FOLKETRYGDFONDET'S EXPECTATIONS

Guidance for companies on the handling of material ownership and creditor matters, including corporate governance and environmental and social conditions.

Folketrygdfondet

In accordance with Folketrygdfondet's management mandate, we communicate clear expectations to portfolio companies regarding their handling of ownership issues and environmental and social conditions. To make our dialogue with the companies as effective as possible for both parties, we have developed a guide on:

- Strategy, capital structure and financial targets
- Anti-corruption
- Board and executive remuneration
- Human rights and workers' rights
- Climate risk
- Environmental risk
- Bond issuance

In our view, understanding how companies deal with such issues can reduce risk and help maximise value growth in Folketrygdfondet's portfolio.

PURPOSE

Our expectations are primarily directed at the boards of portfolio companies. This guide is intended to serve as a starting point for dialogue with company boards.
In short, Folketrygdfondet expects companies to develop a strategy for long-term value creation that is adapted to their risk profile, including risk linked to environmental and social conditions. Company strategy, in turn, informs the choice of capital structure and financial targets. Executive remuneration must be aligned with company strategy.
Our expectations apply to all companies in our portfolio.
In the fixed income context, Folketrygdfondet communicates expectations to both issuers and managers.

CONTENTS

INTRODUCTION

How Folketrygdfondet uses expectation documents
The Ministry of Finance has tasked Folketrygdfondet with managing the Government Pension Fund Norway (GPFN). Folketrygdfondet manages the fund assets based on the objective of achieving the highest possible return over time within the framework of applicable mandates. The mandate for management of the GPFN states that strong long-term returns depend on sustainable economic, environmental and social development, as well as on well-functioning, legitimate and efficient markets.

Folketrygdfondet's expectations reflect the principle that compliance with applicable laws and regulations is a minimum requirement, and that companies should aim to adopt best practices. The purpose of this guide is to illustrate our priorities. Companies are nevertheless best positioned to determine how to achieve the objectives. Our role is to give clear feedback when a company is not acting in line with our expectations. For more information on our corporate governance and creditor dialogue, please see the publication Folketrygdfondet's active ownership.

We appreciate that companies have limited time at their disposal, and therefore seek to make our dialogues as efficient and focused as possible. Our guidance documents define the guidelines we expect portfolio companies to adopt, and set our expectations for company follow-up and reporting for each topic.

How to use this guide
This guide sets out Folketrygdfondet's expectations in several key areas. It draws from sources including the Norwegian Code of Practice for Corporate Governance, the UN Global Compact, the OECD Guidelines for Multinational Enterprises, the G20/OECD Principles of Corporate Governance and other recognised standards and principles related to human rights, working conditions, environmental conditions and anti-corruption. Folketrygdfondet has chosen to frame its expectations in general terms, based on the view that it is the responsibility of company boards and management to evaluate Folketrygdfondet's expectations in light of the company's risk profile, and adopt appropriate measures thereafter.

Folketrygdfondet emphasises that portfolio companies should clearly distinguish between the roles and responsibilities of the board and those of management, including with respect to follow-up of governance, environmental and social matters.

Environmental, social and corporate governance (ESG) issues present companies with dilemmas and challenges. Conflicts may arise between different considerations. Folketrygdfondet expects companies to conduct comprehensive assessments of measures and instruments adapted to fit the company's risk profile, and to communicate transparently about such matters.

STRATEGY, CAPITAL STRUCTURE AND FINANCIAL TARGETS

Having a clear, well-founded long-term strategy incorporating clear financial targets and a deliberate risk profile helps companies achieve good corporate governance, effective resource utilisation and robust operations. Efficient capital structures and robust operations contribute positively to corporate value creation.

In this section, we present our expectations as to how companies should communicate their long-term strategy, capital structure, financial targets, dividend policy, risk profile and tax policy.

What do we expect?

