GPFG responsible investment

GOVERNMENT PENSION FUND GLOBAL

NORWEGIAN MINISTRY OF FINANCE

Content

“A good long-term return depends on sustainable development in economic, environmental and social terms.”

FOREWORD FROM THE MINISTER OF FINANCE

Just before Christmas 1969, the news broke that oil had been found in the Ekofisk field in the North Sea. Not many nations receive such a gift. This historic event has transformed Norway.

Petroleum activities have generated considerable revenues for Norway since the industry’s first contribution to the National Budget in 1971. These funds have enabled us to build our welfare state and have helped make Norway one of the best countries to live in today.

The wealth generated by petroleum activities also belongs to future generations. Using the proceeds from the oil sector, we have built up one of the world’s largest public funds: the Government Pension Fund. The Fund ensures that it is not only the current population of Norway that benefits from the oil wealth. The Fund plays a vital role in our ability to meet the increased expenditure in both social security and health care that will come as a result of an ageing population. The Pension Fund is large relative to the size of the Norwegian economy, and the returns on the Fund make a major contribution to the Norwegian welfare state. The first deposit into the Fund was made in 1996 and totalled just under two billion kroner.

We want the Government Pension Fund Global to be a responsible investor. By this I mean that we ensure a good return over time and also that we safeguard the values held by the owners of the Fund, the population of Norway.

A good long-term return depends on sustainable development in economic, environmental and social terms. We will

therefore use the instruments we have as a financial investor to contribute to such a development.

The Fund is a professional financial investor. This means that the Fund cannot uphold all the ethical commitments we have as a nation. If we used the Fund to go into areas where the Government has other more suitable instruments, for example through its foreign policy, we would risk losing credibility as an investor and in our active ownership. At the same time, the Fund shall maintain high ethical standards and be one of the world's foremost funds in this area.

In this brochure we present our strategy for responsible investment. It gives an overview of all the work we do to promote sustainable development, including examples that show how we work in practice.

We have not finished this work yet; in fact, we are still in the early phases. This is an area in rapid development that demands that we monitor international developments and remain open to change in the future.

Sigbjørn Johnsen
The Minister of Finance

ABOUT THE GOVERNMENT PENSION FUND GLOBAL

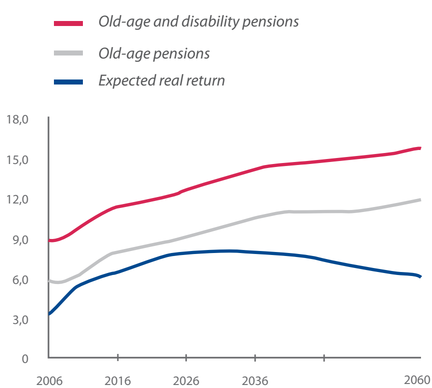
Government revenues from petroleum activities are saved in the Government Pension Fund Global (GPFG). This ensures that also tomorrow's generations will benefit from the oil wealth.

To safeguard economic stability both in the short and the long run, revenues from the petroleum sector are gradually phased into the Norwegian economy from the GPFG to a level that can be sustained. If we spend all the petroleum income in the course of just a few generations, we will see strong growth in some parts of the economy, while sectors exposed to international competition will suffer. Furthermore, when the natural resource income starts to ebb and run out, Government budgets will have to be tightened correspondingly. The Fund's capital is placed entirely in foreign securities. This ensures a good spread of risk and a good financial return, and it also protects the mainland economy from the effects of variable revenue.

The money in the GPFG is not earmarked for any specific purpose. Nobody has a direct claim on the money in the Fund. Money from the GPFG is transferred only to the Central Government budget and from there into the Norwegian economy. The amount to be transferred is determined during the preparation of the annual budget and is guided by the fiscal rule.

The fiscal rule is a plan for a smooth, gradual increase in the spending of oil revenues in line with the expected real returns on the capital in the GPFG, estimated at 4 per cent of the Fund capital. The exact percentage may vary from year to year, depending on the economic situation or in the event of unexpectedly large changes in the value of the Fund. Separating spending from income accumulation is crucial in order to successfully transform temporarily high petroleum incomes into a permanent increase in welfare.

