



The work of the Council on Ethics

The Council on Ethics for the Government Pension Fund Global (GPF) is an independent body that makes recommendations to Norges Bank with regard to either excluding companies from the GPF or placing them under observation. The Council's assessments are based on ethical guidelines determined by the Norwegian Ministry of Finance. The guidelines contain both productbased exclusion criteria, such as the production of tobacco, coal or certain types of weapons, and conductbased exclusion criteria, such as corruption, human rights violations, environmental damage and unacceptably high greenhouse gas emissions. The threshold for exclusion is intentionally high, and companies may be excluded only if they represent an unacceptable future ethical risk to the GPF. All the Council's recommendations are published on its website as soon as Norges Bank has announced its decision.

The Council on Ethics continuously monitors whether companies in which the GPF is invested could be operating in ways that fall within the scope of the fund's guidelines for observation and exclusion. As a result, the Council works on many different cases and issues in parallel.

A consulting firm provides the Council with a quarterly report on any companies it has identified whose operations may infringe the guidelines' product-based criteria. The report also includes relevant new information on companies that are already excluded from investment by the fund. In addition, the Council follows up information provided by other sources and investigates all relevant companies on an ongoing basis.

With regard to the conduct-based criteria, companies are identified as a result of portfolio monitoring, external reporting and systematic reviews of areas associated with a high ethical risk. Every day, a consulting firm goes through a large number of news sources in several languages in search of relevant reports on companies in the GPF's portfolio. The Council receives reports from the consultants every two months. In addition to this, the Council subscribes to several other news letters which also provide information on a regular basis about alleged ethical violations by companies in the fund. The Council is also approached, either directly or indirectly through

Norges Bank, by organisations and individuals who call on it to consider specific cases. When selecting cases to examine in more detail, the Council gives weight to the violation's scope and seriousness, its consequences, the company's responsibility for or contribution to the matter concerned, the measures that have been implemented to prevent or remedy the harm caused, and the risk of similar incidents occurring in the future.

More systematic reviews of areas associated with a high ethical risk generally follow a long-term plan. Once the Council on Ethics has selected an area for examination, it follows through over a period of several years. For example, the Council has followed up the plight of migrant workers in the Gulf States since 2015, while it has focused on deforestation and loss of biodiversity since 2010.

The Council on Ethics obtains information from research environments as well as regional, national and international organisations, and often commissions third-party consultants to investigate indications of norm violations covered by its guidelines. Furthermore, the companies in the GPF's portfolio are themselves important sources of information, with the Council frequently engaging in lengthy dialogues with company officials during the assessment process.

Table 1: Activities undertaken by the Council on Ethics in 2017–2019

Year	2017	2018	2019
No. of limited companies in the GPFG at year-end (approx.)	9100	9150	9200
Total no. of companies excluded at the recommendation of the Council on Ethics at year-end	64	70	65 ¹
No. of companies placed under observation at the recommendation of the Council on Ethics	6	8	7
No. of companies on which the Council on Ethics has issued a recommendation during the year	12	10	17
No. of companies excluded during the year at the recommendation of the Council on Ethics	1	11	3
No. of companies placed under observation during the year	4	2	0
No. of observations concluded during the year	0	0	1
No. of exclusions revoked during the year	1	2	7
No. of companies the Council has been in contact with	62	34	50
No. of companies the Council has met with	12	22	14
No. of new cases the Council has assessed ²		78	100
Total no. of company assessments concluded during the year		98	87
Total no. of companies under assessment during the year	149	189	180
No. of Council meetings	10	11	9
Secretariat (no. of staff)	8	8	8
Budget (NOK million)	18,1	18,5	18,7

The table summarises the scope of the Council's investigations in 2019, compared with 2017 and 2018. Companies excluded by Norges Bank under the coal criterion, without the Council's recommendation, are not included in the table.

