







TINE FOSSLAND

Senior analyst

» **Responsibility means acknowledging your actions and being open about dilemmas.**

FOR ME, responsibility is about integrity, and about seeing things from different angles. It is important to recognise that we face numerous dilemmas, and that sometimes there are no easy answers. Taking responsibility means daring to be open about this reality.

I have particular responsibility for environmental and sustainability issues, and have noted positive trends in these areas. An important part of Folketrygdfondet's social mandate is to promote sustainable growth and responsible business conduct. This responsibility is not a burden, but does require humility. It is also one of my most interesting work tasks.

COMPANIES MUST SUCCEED OVER THE LONG-TERM

Our owner has set a clear objective for us: to deliver the highest possible return over time. We achieve this through active management and active, responsible ownership.

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 constitute 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 have found that the two goals are interdependent. Our active ownership makes us a better manager.

How we organise our responsible investment activities

Our aim is to integrate a responsible investment focus into both our investment activities and the execution of Folketrygdfondet's mission. This objective guides how we structure our work. Folketrygdfondet's board bears overall responsibility for ensuring the management team integrates responsible investment principles in a satisfactory manner. The board does this by making responsible investment a fixed agenda item at board meetings, and by reviewing and approving Folketrygdfondet's responsible investment principles annually.

The CEO has overall responsibility for ensuring implementation of and compliance with the responsible investment principles. Applicable expectations are described in the responsible investment guidelines. Responsibility for implementing these guidelines lies with the management group, and is tailored to the different areas and departments. The equity and fixed income departments have a specific responsibility to integrate responsible investment into their daily operations.

We tailor our responsible investment activities to our various portfolios

The investment mandate and our unique characteristics as an asset manager guide Folketrygdfondet's 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 working to contribute to well-functioning, legitimate, and efficient markets in connection with all our financial instruments and portfolios. This includes supporting the development of strong national responsible investment standards.

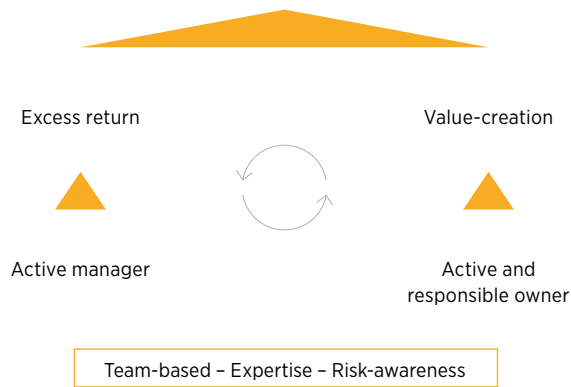
For fixed income instruments, we have the greatest influence before we invest, since bondholders do not have ownership rights. We therefore focus on robust pre-investment ESG analysis to identify issues that

Folketrygdfondet's ownership role

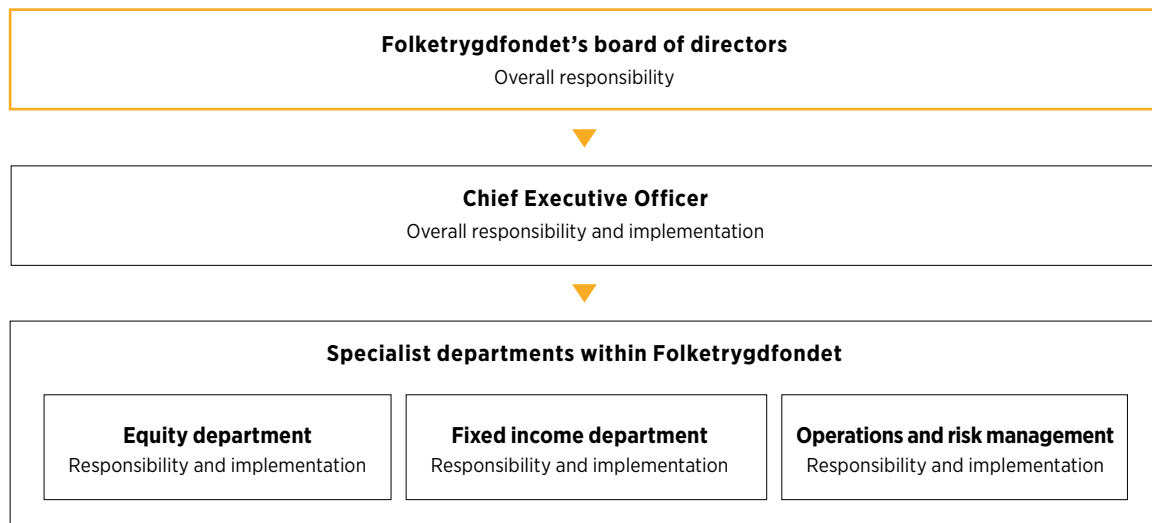
- Our priorities
- Dialogue
- General meetings
- Nomination committees and governing bodies
- Good practice development
- The fixed-income portfolio

OUR INVESTMENT PHILISOPY SUMMARISED

HIGHEST POSSIBLE RETURNS OVER TIME



ORGANISATION



RESPONSIBLE INVESTMENT INSTRUMENTS

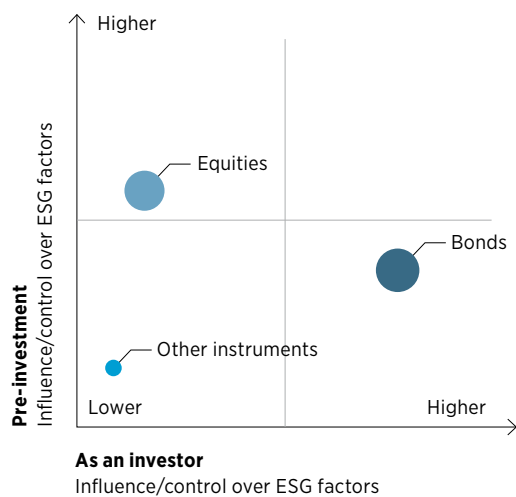
	ESG integration	Exclusion	Dialogue with companies	Voting at general meetings/ bondholder meetings	Promote well-functioning markets
Norwegian equities	●	—	●	●	●
Nordic equities	●	●	●	●	●
Norwegian bonds (corporate)	●	—	●	●	●
Nordic bonds (corporate)	●	●	●	●	●
Government bonds	—	—	N/A	N/A	—
Other instruments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

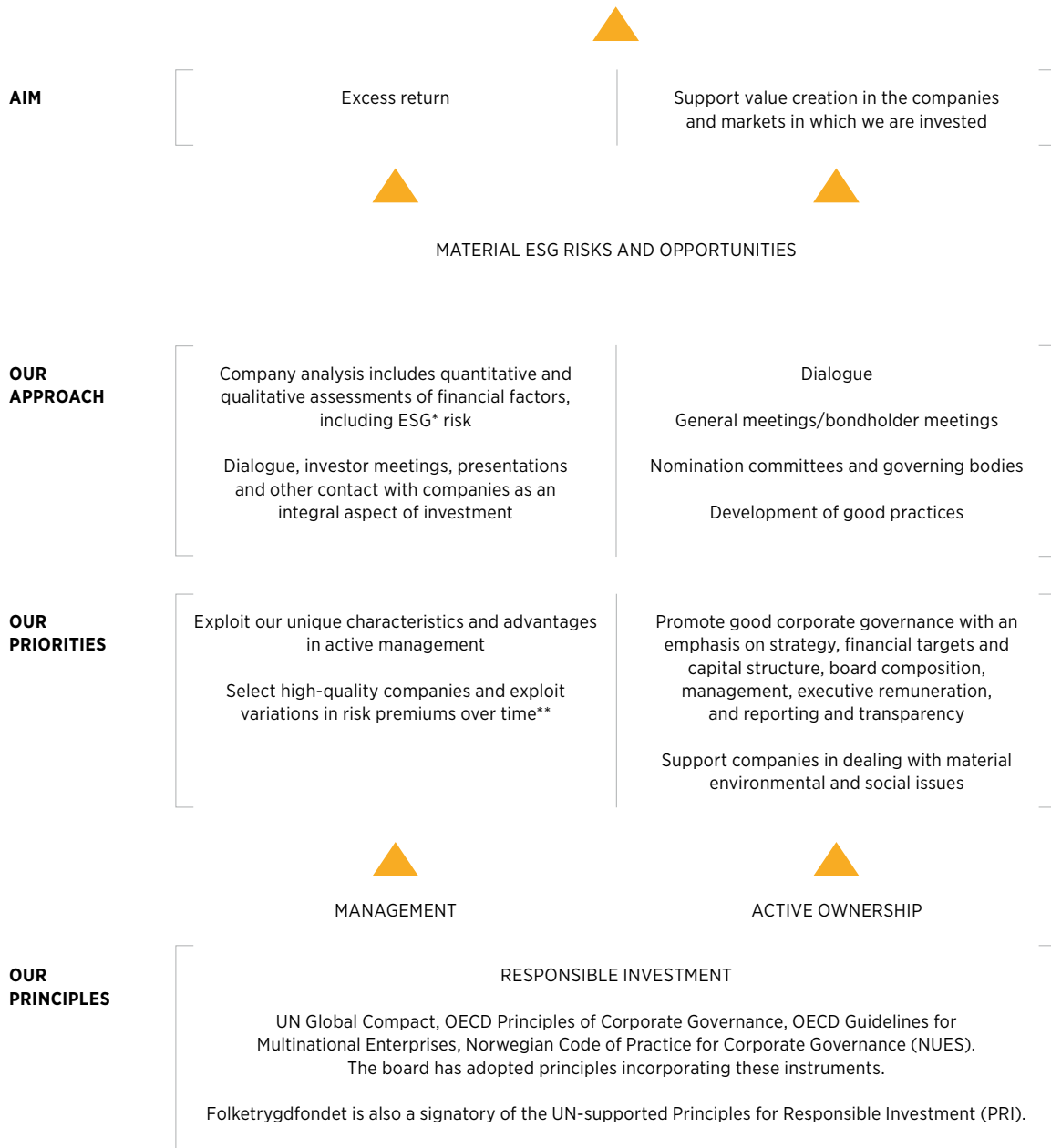
The size of the circle indicates the relative size of the instrument.