Pensions under the National Insurance Scheme and expected real return on the Government Pension Fund Global. Percentage of GDP for Mainland Norway



THE GOVERNMENT PENSION FUND

The Ministry of Finance is responsible for the management of the Government Pension Fund, which is a general framework encompassing two funds: the Government Pension Fund Global (GPFG) and the Government Pension Fund Norway (GPFN). The GPFG is managed by Norges Bank (the Norwegian Central Bank) and the GPFN is managed by Folketrygdfondet, within guidelines set by the Ministry.

The accumulation of capital in the GPFG represents a reallocation of oil and gas resources in the North Sea into financial wealth. As the petroleum reserves are extracted, financial assets are accumulated in the GPFG. The first deposit into the Fund was made in 1996. By the beginning of 2010, the total value of the Fund was approximately NOK 2,600 billion.

The capital in the GPFN originates primarily from surpluses in the national insurance accounts from the introduction of the National Insurance Scheme in the sixties and seventies. No new funds are now transferred to the GPFN. At the beginning of 2010, the total value of this Fund was more than NOK 100 billion.

The management assignment

The Ministry of Finance has been commissioned by the Storting (the Norwegian Parliament) to manage the GPFG. The Fund is managed with the aim of achieving a good long-term return with a moderate level of risk. The Ministry of Finance establishes the general guidelines for management and has delegated operative management to Norges Bank.

Strict requirements have been set for the management of the GPFG. We aim for leading international practice in all parts of the fund management: on the investment strategy level, on the operative management level, and in our role as a responsible investor.

The investment strategy

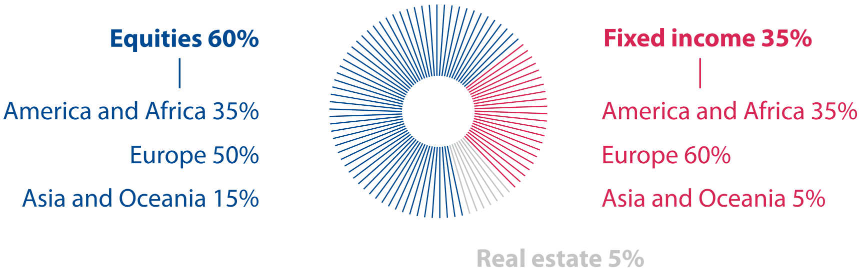
The assets in the GPFG are mainly invested in accordance with a benchmark index determined by the Ministry of Finance. This is a list showing how much should initially be placed in each individual security the Fund invests in. The list is based on commonly used indices from recognised suppliers. Norges Bank is permitted to deviate slightly from this list, within limits set by the Ministry. This type of deviation is called active management. The benchmark index consists of 60 per cent equities and 40 per cent fixed income. Gradually, five per cent of the Fund shall be invested in real estate.

Review of the work on responsible investment

Internationally, the Government Pension Fund Global was one of the first state-owned funds to take ethical, environmental and social issues into account in its fund management. In 2004, the Ministry of Finance established ethical guidelines for the GPFG, based on the recommendations of the Graver Commission (NOU

2003: 22). The Storting adopted the guidelines unanimously. In 2009, the Ministry of Finance carried out a comprehensive evaluation of the ethical guidelines, with input from more than 50 consultative bodies. Many important features have been retained. In addition, the Ministry announced its plans for a more comprehensive strategy for responsible investment practice in the GPFG and decided to introduce several new measures. New guidelines for responsible investment practice have now replaced the ethical guidelines from 2004.

This brochure presents the new strategy. There is more information on the Ministry of Finance's website.



FIXED INCOME

Fixed income securities represent loans. Both governments and companies can borrow money by issuing bonds or other interest-bearing securities, in which each security represents a small portion of the total amount borrowed. Once they have been issued, bonds may be freely bought and sold in the secondary market. The owner of a bond receives a regular return in the form of interest on the loan. Thus the GPFG does not directly provide loans to a government or a company, but buys a security that these have issued and that can be freely bought and sold. When the bond matures, the loan is repaid.

THE ETHICAL GUIDELINES FROM 2004

The guidelines were based on two principles:

- The Fund shall be managed with the aim of a high return, so that future generations can also share in the country's oil wealth. This ethical obligation is safeguarded through the ongoing work of securing a high return at moderate risk, including exercising ownership rights to safeguard the Fund's financial interests. A good return in the long term is considered to be dependent on sustainable development in an economic, ecological and social sense.
- The Fund shall avoid investments that represent an unacceptable risk of the Fund contributing to grossly unethical activities.

