021
Percentage of companies that report their greenhouse gas emissions	82.75	84.80	81.18	83.28	-
TCFD Total CO <sub>2</sub> emissions (tonnes of CO <sub>2</sub> e)*	3,317,107	3,374,063	239,417,632	222,138,848	-
TCFD Total CO <sub>2</sub> emissions per NOK million invested (tonnes)	19.19	20.86	19.43	21.77	-0.24
TCFD Weighted average CO <sub>2</sub> intensity (weighted average tonnes/NOK million)	25.38	18.56	26.58	19.34	-1.20
TCFD CO <sub>2</sub> intensity (tonnes/NOK million in sales)	37.68	31.18	38.59	31.91	-0.91

Table 29

#### Plan for 2022

In 2021, Folketrygdfondet participated in the second phase of a pilot project focused on climate-risk tools, organised by the United Nations Environment Programme Finance

Initiative (UNEP FI). The aim is to support further development of the field in collaboration with other investors globally, and to build up Folketrygdfondet's in-house climate-risk expertise. These efforts will continue in 2022.

\* CO<sub>2</sub>e stands for CO<sub>2</sub> equivalent, and compares the emissions of different greenhouse gases relative to one unit of CO<sub>2</sub>. It is calculated by multiplying the emissions of a given greenhouse gas by the gas's 100-year global warming potential. Source: Statistics Norway.

Good practice development

## PROMOTING WELL-FUNCTIONING MARKETS

Folketrygdfondet participates in external initiatives to develop good practices and standards for commercial activity. We consider this an important instrument for ensuring both well-functioning markets and robust long-term returns.

Folketrygdfondet participates in various forums to exchange information and experience with other investors and to support the development of new regulations and standards. Satisfactory long-term returns can only be achieved in well-functioning markets. Robust standards for commercial activity are a further prerequisite.

Cooperation with other investors is important for the adoption of good practices and commercial standards.

### What are we doing?

We participate in Norwegian and international initiatives, and also cooperate on a case-by-case basis when prudent to protect our financial interests. Folketrygdfondet joined a new external initiative in 2021, namely a pilot project organised by the United Nations Environment Programme Finance Initiative (UNEP FI) related to climate risk. Folketrygdfondet was represented by fixed income portfolio manager Nadia Bendriss and financial risk director Rolf Brudvik. The purpose of engaging in the project is to foster cooperation with other investors and relevant expert institutions to learn more about how Folketrygdfondet can identify and manage climate risk in its portfolios. The project will conclude in 2022.

Folketrygdfondet also submitted comments as part of three public consultations on relevant topics. These are listed in the table below.

Contributing to well-functioning markets

### Revised Norwegian Code of Practice for Corporate Governance

In 2021, the Norwegian Corporate Governance Board (NUES) published an updated version of the Norwegian Code of Practice for Corporate Governance. Folketrygdfondet's Chief Compliance Officer and General Counsel Christina Stray represents the Norwegian Society of Financial Analysts on the NUES committee. Among the most important changes to the Code are the inclusion of a sustainability criterion through the statement that companies should create shareholder value in a sustainable manner. The Board has also adopted a stricter recommendation on nomination committee independence – a key priority for Folketrygdfondet. Pursuant to the revised Code, board members and other executives should not also be members of the nomination committee. Further, the recommendation on executive remuneration has been revised to eliminate recommendations covered by new statutory requirements. However, the Board decided to retain the recommendation that company performance-based remuneration should be capped, a position which Folketrygdfondet supports. A link to Folketrygdfondet's comments on the new recommendations can be found on [fff.no](http://fff.no).

### Plan for 2022

In 2022, we will continue to promote robust standards through the external initiatives in which we are actively engaged. We also intend to participate in public consultations and otherwise give our input wherever relevant.