We require insight into company strategies for achieving growth and long-term value creation in order to understand the potential for growth in shareholder value. We believe robust, long-term returns depend on sustainable development in an economic, environmental and social sense. Moreover, we observe that companies that take a broader set of stakeholders into account often achieve competitive advantages that contribute positively to shareholder value[1]. Empirical studies show that companies with a long-term perspective and clear targets achieve higher value creation over time[2].

A clear, well-founded long-term strategy
Folketrygdfondet expects the boards of its portfolio companies to formulate and implement a clear, well-founded long-term strategy covering financial targets, dividend policy, in-depth risk assessment and tax policy. It is important that companies communicate strategy and financial targets through-out the company, and integrate these into corporate governance work.

Strategies must emphasise a long-term perspective, sustainability and clear targets
Strategies should detail each company's vision, values, business model, long-term growth plans, resource needs and assessments linked to risk, capital structure and tax. Financial targets for growth and return on investment, as well as other strategic targets, should reflect the company's expectations for market growth, other key assumptions, and competitive advantages.

Long-term targets for capital structure
An efficient capital structure is an important element in maximising long-term value creation. The board of directors should specify capital requirements and allocations, as well as other significant future resource needs. Folketrygdfondet expects companies to adopt long-term capital structure targets based on their overarching strategy and risk assessments.

[1] HBR 2016: Kramer, Pfitzer: The Ecosystem and Shared Value; HBR 2011: Porter, Kramer: Creating Shared Value.
[2] HBR 2017; Barton, Manyika, Williamson: Finally, Evidence That Managing for the Long Term Pays Off.

A clear and predictable dividend policy
The board of directors should adopt a clearly communicated, predictable dividend policy. While various dividend policy models may potentially be used, the critical factor is that each company selects the most appropriate model in view of its developmental phase and target market. Folketrygdfondet expects cash flow net of growth and maintenance investments to be distributed to shareholders. Dividends can therefore be regarded as a residual. Reasons should be given for any discrepancies between long-term capital structure targets and actual capital structure. Wherever possible, a company's dividend policy should specify the prioritised form of distribution: cash dividends or alternative forms such as share repurchase/reduction of capital.

Necessary analyses to survey risk exposure
We expect the companies in which we invest to survey and evaluate risks associated with the chosen strategy and capital structure. This includes assessments of whether a company's capital structure is sufficiently flexible and robust to support effective implementation of the company's strategy. On the other hand, companies should not be over-capitalised. The risk analysis must link the business model and long-term strategy with the company's risk profile. In this context, it is natural to evaluate the company's position in the supply chain, necessary resource use, expected market developments, political and other market-related framework conditions, and risks relating to corporate governance and environmental and social conditions, including climate risk[3].

Responsible tax policy
Folketrygdfondet expects portfolio companies to take a judicious approach to tax planning that excludes aggressive strategies. Tax should be paid where financial value is created. As a minimum, companies should comply with the OECD Guidelines for Multinational Enterprises, which provide that multinational companies must comply with local tax laws and provide appropriate authorities with relevant information. Further, enterprises must ensure that transfer pricing occurs on an arm's length basis. Tax policies should explain adopted principles and, if relevant, any deviations from the principle that tax should be paid where financial value is created.

Transparency and communication related to company strategy, financial targets and tax policy
We expect portfolio companies to communicate clearly their strategies for long-term value creation, financial targets and tax policy — both externally and internally — and to report results achieved by reference to targets. Companies are also expected to be transparenct about tax arrangements.