OUR RESPONSIBLE MANAGEMENT APPROACH

OVERARCHING AIM DEFINED IN THE MANDATE FROM THE MINISTRY OF FINANCE:

HIGHEST POSSIBLE RETURNS OVER TIME



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.

may affect creditworthiness.

As regards our equity investments, we have the greatest opportunity to influence ESG factors once invested, through our ownership rights. This makes active ownership a priority in relation to 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 short investment horizon, these areas are not a priority in our responsible investment efforts. Instead, we concentrate primarily on the promotion of well-functioning and efficient markets.

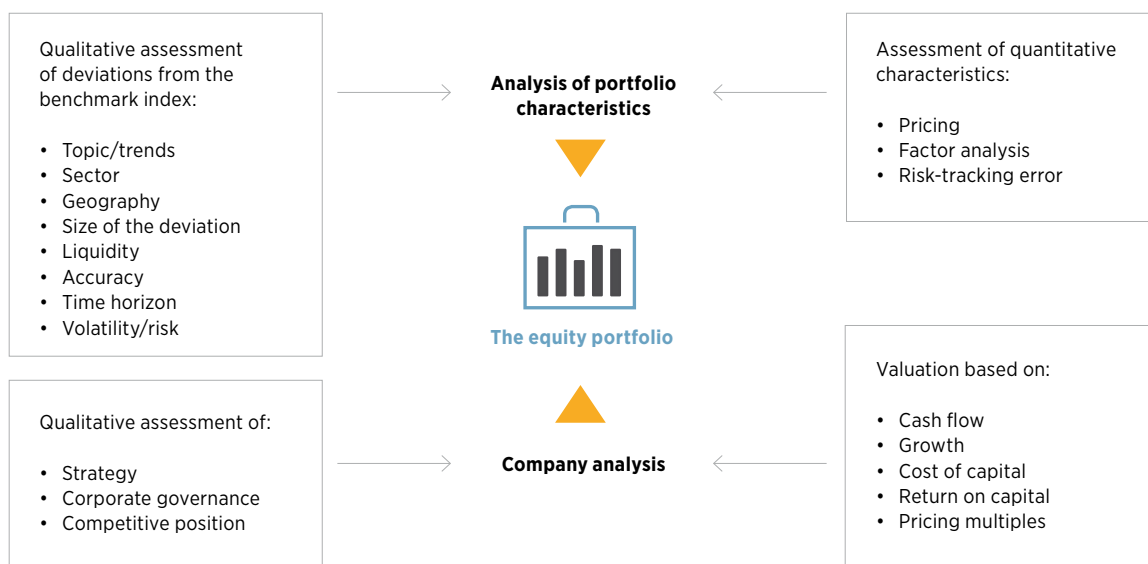
Team-based active management is important

Experience has shown us that the best investment decisions are often made when one is open to new information and interested in different perspectives

and views. That is why we have adopted a team-based approach to active management at Folketrygdfondet. We give high priority to collaboration and information-sharing when compiling our equity and fixed income portfolios. We hold weekly meetings at which the portfolio management teams coordinate their investment decisions.

We also hold daily meetings at which the equity, fixed income, and treasury departments exchange information. This includes in-depth reviews of macro-economic data, trends, sectors, and companies, as well as ESG issues. We use the insights from these meetings in our analysis of the quantitative and qualitative characteristics of portfolios and companies. We believe that our team-based investment model builds expertise and enables us to achieve our overarching aim of the highest possible long-term returns.

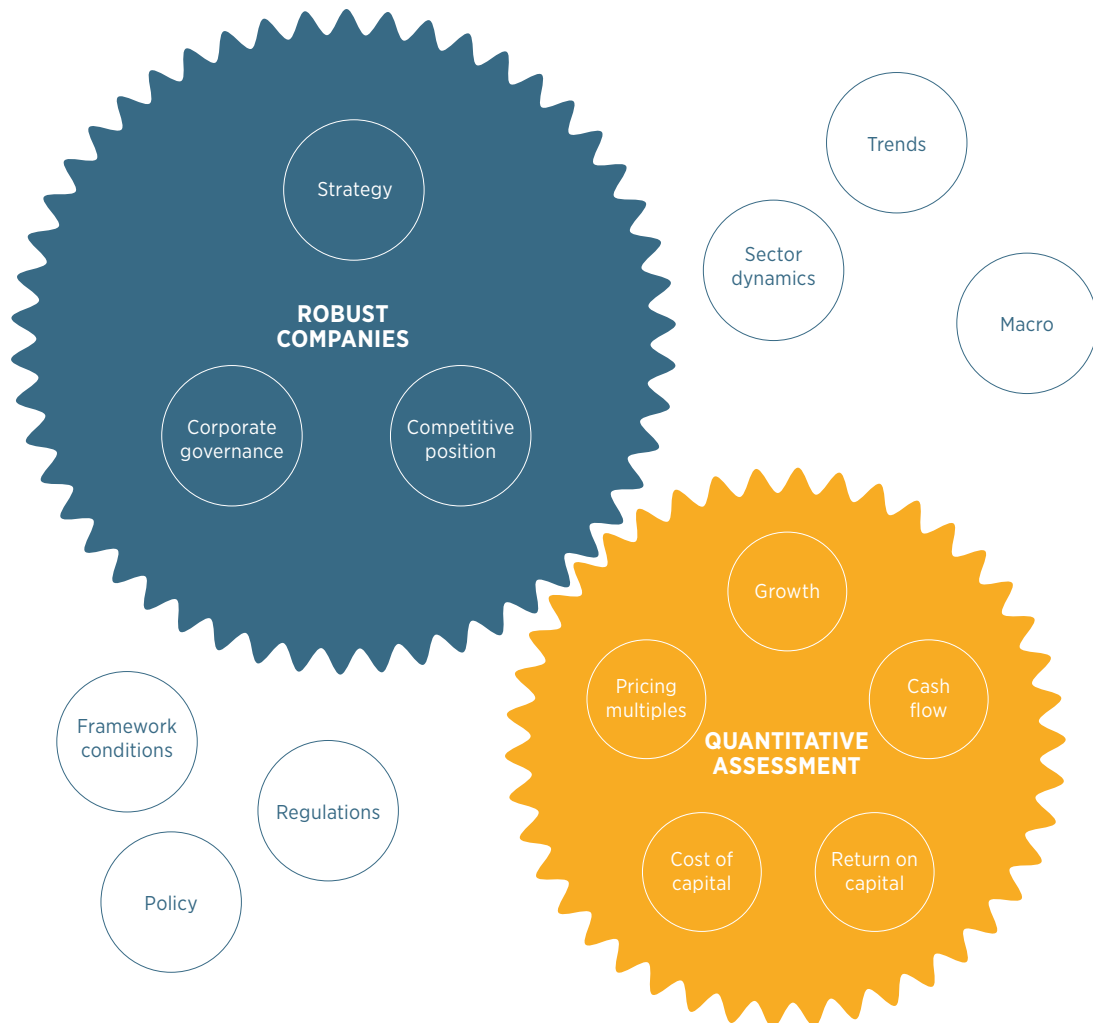
OUR APPROACH TO ACTIVE MANAGEMENT



Folketrygdfondet's ownership role

- Our priorities
- Dialogue
- General meetings
- Nomination committees and governing bodies
- Good practice development
- The fixed-income portfolio

