

2020



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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

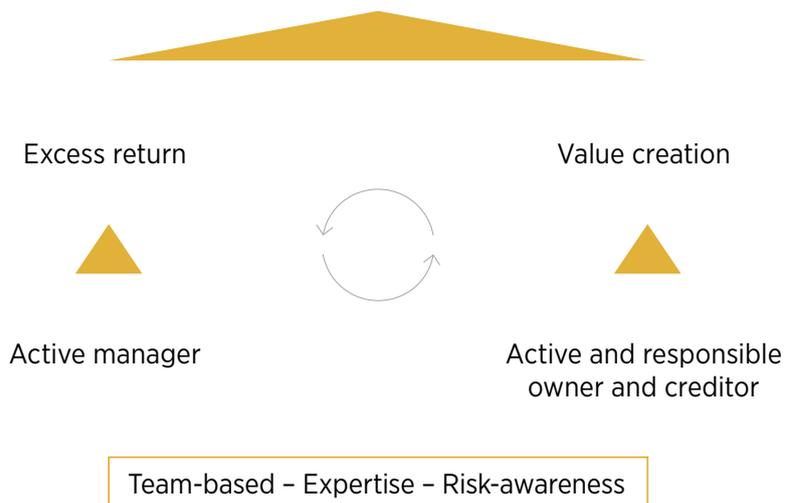
Folketrygdfondet's board has adopted responsible investment principles which explain how we exercise our role as owner and creditor and integrate environmental and social considerations into our management of the Government Pension Fund Norway. Responsibility for implementing the principles across the portfolio lies with Folketrygdfondet's CEO. In [Folketrygdfondets 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.

- Dialogue
- General meetings
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OUR INVESTMENT PHILOSOPHY SUMMARISED

HIGHEST POSSIBLE RETURNS OVER TIME



ORGANISATION



- Dialogue
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RESPONSIBLE INVESTMENT INSTRUMENTS

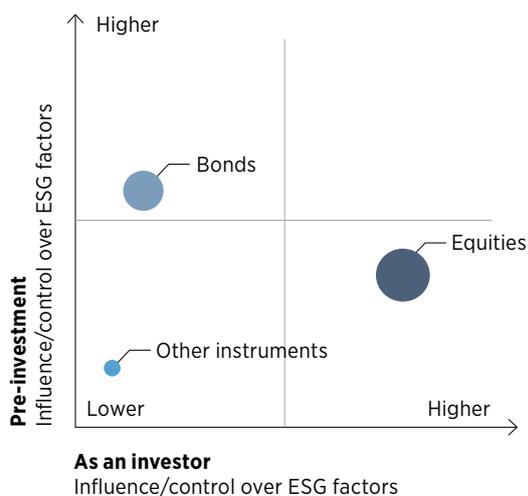
| | ESG integrated into management | Exclusion | Dialogue with companies | Voting at general meetings/ bondholder meetings | Promote well-functioning markets |
|-----------------------------|--------------------------------|-----------|-------------------------|--|----------------------------------|
| 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

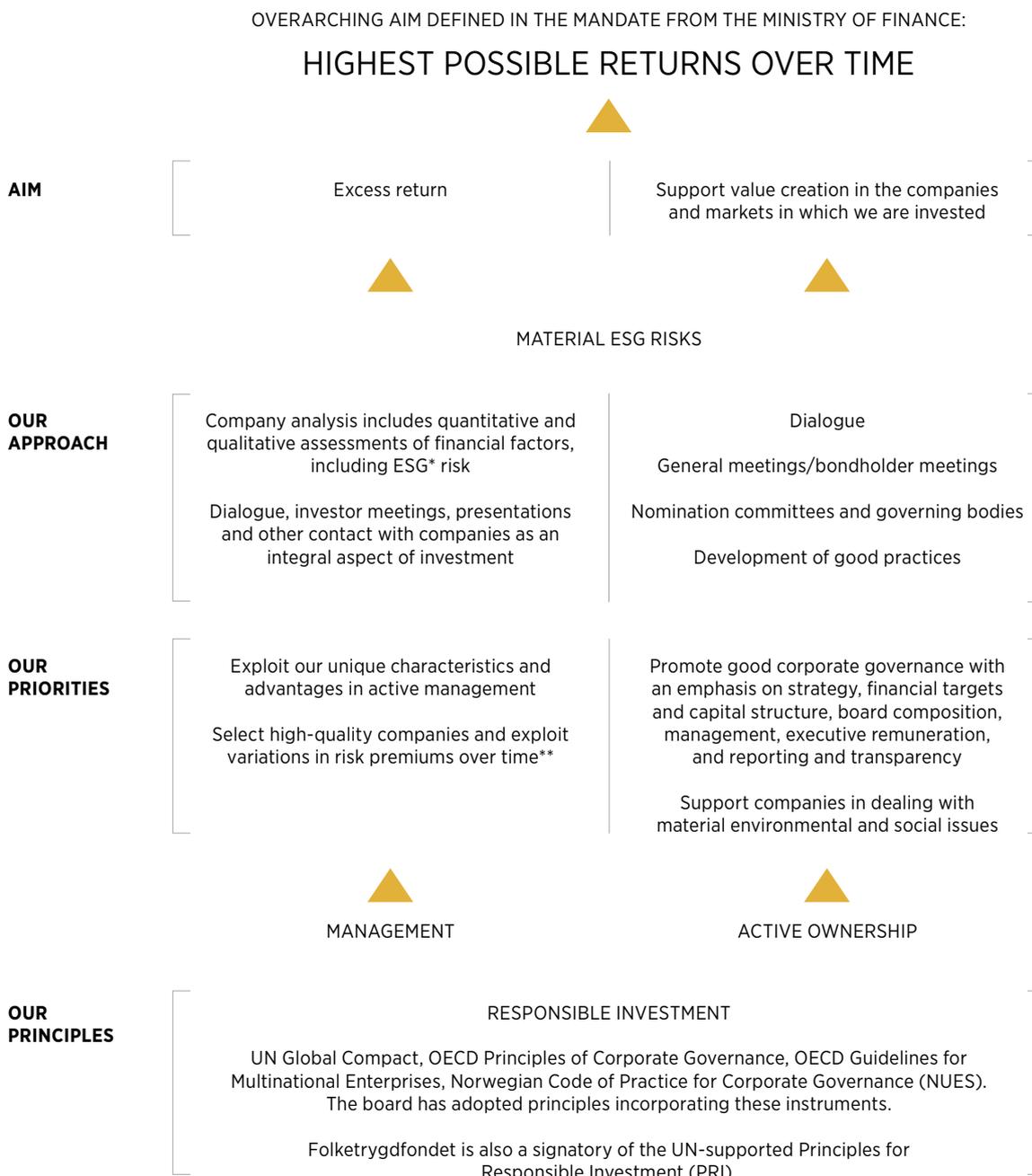
WE TAILOR OUR RESPONSIBLE INVESTMENT APPROACH TO OUR DIFFERENT FINANCIAL INSTRUMENTS

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



- Dialogue
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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.



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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.

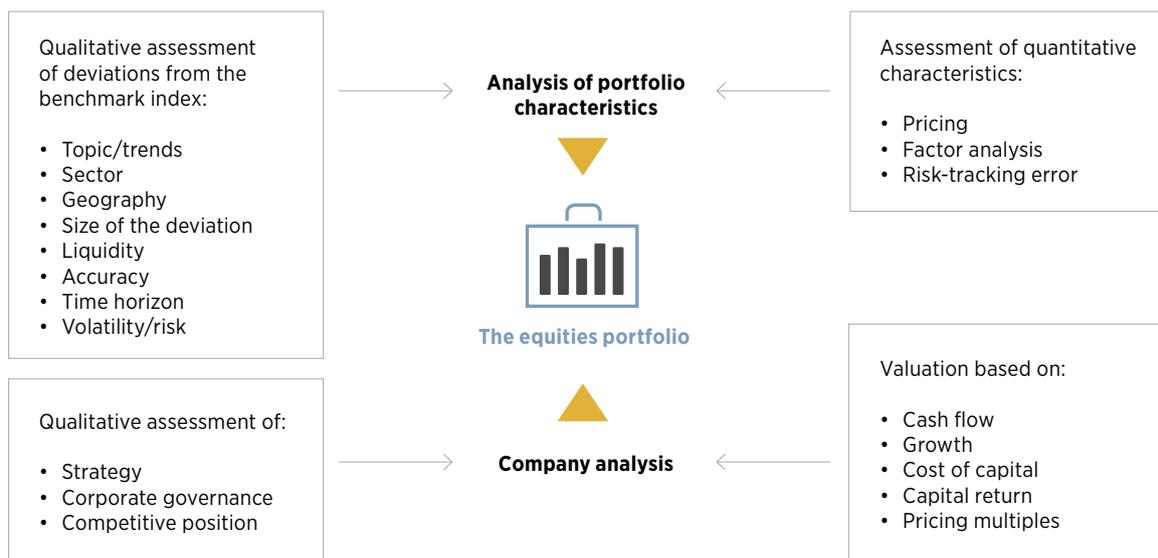
We adapt our efforts and the tools we use to our different financial instruments and portfolios. This is necessary to ensure that our responsible investment efforts serve the overarching aim of achieving the highest possible returns over time. In this assessment, we look to factors such as our influence 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



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- General meetings
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OUR COMPANY ANALYSIS SUMMARISED