### PARTICIPATION IN PUBLIC CONSULTATIONS IN 2021

Recipient	Topic	Date sent
Ministry of Finance	Proposed new act relating to sustainability information	8 January 2021
Norwegian Corporate Governance Board (NUES)	Proposed changes to the Norwegian Code of Practice for Corporate Governance	25 May 2021
Ministry of Finance	Rules on supervisory authority, authority to issue penalties and complaints mechanism	1 July 2021

## PARTICIPATION IN EXTERNAL INITIATIVES IN 2021

Initiative	Purpose	FTF appointments
Norwegian Institute of Directors	To promote value creation through good corporate governance. Promote the development of best practice standards for board work	<ul style="list-style-type: none"> <li>Chief Compliance Officer and General Counsel Christina Stray, board member and member of the capital markets technical committee</li> </ul>
Norwegian Society of Financial Analysts	To promote: <ul style="list-style-type: none"> <li>public understanding of the function and importance of the capital markets in the Norwegian economy</li> <li>the provision of high quality financial analysis</li> <li>the efficient functioning of the capital market within appropriate operating parameters</li> <li>high ethical standards in financial analysis, asset management, advisory services and trading in financial instruments</li> </ul>	<ul style="list-style-type: none"> <li>Chief Compliance Officer and General Counsel Christina Stray, member of the equity committee</li> <li>Deputy Director Equities Ann Kristin Brautaset, chair of the committee that awards the Stockman Prize</li> <li>Portfolio Manager Lars Tronsgaard, member of the portfolio committee</li> <li>Portfolio Manager Hege Kristine Huse, member of the bond committee</li> <li>Portfolio Manager ESG Annie Bersagel, member of the equity committee, the committee on women in front-end finance, the steering committee for the society's advanced course on sustainable financial analysis and the steering committee for the society's course on sustainable finance</li> <li>Portfolio Manager Pernille Moen Masdal, board member</li> </ul>
Norwegian Corporate Governance Board (NUES)	To keep the Norwegian Code of Practice for Corporate Governance updated and to promote the code both in Norway and internationally	<ul style="list-style-type: none"> <li>Chief Compliance Officer and General Counsel Christina Stray, committee chair and representative of the Norwegian Society of Financial Analysts</li> </ul>
Eierforum group of institutional investors	To promote corporate governance best practices in Norway and drive forward further development of best practices. The forum is represented on the Norwegian Corporate Governance Board	<ul style="list-style-type: none"> <li>Chief Investment Officer Equities Nils Bastiansen, member</li> </ul>
Norwegian Forum for Responsible and Sustainable Investment (Norsif)	To promote and contribute to the development of the field of responsible investment in the Norwegian financial industry and among other stakeholders	<ul style="list-style-type: none"> <li>Chief Compliance Officer and General Counsel Christina Stray, chair of the nomination committee</li> <li>Portfolio Manager Tine Fosslund, board member</li> <li>Portfolio Manager ESG Annie Bersagel, chair of the working group on ESG in the valuation context</li> </ul>
CDP (formerly known as the Carbon Disclosure Project)	To prevent climate change and protect natural resources	<ul style="list-style-type: none"> <li>Portfolio Manager ESG Annie Bersagel, representative</li> </ul>
The UN-supported Principles for Responsible Investment (PRI)	To promote understanding of the investment and asset management implications of environmental, social and governance (ESG) issues	<ul style="list-style-type: none"> <li>Portfolio Manager ESG Annie Bersagel, representative</li> </ul>
Norsk restruktureringsforum (the Norwegian restructuring forum)	Prepare a recommendation on restructuring processes and establish a mechanism for further development of the recommendation	<ul style="list-style-type: none"> <li>Portfolio Manager Lars Tronsgaard, member</li> </ul>
Securities Act Committee	Examine how future EEA rules in the securities area should be implemented in Norwegian law	<ul style="list-style-type: none"> <li>Chief Compliance Officer and General Counsel Christina Stray, member</li> </ul>
United Nations Environment Programme Finance Initiative (UNEP FI) TCFD pilot project for investors	<ul style="list-style-type: none"> <li>Develop climate-risk knowledge</li> <li>Test different tools for climate-related scenario analysis</li> <li>Support the development of international standards for measuring climate risk</li> </ul>	<ul style="list-style-type: none"> <li>Portfolio Manager Nadia Bendriss and Financial Risk Director Rolf Brudvik, representatives</li> </ul>

The fixed income portfolio

## RESPONSIBLE FIXED INCOME INVESTMENT IS A TOP PRIORITY IN THE CAPITAL MARKETS

Asset managers are devoting increasing attention to responsible fixed income investment, driven by new regulatory requirements and an increased ESG focus. 2021 saw both intensive regulatory activity in the EU and numerous issues of sustainable bonds in the capital markets.