OUR COMPANY ANALYSIS SUMMARISED



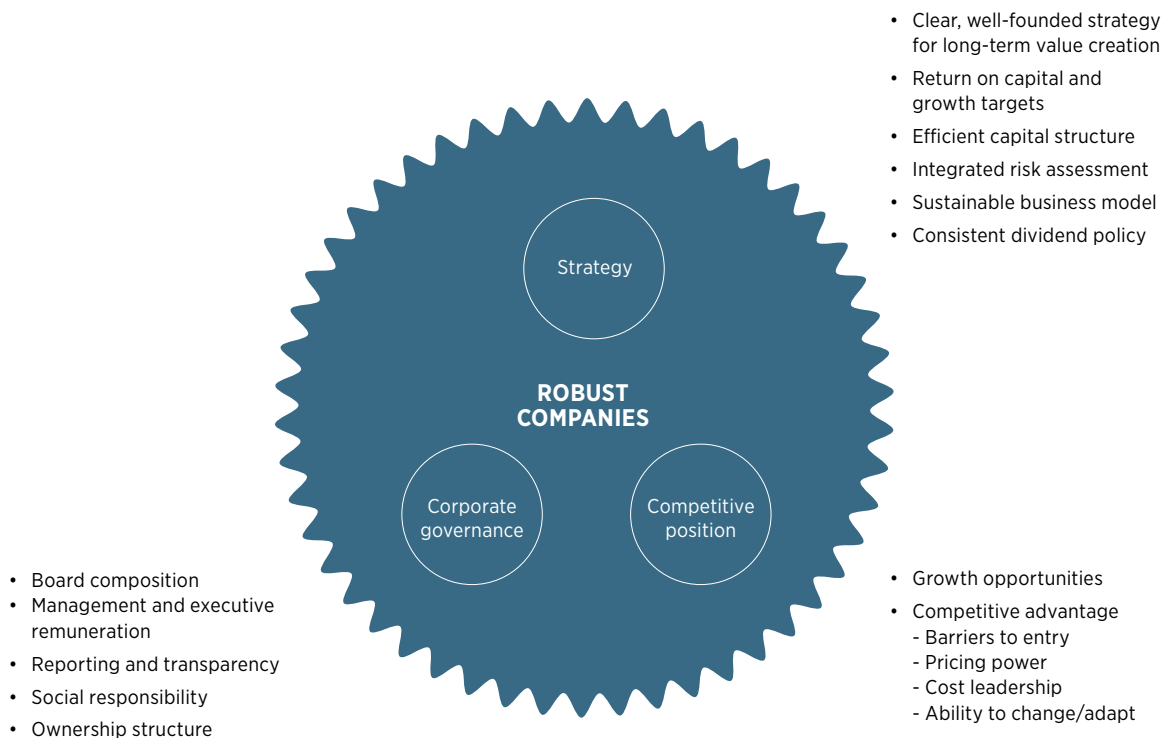
Robust companies

In our active management, we select both investment targets and over- and under-weight companies compared to the benchmark index. Our investment decisions reflect financial analysis, ongoing contact with relevant companies and ESG analyses. 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 focus our investments on companies that are long-term value generators. Our long-term returns are dependent on strong, consistent performance by the companies in which we invest, and on efficient and well-functioning markets.

Qualitative assessment is crucial

In our experience, the most successful companies over time are characterised by effective corporate governance, a strong competitive position, and well-considered strategies. In practice, such companies have capable boards and managers as well as a clear, well-founded strategy for long-term value creation. They take a long-term view of resources and risk; deal with risks; and exploit the opportunities offered by sustainable development. We invest time and resources in the qualitative assessment of factors related to strategy, corporate governance and competitive position. These assessments provide the basis for our quantitative analysis of companies.

KEY TOPICS IN OUR QUALITATIVE ANALYSIS:



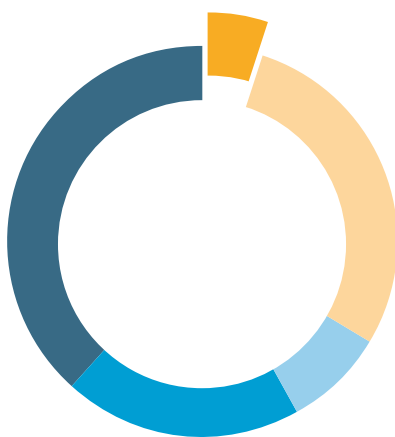
MAJOR PLAYER ON THE OSLO STOCK EXCHANGE

Folketrygdfondet is one of the largest financial investors on the Oslo Stock Exchange. Folketrygdfondet is a top-three shareholder in 43 listed companies.

It is important for companies to maintain contact with their largest shareholders, both on an ongoing basis and in connection with strategically important developments such as acquisitions and changes in capital structure. We are highly aware of our responsibility in this regard, and thus prioritise investing time and resources in ownership dialogues.

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



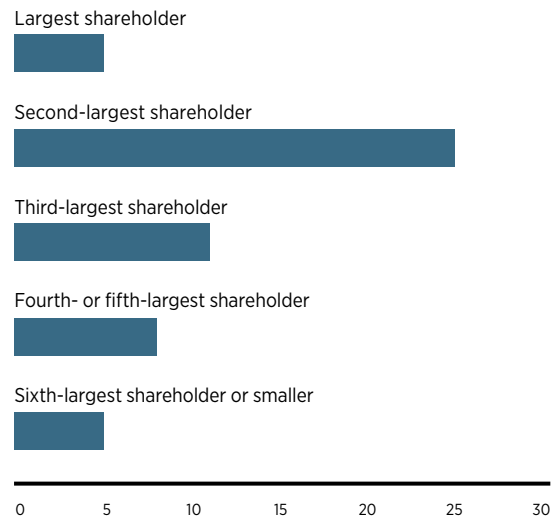
■ Folketrygdfondet	5.08%
■ Central and local government	28.58%
■ Norwegian financial owners	8.31%
■ Other Norwegian owners	19.77%
■ Foreign investors	38.26%

Sources: Oslo Stock Exchange monthly statistics and Folketrygdfondet as of 31 December 2017

Figure 21

FOLKETRYGDFONDET'S OWNERSHIP INTERESTS ON THE OSLO STOCK EXCHANGE

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



Sources: Company websites, VPS and stock exchange notices. When a nominee account is specified as one of the largest shareholders, Folketrygdfondet estimates its placement. Owners with shared ownership interests are grouped together when Folketrygdfondet has information to indicate that this is correct.

Figure 22

FOLKETRYGDFONDET'S OWNERSHIP INTERESTS ON THE OSLO STOCK EXCHANGE

Companies in which Folketrygdfondet owned more than five percent of equity or was among the three largest shareholders as of 31 December 2017.

Company name	FTF's shareholding	FTF's shareholder ranking
Nordic Semiconductor	13.76%	1
Norwegian Property	13.48%	2
Storebrand	12.32%	1
TGS-NOPEC	11.76%	1
Veidekke	11.56%	2
Ekornes	10.49%	2
Atea	10.25%	2
Otello	9.29%	1
Subsea 7	9.01%	2
Nordic Nanovector	8.97%	2
Marine Harvest	8.89%	2
Entra	8.79%	2
Bakkafrost	8.61%	3
Norwegian Air Shuttle	8.52%	2
Schibsted	8.49%	2
Orkla	8.47%	2
BORR Drilling	7.69%	3
AF Gruppen	7.32%	4
Europris	7.21%	1
Norsk Hydro	7.12%	2
SalMar	6.95%	2
Aker Solutions	6.80%	2
SpareBank 1 SR-Bank	6.68%	2
Yara International	6.67%	2
Kongsberg Gruppen	6.53%	3
XXL	6.41%	2
DNB	6.32%	3
REC Silicon	5.92%	3
Tomra Systems	5.86%	2
Golden Ocean Group	5.17%	3
EVERY	5.09%	3
Petroleum Geo-Services	5.02%	6
Lerøy Seafood Group	4.95%	2
Telenor	4.95%	2
Wilh. Wilhelmsen Holding	4.93%	3
Aker BP	4.35%	3
Aker	4.16%	2
Olav Thon Eiendomsselskap	3.98%	2
Gjensidige Forsikring	3.98%	2
Grieg Seafood	3.77%	3
Statoil	3.56%	2
Wallenius Wilhelmsen Logistics	2.63%	3
Stolt-Nielsen	2.23%	2

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 to indicate that this is correct.

OUR PROCEDURES

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.

Folketrygdfondet votes at the general meetings of the companies in which we have invested. When we vote against a board proposal, we publish the rationale on our website.

Folketrygdfondet does not hold any directorships in

the companies in which it invests, but we are involved in the election of company boards and may participate in nomination committees and corporate assemblies.

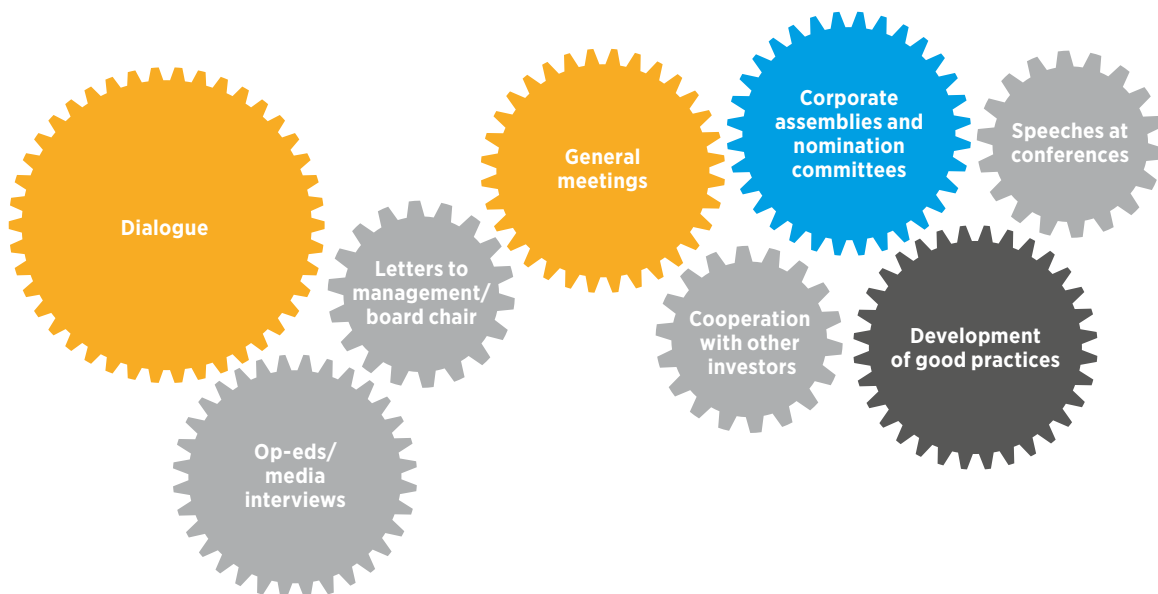
Topics

We have defined five key ownership issues with which we engage and express our views:

- strategy, capital structure, and financial targets
- board composition
- executive remuneration
- good corporate governance
- reporting and transparency

We are also focused on ensuring that portfolio companies address material ESG issues. To make the dialogue as productive as possible for both parties, we have drafted a number of guidance documents on key topics. See ftf.no.