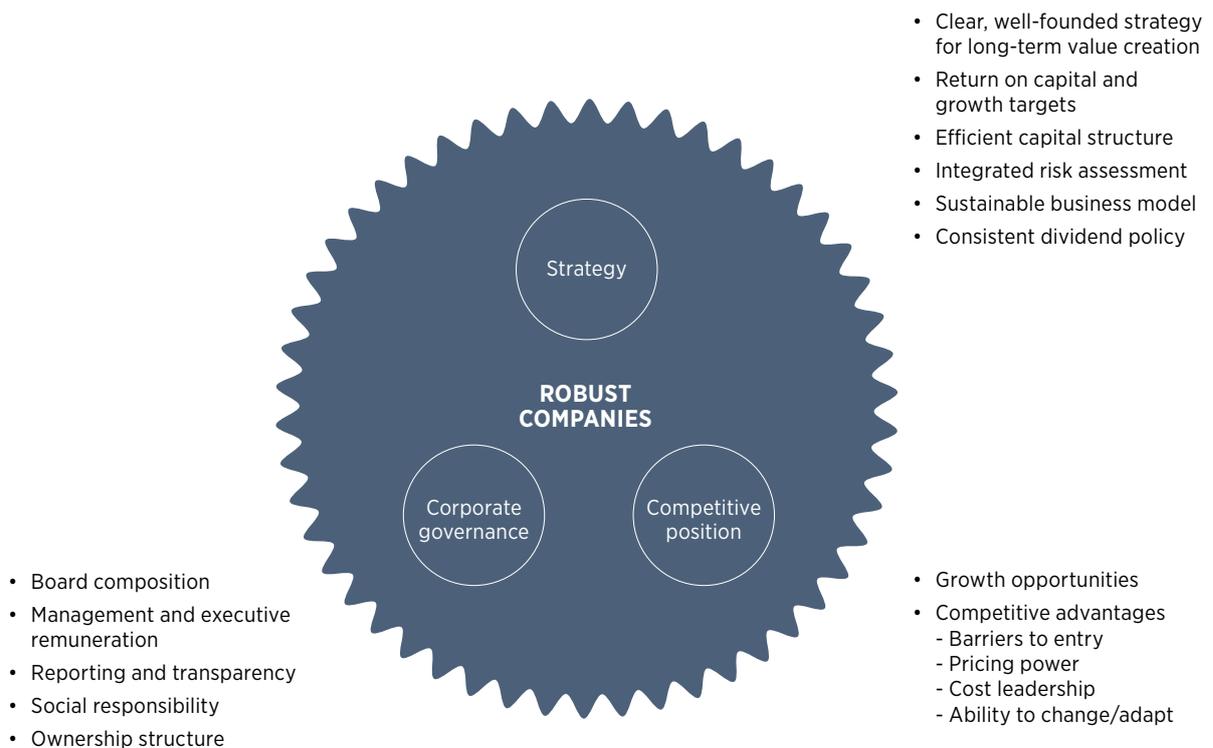
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Robust companies

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:



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

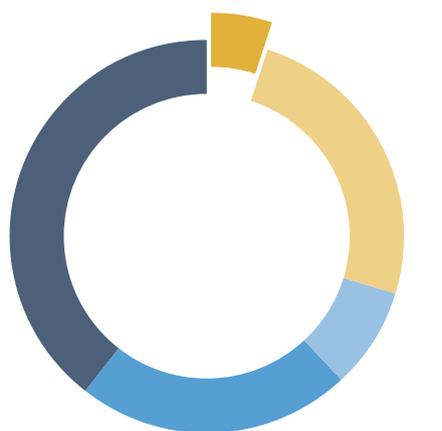
NORDIC OWNER WITH A PRIMARY FOCUS ON THE OSLO STOCK EXCHANGE

Folketrygdfondet is one of the largest financial investors on the Oslo Stock Exchange, as a top-three shareholder in 52 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



| | |
|------------------------------|--------|
| Folketrygdfondet | 5.75% |
| Central and local government | 21.52% |
| Norwegian financial owners | 8.97% |
| Other Norwegian owners | 24.39% |
| Foreign investors | 39.37% |

Sources: VPS and Folketrygdfondet as at 31 December 2020

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

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

Largest shareholder

6

Second-largest shareholder

33

Third-largest shareholder

13

Fourth- or fifth-largest shareholder

5

Sixth-largest shareholder or smaller

10

0 5 10 15 20 25 30

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.



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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 2020.

| Company name | FTF's shareholding | FTF's shareholder ranking |
|-------------------------------|--------------------|---------------------------|
| Norwegian Property | 14.74% | 2 |
| Nordic Semiconductor | 13.14% | 1 |
| Europris | 12.30% | 1 |
| Entra | 11.76% | 2 |
| Veidekke | 11.61% | 2 |
| Storebrand | 11.04% | 1 |
| Bakkafrost | 10.43% | 1 |
| Scatec | 10.37% | 3 |
| Mowi | 10.22% | 2 |
| Norwegian Finans Holding | 9.90% | 2 |
| TGS-NOPEC Geophysical Company | 9.67% | 2 |
| Fjordkraft | 9.59% | 1 |
| Subsea 7 | 9.49% | 2 |
| AF Gruppen | 9.32% | 4 |
| Bonheur | 9.00% | 3 |
| Orkla | 8.90% | 2 |
| Schibsted | 8.75% | 2 |
| Tomra Systems | 8.31% | 2 |
| SpareBank 1 SR-Bank | 8.24% | 2 |
| Nordic Nanovector | 7.93% | 2 |
| Atea | 7.78% | 2 |
| Norsk Hydro | 7.73% | 2 |
| BW LPG | 7.66% | 2 |
| Kitron | 7.52% | 2 |
| Kongsberg Gruppen | 7.50% | 2 |
| Bouvet | 7.34% | 1 |
| Yara International | 7.17% | 2 |
| DNB | 6.78% | 3 |
| SalMar | 6.42% | 2 |
| Lerøy Seafood | 6.09% | 2 |
| Telenor | 5.79% | 2 |
| Golden Ocean | 5.29% | 2 |
| Grieg Seafood | 5.29% | 2 |
| PGS | 5.07% | 4 |
| Frontline | 4.97% | 2 |
| Elkem | 4.95% | 2 |
| Aker | 4.53% | 2 |
| Aker Offshore Wind | 4.50% | 3 |
| Gjensidige | 4.36% | 2 |
| Wilh. Wilhelmsen Holding | 4.23% | 3 |
| DNO | 4.12% | 2 |
| Aker Carbon Capture | 4.07% | 3 |
| BW Offshore | 4.04% | 2 |
| Adevinta | 3.87% | 2 |
| Borregaard | 3.81% | 3 |
| Aker BP | 3.81% | 3 |
| Equinor | 3.75% | 2 |
| Link Mobility | 3.58% | 3 |
| Crayon Group | 3.52% | 4 |
| Treasure | 3.50% | 3 |
| Olav Thon Eiendomsselskap | 2.73% | 2 |
| Stolt-Nielsen | 2.54% | 2 |
| Wallenius Wilhelmsen | 2.46% | 3 |
| Meltwater | 2.37% | 3 |
| NEL | 2.09% | 3 |

Sources: Company websites, VPS and stock exchange notices.

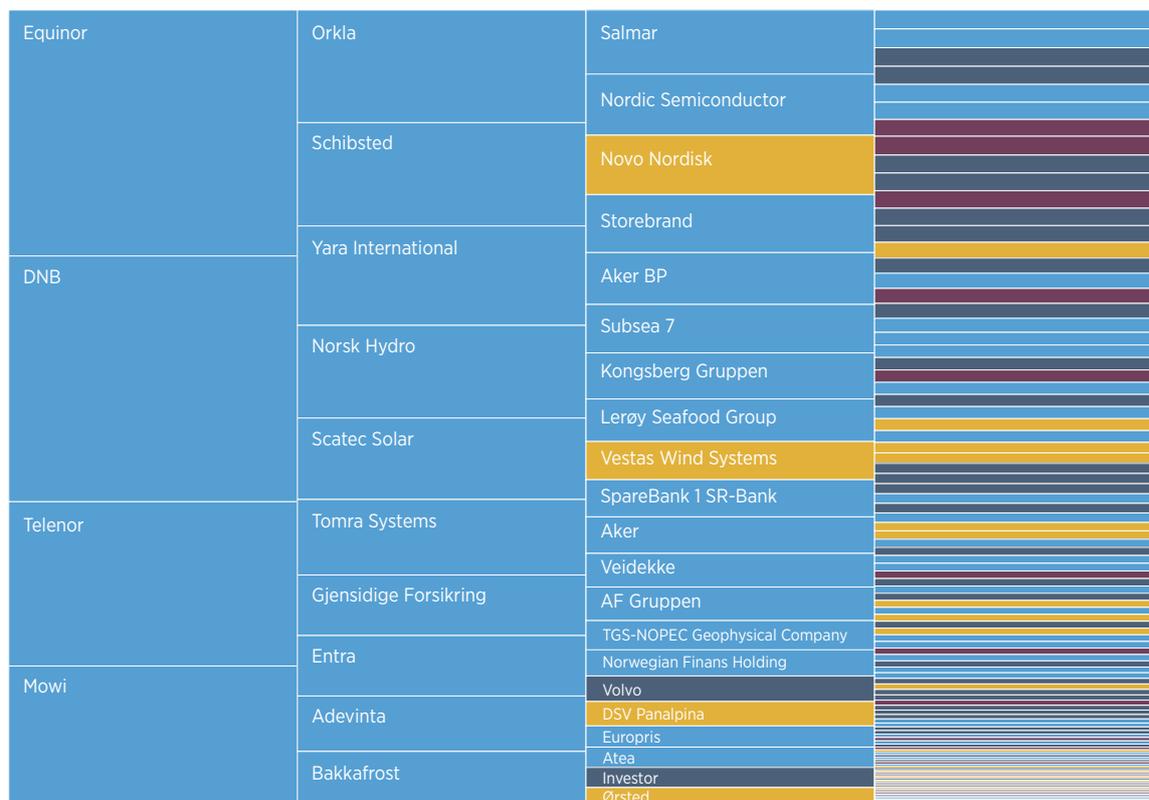
When a nominee account is specified as one of the largest shareholders, Folketrygdfondet estimates its placement. Owners with shared ownership interests are grouped together when Folketrygdfondet has information indicating this is correct. Folketrygdfondet's ownership interest includes loaned-out shares. (As at 31 December 2020, shares amounting to 2.4 percent of the market value of the fund's Norwegian shares were loaned out.)

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FOLKETRYGDFONDET'S SHAREHOLDINGS IN INDIVIDUAL COMPANIES

The size of each bar reflects Folketrygdfondet's shareholding in that company as at 31 December 2020.

Oslo Stock Exchange Nasdaq Copenhagen Nasdaq Stockholm Nasdaq Helsinki



FOLKETRYGDFONDET'S LARGEST NORDIC INVESTMENTS

Figure 23

| Selskapsnavn | FTFs eierandel | Børs |
|--------------------------|----------------|-------------------|
| Intrum Justitia | 0.86% | Nasdaq Stockholm |
| Lundin Energy | 0.62% | Nasdaq Stockholm |
| Swedish Orphan Biovitrum | 0.59% | Nasdaq Stockholm |
| Wihlborgs Fastigheter | 0.52% | Nasdaq Stockholm |
| Stora Enso | 0.52% | Nasdaq Helsinki |
| H. Lundbeck | 0.50% | Nasdaq Copenhagen |
| Investor | 0.50% | Nasdaq Stockholm |
| Atlas Copco | 0.50% | Nasdaq Stockholm |
| Vestas Wind Systems | 0.48% | Nasdaq Copenhagen |
| SimCorp | 0.46% | Nasdaq Copenhagen |
| GN Store Nord | 0.45% | Nasdaq Copenhagen |
| SKF | 0.44% | Nasdaq Stockholm |
| Essity | 0.43% | Nasdaq Stockholm |
| Nokia | 0.40% | Nasdaq Helsinki |
| Holmen | 0.39% | Nasdaq Stockholm |
| Pandora | 0.37% | Nasdaq Copenhagen |
| Telia | 0.36% | Nasdaq Stockholm |
| Fabege | 0.35% | Nasdaq Stockholm |
| Peab | 0.35% | Nasdaq Stockholm |
| Orion | 0.34% | Nasdaq Helsinki |

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.