In its capacity as a large, long-term investor, Folketrygdfondet makes financial assets belonging to the Norwegian population available to companies in the form of equity and loan capital. We recognise our special responsibility to manage the Government Pension Fund Norway in a way that secures strong long-term financial performance in accordance with recognised national and international principles.

Folketrygdfondet's aim is to achieve the highest possible returns over time, net of costs and subject to applicable investment limits. Success in achieving strong long-term returns is contingent on well-functioning and efficient markets and sustainable financial, societal and environmental development. This is why Folketrygdfondet integrates responsible investment into its investment activities.

Responsible fixed income investment entails conducting an integrated assessment of how we fulfil our investment mandate. In our view, our investment strategy promotes broader market participation and liquidity, and more efficient allocation of capital through strong credit analysis. We also integrate material and relevant ESG factors into our analyses to secure the best possible foundation for our investment decisions.

Our contribution to well-functioning markets:

- A diversified portfolio fosters a broader-based market
- Robust credit analysis facilitates more efficient allocation of capital
- Investment in less liquid securities promotes market liquidity
- Countercyclical investment helps reduce market fluctuations

We take a clear financial approach to responsible asset management, and our primary aims are therefore to ensure that our pre-investment credit assessments incorporate ESG factors, that we do not invest in companies whose deficient handling of such factors undermines their creditworthiness, and that such considerations are reflected in loan conditions and prices. In other words, our investment activities are focused not on selecting the most responsible and sustainability-oriented companies, but rather primarily on using ESG analysis in the evaluation of credit risk.

Relevant ESG factors are an integral part of our pre-investment credit analysis and ongoing issuer follow-up. Our analyses are based on the methodologies used by credit ratings agencies. Our ESG assessments are operationalised in a number of ways:

- as an integral part of credit analysis
- as an integral part of investment decisions
- ESG issues are discussed at company dialogue meetings
- company dialogues are registered and followed up on
- training and in-house awareness-raising

In addition to ongoing company follow-up, we actively monitor our investments in case a credit event or a need to revise a loan agreement arises. In our responsible investment role, we seek to find solutions that safeguard our financial interests and the functioning of the market in a sustainable, balanced manner.

In our experience, a responsible investment and creditor focus fosters broader understanding, well-founded investment decisions and better-functioning capital markets. We consider that this enables us to achieve a higher expected return on our portfolio.

INCREASING RELEVANCE

	ESG relevance	Scope for exerting influence	Reason
STATE	Low	-	Inapplicable
BANKING/FINANCE	High	Low	Large loans/companies
INVESTMENT GRADE	High	Low	Large loans/companies
HIGH YIELD	High	Medium	Will seek to exert influence

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**Developments in 2021**

Folketrygdfondet has kept itself updated on sustainability-related market developments, as well as significant regulatory changes. We participated in various national and international sustainability and ESG-focused forums throughout 2021. We monitor regulatory developments in the EU and Norway closely, since these could potentially affect market stakeholders and the capital markets. We also monitor market developments closely and assess ongoing developments in capital markets related to the issue of sustainability instruments.

The fixed income department focused on increasing its expertise on climate risk throughout the year, and also worked on implementing ESG assessments for a greater proportion of the portfolio. The entire department completed ESG training in 2021, in line with the objective of building up in-house expertise. Systematic efforts were made to establish a common ESG framework across the portfolio, for use in analyses and investment processes. We also conducted a survey of the banking portfolio based on this framework.