The ethical guidelines provided for the use of two instruments: exclusion of companies from the portfolio and the exercise of ownership rights. An independent Council on Ethics was appointed to advise the Ministry of Finance on the exclusion of companies, and Norges Bank was given the task of exercising ownership rights. These guidelines were evaluated in 2009.

1969: Oil discovered in the North Sea (Ekofisk), recovery started in1971.

1990: The Storting passed the Government Petroleum Fund Act.

1996: First net transfer to the Fund. Invested as Norges Bank's currency reserves.

1998: Equity investments included in the benchmark index (40 per cent share).

2000: Five emerging markets included in the benchmark index for equities.

2002: Decision to include corporate bonds in the benchmark index for fixed income.

2004: Ethical guidelines established.

2006: The Government Petroleum Fund changed its name to the Government Pension Fund Global.
2007: Decision to increase the equity portion to 60 per cent. Shares in small companies included in the benchmark index.
2008: Plan to gradually invest up to 5 per cent in real estate (taken from the fixed income portion.) More emerging markets included in the benchmark index for equities.
2009: Evaluation of the ethical guidelines – new measures adopted.
2010: The new measures came into force. New guidelines established.

INFORMATION AND TRANSPARENCY

In the GPFG, money is managed on behalf of the Norwegian population. Transparency and information are essential for people to have confidence in the fund management.

- The Ministry of Finance reports to the Storting on all important matters regarding the Fund, such as the size of petroleum revenues and the Fund, prospects for government finances, changes in investment strategy, the Fund's development, risks and costs, and the work on responsible investment.
- The Ministry of Finance publishes advice and reports received from Norges Bank and external consultants.
- Norges Bank publishes quarterly as well as annual reports on its management of the Fund, including the exercise of ownership rights, an annual list of all investments and the results of voting at annual general meetings.
- The recommendations of the Council on Ethics are published. A list of the companies that have been excluded or are under observation is available on the Ministry of Finance's website.

GPFG – A LONG-TERM AND RESPONSIBLE INVESTOR

The Government Pension Fund Global is managed on behalf of the Norwegian population. Our common ethical values must form the basis of the responsible management of the Fund. We must ensure a good, long-term return from which future generations can benefit. A good financial return over time is dependent on sustainable development in economic, environmental and social terms, and on financial markets that are functioning well.

The Fund is very large – it is one of the biggest funds in the world with only one owner. It is intended to last for many generations. We must therefore adopt a long-term perspective in our investments. This is a decisive prerequisite for the investment strategy.

The GPFG has spread its investments across the globe and into many different types of holdings. The GPFG owns shares in several thousand companies, fixed income and real estate. That way, we are not putting all our eggs in one basket – we are spreading the risk.

In light of these characteristics of the GPFG – its size, long-term perspective and presence in markets all over the world – we believe that sustainable development in its widest sense will also benefit the financial return. Development that is not sustainable could damage the companies in which we have invested in the long term, or cause entire markets or regions not to function as they should. This will affect our long-term return and our future investment opportunities. The Fund belongs to the people of Norway and in managing it we must take important, commonly shared ethical values into account. We therefore have both a responsibility for and a vested interest in contributing to sustainable development, good corporate governance and the safeguarding of environmental and social considerations through our investments.

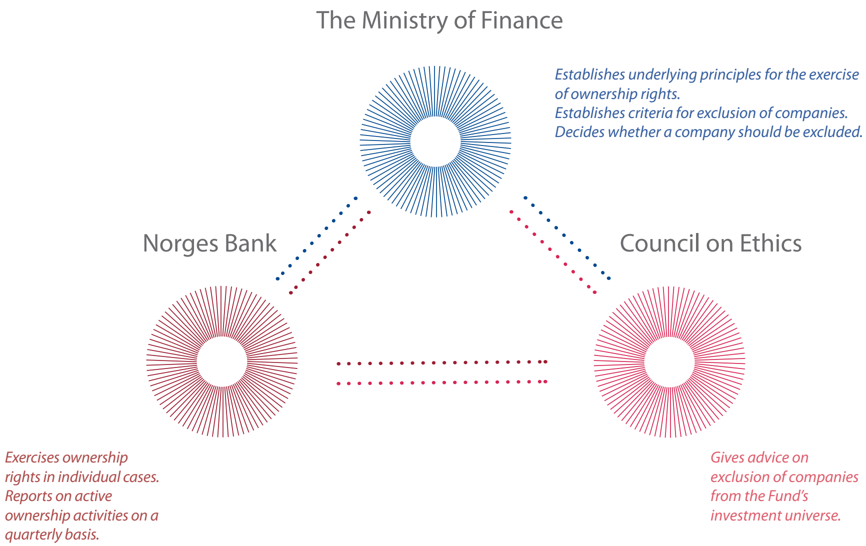
The GPFG is not alone in striving to implement responsible investment practices. Many of the world's large institutional investors have signed the UN Principles for Responsible Investment (PRI).