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.

To make the dialogue as productive as possible for both parties, we have drafted a number of guidance documents on key topics.

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

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. 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.

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ACTIVE OWNERSHIP IN SEVERAL ARENAS:

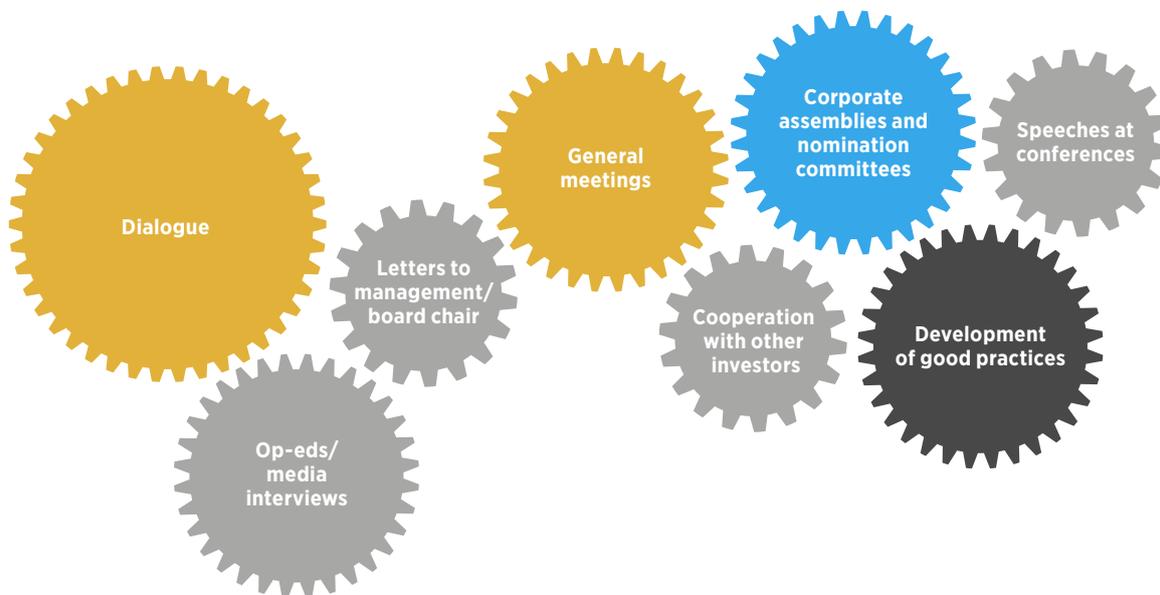
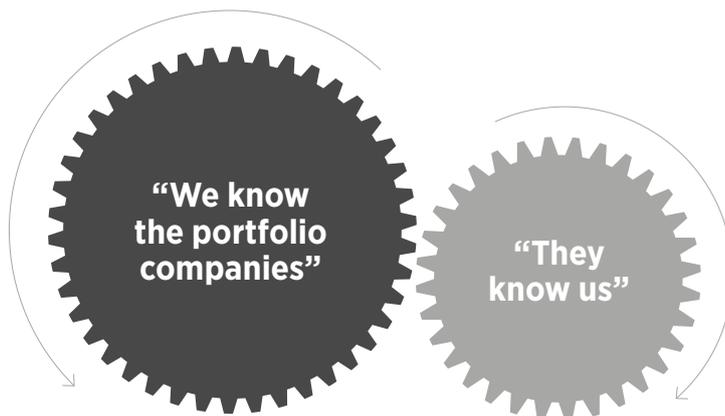


Illustration 16

OUR ACTIVE OWNERSHIP OBJECTIVES:



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



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ACTIVE OWNERSHIP CHALLENGES:

Complexity



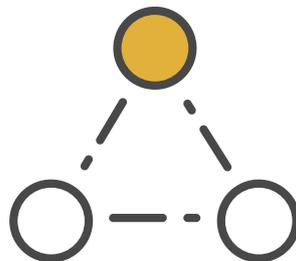
ESG-related issues are seldom clear-cut.

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.



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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.

Our meetings with companies often take place at a high level. We prioritise this form of working in relation to our equity investments, 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. When it is helpful to have subject matter experts present, for example when discussing specific environmental or social issues, both Folketrygdfondet and the company ensure the participation of staff with the appropriate expertise.

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. The graph illustrates this difference, in that dialogues are often conducted at a higher level in Norway than in the other Nordic countries. Folketrygdfondet held 252 dialogue meetings with 99 companies last year – 198 meetings with 59 companies listed in Norway and 54 meetings

with 40 companies listed in the other Nordic countries. Most meetings in 2020 were held digitally, and activity levels increased significantly compared to 2019, despite the pandemic. We met frequently with Norwegian companies, and we had better access than ever to the management teams of our Nordic portfolio companies thanks to digital meeting tools.

DIALOGUE OVERVIEW

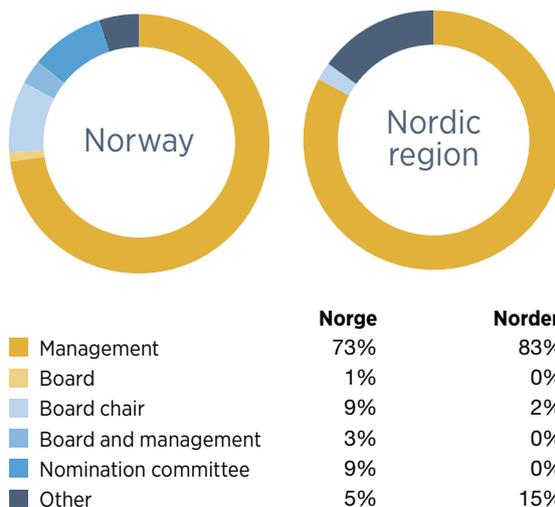


Figure 27

OTHER DIALOGUE MEETINGS BY COUNTRY



Figure 28

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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
- climate issues
- human rights and workers' rights
- environmental issues

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 2020

| Industry | Number of dialogues | Proportion of all meetings |
|------------------------|----------------------------|-----------------------------------|
| Industrial | 46 | 18% |
| Consumer goods | 45 | 18% |
| Energy | 36 | 14% |
| Finance | 33 | 13% |
| Materials | 26 | 10% |
| Information technology | 19 | 8% |
| Healthcare | 14 | 6% |
| Communications | 12 | 5% |
| Property | 12 | 5% |
| Consumables | 5 | 2% |
| Supply | 4 | 2% |

Table 17

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HOW WE SELECT SUSTAINABILITY TOPICS

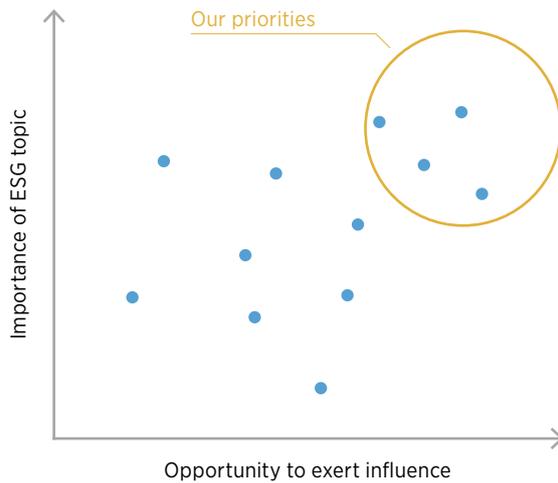


Illustration 19

Folketrygdfondet's expectation documents

Updated expectations for portfolio companies

At the start of 2020, Folketrygdfondet published its revised expectations of portfolio companies. The update serves three purposes.

First, new international standards have been issued since the last update, including the recommendations of the Task Force on Climate-related Financial Disclosures and the UN Guiding Principles on Business and Human Rights. These standards have now been incorporated into Folketrygdfondet's expectations linked to these topics.

A further aim of the update was to provide a clearer presentation of Folketrygdfondet's financial approach to ESG. In our experience, our expectation documents were often interpreted as separate expectations of companies, with the overall perspective being lost. This is why we amended the structure of the documents. Folketrygdfondet expects its portfolio companies to adopt a strategy, a capital structure and financial targets tailored to their individual risk profiles, including ESG-related risks. Expectation documents relating to specific ESG

topics should therefore be understood as descriptions of Folketrygdfondet's expectations regarding companies' risk assessments in these areas.

Finally, Folketrygdfondet included an entirely new expectation document for issuers and arrangers of debt capital in the latest update. Previously, our expectations were addressed primarily to the boards of directors and administrations of our equity portfolio companies. However, our intensified focus on responsible fixed income investment in recent years has revealed that our expectations are also highly relevant to our investments in the credit markets. The revised expectation document therefore also includes explicit expectations applicable to issuers and arrangers.

Folketrygdfondet's updated expectations are available on ftf.no.

Folketrygdfondet presented the revised expectations in a webinar on 6 October 2020. A recording of the webinar is available on ftf.no.

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STRATEGY, CAPITAL STRUCTURE AND FINANCIAL TARGETS

Well-founded strategic priorities are a pre-requisite 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.

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.

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 2020

The topic became even more relevant when the pandemic started impacting the portfolio companies' financial conditions, with liquidity and sustainable capital structure quickly becoming top priorities for companies in the industries with the strictest infection-control measures. Several companies with strong balance sheets felt forced to withdraw dividend proposals in response to the economic uncertainty created by the pandemic, particularly in the spring of 2020.

At the same time, other companies were able to exploit accelerating digitalisation, moving forward planned stock-exchange listings and other capital transactions. This was also true of companies in the sustainability sector, which benefited from low interest rates and the EU's green recovery plan.

In other words, 2020 represented an acid test for Folketrygdfondet's expectation documentation regarding strategies, capital structure and financial targets. Nevertheless, our expectations held up well during the pandemic, despite changes in the operating conditions of individual companies.

Plan for 2021

Folketrygdfondet will continue its ongoing dialogue with management teams and board chairs on this topic. In addition, we will develop new expectations regarding board and executive remuneration. Folketrygdfondet sees a need to link remuneration more closely with long-term value creation, preferably through simplified executive remuneration schemes. This will be a priority in our company dialogues in 2021.

