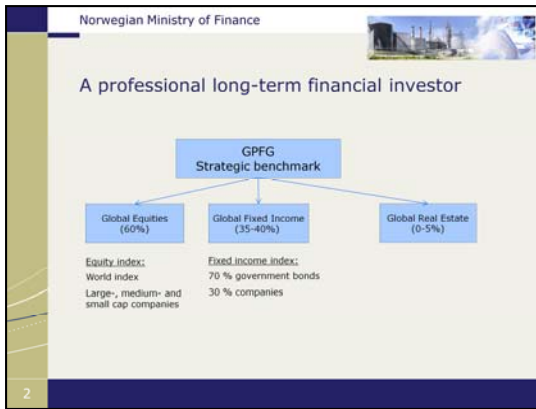
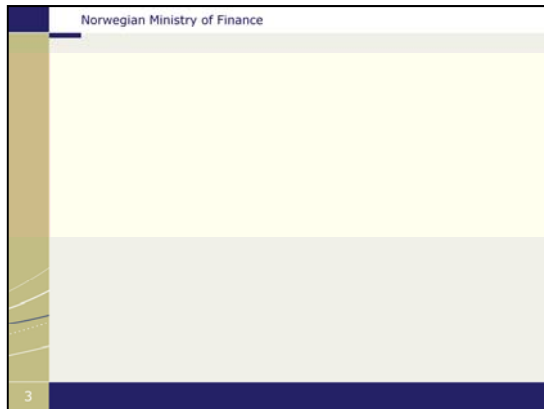




- I am pleased to have this opportunity to present the Fund's work on responsible investments, and on climate change and sustainable forestry in particular.
- The management of the Fund is a dynamic and constantly evolving process.
- Over the space of a few years, responsible investment practice has become something that more and more investors wish to incorporate into their strategies.
- As a major player, we want to contribute to the development of best practice in this area.



- First of all, I think that any debate about the Fund should bear in mind the purpose of the Fund.
- And the main purpose is to ensure that not only this generation, but also future generations will benefit from the petroleum wealth.
- It follows from this, that the Fund has a clear financial goal of maximizing real returns at a moderate level of risk.
- In line with that objective, we seek a broad geographic diversification of the investments.
- The Fund is invested in about 7000 companies, in more than 50 countries worldwide.
- Through the investments we own a small share of the world's productive capacity. On average, the Fund owns 1 % of all listed equities in the world.
- The strategy builds on the Fund's long investment horizon and is based on assessments of expected return and risk over a long period of time.



The role of the Fund as a *financial* investor restricts its room for manoeuvre in other areas.

The state has different roles– and the role as a large financial investor is a slightly untraditional one.

The investment strategy is set by the Ministry of Finance - and anchored in Parliament. But even though the political authorities are responsible for the overall strategy, we still act in the capacity as investor.

The purpose of the Fund is to maximise long-term real return.

Other political objectives must be pursued by other means, for instance through our foreign or environmental policies.

We believe that this is a more effective way of reaching important goals, such as the protection of human rights or tackling climate change.

In addition, we risk losing our credibility as a financial investor if we use the Fund as an instrument in our foreign policy.

This strategy enjoys broad political support.

However, the fact that the Fund is a financial investor does not mean that we do not take ethical considerations into account.

On the contrary, I can assure you that the role as a responsible investor is important for us.

GPFG is a universal owner – sustainability matters to us

- Large, long-term owner of a globally diversified portfolio.
- Owns a share of the "listed" economy.
- Interests might in some cases differ from those of individual companies or other investors.
- A sustainable development is important for us.



- As I mentioned earlier, the Pension Fund owns a small fraction of the world's means of production.

-This is often referred to as universal ownership.

-As a universal owner, we have a broader set of objectives than individual firms and other investors.

-Water management is a good example.

-Water is a key input for many companies – and water scarcity is a growing problem.

-But it is far from clear that individual companies have an incentive to take sustainable water management into account in their short term decision making.

-For the Fund, on the other hand, this is a question which really matters over the medium and long term.

-In other words, a sustainable development is important for us, in order to safeguard the Fund's financial assets.

-As a universal owner we also believe that we have a greater responsibility for contributing to a sustainable development, both in economic, social and environmental terms.



-We have several instruments to promote our role as responsible investor.

-Some measures are targeted towards broad markets, some towards sectors within markets, and some towards single companies.

- Environmental concerns, such as climate change and deforestation are important areas across the whole scale of instruments.



-Exclusion has been part of our strategy since the ethical guidelines were established in 2004.

-This is the most visible tool – and also the tool that has attracted most attention in the public debate.

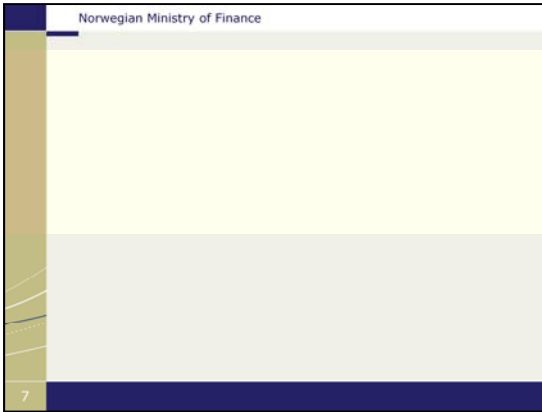
-Some companies are excluded because of what they *produce*.

