

Introduction to responsible investments

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Agenda

Key questions

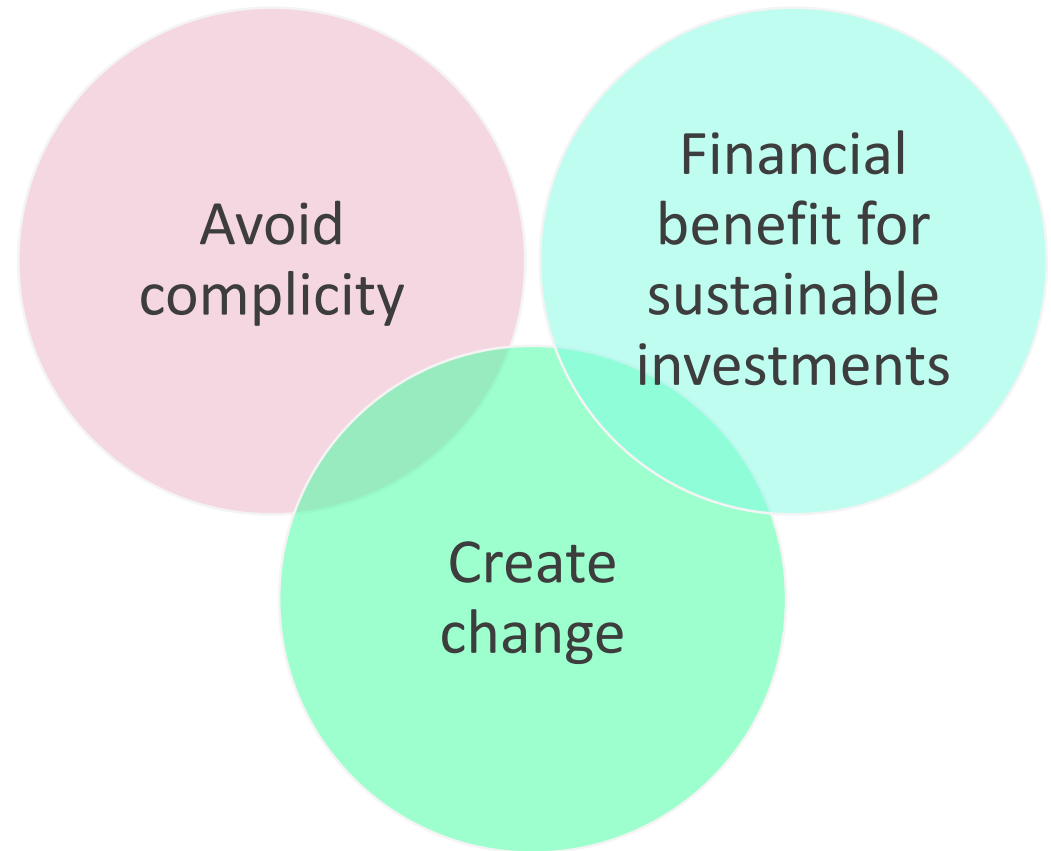
- What are the main organizations and standards within responsible investment?
- What are E, S and G issues?
- What are the tools and tactics for responsible investment?
- Where might the field be headed?
- Kahoot!



Direct Poll Questions

Different motivations for responsible investments

Often overlap, but not always...



A few key questions for developing a responsible investment strategy

1. Which asset classes (e.g. listed equities, fixed income, private equity)?
2. Are assets internally or externally managed?
3. Active v. passive management?
4. Number of companies in holdings (affects prioritization)?
5. Ownership stake in individual companies?
6. Level of transparency (what can you communicate externally)?