Dialogue

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

198 DIALOGUES WITH NORWEGIAN COMPANIES

Seven potential topics per dialogue
 Number of times each topic has been raised:

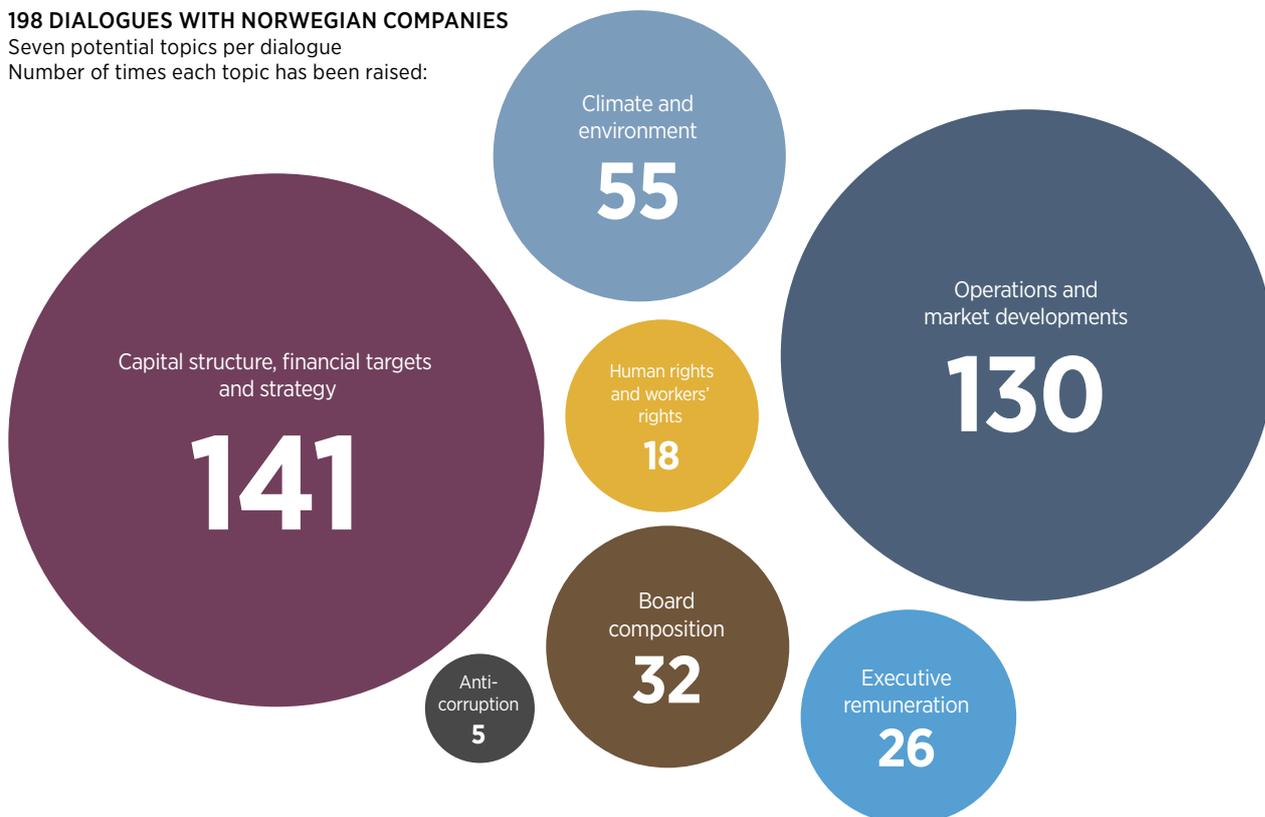


Illustration 20

54 DIALOGUES WITH NORDIC COMPANIES

Seven potential topics per dialogue
 Number of times each topic has been raised:



Illustration 21

Dialogue

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CLIMATE AND ENVIRONMENT

Climate was a recurring topic in Folketrygdfondet's responsible investment work in 2020.

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 selskaperens arbeid med klima og miljø](#) (Folketrygdfondet's expectations regarding companies' work on climate and environmental issues), which is available on 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 2020

At the beginning of the year, Folketrygdfondet published several new expectation documents which, among other things, incorporate the TCFD recommendations. As part of its own TCFD reporting, Folketrygdfondet appointed a project group in 2020 to take a closer look at the tools available for conducting scenario analysis of the portfolio. This is discussed further in the "Portfolio climate risk" section of this report, which also presents the portfolio's carbon footprint.

At the start of the pandemic, there was a risk that the increasing climate focus of recent years could be downgraded in the face of an even more acute crisis. However, this risk did not materialise. On the contrary, driven by factors like the EU's ambitious regulatory plans for green economic recovery, climate became an even hotter topic in our dialogues with portfolio companies than before. This is reflected in the dramatic increase in the number of dialogues where climate and the environment were discussed. At the end of the year, we even asked ourselves whether separate climate-themed meetings are still needed, as the topic has become so integrated into ordinary dialogues with management teams and company boards.

Folketrygdfondet again engaged in collective active ownership with several Norwegian investors in 2020, directed at companies in industries identified by the TCFD as particularly exposed to climate-related risks and opportunities. Dialogues are continuing with companies in the oil service, banking and insurance industries, as well as the transport sector.

Plan for 2021

In our active ownership dialogue in 2021, 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.

Dialogue

General meetings
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Portfolio climate risk
Good practice development
The fixed-income portfolio

| Index: follow-up of TCFD recommendations | Folketrygdfondet's response |
|--|--|
| Governance | |
| 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 Folketrygdfondets eierskapsutøvelse (Folketrygdfondet's exercise of ownership rights) Ownership report, page 2 ("How we organise our responsible investment activities") |
| Strategy | |
| a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term | Ownership report, pages 32-39 ("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 32-39 ("Portfolio climate risk") Strategic plan, pages 9-12 |
| 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 32-39 ("Portfolio climate risk") |
| Risk management | |
| a) Describe the organisation's processes for identifying and assessing climate-related risks | Ownership report, page 20 ("Climate and environment") and pages 32-39 ("Portfolio climate risk") Strategic plan, pages 9-12 |
| b) Describe the organisation's processes for managing climate-related risks | Ownership report, pages 32-39 ("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, page 20 ("Climate and environment") and pages 32-39 ("Portfolio climate risk") |
| Metrics and targets | |
| 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 32-39 ("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 32-39 ("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 32-39 ("Portfolio climate risk") |

Table 19

Dialogue

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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 involve 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 anticorruption guide (please see 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 2020

Anti-money laundering measures in the banking sector were a priority topic in 2020 as well. 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 2021

In 2021, we will 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. We expect these issues to remain important topics for the banking sector in 2021.

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 impacts may entail 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.

Dialogue

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Developments in 2020

Folketrygdfondet updated its expectations regarding human rights and workers' rights in 2020, to integrate the UN Guiding Principles on Business and Human Rights. As a result of the pandemic, companies' measures to protect employees against infection were a recurring theme in 2020. We considered it very positive that the management teams of many companies raised the topic on their own initiative. This includes companies who wished to present the steps they were taking to protect at-risk personnel working on oil platforms and employees in maritime sectors who had to be away from their families for longer than expected due to travel restrictions.

Other dialogues topics in 2020 included a company's procedures for safeguarding the rights of migrant workers in its global operations, and steps taken by healthcare companies to improve access to necessary medicines and medical equipment in less-developed markets. We gave particular priority to understanding companies' systems and processes for managing risks in this area.

Plan for 2021

In 2021, Folketrygdfondet will use its dialogue with portfolio companies to communicate its updated expectations related to human rights and workers' rights.

DIALOGUE WITH COMPANIES LISTED IN NORWAY, BY TOPIC

| Portfolio | Number of companies | | |
|---|---------------------|------|------|
| | 2020* | 2019 | 2018 |
| Strategy, capital structure and financial targets | 55 | 46 | 37 |
| Climate and environment | 32 | 24 | 14 |
| Human rights and workers' rights | 17 | 7 | 6 |
| Anti-corruption | 5 | 3 | 3 |

Table 20

DIALOGUE WITH COMPANIES LISTED IN DENMARK, SWEDEN AND FINLAND, BY TOPIC

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

Table 21

* The figures for 2020 exclude meetings with investor relations representatives only, which accounted for 41 percent of meetings in the Nordic region and 4 per cent of meetings in Norway in 2019.

WE PROTECT SHAREHOLDER INTERESTS

In 2020, Folketrygdfondet voted at a total of 188 general meetings of companies listed in Norway, Sweden, Denmark and Finland

General meetings and the pandemic

The Covid-19-pandemic resulted in an unusual general meeting season in 2020. There were logistical challenges in the form of postponed meetings and restrictions on in-person attendance, as well as changes in some companies' dividend proposals in response to the pandemic. In the financial sector, the supervisory authorities issued clear recommendations to banks and insurance companies advising them to hold back dividend distributions pending improvements in the macroeconomic situation. In such cases, Folketrygdfondet voted for the revised board proposals. In two cases, this meant abstaining from voting for a previously issued dividend proposal which the board decided to withdraw prior to the general meeting.

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 2020. 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)

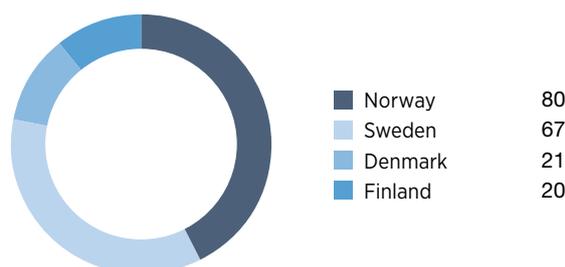


Figure 29

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 | Wherever practicable, prior to the general meeting | After the general meeting |
| Letters to company boards and, where relevant, nomination committees when we vote against board proposals | X | X |

Developments in 2020

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 for all matters where we have voted against board proposals, including in Nordic companies.

BOARD PROPOSALS

| | For | Against | Abstained | Total | For (%) | Against (%) | Abstained (%) |
|-------------------|-------------|----------------|------------------|--------------|----------------|--------------------|----------------------|
| Norway | 975 | 16 | 1 | 992 | 98% | 2% | 0% |
| Sweden | 890 | 27 | 3 | 920 | 97% | 3% | 0% |
| Denmark | 308 | 3 | 0 | 311 | 99% | 1% | 0% |
| Finland | 203 | 3 | 0 | 206 | 99% | 1% | 0% |
| Total | 2376 | 49 | 4 | 2429 | 98% | 2% | 0% |
| Proportion | 98% | 2% | 0% | | | | |

Table 23

Dialogue prior to general meetings

We always initiate a preceding dialogue with Norwegian companies if there are board proposals we are considering voting against. Folketrygdfondet prefers to see resolutions amended in line with our expectations before a general meeting takes place. The table below details the number of instances where this has happened.