-

- Others are excluded because of unethical *behaviour* such as severe environmental damage.

The Council on Ethics has chosen “illegal logging and other particularly damaging forms of logging as an area of priority for the coming years.

So far, two forestry companies have been excluded due to severe damage on rainforests.



-Exclusion rarely solves the underlying problem directly.

-When we exclude a company we also lose the ability to exert influence through the exercise of ownership rights.

-Therefore, exclusion should always be a measure of last resort, once the company's will and ability to improve its practices have been assessed.

- In situations where 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, we may choose to place it under formal observation.

- Observation is a relatively new mechanism – and a tool we hope will enable us to stimulate to more change in the companies' behaviour.

Norwegian Ministry of Finance

The Fund's exercise of ownership rights

- Exercise of ownership rights is based on international recognised principles
- Overall purpose of active ownership is to safeguard the Fund's financial values
- Focus areas
 1. Equal treatment of shareholders
 2. Shareholder influence and board accountability
 3. Well-functioning, legitimate and efficient markets
 4. Children's rights
 5. Climate change
 6. Water management

} Good corporate governance
 } Environmental and social issues

The Fund's operational manager, Norges Bank, has made it a priority that the focus areas should be relevant for investors in general and the Fund's portfolio in particular.

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- Active ownership is not as visible as exclusion.

-But this is an important tool that is used on all the companies in the portfolio.

-The active ownership activities are based on internationally recognized global standards established by the UN and the OECD.

-As a shareholder in companies, Norges Bank can exercise its voting rights and in other ways express its views on corporate governance and overall strategy.

- The Bank also collaborates with other investors, it has dialogue with authorities and participates in international networks.

- Active ownership is demanding and depends on expertise, resources and patience.

-With ownership in 7000 companies across the world, it is important to have clear priorities and goals in order to have an impact.


-Therefore the Bank has defined a number of focus areas within environmental and social issues, as well as good corporate governance.

-On these areas the Bank has formulated specific expectations to the companies.

- Climate change is one of the focus areas the Bank has chosen.

Norwegian Ministry of Finance

Exercise of ownership in practice – Expectation Document on climate change



- Has been in place since 2009
- Recently extended to comprise tropical deforestation

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-The expectation document on climate change was published in 2009.

-Norges Bank has recently published a **revised expectation document** which also includes the handling of tropical deforestation.

-The Bank points out that a main cause of tropical deforestation is the growth in global demand for commodities that are produced through the clearing of tropical forest.

-In order to reduce tropical deforestation or achieve new growth of forests, the Bank thus argues that we need to pave the way for the sustainable production and sale of such raw materials.



- In addition to exclusion and the use of ownership rights, we have established a **programme on environment-related investments**.

-These are investments in renewable energy, technology for increased energy efficiency, water technology and the treatment of waste and pollution.

-Through the programme, we aim to learn more about green investments and industries that might become more important in the future.



-Through **international collaboration**, we can help develop a clearer common understanding of what constitutes best practice for responsible investment.

-The UN Principles for Responsible Investment (PRI) are an example.

-Both the Bank and the Ministry have signed these principles.

-Climate change is an important issue in our international cooperation.

-For instance, the Fund participates in several investor initiatives to increase reporting and transparency on areas like greenhouse gases and sustainable forestry (Forest Footprint and CDP)

Forklaringer:

PRI: Investor initiative initiated by UNEP FI and UN Global Compact

CDP: Carbon Disclosure Project. Promotes reporting within the climate area

CDP Water Disclosure Project: Norges Bank 3 year agreement as a main sponsor

ACGA: -Works with investors, companies and regulatory authorities to improve corporate governance in Asia

Forest Footprint Disclosure:-Initiative to disclose companies Forest Footprint based on exposure to 5 key forest risk commodities.

(Timber, Biofule, Palm Oil, Beef, Soy)

EITI (Extractive Industries Transparency Initiative) – Åpenhet om betalingsstrømmer



-Finally, as a big investor, we believe we have a responsibility to contribute to **research and investigation**.

-Improving knowledge is important in order to achieve better management and promote best practice internationally.

-Again, climate change is a central issue.

-A couple of years ago, the Ministry of Finance initiated a research project on how climate change and different policy responses may affect funds like ours over the next 20 years.

-14 large Funds worldwide participate in this study, resulting in the Mercer-report.

Conclusions

- We shall safeguard and build the nation's wealth for future generations
- Good long-term returns depend on sustainable development
- We want to follow and contribute to best practice in responsible investments
- The current strategy for responsible investments is not an end-point.



To sum up:

-The work on responsible investments is an important –but also challenging – part of the management of the Pension Fund.

-Climate change and sustainable forestry are important issues in this work, both in the Ministry, Norges Bank and the Council on Ethics.

-We are satisfied with the results so far, but we have not yet finished this work.

-This is an area in rapid development, therefore I feel certain that we will make further improvements also in the future.

-Thank you for your attention.

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Links

- Ministry of Finance
- www.government.no/en/dep/fin
- Government Pension Fund
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- Norges Bank Investment Management
- www.nbim.no
- Council on Ethics
- www.etikkradet.no