**Organizations,
standards, and
ratings within
responsible
investment**



Organizations within responsible investment

TCFD | TASK FORCE ON CLIMATE-RELATED
FINANCIAL DISCLOSURES

norsif
Norsk forum for ansvarlige og
bærekraftige investeringer

PRI | Principles for
Responsible
Investment

CDP
DISCLOSURE INSIGHT ACTION

Eierforum

NUES
Norsk utvalg for eierstyring
og selskapsledelse

Eurosif

Norsif members

Alfred Berg

Argentum

CARN Capital

Centragruppen

Cultura Bank

Danske Capital

DNB

DNV GL

DNV GL Pensjonskasse

EY

Fellesordningen for AFP

Finansdepartementet

Folketrygdfondet

Formuesforvaltning

Gjensidigestiftelsen

Grieg Investor

Handelsbanken

Holberg Fondene

KLP

MP Pensjon

MSCI

Norges Bank Investment Management

Nordea

Nordnet Bank

Odin

Oslo Børs

Oslo Pensjonsforsikring

OVF

Pareto Asset Management

Pensjonskasseforeningen

Positron Capital

PwC

responsAbility

SKAGEN

Skandiabanken

SpareBank 1 Forsikring

Sparebankstiftelsen DNB

Stakeholder

Statnett SFs Pensjonskasse

Storebrand

Sustainalytics

Unifor

Standards and ratings within responsible investment

A few main standards

- International law, primarily conventions with near universal ratification/accession
- UN Principles for Responsible Investment
- UN Global Compact
- UN Guiding Principles on Business and Human Rights
- OECD Guidelines for Multinational Enterprises
- Ethical Guidelines for the Norwegian Government Pension Fund Global
- Norwegian Code of Practice for Corporate Governance (NUES)
- VG test!

– Nobelstiftinga skal ut av atom-investeringar i løpet av 12 månader

– Nobelstiftinga kjem i løpet av eitt år til å selje seg ut av alle fond som investerer i selskap som deltek i produksjon av atomvåpen, seier sekretær for Den norske nobelkomiteen, Olav Njølstad.



Foto: Jeff McIntosh/NTB scanpix

Jonas Gahr Støres fond investerte i atomvåpen

Satser milliarder på oljesand

Norske banker har investert milliarder i oljesandselskaper i Canada som sier at de er kritiske til oljesand.

av Tor Sandberg

Publisert 4. feb 2017 Sist oppdatert

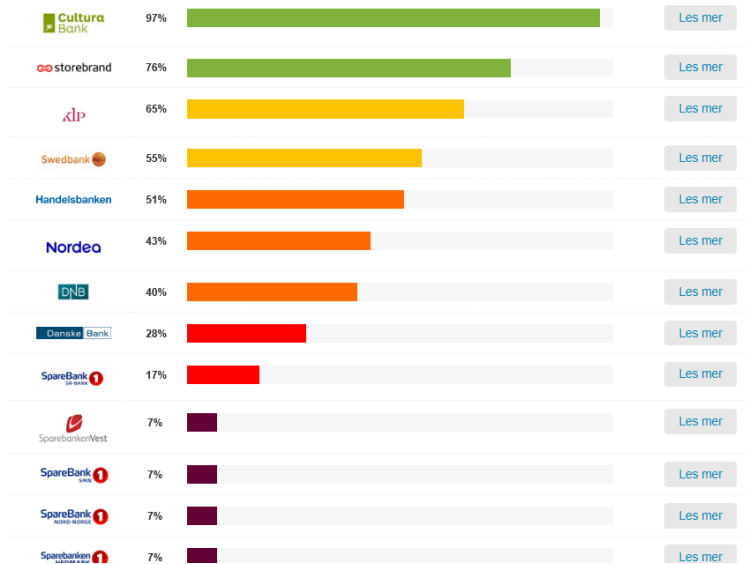


Ratings within responsible investment



Slik rangeres din bank

Etisk bankguide er basert på en omfattende gjennomgang av bankenes retningslinjer, krav og policydokumenter. Framtiden i våre hender og Forbrukerrådet har sjekket hver enkelt bank opp i mot 1012 ulike punkter. Jo høyere poengsum, jo bedre retningslinjer har bankene når det gjelder samfunnsansvar, etikk og miljø. Savner du din bank? [Les her](#)



Sustainability Rating



Above Average

Relative to Category

Large Value

Sustainability Mandate?