Publication of voting intentions

If we are unsuccessful, we vote against a proposal and publish a voting statement.

In 2020, for the second year in a row and wherever practicable, we published Folketrygdfondet's voting intentions on 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 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 2020. Where Folketrygdfondet voted against the same agenda item in 2019, we did not re-send the same letter, but instead published

a voting statement on 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, few are submitted in Norway. 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. Folketrygdfondet voted for a total of seven shareholder proposals in 2020.

SHAREHOLDER PROPOSALS

| | For | Against | Abstained | Total | Proportion by country | For (%) | Against (%) | Abstained (%) |
|--------------|----------|-----------|-----------|-----------|-----------------------|-----------|-------------|---------------|
| Norway | 0 | 6 | 0 | 6 | 7% | 0% | 100% | 0% |
| Sweden | 4 | 46 | 0 | 50 | 60% | 8% | 92% | 0% |
| Denmark | 2 | 22 | 1 | 25 | 30% | 8% | 88% | 4% |
| Finland | 1 | 2 | 0 | 3 | 4% | 33% | 67% | 0% |
| Total | 7 | 76 | 1 | 84 | 100% | 8% | 90% | 1% |

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.

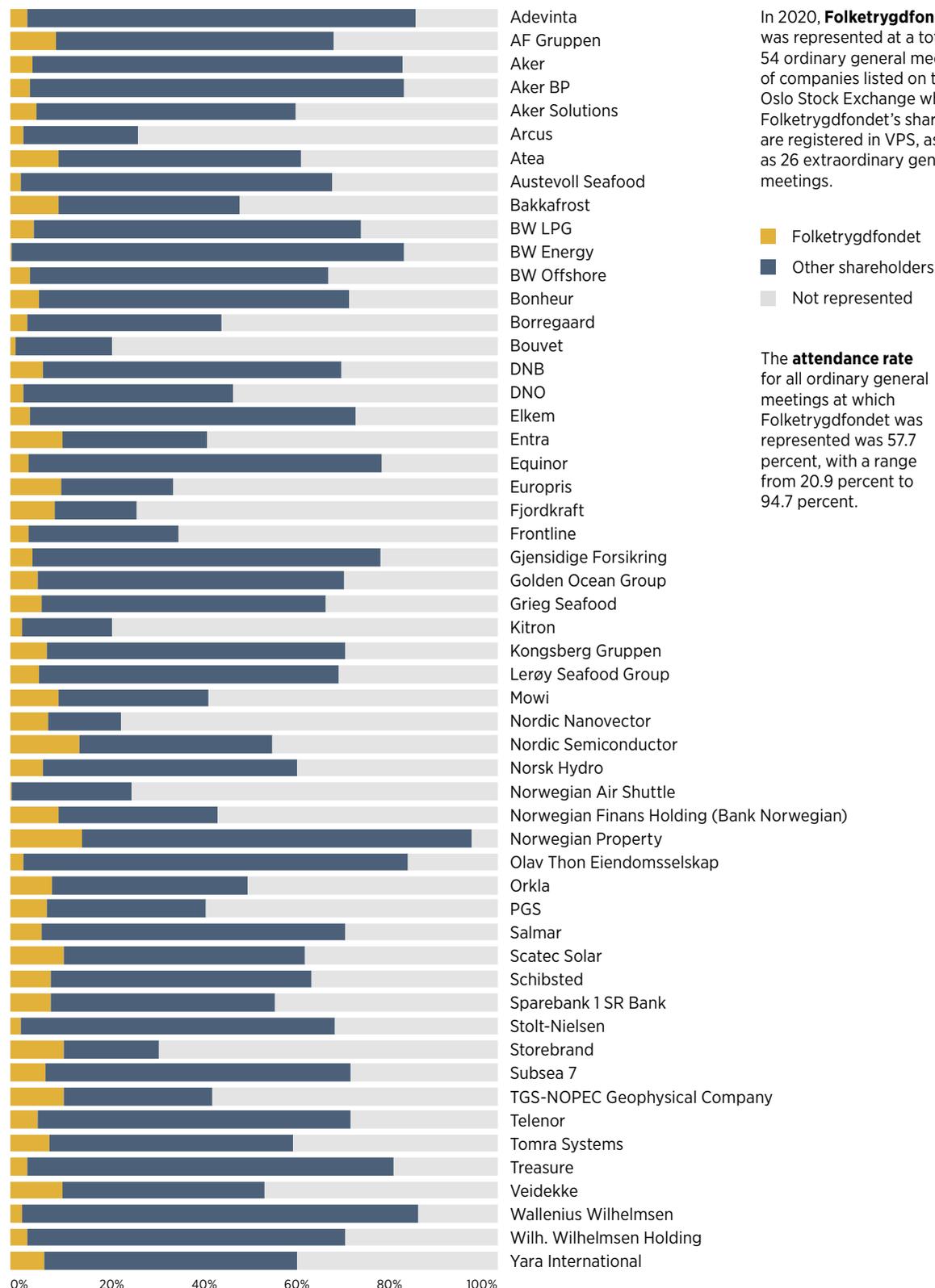
In 2020, we registered seven instances where agenda items were revised or where items were dropped from the agenda following Folketrygdfondet's decision to vote against them at last year's general meeting. Examples include:

- introducing a cap on an emissions authorisation
- amending lists of proposed candidates for nomination committees to keep the committees independent of the boards of directors
- terminating the practice of a board of directors to request authorisation to appoint its own members
- stricter lock-in periods for share-based executive remuneration schemes than originally proposed.

We also noted one example of a company introducing several measures to increase the independence of its board from its main shareholder, including in response to feedback from Folketrygdfondet.

ATTENDANCE 2020 – COMPANIES LISTED ON THE OSLO STOCK EXCHANGE

Ordinary general meetings that Folketrygdfondet attended.



In 2020, **Folketrygdfondet** was represented at a total of 54 ordinary general meetings of companies listed on the Oslo Stock Exchange where Folketrygdfondet's shares are registered in VPS, as well as 26 extraordinary general meetings.

■ Folketrygdfondet
■ Other shareholders
■ Not represented

The **attendance rate** for all ordinary general meetings at which Folketrygdfondet was represented was 57.7 percent, with a range from 20.9 percent to 94.7 percent.

NORWEGIAN COMPANIES WHERE FOLKETRYGDFONDET VOTED AGAINST BOARD PROPOSALS

| Company | Date | Type of matter Why we voted against | Percentage of votes against | |
|-----------------------|-----------------|--|-----------------------------|-------|
| | | | Folketrygdfondet | Total |
| XXL | 28 January 2020 | Executive remuneration | | |
| | | <p>Item 3 Board statement on setting of executive pay and other remuneration</p> <p><i>Reason:</i> Folketrygdfondet takes a positive view of share-based executive remuneration schemes that align the interests of shareholders and executives. Such incentive schemes should be linked to personal targets, company targets and targets designed to ensure strong value creation for shareholders over time. We also expect boards of directors to cap such schemes, and for such schemes to be reasonable in scope.</p> <p>The proposed share programme was uncapped and had a potential scope of up to 5 percent of the share capital of a subsidiary, XXL Sport og Villmark AS. In Folketrygdfondet's view, the scheme was extensive, and the criteria for the scheme were described too vaguely to understand the potential transfer of value from shareholders to management. On this basis, the authorisation requested by the board was too broad, and Folketrygdfondet therefore voted against the proposed scheme.</p> | 1,1 | 1,2 |
| Stolt-Nielsen Limited | 3 April 2020 | Board composition | | |
| | | <p>Item 3f 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. 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, 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> | 3,3 | 5,2 |
| Norwegian Property | 16 April 2020 | Executive remuneration and authorisation to issue shares | | |
| | | <p>Item 9 Board statement on the setting of executive salaries and other remuneration</p> <p>Item 11c Authorisation to increase share capital</p> <p>Item 14b Board authorisation to acquire own shares</p> <p><i>Reason:</i> Folketrygdfondet is fundamentally opposed to the issue of options to board members, and to board members performing additional tasks for the company beyond their board appointment. This also follows from section 11 of the Norwegian Code of Practice for Corporate Governance, which states that such arrangements may undermine board independence, particularly in relation to company management.</p> <p>Principle 3 of the executive remuneration statement stated that one board member has an individual option agreement. Under the arrangement, the board member will provide advisory services to the company in addition to the board appointment, with payment by means of an option agreement. Since both the issue of options to board members and the entry into contracts with board members for advisory services are contrary to Folketrygdfondet's fundamental views and the Norwegian Code of Practice for Corporate Governance, Folketrygdfondet voted against the proposals.</p> | 15,6 | 15,6 |
| Bouvet | 20 May 2020 | Nomination committee composition | | |
| | | <p>Item 9 Election of nomination committee members</p> <p><i>Reason:</i> Folketrygdfondet seeks to ensure that nomination committees are composed with the interests of all shareholders in mind. A nomination committee should be independent of the board of directors and other executives, and executives should not be members of the nomination committee. Bjarte Gudmundsen is the regional director for Rogaland County, and was proposed for membership of the nomination committee. This proposal was inconsistent with Folketrygdfondet's view on the composition of nomination committees.</p> | 2,9 | 3,6 |