1 Vedanta Resources Plc has been delisted from the stock exchange and is therefore no longer included in this overview.

2 Figures from 2017 are not comparable at the case level.

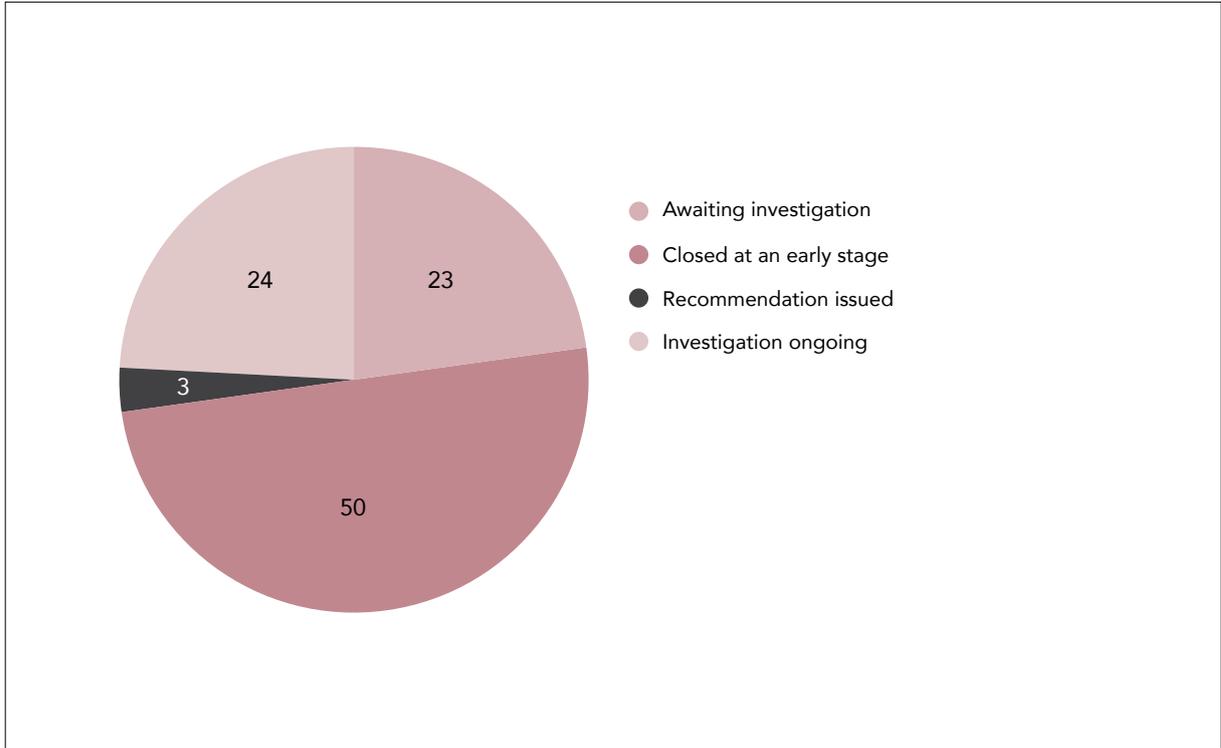
Overview of activities undertaken by the Council on Ethics in 2019

In 2019, the Council on Ethics recommended the exclusion of six companies, to revoke the exclusion of six companies, and the termination of observation on one company. In addition, four updated recommendations to exclude were issued under the climate criterion. These replaced the original recommendations from 2017. Norges Bank announced that, on the basis of recommendations issued by the Council in 2018 and 2019, three companies had been excluded,

the exclusion of seven companies had been revoked and that the observation of one company had been terminated.

As at 31 December 2019, 65 companies were excluded from the GPFG, while seven were under observation on the basis of recommendations by the Council on Ethics. At its own initiative, Norges Bank has excluded a further 69 companies under the coal criterion and placed an additional 14 companies under observation.

Fig. 1: What happened to the 100 cases that were opened in 2019?