Yes | ESG Focus



Rating Calculation

Portfolio ESG

| | |
|---------------|----|
| Environmental | 68 |
| Social | 59 |
| Governance | 53 |

Controversy Deduction

Based on 92% of AUM

Sustainability Score

Percent rank in category: 26



Results

- KLP has lower carbon footprint
- KLP best in Norway in MorningStar's sustainability ranking
- KLP 3rd place in Ethical BankGuide



| Fond/indeks | Antall selskaper ¹ | Antall ekskluderte | Ekskludert indeksvekt | Utslipp (tCO ₂ e) ² | Reduksjon |
|------------------------------------------|-------------------------------|--------------------|-----------------------|-------------------------------------------|-----------|
| MSCI Emerging Markets Index | 799 | | | 282 024 | |
| KLP Emerging Markets Indeks I - eks kull | 758 | 41 | 4,27 % | 192 922 | -31,6 % |
| MSCI World Index | 1596 | | | 466 099 | |
| KLP AksjeGlobal Indeks I - eks kull | 1542 | 54 | 5,50 % | 381 372 | -18,1 % |
| MSCI AksjeAsia Index | 462 | | | 30 772 | |
| KLP AksjeAsia Indeks I - eks kull | 452 | 10 | 2,33 % | 25 064 | -18,5 % |
| MSCI AksjeUSA Index | 600 | | | 64 637 | |
| KLP AksjeUSA Indeks I - eks kull | 571 | 29 | 6,58 % | 43 450 | -32,8 % |



| Forvaltningsselskap | Snitt Morningstar Sustainability Rating | Antall fond vurdert |
|--------------------------|-----------------------------------------|---------------------|
| KLP | 3,6 | 9 |
| Storebrand | 3,5 | 14 |
| Eika | 3,4 | 5 |
| SKAGEN | 3,4 | 5 |
| DNB | 3,3 | 20 |
| ODIN | 3,2 | 12 |
| Danske Invest | 3,1 | 22 |
| Alfred Berg /BNP Paribas | 3,1 | 61 |
| Handelsbanken | 2,9 | 9 |
| Nordea | 2,7 | 19 |
| Fondsforvaltning | 2,7 | 6 |
| SEB | 2,6 | 23 |

Data per 30.4.2016

Kilde: Morningstar Direct

Environmental, Social, and Governance



Framework for ESG

Based on KLP's support of the UN Global Compact (UNGC) and the UN Principles for Responsible Investment.

The principles in the UNGC are based on the UN Declaration on Human Rights, the ILO Core Conventions, the Rio Principles on the Environment and Development, as well as the UN Convention Against Corruption.

Human rights



Rights of individuals in war and conflict



Labor rights



Environment



Corruption



Fundamental ethical norms



Tobacco



Controversial weapons



Coal-based activities



UN Global Compact

Ten Principles

Human Rights

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2: make sure that they are not complicit in human rights abuses.

Labor

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labour;
- Principle 5: the effective abolition of child labour; and
- Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility; and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

The UN Principles for Responsible Investment

Six Principles

- Principle 1. We will incorporate ESG issues into investment analysis and decisionmaking processes.
- Principle 2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
- Principle 3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- Principle 4. We will promote acceptance and implementation of the principles within the investment industry.
- Principle 5. We will work together to enhance our effectiveness in implementing the principles.
- Principle 6. We will each report on our activities and progress towards implementing the principles.