The following 10 points[4] promote more effective dialogue with shareholders and investors:

1. Express a clear vision, mission, strategy and values.
2. Explain how the company's business model creates long-term value by identifying key value drivers at the reporting unit level.
3. State management's view of the market, major trends impacting the market, potential for growth, the company's relative positioning, and underlying assumptions (e.g. macroeconomic factors and other relevant framework conditions).
4. Highlight sources of competitive advantage such as employee expertise and talent, access to resources, or other assets or advantages that enable the company to execute its strategy and gain market share.
5. Disclose strategic targets for long-term value creation (e.g. returns on invested capital, organic revenue growth) in the context of current and future market trends and the company's competitive advantage.
6. Lay out a detailed execution roadmap that defines short-, medium- and long-term actions linked to key milestones and strategic targets designed to ensure long-term value creation.
7. Provide medium- and long-term metrics and targets that indicate the company's ability to deliver on its strategy – such as customer satisfaction over time, brand strength and investment in product innovation – as well as achieved returns. Explain how the selected metrics will be measured and tracked consistently.
8. Explain how capital and non-capital investments will yield sustained competitive advantage and the creation of long-term value.
9. Provide an overview of risks and their mitigation plans, including areas such as sustainability challenges (e.g. environmental, social and governance issues), including climate risk.[5]
10. Articulate how executive and director compensation tie to long-term value creation and strategic targets

[3] Task force Climate-related Financial Disclosure (TCFD 2017). Climate is just one example of a potentially material ESG risk for companies See **«Risk assessments»**, page 7, for Folketrygdfondet's expectations of portfolio companies' assessments of various types of ESG risk.
[4] Recommendations of the FCLT Global 2015: Straight Talk for the Long Term, pages 7-8.
[5] See Folketrygdfondet's expectations related to **«Climate risk»**, page 10.

We expect company boards to adopt and explain financial targets adapted to their specific sector, strategy and value creation potential. Relevant targets/key figures/parameters include:

Target	Key figures/parameters
Capital return	ROIC, ROCE, ROE, ROA, CROGI
Growth	Growth in sales: organic, acquisition EBIT margin, EBITDA margin
Cost of capital	WACC, Ke (required return on equity)
Capital structure	Equity ratio, debt/equity EBITA/interest, EBITDA/interest, net debt/EBITDA Loan conditions

Definitions

- **ROIC:** Return on invested capital
- **ROCE**: Return on capital employed
- **ROE:** Return on equity
- **ROA:** Return on assets
- **CROGI:** Cash return on gross investments
- **EBIT:** Earnings before interest and tax
- **EBITA:** Earnings before interest, tax and amortisation
- **EBITDA:** Earnings before interest, tax, depreciation, amortisation and writedowns
- **WACC:** Weighted average cost of capital
- **Ke:** Cost of equity
- **EBIT margin:** EBIT/Sales
- **EBITDA margin:** EBITDA/Sales

Back to Content

RISK ASSESSMENTS

Folketrygdfondet's focus on environmental, social and corporate governance (ESG) matters is financially motivated. We expect company strategies for long-term value creation to incorporate risk assessments covering both threats and opportunities. This includes risks associated with environmental and social conditions, which should be evaluated in the context of other risks and applicable frameworks.

Below, we describe our specific expectations related to ESG risk assessment. Our expectations are directed primarily towards company boards.

ANTI-CORRUPTION

Folketrygdfondet expects company boards and management to take the lead in preventing, detecting and remediating corruption in their operations.

Basis
Folketrygdfondet's expectations for company operations and other conduct in the anti-corruption context are based on Principle 10 of the UN Global Compact, and relevant international guidelines and conventions [6].

Why is anti-corruption work important to Folketrygdfondet?
We consider the absence of corruption to be a prerequisite for well-functioning markets and long-term value creation. Moreover, corruption reduces company value. Anti-corruption efforts are important from a financial perspective, as failure to address such issues may result in loss of market access, assets and reputation, as well as costs from legal proceedings and fines.

How does Folketrygdfondet define anti-corruption?
Folketrygdfondet uses the term "anti-corruption" for practical reasons. However, our expectations are broader than the legal definition of corruption. For example, this guide also applies to other types of financial crime, including money laundering and embezzlement. The term is also intended to include the payment and acceptance of bribes (i.e. "passive" corruption).