ACTIVE OWNERSHIP IN SEVERAL ARENAS:



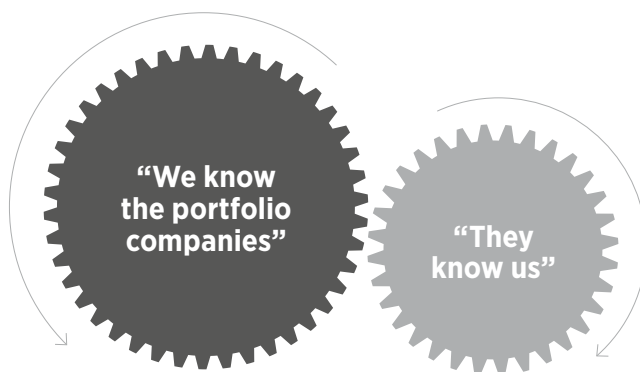
The portfolios

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 among 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 bondholder and company are governed by the loan agreement, and there is limited dialogue with the company unless an undesirable event such as default occurs. Active ownership therefore takes a different form for our equity as compared to our fixed income investments.

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 raise specific cases where the companies do not appear to be acting in line with our expectations. Companies increasingly understand our financial motivation for focusing on ownership issues and the handling of material sustainability concerns, and the companies often have a mature approach to these topics. Nonetheless, it sometimes takes time for companies to operate in accordance with our expectations, in part because such cases are often complex and entail dilemmas and trade offs.

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 practice
Indicator	Excess return	Support value creation in the companies in which we invest

Folketrygdfondet's ownership role

- Our priorities
- Dialogue
- General meetings
- Nomination committees and governing bodies
- Good practice development
- The fixed-income portfolio

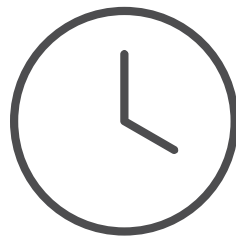
ACTIVE OWNERSHIP CHALLENGES:

Complexity



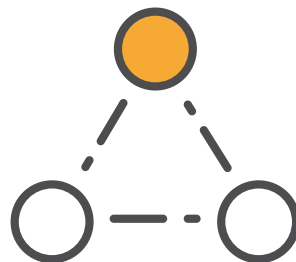
ESG-related issues are seldom clear-cut.

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.

WE ARE FOCUSED ON VALUE CREATION

We monitor ESG issues of material importance to the portfolio companies, which can impact us financially.

The issues we focus on are determined through company analyses and an assessment of portfolio characteristics, which together shape our priorities.

In our analysis of companies, we focus on whether a given company has a robust mechanism in place for identifying, addressing and reporting on important topics. The Oslo Stock Exchange guidance on the reporting of corporate responsibility describes a model process. Our previously discussed expectation documents also contain relevant information in this regard. In summary, we seek to ensure that the portfolio companies have effective processes in place for identifying how they influence and are influenced by ESG issues, and the expectations of key stakeholders.

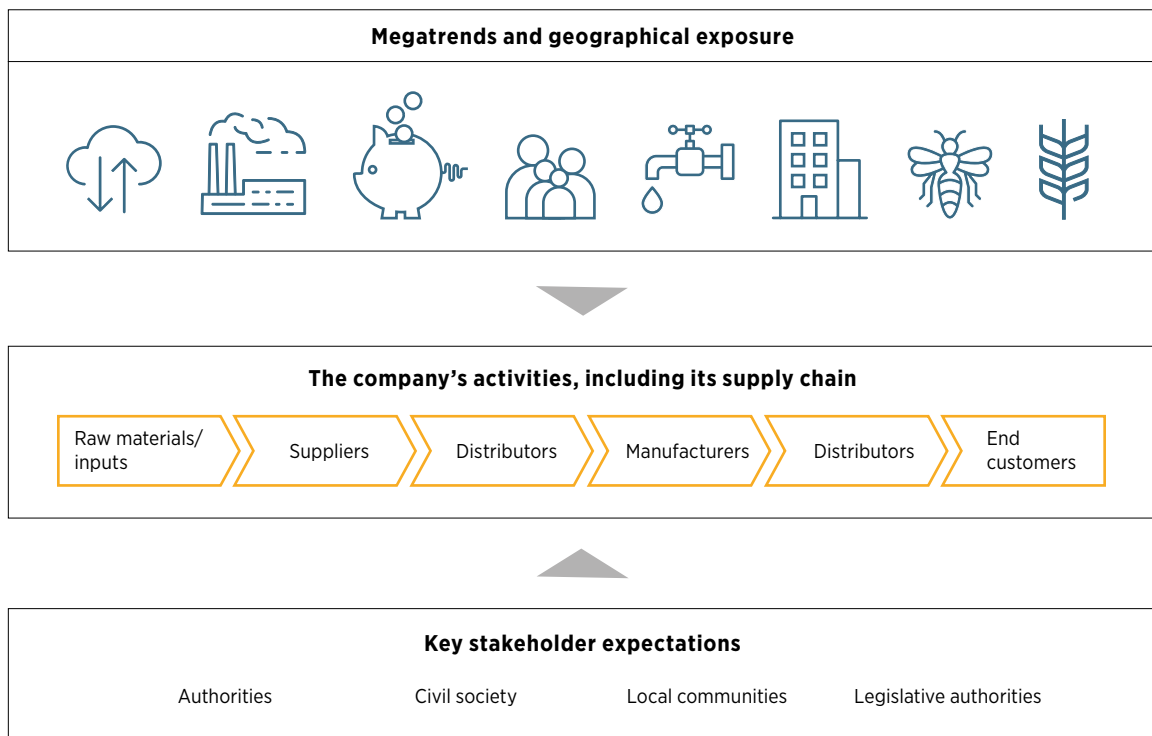
In our analysis of portfolio characteristics, we concentrate on identifying topics significant to multiple companies or to the markets in which we are invested. In this context, we evaluate potential topics from two perspectives:

- the importance of the ESG topic
- our opportunity to exert influence

Topics that score highly on both factors are given priority in our responsible investment efforts.

The analysis of portfolio characteristics is updated annually, as well as in the event of material changes. Accordingly, different topics remain a priority for different lengths of time.

OUR FOCUS AREAS FOR COMPANY ANALYSIS



Our priorities

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

What do we hope to achieve?

By focusing on ESG, we seek to promote well-functioning markets and sustainable development in the markets in which we invest. In our view, this is a prerequisite for achieving our goal of the highest possible long-term returns. A further objective is to help companies overcome material ESG challenges and thereby secure the best possible foundation for long-term value creation.

In 2018, we will continue to focus on our ownership agenda and other material ESG-related risks and opportunities. Climate issues, anti-corruption, human rights and workers' rights will remain priorities. These areas raise a number of issues, both risks and opportunities, which we will continue to address in relevant arenas and with relevant companies.

What are we doing?

We monitor material risks in various ways, including through direct meetings with the portfolio companies, joint initiatives with other investors, and surveys.

HOW WE SELECT SUSTAINABILITY TOPICS

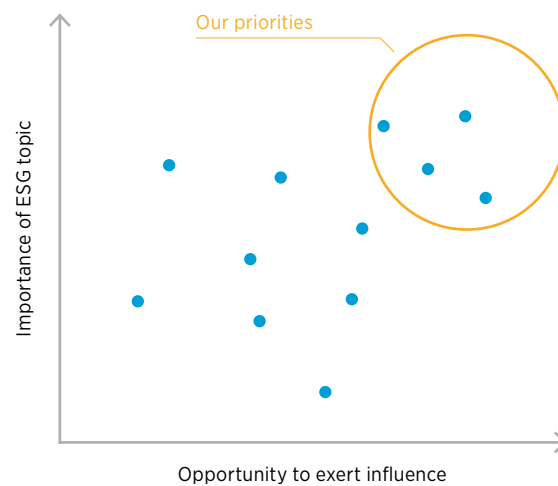


Illustration 20

EXAMPLES OF PRIORITIES IN 2017



Climate issues

- Emissions reporting
- Physical effects of climate change
- Transition risk: the risk of changes in regulations, technology, and demand



Anti-corruption

- Culture: tone at the top
- Robust anti-corruption system based on the company's risk profile
- Functioning whistleblowing system



Human rights and workers' rights

- Responsible recycling
- Data protection and digitalisation
- Right to organise

STRATEGY, CAPITAL STRUCTURE AND FINANCIAL TARGETS

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

Research¹ and our own experience indicate that companies that have long-term financial targets and communicate these clearly achieve stronger profitability and value creation than companies without clear targets and a long-term perspective.

The Norwegian business sector faces substantial challenges and necessary restructuring. We consider companies' clear communication of their strategies and long-term financial targets to be extremely important. Such communication can help ensure the company operates efficiently and allocates capital to the most profitable projects.

¹ HBR 2017: Barton, Manyika, Williamson: Finally, Evidence That Managing for the Long Term Pays Off.

What do we hope to achieve?