KLP Guidelines for Responsible Investment

“KLP shall exclude companies from investment where there is an unacceptable risk that the company is responsible for or complicit in:

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

The Norwegian Code of Practice for Corporate Governance (NUES)

Issues addressed

- Implementation and reporting on corporate governance
- Business
- Equity and dividends
- Equal treatment of shareholders and transactions with close associates
- Freely negotiable shares
- General meetings
- **Nomination committee**
- **Corporate assembly and board of directors: composition and independence**
- The work of the board of directors
- Risk management and internal control
- Remuneration of the board of directors
- **Remuneration of executive personnel**
- Information and communications
- Take-overs
- Auditor

Tools and Tactics



Tools

- Active engagement
- Negative/positive screening
- Integration
- Impact investment



Mechanisms of value creation from shareholder engagement

| Communicative Dynamics | Clarifying expectations and enhancing accountability |
|------------------------|-------------------------------------------------------------|
| | Managing impressions and rebalancing misrepresentations |
| | Specifying the business context |
| Learning Dynamics | Anticipating and detecting |
| | Gathering feedback, benchmarking, and gap-spotting |
| | Developing knowledge of ESG issues |
| Political Dynamics | Enrolling internal experts |
| | Elevating sustainability and securing resources |
| | Enhancing the loyalty of long-term investors |

PRI-commissioned study on engagement

Main Findings



1. Which firms are targeted?

- Top countries: U.S., France, U.K.
- Industries: Manufacturing, infrastructure, wholesale/retail
- Large target companies with high institutional ownership

2. What determines success?

- Having a lead investor, especially a local lead
- Having more influential investors
- Having foreign investors on board

3. What are the impacts of successful engagements?

- Higher average profitability (ROA) of target
- Increased lead-investor shareholding in target

Engagement tools

- Dialogue with companies (management and/or board)
- Voting
- Representation on company nomination committees, corporate assembly, board of directors
- Media? (Elevate dialogue)



Active ownership

Focus areas:

- Serious incidents
- Climate
- Corruption
- Shipbreaking
- UN Guiding Principles on Business and Human Rights
- Palm oil
- Corporate governance, including executive remuneration

Nordic Engagement Cooperation
Annual Engagement Report, 2015



A collaborative engagement network between
Folksam **ILMARINEN** **ALP**

ENGAGEMENT BRIEF

LONG-TERM COLLABORATIVE ENGAGEMENT TO ENHANCE SHAREHOLDER VALUE

During 2015, which was the seventh year of collaboration within the Nordic Engagement Cooperation (NEC), we added four new companies to the NEC focus list. The focus list comprises a list of companies that the NEC members have agreed to engage with in collaboration to achieve progress. NEC is an integrated part of the members' regular engagement work. Over the years, NEC has developed a joint understanding and a common platform for active ownership - a structured process to identify companies to engage with, and a set of tools used to reach long-term engagement objectives. Through NEC, the members pool their resources to engage with companies based outside of the Nordic region, for which joint action is often more effective than individual engagement. The NEC structure includes quarterly meetings, a clear delegation of responsibilities, and a secretariat that is responsible for the operational work.

All members of NEC invest with a long-term horizon. Hence, we have the opportunity to have a long-term dialogue with companies.

NEC is not a closed cooperation - it has from time to time collaborated with other investors. The NEC members are also open to adding additional investors as regular members as determined on a case-by-case basis.

Nordic Engagement Cooperation Focus list 2015

| Company | Global Compact Principles | Incidents | Region |
|---------------------|---------------------------|-------------------------------------------------------------------------------------------------------|-------------|
| All Corp | | Accountability to children of indigenous rights | 2007* |
| Alcoa | | Accountability to compliance in human rights violations | 2007* |
| Bank of China Corp | | Accountability to environmental impact caused by mining project and to compliance in human rights | 2008* |
| BP | | Accountability to local population and major spill | 2008 - 2009 |
| Centrica Plc | | Accountability to children of international standards | 2015* |
| Enbridge | | Accountability to illegal exploitation of natural resources | 2007** |
| Enxys | | Accountability to child labour | 2015* |
| King of Siam Steel | | Accountability to human rights violations and environmental damage | 2015* |
| Novo | | Accountability to illegal exploitation of natural resources | 2007** |
| Praxair Inc | | Accountability to local population and major spill | 2008 - 2009 |
| Western Union Group | | Compliance with the UN Guiding Principles and associated to illegal exploitation of natural resources | 2008 - 2009 |
| Yara | | Accountability to human rights violations | 2015* |
| Yokohama | | Accountability to children of compliance standards | 2015* |