[6] For example, the OECD Guidelines for Multinational Enterprises, Chapter VI (2011), the United Nations Convention Against Corruption (2005), the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (1997) and the Extractive Industries Transparency Initiative (EITI).

What do we expect?

Clear guidelines and a robust system for preventing corruption
We expect the companies in which we invest to identify and assess corruption risk in relation to all business areas, geographical regions, business partners and counterparties. Companies must implement a compliance system tailored to their specific circumstances. The starting point is each company's risk assessment, which must be updated regularly to ensure that the company prioritises resources sensibly, in order to combat corruption as effectively as possible.

Adequately resourced and independent anti-corruption functions
We expect companies to allocate adequate resources to anti-corruption efforts, based on their individual risk profiles. Further, employees in charge of such initiatives must have sufficient independence and authority to perform their work.

Clear communication and enforcement of expectations by management
Through its actions, management must demonstrate that the company's guide-lines are enforced, even when they conflict with commercial objectives.

Adequate anti-corruption training tailored to employee roles and responsibilities
We expect portfolio companies to make employees aware of their expectations regarding anti-corruption, through measures tailored to the role and responsibilities of each employee. Executives and employees in particularly exposed positions, such as procurement staff, will often require individualised training.

Confidential reporting system and processing mechanism for whistleblower reports
We expect companies to establish channels for confidential reporting of breaches, and to encourage reporting of censurable conditions. Reports must be processed in an orderly system that includes defined escalation and disciplinary procedures. Companies must also prepare a contingency plan setting out the allocation of roles and responsibilities between the board of directors and management with respect to follow-up of reported matters. The contingency plan must cover the escalation procedure for investigations, as well as reporting to relevant authorities.

Regular assessments of anti-corruption work and continuous improvement
We expect portfolio companies to assess regularly whether their anti-corruption efforts are effective in practice, and to make improvements based on their findings. These assessments may also reveal changes in the risk profile that demand a response, as well as the need to integrate new regulatory requirements.

Reporting on anti-corruption efforts
We expect portfolio companies to report appropriately on their anti-corruption work.

Such reports may include:
- Identified risk areas, e.g. use of sales agents and operations in countries with a particularly high risk of corruption.
- The number of reports received, grouped by topic or geographical region.
- Anonymised examples of consequences of the company's anti-corruption measures, such as discontinued projects and terminated customer relationships.
- Organisation of anti-corruption efforts.
- Planned initiatives and improvements.

HUMAN RIGHTS AND WORKERS' RIGHTS

Folketrygdfondet expects company boards and management to ensure that companies respect human rights, including workers' rights.

Basis
Folketrygdfondet's expectations regarding company operations and other conduct relevant to human rights are based on Principles 1 to 6 of the UN Global Compact, the OECD Guidelines for Multinational Enterprises, the UN Universal Declaration of Human Rights (1948), the UN Guiding Principles on Business and Human Rights and ILO core conventions.

Why are human rights important to Folketrygdfondet?
Respect for human rights and workers' rights is vital not least because a lack of respect can have negative financial consequences. These may include loss of customers, stopped or delayed projects, reputational damage and operational disruptions. Involvement in gross or systematic breaches of human rights is irreconcilable with Folketrygdfondet's expectations.

What do we expect?

- **Communication of guidelines on human and workers' rights**
We expect companies in which we invest to respect human rights, including workers' rights. While the responsibility to protect human rights is a state obligation, the standards set out in international human rights conventions are equally relevant to companies. Folketrygdfondet expects its portfolio companies to refer to these standards when assessing the risk of adverse human rights impacts through their operations, as well as in their supply chains.

Folketrygdfondet expects company boards to ensure that human and workers' rights are respected in all operations, and that respect for applicable standards is integrated into the company culture. This includes the expectation that company guidelines on human and workers' rights must be tailored to each company's specific operations and communicated to relevant parties, both internally and externally.