Goals for responsible management

The Fund shall be managed in a responsible manner that takes factors relating to corporate governance, environmental and social issues into due consideration. The instruments the Fund has at its disposal shall be used with a view to:

- promoting good corporate governance and greater awareness of social and environmental issues among companies in which the Fund has holdings
- helping companies in the portfolio respect fundamental ethical norms
- promoting sustainable development in an economic, environmental and social sense
- promoting good corporate governance as well as organisation of financial markets that safeguard the Fund's interest as a financial investor
- precluding the Fund from having investments that conflict with Norway's obligations under international law
- avoiding investments in companies that engage in grossly unethical activities

DIVISION OF ROLES



Our instruments as a responsible investor

We use a number of different instruments to promote the goals we have set for ourselves. We prioritise the following main areas to integrate considerations of good corporate governance and environmental and social issues in our investments:

- International collaboration and contribution to the development of best practice
- Targeted investment programmes
- Research and investigation
- Active ownership
- Exclusion of companies

It is our ambition to continue to integrate considerations of good corporate governance and environmental and social issues into more aspects of our investment strategy and management. This is in line with the UN Principles for Responsible Investment, which both Norges Bank and the Ministry of Finance have signed.

The Ministry of Finance, as owner of the GPFG, establishes the general framework for the Fund's responsible investment practices. It is also the Ministry of Finance that, on the recommendations of the Council on Ethics, decides whether a company should be excluded or placed under observation.

Norges Bank is the manager of the Fund and is responsible for exercising ownership rights.

The Council on Ethics is charged with monitoring the portfolio with the aim of identifying companies that ought to be excluded from the Fund's portfolio.

The Ministry of Finance, Norges Bank and the Council on Ethics all collaborate with other bodies and contribute to research, investigation and the development of best practice within their own areas.

INTEGRATION IN PRACTICE:

Considerations of good corporate governance and environmental and social issues in investment activities can be integrated at both strategic and operational levels. Norges Bank has been given the task of taking such considerations into account in its operative management:

"The Bank shall integrate considerations of good corporate governance and environmental and social issues in its investment activities, in line with internationally-recognised principles for responsible investment. Integration of these considerations shall take into account the Fund's investment strategy and role as financial manager. In executing its management assignment, the Bank shall emphasise the Fund's long-term horizon for investments and that these are broadly placed within the markets included in the investment universe."

"It has been a great asset to the PRI initiative to have the continuing support from funds such as the Norwegian Pension Fund Global, one of the world's largest sovereign wealth funds, and a leader in responsible investment".

Dr James Gifford, Executive Director, Principles for Responsible Investment

INTERNATIONAL COLLABORATION

Within a very short space of time, responsible investment practice has gone from being something that few investors were interested in to something that more and more investors wish to incorporate into their strategies. As a major player, we shall assume responsibility and contribute to the development of best practice in this area.

It is important to support initiatives that can help develop a clearer common understanding of what constitutes best practice for responsible investment. This provides opportunities for adoption of such practices by larger parts of the investment community. In individual cases, by collaborating with others we can increase the impact on companies or regulatory authorities.

The UN Principles for Responsible Investment (PRI) initiative is important in building a common platform and understanding of these issues. PRI is based on the principle that factors linked to corporate governance and environmental and social issues can affect financial returns, and that these factors should be integrated into fund management and active ownership. Norges Bank is a founding member of the PRI, and both the Ministry of Finance and Norges Bank have signed the principles.