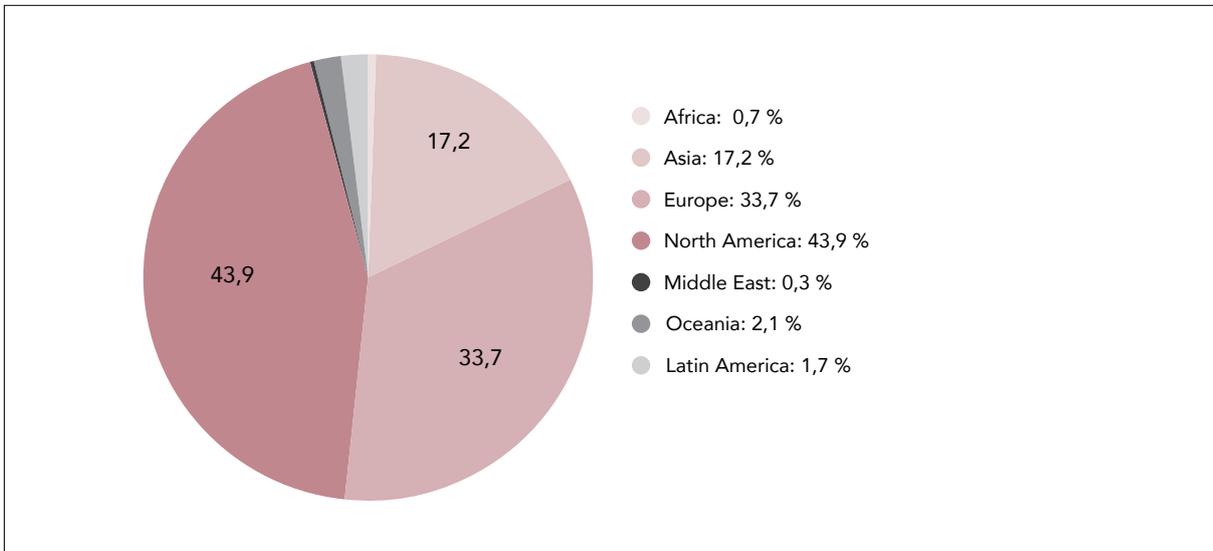


The graph shows the status of the 100 new cases that the Council on Ethics opened in 2019.

Of the around 200 cases the Council worked on in 2019, around half were opened during the year. 50 of these new cases were closed at an early stage, while three resulted in a recommendation being issued that same year. 24 of the new cases are still under investigation, while 23 have not yet been subject to a full preliminary assessment. Pollution from antibiotic production and improper surveillance are two of the issues raised by the new cases.

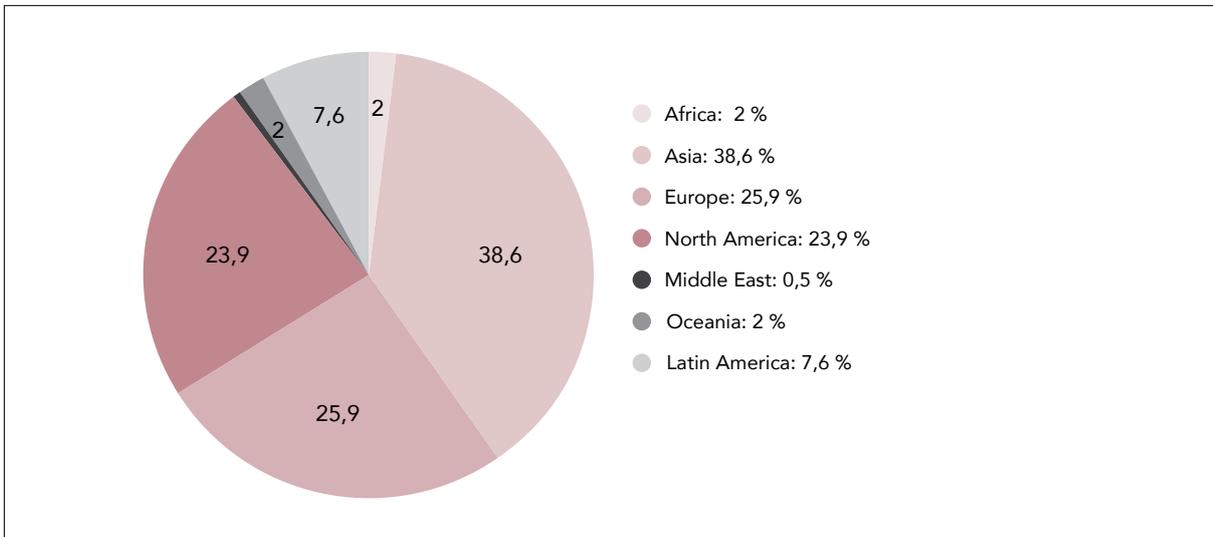
Some companies come up time and again in the Council's investigations, though for different reasons and under different criteria. This often applies to major companies from countries whose civil society actively monitors businesses' operations. Access to information varies significantly from country to country. The Council offsets this to some degree by commissioning its own investigations into matters that are not normally picked up on by news media monitoring.