- **Regular due diligence assessments examining the risk of adverse impacts on human and workers' rights**
The purpose of such assessments is to reveal not only any material risk to the company, but also the risk of adverse human rights impacts resulting from company operations (referred to as "salient human rights risk"). Folketrygdfondet expects companies to conduct human rights due diligence assessments before entering into new agreements or investments, and before establishing new business areas. Due diligence assessments should be updated regularly to ensure that the risk management system is functioning as intended.

Risk may vary in different industries, geographical regions and supply chains, and depend on a company's direct influence and its value chain. Companies should exercise care when operating in states that do not comply with international human rights law, such as states that restrict the right to freedom of association. Operations in conflict areas present a particular risk. Folketrygdfondet expects companies to respect the rights of individuals in situations of war and conflict.

The rights set out in the International Bill of Rights and ILO core conventions are minimum standards
The assessed rights should, as a minimum, include the International Bill of Rights, i.e. the Universal Declaration of Human Rights (1948), the International Covenant on Economic, Social and Cultural Rights (1966), the International Covenant on Civil and Political Rights (1966) and the ILO's eight core conventions. Depending on a company's particular operations, other conventions dealing with specific topics (such as children's rights) or applying to a specific geographical area (such as the European Convention on Human Rights) may also be relevant.

Measures tailored to operations and geographical exposure
We expect portfolio companies to incorporate material challenges linked to human and workers' rights into their corporate governance strategies. Strategies should be tailored to each individual company and its particular operations. Companies must prioritise measures in accordance with each company's risk of involvement in serious human rights violations through its operations.

Reporting on efforts related to human rights and worker's rights
We expect portfolio companies to report appropriately on their work related to human rights and workers' rights.

Folketrygdfondet recognises that the topic of human rights can present companies with challenges and dilemmas. We encourage companies to practise the greatest possible transparency in communicating how they identify and handle such challenges.

CLIMATE RISK

Folketrygdfondet expects company boards and management to lead efforts to identify and address climate-related threats and opportunities.

Basis
Folketrygdfondet's expectations related to company operations and other climate-relevant conduct are based on the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), the OECD Guidelines for Multinational Enterprises, Principles 7, 8 and 9 of the UN Global Compact and Official Norwegian Report (NOU) 2018: 17 Climate risk and the Norwegian economy.

Why is the environment important to Folketrygdfondet?
We take the view that companies that address climate risk appropriately are better equipped to achieve growth and long-term value creation[7]. In this context, risk refers to uncertainty about events that may result in deviation from a planned or intended development path, whether positive or negative. Physical climate risk concerns the consequences of physical environmental changes. Transition risk relates to the consequences of climate policy and technological developments during the transition to a low-emission society. For example, physical changes in the environment and the move towards a low-emission society may entail both the loss of some business areas and the emergence of new products and services, as well as regulatory and price changes.

The TCFD recommendations are relevant to both portfolio companies and to Folketrygdfondet in its capacity as an asset manager. Folketrygdfondet depends on adequate reporting from portfolio companies on their identification and handling of relevant climate risk.

[7] This is also discussed in the section on Folketrygdfondet's expectations regarding the portfolio companies' **"Strategy, capital structure and financial targets"**, page 4.

What do we expect?

Identification of exposure to climate risk
We expect portfolio companies to conduct regular assessments of the robustness of their business models in various scenarios covering physical climate risk and the transition to a low-emission society. These assessments should include a scenario in which the target in the Paris Agreement is achieved. While companies may face different climate-related risks, and must conduct different analyses, the analyses must be based on common principles. The purpose of such analyses should be to evaluate exposure to climate-related financial risk. Accordingly, analyses are not only necessary for companies in emissions-intensive industries. For example, many companies may face material indirect climate risk due to exposure to the physical effects of climate change through their supply chains.