It is important to support initiatives that address the way companies handle environmental and social issues. The UN Global Compact principles require companies to respect human rights and the environment and to oppose all forms of corruption. These principles are part of the basis for Norges Bank's active ownership. The Ministry of Finance and the Council on Ethics are contributing to a Global Compact project that aims at establishing clear guidelines for responsible business practice in areas with war or conflict.

Norges Bank supports several international initiatives to increase reporting and transparency, including in issues involving greenhouse gas emissions, water management and forestry management.

It is important to create meeting places for investors, representatives of companies and voluntary organisations. In recent years, the Ministry of Finance has organised several international conferences, meetings with voluntary organisations and has hosted presentations by recognised experts.

INVESTMENT PROGRAMMES

The Government Pension Fund Global is a long-term investor, present in many parts of the world. Negative environmental developments could also have a negative effect on our portfolio and our investment opportunities. The Ministry of Finance has therefore decided to create a programme aimed at environment-related investment opportunities.

In 2009 the Ministry received the Storting's approval to establish an environmental investment programme. The Ministry is also assessing the possibility of establishing an investment programme directed at sustainable growth in emerging markets. Over a five-year period, about NOK 20 billion will be invested in these investment programmes. To begin with, investments will be made in eco-friendly listed companies or bonds where clear additional benefits can be expected, such as climate-friendly energy efficiency measures, carbon capture and storage, water technology and the treatment of waste and pollution.

The GPFG's primary purpose is financial return. With this as a starting point, we see it as relevant to make investments where we expect positive effects in addition to the overall purpose of a financial return. This might for example entail greater exposure to industries that can become important in the future, and it might enable understanding and knowledge to be built in areas that are important for a long-term investor like the GPFG.

"Whether through its leadership in the exploration of climate risk and strategic asset allocation to its pioneering work to define firm boundaries around the ethical dimensions of investment, the Norwegian Government Pension Fund Global has been in the vanguard of efforts to advance and mainstream responsible investment".

Paul Clements-Hunt, Head, United Nations Environment Programme Finance Initiative (UNEP FI)

RESEARCH AND INVESTIGATION

There remain many unanswered questions about how good corporate governance and environmental and social considerations can be integrated into fund management. We would like to find out more about how this can be done, and what significance such considerations have for risk and return. It will be necessary to develop new methods and instruments for measuring performance. We will therefore contribute to research in this area.

By virtue of the size of the Fund, it is natural for us to assume a responsibility for contributing to research and investigation that can cast light on issues linked to responsible investment practices. We want to constantly stretch ourselves towards better results from the management of the GPFG. We believe that external input and assessments against good practice internationally are important in improving knowledge. Some examples of earlier investigations and studies we have commissioned are available on the Ministry of Finance's website. We also provide input for investigations and studies being carried out by others, such as the PRI.

CLIMATE RESEARCH

According to the Stern Review report, global warming may have serious impacts on global economic growth. For a major universal investor like the GPFG, it makes sense to ask what impacts this may have on financial markets and how investors ought to react in light of this.

To elucidate these issues, the Ministry of Finance signed an agreement in autumn 2009 with the consultancy Mercer and several major international pension funds to investigate the consequences of climate change. The Grantham Research Institute on Climate Change and the Environment, led by Professor Lord Nicholas Stern, is providing economic analyses and scenarios for climate change and international climate policy.

The project is considering what consequences various climate scenarios might have for the global capital markets, primarily up until 2030. The project will also investigate the vulnerability of the participating funds to climate risk and identify possible changes in investment strategy as a result. This is the first time major international pension funds are joining forces to evaluate a global risk factor that may be important for their long-term returns and risk. The main aim will be to increase our knowledge about how climate risk can affect the Fund's investments in the long term.

ACTIVE OWNERSHIP – DIALOGUE YIELDS RESULTS

Norges Bank is the fund manager and the formal owner of the securities. As a shareholder in companies, Norges Bank can exercise its voting rights and in other ways also express its views on corporate governance and overall strategy. Norges Bank's ownership activities also include collaboration with other investors, contact with regulatory authorities and participation in international networks.

Active ownership is demanding and depends on expertise, resources and patience. With ownership in more than 8,000 companies across the world, it is important to have clear priorities and goals in order to have an impact. Norges Bank has defined a number of focus areas within environmental, social and governance issues.