Our objective is maximum value creation both within the portfolio companies and in the market generally. Accordingly, we want companies to communicate clear 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 climate risk. The strategy should include a clear, consistent dividend policy. Clear communication of a company's dividend policy is a prerequisite for predictability.

There are several dividend policy models. What is critical is that each company selects the model that best matches the company's current operational phase and sector. An efficient capital structure is important to maximise long-term value creation. We expect that cash flow, after the deduction of growth and maintenance investments, will be distributed to shareholders. Dividends can be regarded as a residual. Any gaps between the long-term capital structure goal and actual capital structure should be explained. Insofar as possible, a dividend policy should specify the prioritised dividend form:

DIALOGUE REGARDING FINANCIAL TARGETS AND CAPITAL STRUCTURE IN 2017

Topic	Purpose of the measure	Number of companies	Status and results	Going forward
		Number of companies	Number of dialogue meetings	
Financial targets and capital structure	1. Know the companies' procedures 2. Make the companies aware of our expectations	28	39 Improved understanding of the companies' maturity and procedures Increased understanding of our expectations among the companies	Continue efforts in 2018

cash or other dividend forms such as share buybacks/capital reductions.

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 have prepared a guide detailing our expectations regarding board-level work on strategies, capital structure, financial targets and dividend and tax policy, as well as the portfolio companies' communication and reporting of activities in these areas. We have revised and updated the guide in 2017. The most important changes in our expectations relate to the communication of dividend policy, tax policy and long-term strategy.

We seek to promote more efficient allocation of capital by companies and markets, and to contribute to long-term value creation. Neither we nor other investors can take over the responsibilities and role of the board of directors. However, we can ask the right questions and expect satisfactory answers.

Developments in 2017

Since 2013, Folketrygdfondet has conducted an annual survey of the companies listed on the Oslo Stock Exchange to identify how many have adopted financial targets. Although the results showed a positive development from 2013 to 2014, the trend has been negative since 2015. The proportion of companies with concrete capital return targets increased from 21 percent in 2013 to 31 percent in 2014, but has fallen annually since 2015, to 22 percent in 2017. This topic was also high up on Folketrygdfondet's active ownership agenda in 2017. We have made considerable efforts to communicate our views and expectations both directly to companies and to the market in general.

CLIMATE

Folketrygdfondet expects companies to address climate risks and provide reliable information on their efforts in this area through reporting. Such information is vital for sound investment decisions and an understanding of the impact of climate risk on Folketrygdfondet's investment markets.

Several of our portfolio companies face substantial climate risks. The significance of individual climate risks varies from company to company, and is determined by several factors including core operations. Our focus is on ensuring that the companies appreciate the environmental impact of their operations in the form of greenhouse gas emissions, and the extent to which their business models and strategies are vulnerable to climate risk. Companies must assess which analyses and measures are necessary to identify and address climate risk.

Quantification of greenhouse gas emissions is a relevant measure of a company's environmental impact. Any challenges in this regard can be addressed by means of targets and measures to reduce emissions. Analysis of the vulnerability of business models and strategies to climate-related risks may include assessment of anticipated changes in laws and regulations, customer preferences, physical climate change and raw material supply. A further focus area is the ability of companies to identify commercial opportunities.

In our view, companies that take climate risk seriously and address it in their strategies are more likely to generate shareholder value.

What do we hope to achieve?

Folketrygdfondet requires sound, reliable information for use in company analysis. We therefore welcome reporting by companies on their emissions and how they handle significant climate-related commercial opportunities and risks.

Such reports may cover greenhouse gas emissions,

absolute and relative targets for emissions reductions, and overviews of problems and investments required to adapt to expected climate-related changes, including future legislation, customer demands and physical climate change.

What are we doing?

We have developed a guide that sets out our expectations as to the portfolio companies' efforts to address climate challenges and their reporting on risks and opportunities, targets and results.

We have conducted emissions analyses of the Norwegian equity portfolio since 2013. The analysis for 2017 measures greenhouse gas emissions for the equity portfolio as a whole (weighted to reflect our ownership percentages), and makes a comparison with our selected benchmark index.

Folketrygdfondet's CO₂e analysis* is based on our Nordic equity portfolio as of 31 December 2017. The

* 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: SSB.

analysis incorporates the latest available 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 CDP.

We use the following indicators in our emissions reporting

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 intensity. The figure is based on the portfolio companies' total CO₂ emissions compared to sales/assets (tonnes of CO₂e/NOK million in sales/assets), adjusted to reflect our share of the companies' market value.
3. The portfolio's CO₂ efficiency. The figure is based on the portfolio companies' emissions compared to our investment (tonnes of CO₂e/NOK million invested).

The emissions analysis improves our understanding of the financial risks associated with future emissions

CO₂ ANALYSIS FOR THE EQUITY PORTFOLIO AS AT 31 DECEMBER 2017

	Portfolio	Benchmark index
CO ₂ emissions (tonnes of CO ₂ e)	2,759,001	165,462,016
CO ₂ intensity (tonnes/NOK million in sales/assets)	29.89	30.63
CO ₂ efficiency (tonnes/NOK million invested)	17.74	18.10

Percentage of companies that report their greenhouse gas emissions: 60

pricing (price of CO₂). The analysis also gives us deeper insight into how prepared companies are to respond to climate-related risks, since reporting of own emissions is often a prerequisite for addressing climate risk. This insight is useful in our company analyses, and as a starting point for active ownership.

However, the CO₂ analysis also has limitations. For example, it does not tell us:

- how the companies in the equity portfolio are positioned with regard to the transition to a low-emissions economy
- the portfolio's overall climate risk, including how the portfolio will be impacted by extreme weather, drought, floods and changes in raw material supply
- the portfolio companies' preparedness for the consequences of stricter legislation on matters such as energy efficiency and emissions
- to what extent the portfolio is positioned to achieve a 2°C or 1.5°C target

We are seeking to improve our understanding of these points through sources such as the CDP, other corporate reports and company dialogues.

Climate risk in the portfolio

Statoil's work on climate risk

Climate issues have been included in Folketrygdfondet's dialogue with Statoil for several years. Important topics in this dialogue include unconventional oil and gas production and general reporting on climate risk. At the company's general meeting in 2015, Folketrygdfondet voted for a shareholder proposal to expand reporting on climate risk. Reliable information on how risks linked to climate change may affect corporate business models and strategies is vital for sound investment decisions. Since 2016, Statoil has intensified its reporting on climate risk with respect to both the company's climate impact and how climate change-related risk may affect the company's strategy and future earnings. Statoil is also open about its positive attitude towards carbon pricing. We appreciate Statoil's implementation of the 2015 shareholder proposal, which has improved the ability of investors to make good investment decisions and the company's ability to generate long-term shareholder value.

CLIMATE DIALOGUE IN 2017

Topic	Purpose of the measure	Number of companies		Status and results	Going forward
		Number of companies	Number of dialogue meetings		
Climate	<p>1. Know how the companies deal with climate-related risks and opportunities</p> <p>2. Make the companies aware of our climate-related expectations</p>	8	9	<p>Improved understanding of the companies' maturity and reporting</p> <p>Increased understanding of our expectations among the companies</p>	Continue efforts in 2018. This is a maturation process that will take time

Developments in 2017

The CO₂ analysis is used to decide which companies to prioritise in the context of our efforts to understand and reduce portfolio climate risk. In our dialogues with companies, we have urged them to develop strategies and targets, and to implement measures to make their business models and strategies less vulnerable to climate risk.

We are also focused on increasing the proportion of companies that report their emissions, and have raised the issue in our climate-related dialogue meetings.

Further, the Task Force on Climate-related Financial Disclosures (TCFD) working group appointed by the Financial Stability Board issued its final report in 2017. The working group has developed recommendations relevant to companies in different sectors, in four areas: governance, strategy, targets and metrics. The purpose of the recommendations is to facilitate more financially relevant climate-related reporting. Folketrygdfondet supports the intention behind the recommendations, and considers it positive and important that the recommendations cover both how companies are affected by climate change and how companies affect the climate. Such information is needed to make sound investment decisions and to

understand how climate risk may impact the markets in which Folketrygdfondet invests. This reflects the focus in our expectation documents and company dialogues. Going forward, Folketrygdfondet will continue to concentrate on existing climate risk initiatives, but will additionally seek to support the development of robust quantitative approaches to be used by both investors and companies in identifying, addressing and reporting climate risk in accordance with the TCFD recommendations. Folketrygdfondet will also consider the need to adapt its climate risk-related efforts in light of ongoing developments in the area.

ANTI-CORRUPTION

Corruption undermines value growth in society and harms the operations of involved companies. At the individual level, the financial consequences of corruption may include exclusion from markets, loss of 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 of the companies, we have prepared a guide on anti-corruption work. We address corruption risk in our dialogue with the boards and management teams of the portfolio companies wherever relevant.

Developments in 2017

Corruption allegations were again made against companies in our portfolio in 2017. In one specific instance, we initiated dialogue to improve our understanding of the company's response and the steps taken to prevent similar incidents in future. As well as following up on individual matters, we have conducted dialogue with companies concerning how they approach anti-corruption work. In our experience, guidelines, training and incorporation into corporate governance mechanisms are crucial in anti-corruption efforts. However, these measures are insufficient for success in this area. The tone at the top and corporate culture are decisive. That is why we have included the tone at the top and culture-building as topics in our anti-corruption dialogues. Our aim is to understand management efforts to integrate anti-corruption into corporate culture and what challenges arise in this context.