Fig. 2: Percentage distribution, by region, of the value of the fund's investments at the close of 2019



The chart shows the percentage distribution, by region, of the value of the GPFG's investments. Both equities and fixed income are included here.

Fig. 3: Percentage distribution, by region, of the companies on which the Council worked in 2019

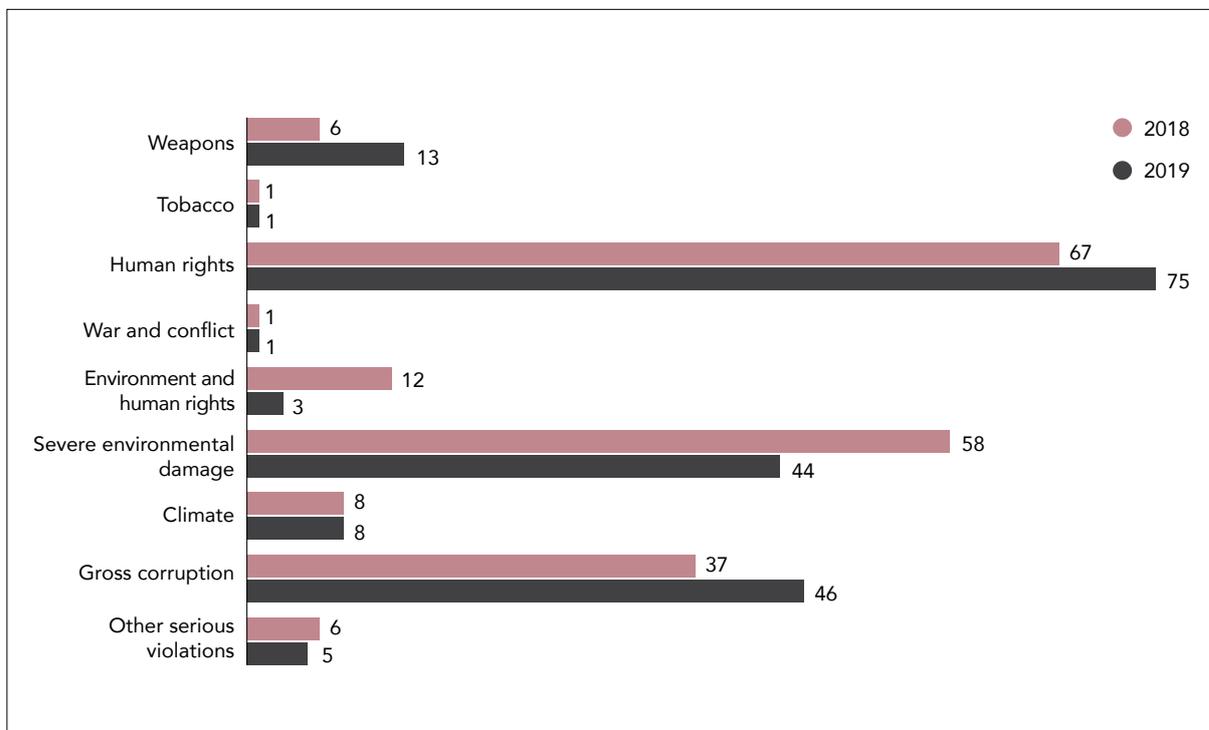


The chart shows the percentage distribution, by region, of the total number of companies on which the Council had under investigation 2019. At the close of 2019, the GPFG had investments in around 9,200 companies in more than 75 countries.