The overall purpose of active ownership is to safeguard the Fund's financial values by contributing to good corporate governance and by striving to achieve higher ethical, social and environmental standards in the companies. Norges Bank's Corporate Governance Principles are based on internationally recognised guidelines: the UN Global Compact, OECD's principles of corporate governance and OECD's principles for multinational enterprises.

As a shareholder in companies, the GPFG can help influence a company's decisions and development. Shareholders primarily do this by voting at the annual general meeting. In addition to such voting, Norges Bank uses several other instruments as part of its ownership activities:

› Voting at annual general meetings
› Shareholder proposals
› Dialogue with companies
› Legal steps
› Contact with regulatory authorities
› Collaboration between investors

"Voting is our main tool for influencing the board of directors" *Norges Bank*

FOCUS AREAS

Impact through active ownership depends on several factors, not least the shareholder's knowledge and commitment of resources. Norges Bank has chosen to concentrate its ownership activities in certain key areas of significance to the portfolio. Given a relatively small holding in each company, such a strategy provides a better opportunity for making an impact. Norges Bank has made it a priority that the areas should be relevant for investors generally and the GPFG's portfolio in particular. They should be suitable for dialogue with companies and/or regulatory authorities and provide an opportunity for making a real impact. They should also be justifiable financially, since Norges Bank acts in the capacity of investor. Against this background, Norges Bank has chosen the following focus areas:

- Good corporate governance
  - › Equal treatment of shareholders
  - › Shareholder influence and board accountability
  - › Well-functioning, legitimate and efficient markets
- Environmental and social issues
  - › Children's rights
  - › Climate change
  - › Water management

VOTING:
Norges Bank has developed publicly available principles for voting. It is Norges Bank's aim to vote at all annual general meetings. Each year, Norges Bank votes at about 10,000 general meetings. The number of resolutions voted on every year now exceeds 85,000. Norges Bank votes on all issues, including those that fall outside the focus areas. The voting records are made public every year.

GOOD CORPORATE GOVERNANCE

Good corporate governance is important for the Fund's returns over time and to ensure the owners real influence and dialogue with the companies in the portfolio.

Equal treatment of shareholders and shareholder influence

Equal treatment of shareholders is important because the GPFG is a small shareholder in many of the companies. Another important issue for Norges Bank is that the companies should have independent boards – one and the same person should not be both CEO and chairman of the board. Norges Bank has also voted against management remuneration where there is no satisfactory relationship between performance and payment.

Well-functioning financial markets

The financial crisis proved that markets do not always function as they should. This incurs costs and creates uncertainty on the pricing of securities. Better regulation and better corporate governance contribute to more stable markets. Norges Bank provides regular input to work on new regulations for the financial markets of many countries and has participated in the preparation of new global principles for corporate governance through the International Corporate Governance Network (ICGN). Norges Bank also supports other forums for collaboration that help authorities and other standard setters to raise the requirements for corporate governance, including the Council of Institutional Investors (CII) and the Asian Corporate Governance Association (ACGA). More stringent requirements for corporate governance facilitate holding the board and management accountable for their decisions and strengthen protection of shareholders' rights. It is an effective way of safeguarding the assets in the Fund.

GOOD ACCESS TO INFORMATION:
Good access to information about actual conditions and the companies' strategies for corporate governance and environmental and social issues is necessary in order to be able to take such factors into account in investment decisions and in the active ownership. Transparency can help counter damaging practices, such as corruption. Norges Bank supports several initiatives that aim to increase reporting and transparency about companies' practices, including the Extractive Industries Transparency Initiative (EITI), the Carbon Disclosure Project (CDP) and the Forest Footprint Disclosure Project. Norges Bank has had a leading role in the development of CDP Water Disclosure.

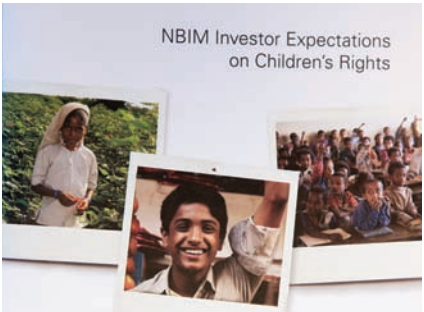
EXPECTATION DOCUMENTS

For the focus areas children's rights, climate change and water management, Norges Bank has formulated its expectations of the companies in dedicated documents.