* NEC initiated our collaborative engagement in 2007 but had engaged individually before that.

** Alcoa and Enxys were part of the collaborative Western Union Group engagement program which ended in 2009.

World's most dangerous job

KLP's strategy:

- ✓ Annual review of ship sent to beaching
- ✓ Engagement with companies – requirements for responsible ship recycling
- ✓ Companies unwilling to take responsibility risk exclusion

Shipbreaking Practices in Bangladesh, India and Pakistan

An Investor Perspective on the Human Rights and Environmental Impacts of Beaching



Engagement disclosure



KLPs og KLP-fondenes selskapsoppfølging 2016

| SELSKAP | TEMA | STATUS |
|-------------------------------------------|-------------------------------------------------------|-------------------|
| Aarhuskarlshamn (AAK) | Miljø | |
| Adani Mining | Miljø | |
| AES | Menneskerettigheter og miljø | Ekskludert |
| AF Gruppen | Klima | |
| Aker ASA | Klima og eierstyring og selskapsledelse | |
| Aker Solutions ASA | Klima og eierstyring og selskapsledelse | |
| Alstom | Korrupsjon | Ekskludert |
| Aluminum Corp. of China (CHALCO) | Klima | |
| Anhui Conch Cement Co. Ltd. | Klima | |
| ArcelorMittal Shipping Limited | Miljø og menneskerettigheter | |
| Arendals Fossekompani | Klima | |
| Astra Agro Lestari | Miljø | |
| ATCO Ltd. | Miljø og klima | |
| Atea | Korrupsjon | |
| Austevoll Seafood ASA | Klima | |
| Avance Gas Holding Ltd. | Klima | |
| Bakkafrost | Klima | |
| BHP Billiton | Miljø og menneskerettigheter | |
| Boliden | Arbeidstakerrettigheter, menneskerettigheter og miljø | |
| Bonheur | Eierstyring og selskapsledelse | |
| Burberry | Klima, RE-100 | |
| BW Offshore | Korrupsjon, menneskerettigheter og miljø | |
| Calpine | Klima | |
| Canadian Utilities Ltd. | Klima | |
| Chevron | Menneskerettigheter | Ekskludert |
| China National Building Material Co. Ltd. | Klima | |
| China National Offshore Oil Corporation | Miljø og menneskerettigheter | |

Impact

KLP creates greater impact through transparency



Enstemmighet om å trekke Pensjonsfondet ut av kull

Samtlige partier på Stortinget er enige om at Statens pensjonsfond utland (SPU) ikke lenger skal være investert i kullselskaper.



Fra kull til fornybart:

Konsernsjef Sverre Thorne i KLP har all grunn til å smile. Nå følger Oslo kommune i selskapets fotspor og trekker seg ut som investor i kullselskaper og å satse på fornybar energi.

Oslo kommune vil gjøre som KLP

Byrådet i Oslo vil nå be kommunens tjenestepensjonsleverandør, Oslo Pensjonsforsikring AS (OPF), sikre at kommunens pensjonsfond trekker seg ut av nettpoll kullselskaper.



Exclusion: systematic process

Målet er **alltid** å påvirke selskapene til en langsiktig og bærekraftig verdiskaping.