| Selskap | Dato | Type sak Derfor stemte vi imot | Stemmer mot i % | |
|--------------------|----------------|--|------------------|--------|
| | | | Folketrygdfondet | Totalt |
| DNO | 27 May 2020 | Nomination committee composition, executive remuneration and authorisation to issue shares | | |
| | | Item 5a Election of Bijan Mossavar-Rahmani as nomination committee chair | 5,7 | 5,8 |
| | | <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. | | |
| | | Item 6 Setting of remuneration for members of the board of directors, audit committee, HSE committee and remuneration committee | 5,7 | 6,7 |
| | | <i>Reason:</i> The fee proposed for the board chair reflected that person's actual role as executive chairman. This arrangement is inconsistent with Folketrygdfondet's expectations regarding board independence. Section 8 of the Norwegian Code of Practice for Corporate Governance provides that executives should not also be board members. One of the primary tasks of the board of directors is to supervise company management. In Folketrygdfondet's view, the board can only supervise company management adequately if its members are not recruited from management. | | |
| | | Item 9 Consideration of the advisory part of the board of directors' statement on the setting of executive pay and other remuneration pursuant to section 6-16a of the Public Limited Liability Companies Act | 5,7 | 9,7 |
| DNO | 27 May 2020 | Item 10 Approval of the binding part of the board of directors' statement on the setting of executive pay and other remuneration pursuant to section 6-16a of the Public Limited Liability Companies Act | 5,7 | 10,1 |
| | | <i>Reason items 9 and 10:</i> Folketrygdfondet generally 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. We could not see that these requirements were met in the case of DNO's share-based incentive schemes or bonus schemes. | | |
| | | Share-based incentive schemes can involve a substantial transfer of value from shareholders to employees. Since DNO's scheme does not include a cap on share-based remuneration, Folketrygdfondet took the view that the scheme could become unreasonably large in scope and result in an excessive transfer of value from shareholders to company employees. | | |
| | | Folketrygdfondet voted against both the advisory part of the executive remuneration statement and the binding part of the statement relating to share-based compensation. | | |
| | | Item 12 Board authorisation to increase share capital | 5,7 | 7,1 |
| | | Item 14 Board authorisation to issue convertible bond loans | 5,7 | 6,6 |
| | | <i>Reason items 12 and 14:</i> At 15 percent, the scope of the authorisation was excessive. In addition, the sum total of all authorisations to issue shares (see items 12 to 14) was excessive. | | |
| BW Energy | 19 May 2020 | Nomination committee composition | | |
| | | Item 5(i) Election of nomination committee members - Andreas Sohmen-Pao (nomination committee chair) | 0,2 | 0,2 |
| | | <i>Reason:</i> Folketrygdfondet considers, as a matter of principle, that the nomination committee must be independent of the board of directors to be able to perform its tasks. This was not the case here, since the chair of the nomination committee was also up for re-election as board chair. | | |
| Golden Ocean Group | 31 August 2020 | Board composition | | |
| | | Item 2 Board authorisation to appoint new board members | 11,2 | 17,0 |
| | | <i>Reason:</i> Folketrygdfondet considers, as a matter of principle, that board members should be elected by the shareholders at a general meeting. | | |
| Frontline | 31.08.2020 | Styresammensetning | | |
| | | Item 2 Fullmakt til styret til å oppnevne nye styremedlemmer | 8,4 | 11,1 |
| | | <i>Begrunnelse:</i> Folketrygdfondet mener på prinsipielt grunnlag at det er aksjonærene gjennom generalforsamlingen som skal velge styremedlemmer. | | |

MATTERS WHERE FOLKETRYGDFONDET VOTED AGAINST BOARD PROPOSALS (OR ABSTAINED FROM VOTING) IN THE OTHER NORDIC COUNTRIES

| | Sweden | Denmark | Finland | Total |
|---|---------------------------|---------------------|----------|--------------------|
| Executive remuneration | 1 | 2 | 1 | 4 |
| Nomination committee | 2 | | | 2 |
| Board remuneration | | 1 | | 1 |
| Reappointment of auditor | | | 1 | 1 |
| Abstained from voting for dividend (as proposed by the board) | 2 (abstained) | | | 2 (abstained) |
| Against the entire board/one member | 2 | | 1 | 3 |
| Against inclusion of the CEO on the board | 10 + 1 (abstained) | | | 10 + 1 (abstained) |
| Against exemption from liability | 12 | | | 12 |
| TOTAL | 27 + 3 (abstained) | 3 | 3 | |
| Shareholder proposals | | | | |
| Against | 46 | 22 + 1 (abstained*) | 2 | 76 + 1 (abstained) |
| For | 4 | 2 | 1 | 7 |

* It was not possible to vote against (only to abstain from voting for) a proposed alternative board candidate.

Table 26

Dilemmas and challenges

Letters to nomination committees regarding voting against the inclusion of CEOs on boards of directors

Since 2019, Folketrygdfondet has sent letters to company boards when it intends to vote against one or more board proposals. In 2020, we also sent a copy of such letters to the relevant nomination committees when we intended to vote against a board member.

As described in the 2019 ownership report, Folketrygdfondet sees a dilemma in the fact that the Swedish Corporate Governance Code permits election of a CEO as an ordinary board member (albeit not as board chair).

For companies registered in Norway, this is prohibited by the Public Limited Liability Companies Act. Moreover, the Norwegian Code of Practice for Corporate Governance recommends that no executives should be board members. Folketrygdfondet considers this an important principle, as one of the board's priority tasks is to supervise company management, a task that includes appointment and dismissal of the CEO. Folketrygdfondet has therefore voted against election

of the CEO to the board of directors where candidates have been nominated individually. Where candidates have been nominated as a group, under a single agenda item, we have found it difficult to vote against the entire board for this reason alone.

Folketrygdfondet considers participation in nomination committees one of the most important forms of active ownership. We value the common practice that major shareholders engage in and are represented on the nomination committees of Swedish companies. As a smaller shareholder in Swedish companies, Folketrygdfondet considers that it has a responsibility to notify nomination committees when it intends to vote against one or more proposed candidates.

We have found that nomination committees appreciate feedback from other shareholders, and that views on the inclusion of CEOs on company boards are changing in Sweden.

REFINING COMMITTEE PARTICIPATION

Folketrygdfondet is represented on the nomination committees of 15 Norwegian companies. We also participated in three corporate assemblies in 2020.

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 on

several corporate assemblies in 2020, in addition to the various nomination committees.

Folketrygdfondet representatives were elected to four new nomination committees in 2020: Kongsberg Gruppen ASA, Nordic Semiconductor ASA, Norsk Hydro ASA and Orkla ASA. In addition, Folketrygdfondet's representatives on the corporate assembly of Norsk Hydro ASA were replaced during the year. Compared to three years ago, Folketrygdfondet is now more broadly represented. 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 15 since 2017, while the number of Folketrygdfondet staff involved has increased from 5 to 10. We therefore gave particular priority to systematising work in this area, and to our internal resource allocation, in 2020. 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 2020

Corporate assemblies

| | | |
|-----------------|---|--------------|
| Equinor ASA | Chief Investment Officer Equities Nils Bastiansen | Deputy chair |
| Norsk Hydro ASA | CEO Kjetil Houg | Member |
| Telenor ASA | Portfolio Manager Lars Tronsgaard | Deputy chair |

Nomination committees

| | | |
|-----------------------------------|--|--------|
| Entra ASA | Portfolio Manager Tine Fosslund | Member |
| Gjensidige Forsikring ASA | Portfolio Manager Pernille Moen | 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 |
| 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 |

Portfolio climate risk

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), which identifies political developments, structural trends, sector dynamics and other material changes in framework conditions as some of the

assessment factors included in our analyses. 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 22

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 appointed a project group in 2020 composed of the Chief Investment Officer

Equities and representatives of the fixed-income, risk management and legal functions. Among other things, the project group tested different solutions and suppliers of analysis tools. In this report, we present the results of the Paris Agreement Climate Transition Assessment (PACTA), a free, annually-updated tool developed by the 2^o 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. We review the analysis methods and results below.

The tool also facilitates stress testing in line with the Bank of England's approach. The tool reveals that the three scenarios used in the Bank of England stress test all entail a drop in value of 8 to 9 percent of the equity portfolio. While the stress test is based on very simple assumptions, its advantages are its transparency and its attempt to quantify climate-related financial implications for the portfolio.

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 eight sectors deemed particularly important for achieving the 2°C target. These eight 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 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 2019. This is especially relevant in relation to 2020, when the Covid-19 pandemic shook up the investments plans of most companies in sectors included in the analysis.

The figures below show the exposure of the equity portfolio to climate-relevant sectors.

TOTAL NUMBER OF EQUITY INVESTMENTS INCLUDED IN THE ANALYSIS

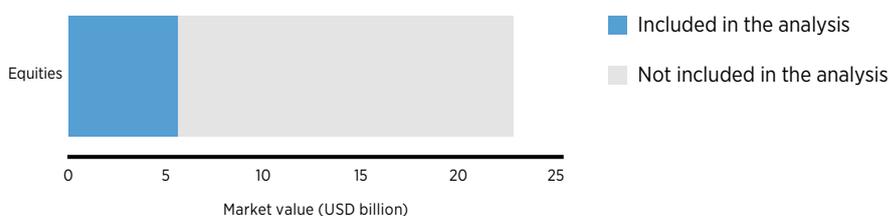


Figure 31

DISTRIBUTION OF CLIMATE-RELEVANT SECTORS IN THE PORTFOLIO INCLUDED IN THE ANALYSIS

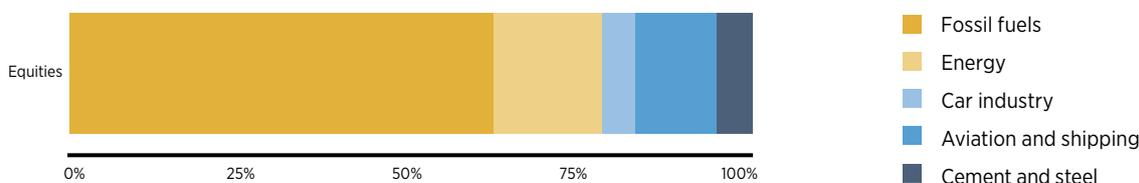


Figure 32

Approximately USD 5.7 billion (NOK 48.6 billion) of the equity portfolio is exposed to climate-relevant sectors, with fossil fuels clearly accounting for the largest proportion.