Framework for ongoing monitoring of climate risk
We expect companies facing material climate-related threats and opportunities to establish robust processes for analysing developments in their risk profiles over time. Companies should adopt an integrated process and examine climate risk in conjunction with other risks and risk frameworks. Climate risk is subject to significant uncertainty, and has a timeline that may extend beyond the typical corporate planning horizon. Companies should therefore prioritise developing in-house climate-risk knowledge.

Integration of climate-related threats and opportunities into strategies and decision frameworks
We expect the companies in which we invest to develop business strategies that reflect climate risk wherever relevant. In other words, climate risk must be assessed in connection with investment decisions, research and development, new products and services, operational strategies, HR policies, etc. Since the scope and timetable of the physical effects of climate change are highly uncertain, companies should follow the precautionary principle.

Identification and management of climate risk in accordance with the TCFD recommendations
We expect companies to report externally on their efforts to address material climate risks, for example through CDP. Companies should use the TCFD framework. This entails integrating climate risk into the work of the board of directors and management, as well as into company strategy, risk management processes, and relevant targets and indicators. Companies should report on their own emissions and, where relevant, on emissions in their supply chains. Companies should also adopt targets and indicators based on industry-relevant key figures, and explain trends over time.

ENVIRONMENTAL RISK

Folketrygdfondet expects boards and management to ensure the company identifies and manages material environmental challenges.

Basis
Folketrygdfondet's expectations regarding company operations and other conduct relevant to the environment are based on the OECD Guidelines for Multinational Enterprises, Principles 7, 8 and 9 of the UN Global Compact, and the UN Global Compact's nine Sustainable Ocean Principles.

Why is the environment important to Folketrygdfondet?
We take the view that robust long-term returns depend on sustainable development, including in an environmental sense. Failing to focus on environmental challenges may undermine competitiveness and entail operational limitations, such as emissions caps and the cost of regulatory compliance, and reduce the value of shared natural resources. Companies' impact on the environment can also create new opportunities, through sustainable business models that contribute to solve collective challenges.

What do we expect?

Identification of long-term and short-term environmental impacts
Folketrygdfondet expects companies in its portfolio to conduct regular analyses examining how their operations affect the environment. These analyses should include risks with a low probability of occurrence, but a potentially severe adverse environmental impact. Companies should also assess the anticipated impact of future environmental regulations on their operations. Companies should take a proactive approach to environmental risk, and should incorporate it in their strategy planning.

Avoidance and prevention of serious environmental harm
We expect companies not to engage in actions that result in severe harm to the environment. This includes, but is not limited to:

- Air, water and land pollution
- Land degradation
- Loss of biodiversity

Some companies may find that a risk of serious environmental harm arises in their supply chains. Folketrygdfondet expects companies to evaluate risk-reduction opportunities, such as imposing requirements on suppliers.

Caution with respect to scarce or vulnerable natural resources
Folketrygdfondet expects portfolio companies to plan and handle their use of natural resources in a manner that is sustainable over the long term. This includes assessing the extent to which long-term value creation depends on access to or the quality of a scarce natural resource. This assessment should occur independent of whether the dependency concerns the company's direct operations or resource use within the company's supply chain. Companies should adopt a precautionary approach to activities that could affect vulnerable ecosystems and/or the communities that depend on them.

Incorporation of material environmental threats and opportunities into corporate governance
Folketrygdfondet expects portfolio companies to integrate identification and management of material environmental threats and opportunities into their corporate governance strategies.

Such environmental measures should be tailored to each individual company and the specific operations engaged in, and may include:

- Guidelines
- Routines and procedures for addressing environmental challenges
- Targets and indicators for use in managing material threats and opportunities
- Action plans adapted to address relevant threats and opportunities

Reporting on work related to environmental risks
Folketrygdfondet expects portfolio companies to report on their identification and management of material environmental risks. Reports should cover the extent to which a company's products or services depend on a shared natural resource, environmental risks and measures, and relevant targets and indicators.