OPPFØLGING AV KORRUPSJONSBEKJEMPELSE GJENNOM DIALOG I 2017

Topic	Purpose of the measure	Number of companies	Status and results	Going forward	
		Number of companies	Number of dialogue meetings		
Anti-corruption	1. Improved understanding of the companies' procedures	8	10	Increased understanding of the companies' procedures	Continue efforts in 2018
	2. Make the companies aware of our expectations			Increased understanding of our expectations among the companies	

HUMAN AND WORKERS' RIGHTS

In our experience, contributing to breaches of human and workers' rights has the potential to reduce the value of our investments. That is why we expect the portfolio companies to avoid and prevent human rights and workers' rights violations. The appropriate measures depend on where in the supply chain such 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 a reputational loss.

What do we hope to achieve?

We expect portfolio companies to avoid and prevent involvement in breaches of human and workers' rights by adopting a careful approach and conducting necessary analyses to survey their risk exposure. We expect the companies to operate in accordance with the OECD Guidelines for Multinational Enterprises.

What are we doing?

Responsibility 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, rests with the boards and management teams of the portfolio companies. This includes surveying whether the business is at risk of involvement in human and workers' rights violations and where in the supply chain any such risks arise.

To clarify our expectations of the companies, we have prepared two guides, on human rights and wor-

FOLLOW-UP RELATED TO HUMAN AND WORKERS' RIGHTS IN 2017

Topic	Purpose of the measure	Number of companies	Status and results	Going forward
		Number of companies	Number of dialogue meetings	
Human and workers' rights	1. Know the companies' procedures	11	13	Improved understanding of the companies' maturity and procedures
	2. Make the companies aware of our expectations and relevant international standards			Increased understanding of our expectations among the companies

kers' rights, respectively. We discuss risks associated with human rights and workers' rights in our dialogue with company boards and managers wherever relevant.

Developments in 2017

In 2017, we conducted precautionary human rights dialogues with several portfolio companies. In these dialogues, we concentrated on the companies' efforts to comply with the OECD Guidelines for Multi-national Enterprises and new EU data protection rules, as well as their efforts to address issues related to responsible shipbreaking. We have a particular focus on understanding the systems and processes companies adopt to manage these risks.

Traditionally, the risk of contributing to violations of human rights and workers' rights has been particularly relevant for companies with operations or supply chains in countries impacted by poverty, weak public

institutions and/or undemocratic political governance. However, rapid technological developments are increasing the risk of human rights violations in other types of businesses. This makes human rights relevant to an increasing number of portfolio companies. For example, the risk of involvement in breaches of privacy has become more prominent in our portfolio, and is something we are addressing in our dialogue with companies.

Workers' rights were also a topic in our company dialogues in 2017. Among other things, we discussed with multinational companies how they ensure that staff in different countries and business units have rights that comply with relevant international guidelines such as those issued by the International Labour Organisation. Data protection for employees and the type of employee data companies collect and store were further discussion topics. We have also asked about the work done by company boards to ensure that management addresses such issues satisfactorily.

WE ARE AVAILABLE TO THE PORTFOLIO COMPANIES

Our aim is to be a constructive and responsible owner. We ask challenging questions about important issues, but are also available to the companies.

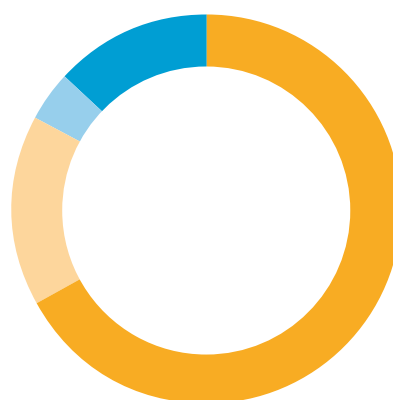
In some cases, Folketrygdfondet asks a company for an update, feedback, clarification or action on a specific matter, or in connection with a particular topic we consider highly important for the company. At the same time, companies have their own priority topics and issues. We know that being a large shareholder carries responsibilities with it, and we prioritise being available to the companies in which we have invested.

Folketrygdfondet held 137 dialogue meetings last year, discussing key ownership issues with some 51 companies.

Such talks with board chairs and managers enable us to understand a company’s strategy, operations, growth opportunities and risk profile, and thereby make us a better 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 give priority to 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 technical experts present, for example when discussing specific environmental or social issues, both Folketrygdfondet and the company also provide staff with the right expertise.

OVERVIEW OF OUR DIALOGUE PARTNERS



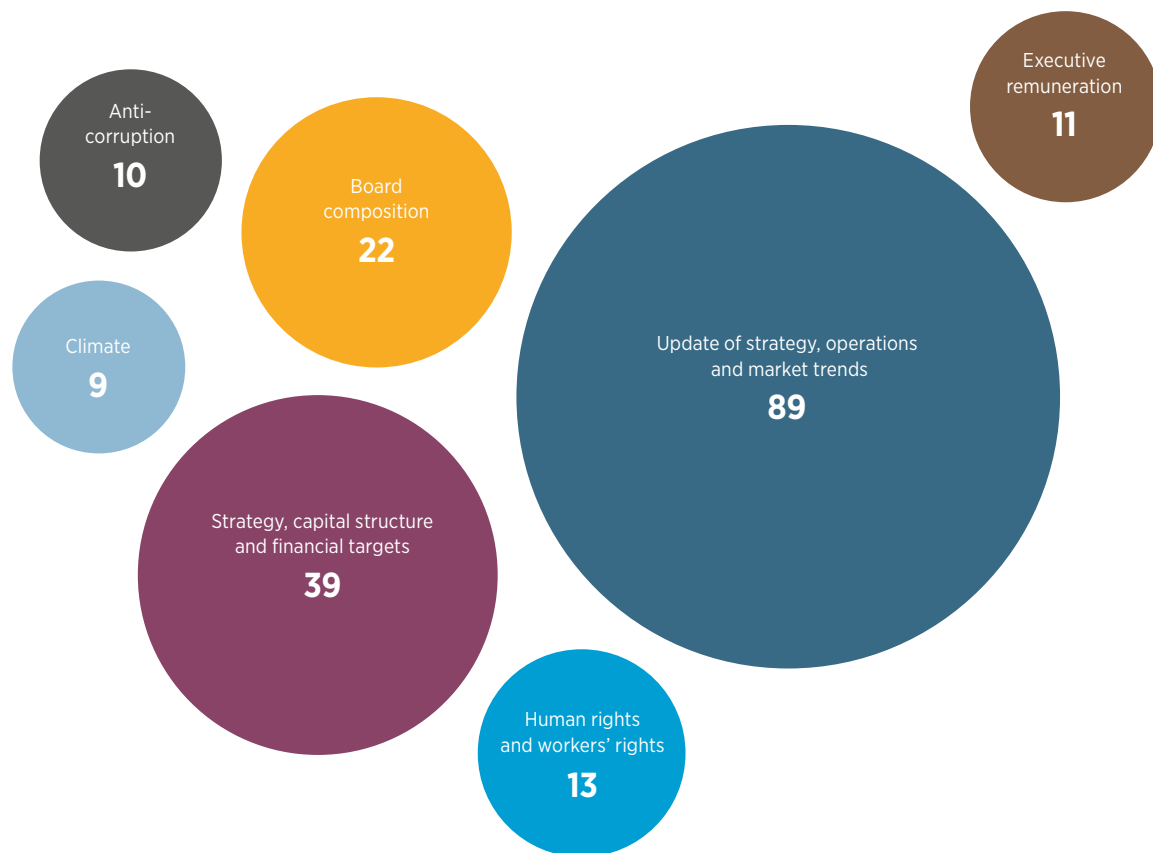
Management	67%
Board	16%
IR/others	4%
Nomination committee	13%

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.

137 DIALOGUES

Seven potential topics per dialogue

Number of times each topic has been raised:



WE PROTECT SHAREHOLDER INTERESTS

General meetings are a key arena for Folketrygdfondet's active ownership. In 2017, we voted against proposals put forward by the boards of six Norwegian companies because we determined that shareholder interests were set aside.

Voting at the general meetings of the portfolio companies is a central aspect of Folketrygdfondet's active ownership. Wherever possible, we try to attend the general meetings of portfolio companies listed on the Oslo Stock Exchange in person.

What is the purpose?

All active ownership has the overarching purpose of supporting maximum value creation over time. In the vast majority of cases, we vote for board proposals at general meetings because we find them to be well-founded and consistent with company strategy. In some instances, however, we see that a board proposal challenges shareholder interests and recognised good corporate governance principles. Folketrygdfondet considers it an important task to be a strong representative of minority shareholders in Norwegian listed companies. It is of fundamental importance to us that all shareholders are treated equally. Along with other minority shareholders, we have a clear interest in compliance with the rules and protection of the interests of all shareholders.

From a longer-term perspective, good corporate governance is also about preserving public confidence in the Norwegian stock market.

What do we achieve?

Our general impression based on the 2017 general meeting season is consistent with findings in previous years: general meetings are rarely arenas for confrontation and dispute.

Over time, shareholders, including Folketrygdfondet, have successfully presented their views on the design and scope of executive remuneration schemes and board authorisations. Controversial pay and authorisa-

tion proposals were more common before, but are now the exception.

Generally speaking, recent years have also seen an improvement in the dialogue between company boards and shareholders. This has improved the ability of boards to take account of shareholder views before proposals are presented, thereby reducing the number of surprises and confrontations at general meetings.