At the close of 2019, the GPFG had investments in around 9,200 companies in more than 75 countries. The geographic distribution of the 180 companies on which the Council worked in 2019 reflects the geographic distribution of the companies in the GPFG. However, a different picture emerges if a comparison is made with the value of the fund's investments. Almost 40 per cent of the companies which the Council has under investigation are, for example, listed on Asian stock exchanges, while only 17 per cent of the fund's value is invested in this region.

Many of the Asian companies that the Council is working on are being investigated as part of a review of high-risk areas and not as a result of media reports. This applies, for example, to investigations into working conditions at textile producers in which the GPFG has invested. Since such information is rarely picked up on through news monitoring, the Council has engaged consultants to help it investigate working conditions at factories in countries where the risk of labour rights violations in general is presumed to be particularly high.

Fig. 4: Cases the Council has worked on, by criterion



The chart shows the number of cases on which the Council worked, distributed across the various criteria.

The Council's work under the various criteria

The human rights criterion remains the criterion under which the Council investigates the largest number of cases. In 2019, the Council continued investigating labour right violations in the textiles industry and working conditions that border on forced labour. Such cases accounted for more than half of the investigations carried out under this criterion in 2019. They are generally prompted by investigations the Council initiates on its own account, based on assumptions regarding the general risk of labour rights violations in a business sector or geographic area. As a result, a large number of companies are subject to a preliminary analysis, while only those companies responsible for serious or systematic abuses are investigated more depth.

Other types of cases often originate in news reports. Such cases may, for example, relate to violations of indigenous peoples' rights and forced relocation, as has been the situation in a good many cases in 2019. A new topic in 2019 was the abuse of human rights relating to the use of surveillance technology. The Council has also considered cases in which companies

collaborate with the military or security services. Companies' sales of weapons to states engaged in war or conflict continued to be an issue in 2019.

Under the environmental criterion, the Council has continued its efforts with respect to mining and industrial pollution, deforestation and damage to environment protection areas. Several of the cases investigated under the environmental criterion also have a human rights aspect.

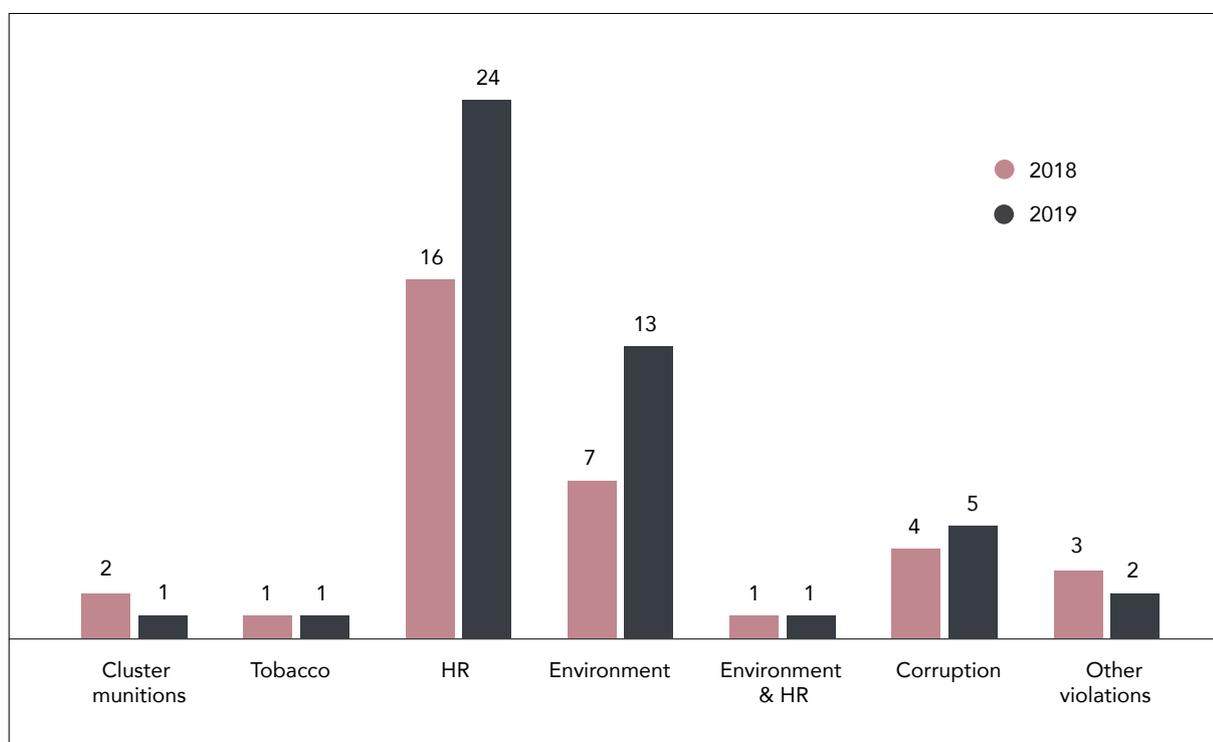
Under the corruption criterion, corruption allegations against companies in the fund are systematised by means of portfolio monitoring. If there are many corruption cases in a specific sector, the Council will often consider them collectively and will investigate in greater depth those sector companies against which the most serious allegations have been levelled. In 2019, such a review was carried out on oil service companies. Many of the investigations were closed at an early stage, while a handful remain ongoing.