BOARD AND EXECUTIVE REMUNERATION

Folketrygdfondet expects board and executive remuneration to reflect each company's strategy for long-term value creation.

Basis
Folketrygdfondet's expectations regarding board and executive remuneration are based on the Norwegian Code of Practice for Corporate Governance (NUES) and the G20/OECD Principles of Corporate Governance.

General principles
Board remuneration should reflect the board's responsibilities, expertise and time commitment, in addition to operational complexity. Board remuneration should not be performance-based.

Executive remuneration incudes both fixed and variable pay, pension schemes, severance agreements and any other benefits. Variable pay may include various types of incentive-based schemes. The executive remuneration arrangements are a board responsibility, and the board must issue an annual executive remuneration statement for consideration by the general meeting.

If the executive remuneration statement includes pay in the form of shares, subscription rights, options or similar instruments, or is otherwise linked to developments in the company's share price, the general meeting must approve this aspect.

Where an executive remuneration statement requires both an advisory vote and an approving vote, these should be presented to the general meeting as two separate agenda items.

Why is board and executive remuneration important to Folketrygdfondet?
Folketrygdfondet focuses on ensuring that executive remuneration schemes promote long-term value creation. Remuneration schemes should be designed to support the company's strategy. Folketrygdfondet takes a positive view of share ownership by both board members and executives.

What do we expect?

Shareholder-elected board members should not be included in incentive-based remuneration schemes.

The overall scope of fixed and variable pay should not be unreasonable.

The following guidelines must be followed when designing incentive-based remuneration schemes:

- The scheme must be capped.
- The scheme must be linked to measurable, performance-based criteria that reflect achieved performance at the personal, departmental/unit and overall company levels.
- The scheme must encourage long-term value creation.
- The individual performance criteria must not be determined by external circumstances outside the scope of management influence.
- There must be a clear link between the performance criteria and value creation for shareholders.
- Qualification criteria must be specified.
- Share-based schemes, including options and subscription rights, must be subject to a minimum lock-in period, normally at least three years.
- The actual value of option schemes should be calculated, as should accounting consequences for the company and potential dilution effects.

Transparency and communication related to executive remuneration
The executive remuneration statement must be included in the notice of general meeting, preferably in a separate enclosure. It must provide a comprehensive overview of remuneration schemes and arrangements.

BOND ISSUANCE

Folketrygdfondet takes an integrated approach to responsible investment. Our expectations of the portfolio companies are universal and independent of financing arrangements. For the fixed-income portfolio, we also have separate expectations of issuers and managers. Credit market issuers are often unlisted companies or new entrants to the credit market. Our expectations emphasise the responsibilities inherent in the use of bond financing, which may differ from corresponding responsibilities in the stock market. Since companies select their own managers, we also consider it appropriate to communicate what we expect of them as well. In our view, orderly issue processes and issuer follow-up contribute to more accurate pricing and promote market efficiency and transparency.

ISSUERS

What do we expect?

Thorough knowledge of what the use of capital market financing entails, and of the workings of the bond market
Issuers in the credit market have access to daily price updates for company debt – an indicator of the market's view on creditworthiness. This in turn is relevant for any new financing transactions and for refinancing in the market. Just as listed companies track their own share price, borrowing companies must monitor how the market is pricing their debt. Issuers are also expected to follow NUES recommendations as relevant to their activities in the bond market.

Balanced loan agreements
We expect loan agreements to reflect risk factors relevant to the borrowing company and the specific loan. It is also important that the issuer is familiar with the rights and obligations the loan agreement imposes on the borrower and the lenders.

Regular communication to the market throughout the loan period, including on material sustainability risks
Reliable, up-to-date information on a company's development is vital for correct pricing of the company's debt. Folketrygdfondet expects companies to communicate material financial and commercial risks, including risks linked to environmental and social conditions. Issuers must cover factors relevant to creditors in their market communications. Reporting and investor meetings have become important elements in the provision of information to the market, and may take the form of joint presentations, telephone/web conferences and one-to-one meetings.