On the basis of each expectation document, the problems and risk factors of vulnerable sectors are reviewed. A number of companies are analysed, and the results are presented in a publicly available report. The results also form the basis for giving individual feedback to the companies, and the Bank uses them to select some companies for closer dialogue.

CHILDREN'S RIGHTS

Several hundred companies in sectors and markets with a high risk of child labour are analysed each year against the criteria in the expectation document.



Among high-risk sectors are cocoa production, mining, the steel industry and the textile industry. The aim is to have an up-to-date overview of how companies exposed to these risks handle children's rights and child labour.

The criteria in the expectation document cover corporate performance with regard to the worst forms of child labour, sustaining of the minimum age standard, monitoring systems, promoting children's welfare, and the governance structure and reporting systems with regard to these issues.

INDUSTRY COLLABORATION AGAINST CHILD LABOUR

Successful involvement by Norges Bank resulted in the portfolio companies Monsanto, Bayer, Syngenta and DuPont entering into a collaboration to combat child labour in the seed sector. This collaboration was initiated by Norges Bank as part of its ownership activities. The industry standard "CropLife Position on Child Labor in the Seed Supply Chain" was published by CropLife International, a global industry organisation for the plant research industry. The standard sets out the common efforts the companies will make to eliminate the use of child labour by suppliers and other partners in the seed sector.

CLIMATE

The portfolios of GPFG are exposed to the risk of adverse economic effects of climate change.

In August 2009, Norges Bank published an expectation document for corporate management in regard to both effective climate change mitigation and adaptation. Companies are expected to have strategies for managing physical and economic effects and impact of climate change, to set clear targets for reducing greenhouse gas emissions, to explore and exploit opportunities to develop new products and services that will help the transition to a low-carbon economy, and to develop a strategy for dealing with climate change risk in the supply chain. Companies are also expected to be constructive when engaging with policymakers regarding

regulatory responses to climate change and to be transparent regarding their strategies, goals and progress on climate change management.

The work on climate issues involves several sectors and covers a wide geographical area, with a particular focus on Asia since this region is causing the greatest increase in climate effects.

WATER MANAGEMENT

Water is a limited resource, which may have major environmental, social and economic consequences.

Water shortage and poor management of water may have an increasing significance for companies' long-term financial results. The Fund has widespread investments in sectors exposed to water-related risk. The food industry, agriculture, cellulose and paper, medicines, mining, industry and power production, as well as water supplies, are particularly at risk.

Norges Bank has prepared an expectation document on water management which

was published in February 2010. The expectations relate to three main areas: clear water management strategy, sustainable water management and transparent well-functioning governance structure.

“Exclusion should always be a measure of last resort once the company’s will and ability to improve its practices have been assessed; for example after involvement by investors and others.”

EXCLUSION OF COMPANIES

Exclusion has been part of the strategy since the ethical guidelines were established in 2004. Most of the excluded companies have been excluded because of what they produce, namely certain types of weapons and tobacco. We can also exclude companies because of grossly unethical behaviour. Exclusion should always be a measure of last resort once the company’s will and ability to improve its practices have been assessed; for example after involvement by investors and others.

Most of the instances of exclusion from the GPFG’s portfolio concern companies that produce certain products. Such exclusions are limited to types of products where exclusion is supported by a clear set of values shared by the Norwegian population. Companies that produce key components of weapons that violate fundamental humanitarian principles through their normal use, are excluded from the Fund. These include nuclear weapons, cluster munitions and anti-personnel land mines. Following the evaluation of the ethical guidelines in 2009, the production of tobacco also became a criterion for exclusion. The GPFG may not invest in government bonds issued by the government of Burma. Companies that sell weapons to the Burmese state are likewise excluded from the portfolio.

CLUSTER MUNITIONS

According to the Fund's guidelines, companies that produce cluster weapons shall be excluded from the Fund. The Council on Ethics has given advice on the exclusion of companies that manufacture cluster weapons or their key components since 2005.

An important aspect of this work has been to assess what kinds of weapons should be defined as cluster weapons. The Council on Ethics has taken the view that the production of all types of cluster munitions with a large number of explosive bodies, whether surface or air-delivered and regardless of their failure rate in use, constitutes grounds for exclusion from the Fund.