Our procedures for

General meetings

- Folketrygdfondet votes at the general meetings of portfolio companies.
- Wherever practicable, we aim to participate in person in the meetings of companies listed on the Oslo Stock Exchange.
- If we vote by proxy, we always issue voting instructions.
- Prior to a general meeting, we conduct a thorough review of the agenda and vote in accordance with our principles, guidelines and assessments.
- Our starting point is that we want to vote as proposed by the board. If we disagree with a board proposal, we seek to explain our position before the general meeting.
- If we vote against a board proposal, we normally publish a voting statement on our website after the general meeting.
- Our aim is to help secure broad agreement on the general meeting agenda, and we consider pre-general meeting dialogue with the company a positive measure in this regard.

From Folketrygdfondets eierskapsutøvelse (Folketrygdfondet's active ownership), November 2015.

NORWEGIAN COMPANIES WHERE FOLKETRYGDFONDET VOTED AGAINST BOARD PROPOSALS

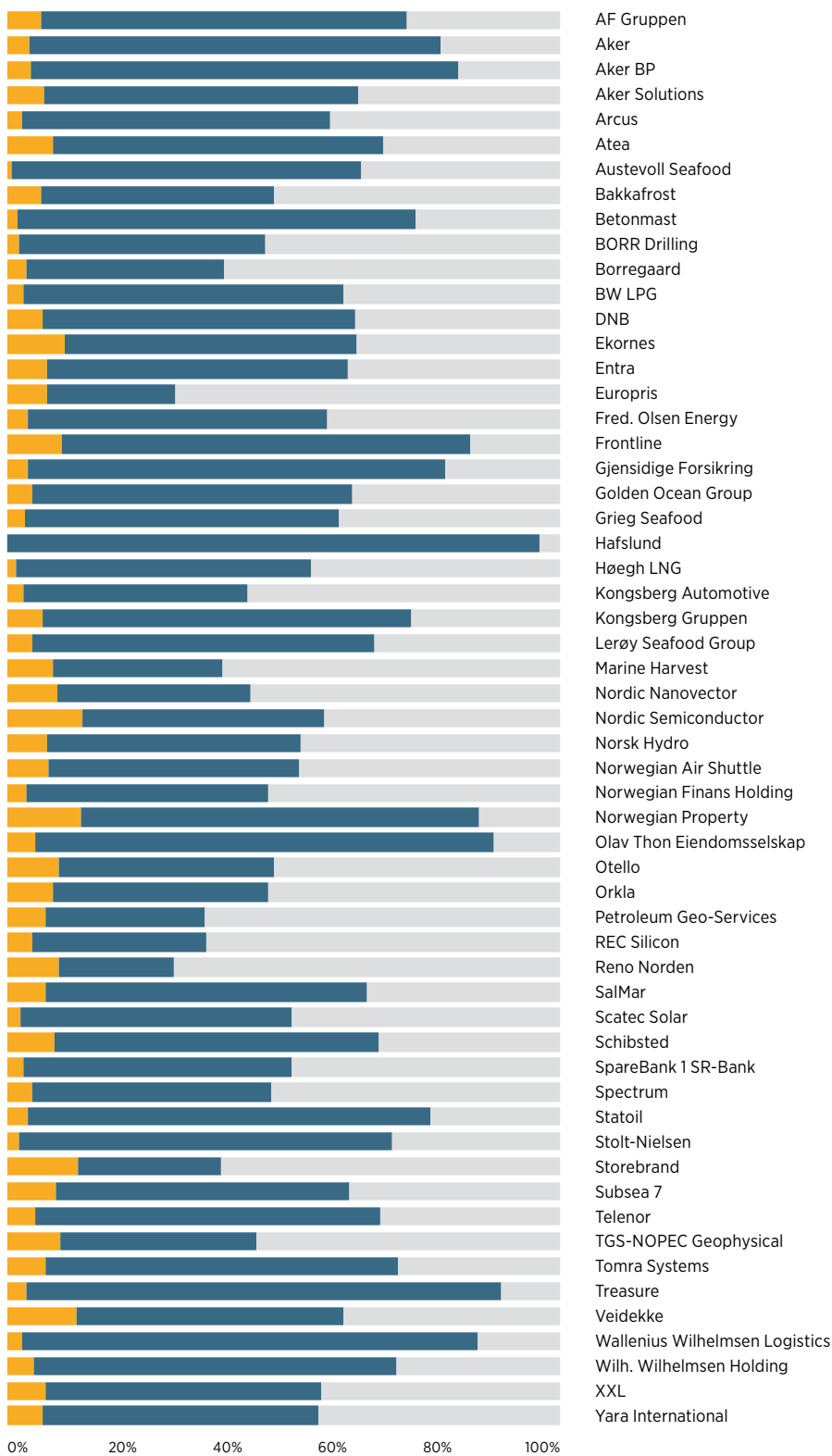
With one exception (Nordic Nanovector), all proposals were adopted despite Folketrygdfondet's vote.

Company	Type of case Why we voted against	Percentage of votes against	
		Folketrygdfondet	Total
XXL ASA	Composition of nomination committee <i>Reason:</i> Folketrygdfondet voted against election of the company's HR director as a member of the nomination committee. Our priority is to have a nomination committee that is independent of the company's board and senior executives.	12.0	13.9
Nordic Nanovector	Executive remuneration		
	Item 9.1 Approval of the statement on remuneration for senior executives, with the exception of the option award guidelines	20.4	33.6
	Item 9.2 Approval of the option award guidelines	20.4	38.5
	Item 13* Board authorisation to increase the share capital in connection with the option programme. The option scheme lacks a cap and may result in the issue of new shares totalling up to 10 percent. Folketrygdfondet therefore considers that the scheme has an excessive scope and may entail an excessive transfer of value from the shareholders to the company's employees.	20.4	38.5
Höegh LNG	Board composition <i>Reason:</i> Folketrygdfondet voted against election of the company's board chair as a member of the nomination committee. Our priority is to have a nomination committee that is independent of the company's board.	3.2	7.9
Spectrum ASA	Executive remuneration		
	Authorisation to issue shares		
	Item 10 The board's statement on remuneration for senior executives: Folketrygdfondet considers that the scheme is unreasonably large in scope.	9.4	14.8
	Item 12 Board authorisation to increase the share capital in the company's option programme: Folketrygdfondet considers that the company's employee option programme is unreasonably large in scope.	9.4	14.8
	Item 14 Authorisation to acquire own shares: Folketrygdfondet considers that the option programme is unreasonably large in scope, and is therefore voting against the proposal to authorise the acquisition of own shares linked to the employee option programme.	9.4	12.7
Stolt-Nielsen Ltd	Board composition <i>Reason:</i> Folketrygdfondet voted against election of the company's CEO as a board member. Our priority is to have a board that is independent of company management.	3.2	7.2
Scatec Solar ASA	Executive remuneration		
	Item 8B Statement on salaries and other remuneration for senior management	20.2	20.2
	Item 14 Board authorisation to acquire own shares		
	Item 15 Board authorisation to implement a capital increase	2.5	2.9
	The board's proposal regarding Scatec Solar's option scheme equated to approximately 5 percent of the company's share capital, but the option scheme is not capped. It is therefore difficult to foresee the consequences of the programme. Due to the scope of and lack of a cap on the scheme, Folketrygdfondet voted against the board's executive remuneration statement.	13.0	14.9

* The board's proposal did not achieve the requisite majority of the votes, and the proposal was therefore not approved.

ATTENDANCE 2017 – NORWEGIAN COMPANIES

Ordinary general meetings that Folketrygdfondet attended.



Folketrygdfondet attended a total of 57 ordinary general meetings in 2017, as well as 15 extraordinary general meetings.

■ Folketrygdfondet
■ Other shareholders
■ Not represented

The attendance rate for all ordinary general meetings attended by Folketrygdfondet was 60.5 percent, with a range from 30.2 percent to 96.4 percent.

VOTED AT 93 NORDIC GENERAL MEETINGS

In 2017, Folketrygdfondet voted at a total of 93 general meetings of companies listed on stock exchanges in Sweden, Denmark and Finland.

In total, we voted against or abstained from voting on 20 proposals put forward by the boards of Swedish, Danish or Finnish companies. Most of the board proposals we voted against in the Nordic portfolio companies related to executive remuneration statements and incentive schemes. We often find that executive remuneration statements contain insufficient information on the scheme in question, that incentive programmes lack individual performance requirements or that schemes include a strong discretionary element.

We voted against individual board members in the case of two Swedish companies. In one instance, the CEO had been proposed as the board chair – a dual appointment that is contrary to Swedish law. Since it was only possible to vote for or against the board as a whole, we decided to vote against the entire board. In the other instance, we voted against a board member who has been involved in several corruption cases. We also voted against candidates for the nomination committees of two Swedish companies where the pro-

posals detailing the candidates contravened Swedish law or the corporate governance recommendation. We voted against or abstained from voting on auditor fees and/or auditor reappointment because the fees for non-audit services exceeded the fees for audit services. Auditors are supposed to perform a control function, and their independence from the company is put at risk if they provide extensive advisory services in addition to auditing. In one case, we voted against indemnification of the board of directors due to poor internal controls within the company.

As in previous years, we have found that shareholders submit various proposals to the general meetings of the portfolio companies listed in Sweden. We have not observed a corresponding trend for companies listed in Norway. Many of these proposals concern issues falling outside the shareholders' remit, as defined by the general principles governing the distribution of roles in listed companies.