Thorough reports on financial developments relevant to key loan conditions
If it appears that a company may breach one or more covenants, the company must issue a statement outlining how this will be addressed – either through measures to avert the breach or through a planned response to any breach that does occur. This is important to reduce uncertainty and prevent incorrect pricing of the bonds.

Immediate communication of relevant news to the market
We expect companies to inform the market of relevant developments immediately, including negative information that could give rise to uncertainty about the company.

Contact and involvement in connection with covenant changes and credit events
We expect issuers to involve themselves directly in any revision of a loan agreement, and in credit events. This includes ongoing dialogue with bondholders, trustees and managers parallel to any negotiations with other stakeholders. The renegotiation of covenants and compensation for doing so are particularly important topics. Such compensation must adequately reflect any changes in the risk profile and the administrative burden imposed on the bondholders.

Equal treatment of all bondholders
We expect all lenders to be treated equally within the established priority structure. This obviously applies to both ordinary operations, as well as processes entailing the amendment of loan agreements or substantial structural changes. We do not accept conditional compensation for individual groups of lenders in return for the acceptance of contractual or other changes to the loan arrangement.

MANAGERS

Managers play an important role as an intermediary between issuers and investors in the primary and secondary bond markets. Managers have emerged as a key factor for continued confidence in the Nordic credit market, which is why we have decided to devote a separate section of this guide to their role.

What do we expect?

Provision of information to new issuers on what use of the bond market as a source of financing entails
This primarily means that managers must brief issuers on how the market functions, and on applicable requirements for regular reporting and meetings/dialogue with investors and analysts. Moreover, managers and issuers must invest sufficient time in the preparation of loan agreements, to ensure that they are both balanced and transparent.

Assessment of issuer suitability for a given bond loan
Managers must thoroughly investigate a company's financial position and relevant organisational and legal factors. Failing to conduct such an assessment may put the reputation of the manager and issuer at risk. The same applies to investors, who may suffer undue losses in the event of misleading and/or deficient bond-issue documentation and implementation. Issuer suitability assessments are also important for preserving confidence in the credit market.

Joint planning with issuers to ensure that bonds can be issued in a transparent and technically expedient manner
It is particularly important that all relevant information is available well before the subscription date. We also expect a well-designed procedure for setting the credit margin and a well-planned issue process that includes clear allocation guidelines. This implies, among other things, that the issue volume should not be increased without a corresponding adjustment of the subscription price. There should be full transparency about the fee structure and the total issue costs. The fee structure should be reasonably proportionate to the manager's contribution and costs.

A thorough credit analysis, updated throughout the loan period
The credit analysis must be independent, balanced and provide a credible account of the company's risk profile and relevant ESG factors. We also expect information on the company's expertise in its area of operation and any ties between board members, shareholders and management. Further, we expect the arranger to promote/facilitate bond liquidity, insofar as possible.

Thorough assessment of the loan agreement, including a statement on key loan conditions
To be able to prepare a comprehensive investment assessment, Folketrygd-fondet needs the arranger to provide a simple, effective statement on any deviations from an ordinary, standard loan agreement. Of particular importance are clarifications of definitions and specifications of any key loan conditions omitted from the agreement. Such statements are an important means of clarifying the loan agreement and safeguarding investor interests.

Follow-up of the issuer if borrowing company performance weakens and the loan agreement has to be amended, or if a credit event occurs
Such situations normally result in a bondholder meeting to vote on proposed solutions. We expect managers to cooperate with issuers to develop proposals for resolving a given matter. Contacting major bondholders and the loan trustee is a natural part of this process. The largest bondholders will often form an informal bondholder committee, which may ease negotiations and facilitate a balanced, agreed proposal to be submitted to a vote at the bondholder meeting.

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