In 2009, an International Convention was negotiated on the prohibition of the use and production of cluster munitions. The previous work of the Council on Ethics was considered by many to be an important contribution to the process that resulted in the Convention. The Convention's definition of cluster weapons largely concurs with the definition used by the Council on Ethics. Since 2009, the Council on Ethics has followed the technical definition of the Convention on Cluster Munitions on what to consider cluster munitions, and has given recommendations on the exclusion of companies from the Fund in line with this.

The behaviour of individual companies

Individual companies may also be excluded from the Fund if we run an unacceptable risk of contributing to grossly unethical activities. This type of exclusion is linked to a company's behaviour. The criteria that form the basis for exclusion are:

- serious or systematic human rights violations, such as, murder, torture, deprivation of liberty, forced labour, the worst forms of child labour and other child exploitation
- serious violations of the rights of individuals in situations of war or conflict
- severe environmental damage
- gross corruption
- other particularly serious violations of fundamental ethical norms

The work and recommendations of the Council on Ethics

The Council on Ethics for the Government Pension Fund Global was created at the same time as the ethical guidelines were established. The Council on Ethics is an independent council that makes recommendations to the Ministry of Finance on the exclusion of companies from the Pension Fund because of acts or omissions that conflict with the criteria of the ethical guidelines. The Council on Ethics is composed of five individuals and has its own secretariat.

The Council on Ethics monitors the portfolio to identify companies that display grossly unethical behaviour as described in the criteria for exclusion. The Council has agreements with several consultants who supply information about the companies. If the Council considers that a company should be excluded, the company will have the opportunity to comment on a draft recommendation for exclusion and its grounds. The Council on Ethics may also engage in dialogue with companies.

RIVERINE TAILINGS DISPOSAL – AN EXAMPLE OF SEVERE ENVIRONMENTAL DAMAGE

Companies can be excluded from the portfolio if they cause severe environmental damage. An example of such exclusions are companies that dispose of mine tailings by dumping them in natural river systems, in Papua New Guinea among other places.

Riverine tailings disposal is in violation of internationally accepted standards and causes severe environmental damage, including heavy metal pollution. The accumulation of heavy metals has harmful long-term effects on both the environment and the life and health of local people. The environmental damages that can be caused by riverine tailings disposal are well known, but the companies that were excluded have not taken any significant measures to prevent or reduce this damage. In these specific cases, the Council on Ethics considered that there was reason to believe that this unacceptable practice would continue in the future.

OBSERVATION

In November 2007, the Council on Ethics recommended that the Ministry of Finance should exclude the German company Siemens because of the gross corruption that was manifest in the company's operations over many years. While the Ministry was considering the case, it was revealed that Siemens had entered into a settlement on the corruption case with German and American authorities to pay a total of approximately NOK 11 billion to German and American authorities. The former German Minister of Finance Theodor Waigel was appointed to monitor the company's anti-corruption work over the next four years and to check that the company was not involved in any further cases of corruption. As a result of this development, the Ministry of Finance decided to put Siemens under observation instead of excluding the company. Both the Council on Ethics and Norges Bank will keep the company under observation in case any further corruption should be revealed.

The decision to exclude a company

It is the Ministry of Finance that decides whether to exclude companies from the investment universe based on recommendations issued by the Council on Ethics. To date, the Ministry of Finance has excluded companies that have contributed to serious human rights violations, severe environmental damage, and other particularly serious violations of fundamental ethical norms. Before the Ministry decides to exclude a company, consideration is given to whether other measures might be more suitable for reducing the risk of norm violations. The Ministry of Finance may ask Norges Bank to comment on a case.

The Council's recommendation and the Ministry's decision to exclude a company are made public after Norges Bank has completed the sale of securities in the relevant company. The sale of all securities will normally be accomplished over a period of two months.

The observation of companies

In some cases there may be doubt as to whether the conditions for exclusion have been fulfilled or how the company's behaviour will develop in the future. In such cases, the Ministry may put the company under observation on the advice of the Council on Ethics. Other factors may also indicate that it may be appropriate to keep a company under observation instead of excluding it, for example if we are aware that other investors are in dialogue with the company and there may be hope of improvement. Regular assessments are made as to whether the company should remain under observation.

Reversing previous decisions

The Council on Ethics routinely assesses whether the basis for exclusion of a company is still valid. If new information shows that this is no longer the case, the Council can recommend that the exclusion be reversed.

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