The analysis then examines exposure to oil/gas, coal, power and car production. In this step, exposure is compared to MSCI ACWI. This is illustrated in the figures 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 MSCI ACWI

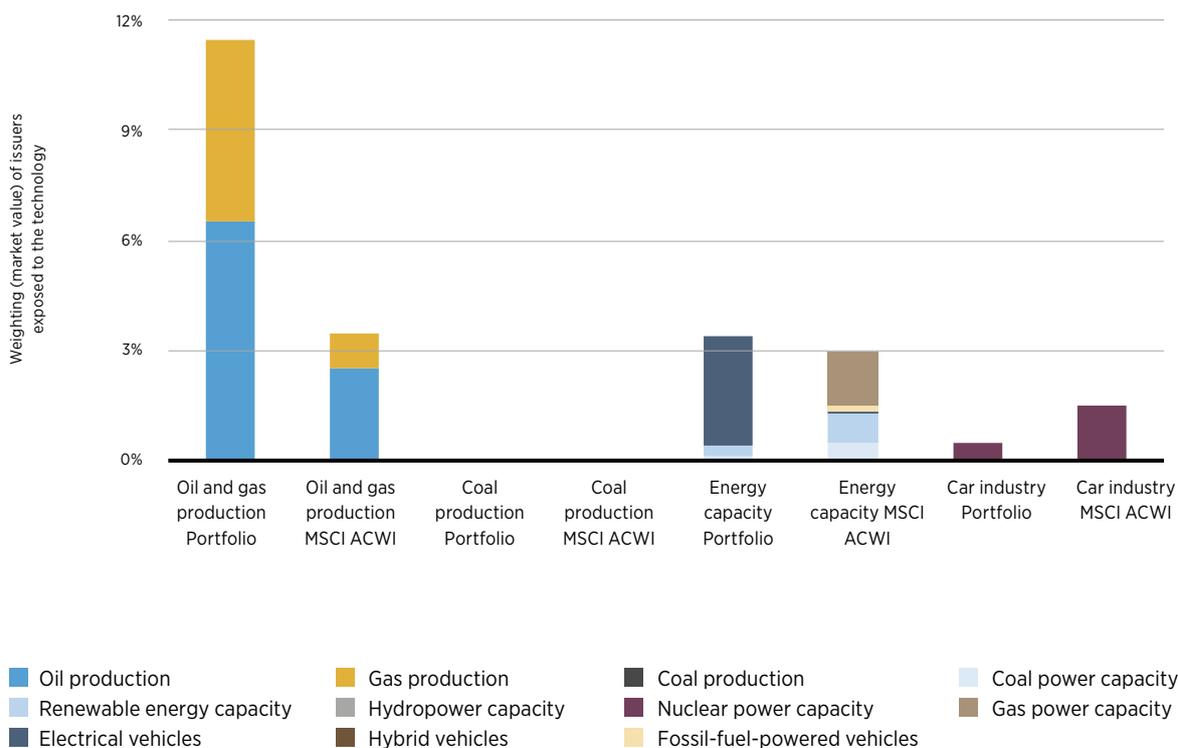


Figure 33

Based on the supporting data outlined above, PACTA forecasts production capacity in the equity portfolio and the MSCI ACWI benchmark portfolio before comparing this forecast to the IEA's transition scenarios. The forecast is based on current portfolio weightings for both individual companies and industries.

Five-year forecasts for oil and gas production are shown below. The solid lines represent the forecast

for the Government Pension Fund Norway, while the broken line indicates the global benchmark. The forecast is based on companies' communicated investment plans for the next five years.

It is clear that oil production (left-hand panel) will rise sharply 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

DEVELOPMENT OF FORECAST OIL PRODUCTION

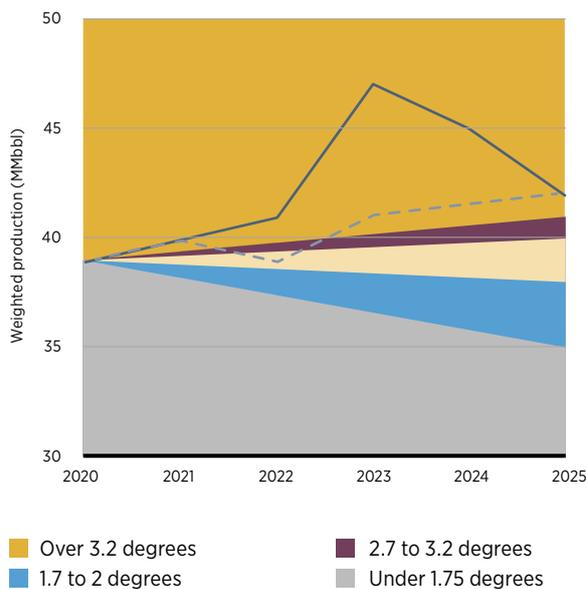


Figure 34

DEVELOPMENT OF FORECAST GAS PRODUCTION

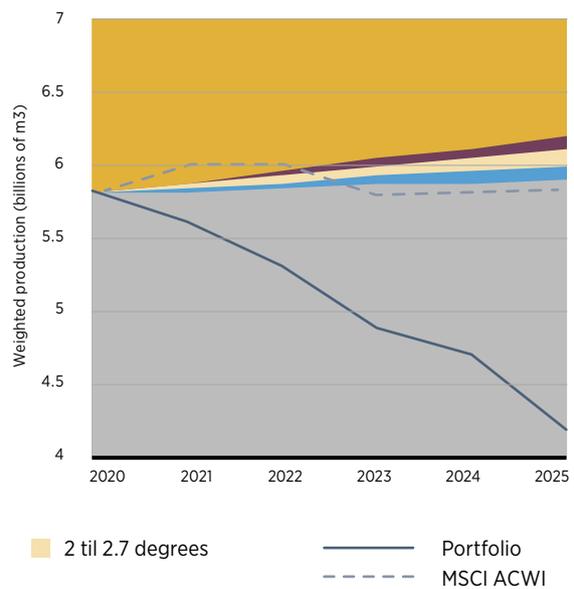


Figure 35

benchmark means that production pathways are strongly impacted by the investment plans of individual companies.

For example, the opening of the Johan Sverdrup field accounts for the majority of the increase in oil production in the period to 2023. Longer-term production is naturally less certain, and not all companies provide relevant guiding.

The various coloured pathways indicate the associated rise in global temperatures, assuming that the global real economy follows the same production

trend. Grey, for example, represents the necessary development in order for the temperature rise to stay below 1.75 degrees, while orange represents a temperature rise exceeding 3.2 degrees.

As regards gas production, the anticipated percentage decline in production among companies in the equity portfolio mirrors the estimated decline in global gas production required to keep the temperature rise below 1.75 degrees. The graph below shows the equity portfolio's exposure to renewable power production. It shows that the anticipated

percentage production increase among companies in the equity portfolio is in line with the percentage increase in global renewable energy production required to keep the temperature rise below 1.75 degrees.

Similar comparisons are made for other sectors, 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.

Bank of England (BoE) stress test

We can use the same portfolio classification as above to conduct Bank of England stress tests. Using PACTA data allows us to refine the classification by including company-level data.

The BoE has developed three scenarios:

- A. A sudden, disorderly transition period featuring rapid global measures to keep the temperature rise below 2°C. The transition is completed in 2022, and the temperature rise by 2100 is well below 2°C. This maximises transition risk.
- B. A long-term transition period ending in 2050. The transition occurs over three decades and is orderly. Once again, the temperature rise by 2100 is kept well below 2°C.
- C. A scenario where climate measures fail and the temperature increase by 2100 exceeds 4°C. In this scenario, there is no transition and current policy trends continue. Physical risk is the dominant factor in this scenario.

The results of the three tests for the equity portfolio are illustrated in the figure below.

DEVELOPMENT OF RENEWABLE CAPACITY

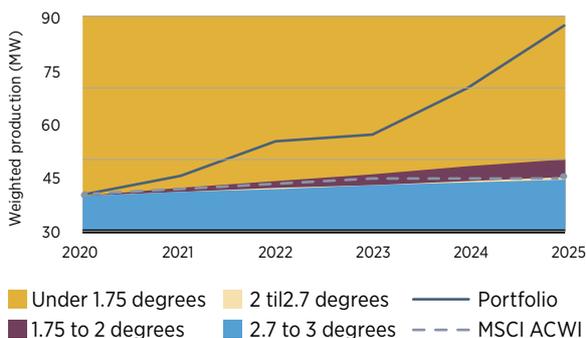


Figure 36

ESTIMATED VALUE LOST/GAINED BY SECTOR AS A PERCENTAGE OF THE EQUITY PORTFOLIO

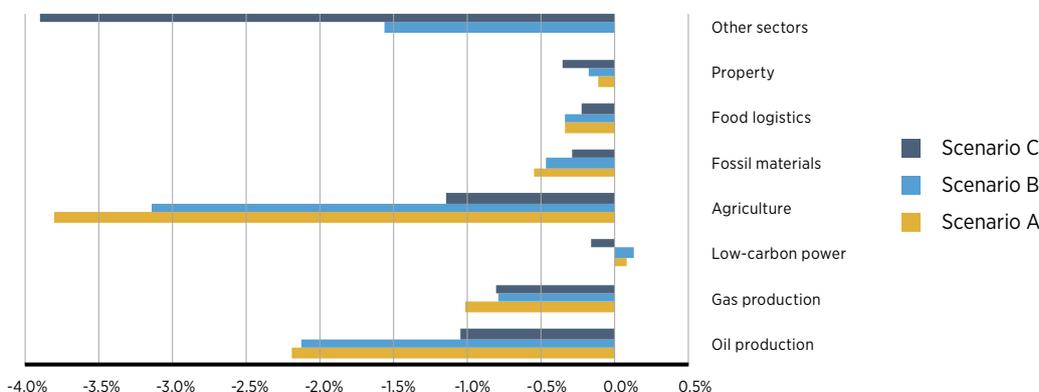


Figure 37

The lost-value totals calculated using the three tests are quite similar, at around 8 to 9 percent of the equity portfolio. The large loss on other sectors in Scenario C is of particular interest. This indicates that companies in segments other than so-called climate-sensitive sectors will also be negatively impacted by uncontrolled temperature changes.

A further factor worth noting is the significant contribution of the agricultural sector in all three scenarios. The Government Pension Fund Norway's exposure to this sector stems from its aquaculture investments, which are classified agricultural. Climate is undoubtedly also relevant to companies in the aquaculture sector, as we have discovered through our dialogues with relevant companies. However, it is unlikely that the financial risk associated with aquaculture will materialise in the same form as in the case of companies involved in beef or corn production, for example.

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. For example, shares in banks whose lending portfolios give them high exposure to the most at-risk sectors are also likely to suffer devaluation. Moreover, individual companies in industries with apparently limited exposure to climate risk may generate substantial losses or gains due to company-specific factors, for example if a company is dependent on an input factor manufactured by a sub-contractor who is affected by a natural disaster.

CONCLUSIONS AND CHALLENGES

Generally, Folketrygdfondet's project group 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 Bank of England stress test comes closest to achieving this. It seeks 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 but transparent and simple 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:

FACTA

- 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 2019, 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 production increase among portfolio companies is primarily attributable to the opening of the Johan Sverdrup field.
- The communicated investment plans of gas-producing portfolio companies as at the end of 2019 implied a 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 hydropower-producing portfolio companies as at the end of 2019 do not imply an increase in total production. A corresponding lack of growth in the global renewable energy sector would make achievement of the Paris Agreement targets unlikely.

Bank of England (BoE)-stresstest

- The BoE stress test estimates the total value lost in the equity portfolio at 8 to 9 percent in all three scenarios.
- The BoE stress test estimates the financial climate risk to be greatest with respect to the agricultural investments in the Government Pension Fund Norway, including companies involved in salmon farming. As described above, the value drivers of the aquaculture industry are so different from the rest of the global agricultural sector that this classification is probably somewhat imprecise.
- The stress test estimates that the second-highest financial risk (after agriculture), is associated with oil production, followed by gas production.
- Among all the affected sectors, only one value increase is forecast, namely for low-carbon energy investments in Scenario B (orderly transition). However, this increase is far smaller than the total loss linked to negatively affected sectors.