Contact with companies in 2019

In 2019, The Council on Ethics was in contact with 50 companies and held meetings with 14 of these. The Council contacts companies which, after preliminary inquiries, it wishes to investigate further. The Council first writes a letter to the company concerned, asking

for information that could give it a better basis on which to assess the company's operations. Furthermore, every company which is investigated under the conduct-based criteria is given the opportunity to comment on a draft recommendation before the Council presents its final recommendation to Norges Bank.

Fig. 5: Contact with companies, by criteria



This chart shows how many companies the Council has been in contact with in relation to the various criteria in 2018 and 2019.

The Council attaches importance to information provided by companies and considers a company's failure to provide tangible and verifiable information about its operations to be a separate risk factor. The Council normally meets companies late in the investigatory process, often on the basis of a draft recommendation to exclude it.

In 2019, as in previous years, the majority of the companies that the Council had meetings with were being investigated under the human rights criterion. It is also under this criterion that the majority of new

recommendations to exclude have been issued. The Council may also meet with the companies it has under observation in order to obtain information for its periodic observation reports. Five of the meetings that the Council held in 2019 were with companies under observation. Occasionally, the Council also meets with excluded companies, either because the Council wishes to assess whether the grounds for exclusion remain in place, or because the company asks to meet with the Council. In 2019, the Council met with three excluded companies.

Fig. 6: No of companies the Council has met with in relation to each criterion



The chart shows how many companies the Council has held meetings with under the various criteria in 2019.

Reassessment of excluded companies

A company is not excluded for a predetermined period of time. The exclusion of a company can be revoked as soon as the grounds for exclusion no longer apply. Each year, the Council makes a superficial assessment of all excluded companies to check whether they still engage in the activities that led to their exclusion, or whether their operations have materially altered. A more thorough investigation is made of some companies, for example, if a company so requests, or if there are indications of a material change in their circumstances. If a company has carried out measures that have led to sufficient improvements in the factors on which exclusion was based, the Council issues a recommendation to revoke its exclusion. The improvements must be tangible and not simply mentioned in the company's strategies or plans.

In special cases, the Council may issue a new recommendation to exclude a company, even though it is already excluded from the GPF. This applies, for

example, to companies that have stopped producing one type of weapon, but continue to produce other weapons that constitute grounds for exclusion. If the grounds for exclusion under the conduct-based criteria have changed materially, the Council can also issue a new recommendation to exclude that company on the basis of this new situation. In this way, Norges Bank has the opportunity to assess whether the company should remain excluded.

In 2019, Norges Bank revoked the exclusion of seven companies at the Council's recommendation. Since 2005, the Council has recommended the reinstatement of 39 companies. The majority of these have ceased producing the product for which they were excluded. Others have, for example, divested the business to which the grounds for exclusion related. Companies that have been delisted from a stock exchange are removed from the list of excluded companies without the recommendation being revoked.