Folketrygdfondet participated in the second phase of a pilot project focused on climate-risk tools, organised by the United Nations Environment Programme Finance Initiative (UNEP FI) – a global partnership between UNEP and the finance sector. The aim was to test different climate tools in collaboration with other stakeholders and to build up Folketrygdfondet's in-house climate-risk expertise. As part of our involvement in the pilot project, we conducted a case study with the aim of analysing environmental risk from a financial perspective based on two different temperature scenarios, one for the present day and one for 2050. The first part of the analysis sought to identify climate risk factors with a potential impact on the property investments in the fixed income portfolio. The second part of the analysis measured the most significant climate risk of a specific property company and quantified this in financial terms (measured as the drop in value of the company's property portfolio and the company's operating loss). The case study will be included in a Landscape Review report to be published by UNEP in the first quarter of 2022.

UNEP FI case study:

- Two-part analysis of climate risk linked to Nordic property investments in the fixed income portfolio.
- Climate variables: fire, extreme heat, heavy rainfall and floods.
- Heavy rainfall and floods were the most significant climate risks in Norway, while floods were most important in Sweden and Finland.
- Part two of the analysis showed that, in the RCP 4.5 temperature scenario for 2050, the selected property company could suffer a drop in the value of its property portfolio and a financial loss due to operational stoppages.
- The pilot project provided deeper insight into climate risks and how they play out in different scenarios.
- Lack of granular data was a material challenge when simulating financial losses.

**Plans for 2022**

We will continue working actively to build up our in-house expertise, with a focus on refining relevant tools for responsible fixed income investment. We will continue working on the ESG framework, implementing it across the fixed income portfolio, and will concentrate on further integration of ESG criteria into our fixed income investment activities. Close cooperation with knowledge centres and other relevant stakeholders is an important aspect of expertise-building. Folketrygdfondet will therefore ensure ongoing productive dialogue and development with existing and new partners. We will continue our engagement in the UNEP FI project, working on individual modules that still require completion. ESG will remain an important priority as the green shift progresses, and will require our active engagement in all relevant forums. We anticipate continued high activity levels, not least in the form of further sustainability-related regulatory changes with consequences for companies and investors. We will actively monitor developments in regulatory conditions and the market generally.

## VOTED AT 14 BONDHOLDER MEETINGS

Folketrygdfondet takes a solution-oriented approach to bond loan renegotiations. In 2021, we voted at 14 bondholder meetings.

Folketrygdfondet responds to all requests for bondholder meetings, and participates actively in negotiations to find solutions beneficial to both the bondholders and the company in question. We consider such involvement important both to protect the value of the individual bond and for the market in general.

In 2021, Folketrygdfondet voted at 14 bondholder meetings relating to 12 different issuers. Eleven of the matters involved loan agreement amendments, while five related to waivers of loan agreement terms.

In addition to formal bondholder meetings, Folketrygdfondet regularly engages in dialogue with issuers, including through company presentations, roadshows and one-on-one meetings. In 2021, Folketrygdfondet had 185 meetings with 151 issuers.

We recommend

- adopting a proactive approach to defaults and making early loan-agreement waiver requests in the event of negative developments
- providing thorough information at bondholder meetings on how the company intends to comply with the loan agreement going forward
- making identical offers to all bondholders. It is unacceptable to pay higher fees to bondholders who accept a solution that “favours” the company
- providing comprehensive information to the bond market throughout the loan period, particularly if there are negative developments. Thorough reports, presentations and/or webcasts are recommended
- giving a clear presentation. Reliable information from management and a strong market history will have a positive impact on prices in the secondary market and in connection with any refinancing

### Responsible investment is enshrined in our mandate

The investment mandate states that the primary goal of Folketrygdfondet’s active ownership is to safeguard the financial interests of the Government Pension Fund Norway.

The mandate also specifies that active ownership shall be based on

- the UN Global Compact
- the OECD Principles of Corporate Governance
- the OECD Guidelines for Multinational Enterprises

Folketrygdfondet’s board has adopted responsible investment principles that incorporate these guidelines. The board also expects Folketrygdfondet to comply with national and international standards such as:

- the UN-supported Principles for Responsible Investment (PRI)
- the Norwegian Code of Practice for Corporate Governance (NUES).

Folketrygdfondet is mandated to contribute actively to the development of robust national standards in the area of responsible investment.

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