Carbon footprint

We have conducted emissions analyses of the Norwegian equity portfolio since 2013. The analysis for 2020 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. When companies do not report their emissions, we use estimates. Even when companies do 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 consequences

(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 CO₂e analysis* is based on our equity portfolio as at 31 December 2020. 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 CO₂ 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 CO₂ intensity).

The analysis incorporates 2019 data on direct emissions (Scope 1) and indirect emissions from energy (Scope 2). Emissions estimates are used for companies that do not report emissions directly or to the CDP.

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

1. The portfolio's absolute CO₂ emissions. The figure is based on the total emissions of the portfolio companies, adjusted to reflect our ownership percentages (tonnes of CO₂e).
2. The portfolio's CO₂ efficiency. The figure is based on the portfolio companies' emissions compared to our investment (tonnes of CO₂e/NOK million invested).
3. The weighted average of the portfolio's CO₂ intensity. The figure is based on the portfolio companies' total CO₂ emissions compared to sales (tonnes of CO₂e/NOK million in sales), adjusted to reflect the value of the shareholding in each company compared to the portfolio value.
4. The portfolio's CO₂ intensity. The figure is based on the portfolio companies' total CO₂ emissions compared to sales (tonnes of CO₂e/NOK million in sales), adjusted to reflect our share of the companies' market value.

* CO₂e stands for CO₂ equivalent, and compares the emissions of different greenhouse gases relative to one unit of CO₂. It is calculated by multiplying the emissions of a given greenhouse gas by the gas's 100-year global warming potential. Source: Statistics Norway.

CO₂-ANALYSE AV AKSJEPORTEFØLJEN PER 31.12.2020 (31.12.2019)

| | Portfolio | | Benchmark index | | Difference |
|---|-----------|-----------|-----------------|-------------|------------|
| | 2020 | 2019 | 2020 | 2019 | 2020 |
| Percentage of companies that report their greenhouse gas emissions | 84.80 | 83.21 | 83.28 | 80.81 | – |
| TCFD Total CO ₂ emissions (tonnes of CO ₂ e)* | 3 374 063 | 3 819 713 | 222 138 848 | 237 555 047 | – |
| TCFD Total CO ₂ emissions per NOK million invested (tonnes) | 20.86 | 22.93 | 21.77 | 23.83 | -0.91 |
| TCFD Weighted average CO ₂ intensity (weighted average tonnes/NOK million) | 18.56 | 20.70 | 19.34 | 21.63 | -0.78 |
| TCFD CO ₂ intensity (tonnes/NOK million in sales) | 31.18 | 35.30 | 31.91 | 36.28 | -0.73 |

* CO₂e stands for CO₂ equivalent, and compares the emissions of different greenhouse gases relative to one unit of CO₂. It is calculated by multiplying the emissions of a given greenhouse gas by the gas's 100-year global warming potential. Source: Statistics Norway.

Table 28

Plan for 2021

The conclusion reached on the basis of the project group's testing of different analysis tools is that methods for quantifying climate risk in investment portfolios are still at a developmental stage. Climate risk will undoubtedly have a substantial impact on financial markets going forward, but this field remains under-developed. Folketrygdfondet has therefore decided to extend the work of the project group through participation 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.

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. In 2020, we worked to promote strong standards through the external initiatives in which we are engaged. For example, in collaboration with the Norwegian Society of Financial Analysts and NHH Norwegian School of Economics, we have contributed to the development of an advanced course on sustainable financial analysis. Students who combine the course with the authorised financial analyst programme qualify for an executive MBA in finance from NHH.

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

Contributing to well-functioning markets

Norsif guide on integration of ESG into valuations

In 2020, Folketrygdfondet chaired a Norsif working group on integration of ESG into valuations. In collaboration with three academics from NHH Norwegian School of Economics, the working group published the first guide on integration of ESG into valuations in the Nordic market. The guide was also included on the required reading list for a new advanced course on sustainable financial analysis organised by the Norwegian Society of Financial Analysts (NFF) and NHH Norwegian School of Economics.

Precisely how ESG can be integrated into valuations is currently a hot topic, as demonstrated by the large number of investors, banks and brokerages who participated in a joint Norsif-NFF seminar held in connection with the launch of the guide. Folketrygdfondet regards this initiative as an opportunity to support further ESG-focused research in the finance field, and as a means of building bridges between the financial markets and Norwegian higher-education institutions.

Plan for 2021

In 2021, 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 2020

| Recipient | Topic | Date sent |
|--|--|-----------------|
| UN-supported Principles for Responsible Investment (PRI) | Consultation on PRI's strategic plan 2021-2024 | 4 December 2020 |
| Danish Committee on Good Corporate Governance | Revision of the recommendations on good corporate governance | 14 August 2020 |
| Ministry of Finance | Draft regulations on pricing of mandatory offers | 12 May 2020 |
| UN-supported Principles for Responsible Investment (PRI) | Consultation on PRI's reporting and assessment framework: phase II | 2 March 2020 |

PARTICIPATION IN EXTERNAL INITIATIVES IN 2020

| 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"> Chief Compliance Officer and General Counsel Christina Stray, board member and member of the capital markets technical committee |
| Norwegian Society of Financial Analysts | To promote: <ul style="list-style-type: none"> public understanding of the function and importance of the capital markets in the Norwegian economy the provision of high quality financial analysis the efficient functioning of the capital market within appropriate operating parameters high ethical standards in financial analysis, asset management, advisory services and trading in financial instruments | <ul style="list-style-type: none"> Chief Compliance Officer and General Counsel Christina Stray, board member and member of the equity committee Deputy Director Equities Ann Kristin Brautaset, member of the committee that awards the Stockman Prize Portfolio Manager Lars Tronsgaard, member of the portfolio committee Portfolio Manager Hege Kristine Huse, member of the bond committee Portfolio Manager ESG Annie Bersagel, member of the equity committee, the committee on women in front-end finance and the steering committee for the society's course on sustainable finance |
| 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"> Chief Compliance Officer and General Counsel Christina Stray, committee chair and representative of the Norwegian Society of Financial Analysts |
| 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"> Chief Investment Officer Equities Nils Bastiansen, member |
| 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"> Chief Compliance Officer and General Counsel Christina Stray, chair of the nomination committee Portfolio Manager Tine Fosslund, board member Portfolio Manager ESG Annie Bersagel, chair of the working group on ESG in the valuation context |
| CDP (formerly known as the Carbon Disclosure Project) | To prevent climate change and protect natural resources | <ul style="list-style-type: none"> Portfolio Manager ESG Annie Bersagel, representative |
| 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"> Portfolio Manager ESG Annie Bersagel, representative |
| Norsk restrukturingsforum (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"> Portfolio Manager Lars Tronsgaard, member |
| Securities Act Committee | Examine how future EEA rules in the securities area should be implemented in Norwegian law | <ul style="list-style-type: none"> Chief Compliance Officer and General Counsel Christina Stray, member |

RESPONSIBLE FIXED INCOME INVESTMENT IS BROADER THAN ESG ALONE

Responsible fixed income investment involves evaluating all aspects of how we perform our management assignment. Our management strategy must promote market efficiency and sustainable allocation of capital.

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 and the Government Bond Fund in a way that secures strong long-term financial performance.

Folketrygdfondet's aim is to achieve the highest possible returns over time. Responsible investment and ESG follow-up serve a financial purpose, and have been integrated into investment processes and the exercise of active ownership and creditor functions.

In addition to emphasising material ESG factors, 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.

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 noted 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.

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

Table 31

Developments in 2020

Folketrygdfondet has developed a document providing an overview of its expectations of portfolio companies. The purpose of the document is two-fold: to explain our integrated and financial approach to ESG in greater detail and to help hold boards of directors and management accountable. The document is also a useful tool in company dialogues.

The expectation document applies to both our equity and our fixed-income investments. To make the document more relevant to our dialogues with issuers and arrangers, we have included special expectations related to these entities. In our experience, this has proven useful in meetings with companies and financial institutions. We will give priority to refining how we address these expectations in cooperation with relevant parties.

Expectations of issuers:

- Thorough knowledge of what is involved in using capital markets financing, and of the functioning of the bond market
- Balanced loan agreements
- Provision as planned of information to the market throughout the loan term, including material sustainability-related risks
- Thorough statements on financial developments related to key loan terms
- Immediate communication of relevant news to the market
- Contact and involvement in the event of amendments or credit events
- Equal treatment of all lenders

Expectations of arrangers:

- Informing new issuers of what is involved in using the bond market as a source of financing
- Assessing issuer suitability for bond financing
- Planning share issues in consultation with issuers so that they can be implemented in a transparent and technically appropriate manner
- Thorough credit analyses which are updated throughout the loan term
- Thorough assessment of the loan agreement, including a statement on key loan terms
- Follow-up of issuers when the company develops weakly and amendment of the loan agreement is required or credit events occur

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 2020. We monitor market developments closely, and assess ongoing developments in capital markets related to sustainability and ESG instruments. We are also monitoring regulatory developments in the EU and Norway closely, since these could potentially affect market stakeholders and the capital markets.

We assess ESG risk at both company and sector level, giving particular emphasis to companies with high credit risk.

Plans for 2021

It is commonly agreed that ESG is a future priority area. It has been decided that Folketrygdfondet will participate in UNEP FI's Phase III project. As part of this participation, we will be testing different tools for identifying the ESG characteristics of the portfolio.

Further, our participation will foster skills-building, close cooperation with knowledge enterprises and the development of relevant tools. We will also be using ESG methodologies in our analysis work, and will be re-assessing which ESG methodologies are most relevant for our portfolio. An important aspect of conducting credit analysis in connection with our investment decisions is identifying applicable ESG risk. To ensure optimal risk identification, we must ensure that our methodological tools provide the most accurate picture possible. We are therefore surveying and exploring available options in this area.

We will continue to participate actively in all relevant forums, and are closely monitoring market developments and the regulatory framework.

VOTED AT EIGHT BONDHOLDER MEETINGS

Folketrygdfondet takes a solution-oriented approach to bond loan renegotiations. In 2020, we voted at eight 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 2020, Folketrygdfondet voted at eight bondholder meetings. Six of the matters involved loan agreement amendments, while two related to restructuring.

In addition to formal bondholder meetings, Folketrygdfondet regularly engages in dialogue with issuers, including through company presentations, roadshows and one-on-one meetings. In 2020, Folketrygdfondet had 113 meetings with 87 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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