VOTING RELATED TO COMPANIES LISTED IN DENMARK, FINLAND AND SWEDEN IN 2017

	Sweden	Denmark	Finland	Total
Total number of general meetings voted	54	22	17	93
Total number of matters voted	978	347	174	1 499
Board proposals				
• Against	15	4		19
• Abstained from voting	1			1
Board proposals where Folketrygdfondet has voted against/abstained from voting, by topic				
• Executive remuneration statement	7	2		9
• Board/board remuneration	2	1		3
• Auditor fees/auditor reappointment	1	1		3
	1 (abstained)			
• Board indemnity	1			1
• Authorisation to issue shares/buy-back of own shares	2			2
• Nomination committee	2			2
Shareholder proposals				
• Against	203	5		208
• For	1			1
• Abstained				

MEMBER OF EIGHT NOMINATION COMMITTEES

Folketrygdfondet is represented on eight nomination committees of Norwegian companies. We also participated in three corporate assemblies in 2017.

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 work on

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 nomination committees in 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 involved in several corporate assemblies in 2017, in addition to the various nomination committees.

REPRESENTATIVES ON NOMINATION COMMITTEES AND GOVERNING BODIES

Corporate assemblies

Norsk Hydro ASA	Executive Director Equities Nils Bastiansen	Member
Statoil ASA	Executive Director Equities Nils Bastiansen	Deputy chair
Telenor ASA	CEO Olaug Svarva	Deputy chair

Nomination committees

Yara International ASA	Deputy Director Equities Ann Kristin Brautaset	Member
Schibsted ASA	Deputy Director Equities Ann Kristin Brautaset	Member
Storebrand ASA	CEO Olaug Svarva	Member
TGS-NOPEC ASA	General Counsel Christina Stray	Member
Veidekke ASA	CEO Olaug Svarva	Member
Marine Harvest ASA	Executive Director Equities Nils Bastiansen	Member
Gjensidige Forsikring ASA	Portfolio Manager Joakim Gjersøe	Member
Telenor ASA	CEO Olaug Svarva	Member

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 2017, we worked to promote strong standards through the external initiatives in which we are engaged. For example, in the context of the Norwegian Forum for Responsible and Sustainable Investment (Norsif), we chaired and participated in a working group tasked with surveying how managers of Norwegian shares integrate ESG considerations into their assessments. A further initiative involved supporting the development of a best-practice guide for company secretaries. We also submitted comments in relevant public consultations.

Among other things, we commented on a draft new securities register act and rules on the disclosure of bondholder identity, as well as draft regulations on certain rights and duties corresponding to parts of MIFID and MIFIR. Our consultation comments are available on ftf.no. In accordance with our investment mandate, we have been communicating clear expectations for the management of ownership issues and environmental and social conditions for several years. To make our dialogue with companies as effective as possible, we have developed guidance documents on:

Contributing to well-functioning markets

Company secretaries – primary responsibilities and best practice

In 2017, the Norwegian Institute of Directors issued a pamphlet of best-practice recommendations for company secretaries in Norwegian companies. Folketrygdfondet welcomes efforts to develop best practices, and contributed to the development of the guide.

Company boards and other governing bodies must have sound processes in place to ensure that they comply with applicable requirements and expectations in a constructive manner and in the company's best interests.

Norwegian listed companies normally appoint a company secretary to facilitate productive operation of the board of directors. The company secretary is the board's administrator, and performs the following primary functions:

- safeguard quality in the work of the company's governing bodies
- ensure that governing bodies meet their statutory obligations
- promote consistency and coordination between different governing bodies
- arrange comprehensive documentation of all decisions
- secure continuity in bodies whose members are regularly replaced

These responsibilities require the company secretary to maintain an integrated overview of the organisation and sufficient insight into key operational management processes. This frequently includes advising the board chair and senior executives on procedural matters and the implementation of board processes.

The role of company secretary is largely unregulated, and is organised in different ways according to companies' differing needs and complexities. Nevertheless, the roles of different company secretaries have many similarities irrespective of industry, turnover and company size. The best-practice pamphlet is available from the Norwegian Institute of Directors upon request.

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

In our view, proper management of such issues can reduce risk and help maximise value growth in our portfolio. We continued to develop our guidance documents in 2017. The result of these efforts is an updated

guide on strategy, capital structure and financial targets. The most important changes have been made in the discussion of tax and dividends. The update is explained further in the section on strategy, capital structure and financial targets on page 18 of the report. All of our guides for companies are available on fff.no.

What do we hope to achieve in 2018?

In 2018, we will continue to promote robust standards through the external initiatives in which we are actively engaged. We also intend to provide feedback in public consultations and other input where relevant.

PARTICIPATION IN EXTERNAL INITIATIVES IN 2017

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"> • General Counsel Christina Stray, 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"> • General Counsel Christina Stray, board member and member of the equity committee • Deputy Director Ann Kristin Brautaset, member of the committee that awards the Stockman Prize • Deputy Managing Director Lars Trongsgaard, member of the portfolio committee • Portfolio Manager Hege Kristine Huse, member of the bond committee
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"> • General Counsel Christina Stray, representative
Eierforum group of institutional investors	To promote corporate governance best practice in Norway and drive forward further development of best practice. The forum is represented on the Norwegian Corporate Governance Board	<ul style="list-style-type: none"> • Executive Director Equities Nils Bastiansen
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"> • General Counsel Christina Stray, chair of the nomination committee • Senior analyst for responsible investments Tine Fosslund, chair of the group on integration of ESG into company analyses (until November 2017) • Senior analyst for responsible investments Tine Fosslund, representative on the working group on active ownership in the social responsibility context
CDP (formerly known as the Carbon Disclosure Project)	To prevent climate change and protect natural resources	<ul style="list-style-type: none"> • Senior analyst for responsible investments Tine Fosslund, 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"> • Senior analyst for responsible investments Tine Fosslund, representative

A DEVELOPING HIGH-YIELD MARKET

The new-issue volume of the Nordic high-yield market reached a record high in 2017: NOK 121 billion. Falling credit margins produced record returns.

Bonds are an important source of capital for banks and businesses, and a key investment option for investors. Folketrygdfondet is a responsible long-term investor in the Nordic bond market, and is focused on supporting its proper functioning.

The Norwegian high-yield market has its own loan agreement standard, which normally functions satisfactorily. The standard seeks to balance the rights of issuers and bondholders.

However, when market conditions are positive, there is a strong tendency for loan agreements to be framed in a way that is excessively favourable to issuers. This phenomenon is not just Nordic, and can also be observed in larger international markets.

In our view, stable loan agreement conditions foster positive long-term market development. Such stability is important both for the efficiency of the secondary market and for monitoring issuer obligations. It also simplifies the handling of default situations.

Finally, there is a need to make loan agreements more transparent and accessible. This is important both to enable investors to familiarise themselves with key loan agreement terms more easily and to help make issuers more aware of their loan agreement obligations.

The Nordic markets

The Nordic high-yield markets have become more integrated in recent years, and now constitute a unified market for both investors and issuers. Folketrygdfondet has employed an integrated Nordic management model for several years, resulting in a more diversified portfolio.

The number of new issues in the Nordic high-yield market was very high in 2017. Strong market optimism and positive macro-conditions made a substantial contribution to the high activity level. So too did stricter banking regulations, which led many companies to seek financing in the capital markets.

Important prerequisites for continued positive growth in the Nordic high-yield market include

reliable information access, analyst coverage, and an open and transparent market.

Well-functioning market

Since Folketrygdfondet is such a major player, how we act affects the market. We seek to promote the proper functioning of, and transparency in, bond markets by engaging in public debates and implementing specific measures through suitable forums. Among other things, we are involved in the development of standard loan agreements and measures to make these more transparent for investors.

Nordic Bond Pricing has helped make prices more transparent and accessible, greatly benefiting market liquidity. Thus far, the introduction of MIFID II suggests that market transparency may be reduced when the reporting of trades is regulated.

Folketrygdfondet supports measures to make the Norwegian bond market more attractive to both

What we emphasise

- Meetings with company management prior to new issues and during the loan period.
- Strong reporting focused on risk and risk-reducing measures.
- Robust loan documentation that avoids the undermining definitions and accepted standards in the Nordic high-yield market.
- Correspondence between expressed financial targets and any limitations in the loan agreement.
- Examination of company strategies relating to anti-corruption, safety, and environmental and social rights – steps taken and progress made.

issuers and investors. Further, we emphasise that companies must publish more information relevant to the bond market. We encourage companies to detail compliance with loan clauses in all accounting reports. The purpose is to discipline the companies to provide reliable, constructive information for the benefit of both equity investors and bondholders.

Responsible fixed income investment

Folketrygdfondet has developed a strategy for responsible fixed income investment. In our view, how an issuer deals with ESG matters is an indicator of credit risk. That is why we constantly seek to improve the integration of ESG analyses into ongoing credit assessment, to ensure that ESG evaluations play an increasing role in our investment decisions.

Factors in credit analysis

- The company's commercial risk: geography, industry, competitiveness.
- The company's financial risk: debt-servicing capacity, cash flow, capitalisation, profitability.
- The company's management and organisational culture: orderly operations, long-term perspective, attitude towards lenders, credibility.
- Loan documentation: the company's room for action, bondholder rights, information flows, security.

VOTED AT EIGHT BONDHOLDER MEETINGS

Folketrygdfondet takes a solution-oriented approach to bond loan renegotiations. In 2017, 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 to be important both to protect the value of the individual bond and for the market in general.

In 2017, Folketrygdfondet voted at a total of eight bondholder meetings. Six of the matters involved amendment of loan agreements, while two related to restructurings.

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 which 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.