KLP List: Excluded Companies

| | | | | |
|--------------|-----------------------------|-------------------------------------------|--------------------|---------------------------|
| Human rights | Severe environmental damage | Rights of individuals in war and conflict | Serious corruption | Fundamental ethical norms |
| 13 companies | 20 selskaper | 3 companies | 4 companies | 9 selskaper |

AES
Alstom
Enbridge
Energy Transfer Partners
Daewoo
L-3 Communications
Marathon Petroleum
Olam International

Barrick Gold
Chevron
Freeport McMoRan
Genting Berhad
Genting Plantations
IJM Corporation Berhad
IJM Plantations Berhad
Lingui Development
Madras Aluminium
Noble Group
Norilsk Nickel
Rio Tinto
Sesa Sterlite
Samling Global
Vedanta Resources
TEPCO
WTK Berhad Holdings
Ta Ann Berhad Holdings
Zijin Holdings Mining
Volcan Compañia Minera

AFI Group
Danya Cebus
Shikun&Binui

China Railway Group
Eletrobras
Petrobras
ZTE Corporation

Agrium Inc.
Cairn Energy
Elbit
Glencore Plc
HeidelbergCement
Incitec Pivot
Kosmos Energy Ltd.
Potash Corp Saskatchewan
San Leon Energy

| |
|--------------|
| Labor rights |
| 1 company |

Wal-Mart Stores

KLP-listen

Coal-based activities

81 companies

Controversial weapons

22 companies

Tobacco

22 companies

Aboitiz Power
Adani Power Ltd.
Adaro Energy Tbk PT
AES Gener SA
AGL Energy Ltd.
Allete Inc
Alliant Energy
Ameren Corp
American Electric Power Co.
Appalachian Power
Banpu Public Comp. Ltd
Capital Power Corp
CESC Ltd
China Coal Energy Comp. Ltd
China Power International
China Resources Power
China Shenhua Energy
CLP Holdings Ltd
Coal India Ltd
CONSOL Energy Inc
Tambang International Power
DMCI Holdings Inc

Drax Group
DTE Energy
Duke Energy Corp
Dynegy
E-CL SA6
Electric Power Development
Electricity Generating
Exxaro Resources Ltd
FirstEnergy Corp
Glow Energy Public Co.
Gujarat Mineral Dev
HK Electric Investments
Hokkaido Electric
Hokuriku Electric Power Comp.
Huadian Power International
Huaneng Power International
IDACORP
Indiana Michigan Power
Indo Tambangraya Megah
Inner Mongolia Yitai Coal Co.
Korea Electric Power
Lubelski Wegiel Bogdanka
MGE Energy
New Hope Corp
Northern States Power

NRG Energy Inc
NTPC Ltd
OGE Energy Corp
Okinawa Electric Power
Peabody Energy Corp
Pinnacle West Capital
PNM Resources
Public Power Corp
Public Service Co of Colorado
Public Service Co of Mexico
Reliance Infrastructure
Reliance Power Ltd
Shikoku Electric Power
Shougang Fushan Resources
Southwestern Public Service
Tambang Batubara Bukit
Tata Power Co. Ltd
TransAlta Corp
The Southern Company
Union Electric Co
WEC Energy Group
Wisconsin Electric Power
Westar Energy
Whitehave Coal Ltd
Xcel Energy
Yanzhou Coal Mining Comp. Ltd

Aerojet Rocketdyne
Airbus Group
BWX Technologies
BAE Systems
Boeing
Finmeccanica
Fluor Corp.
General Dynamics
Hanwha
Honeywell International
Huntington Ingalls
Industires
Jacobs Engineering
L-3 Communications
Lockhead Martin
Northrop Grumman
Orbital ATK
Poongsan Holdings
Raytheon
Safran Group
Serco Group
Singapore Technologies
Textron

Adris Grupa
Alliance One International
Altria Group
British American Tobacco
Grupo Carso
Gudang Garam
Huabao International
HM Samponera
Imperial Brands
ITC
Japan Tobacco
KT&G Corp
Lorillard
Philip Morris
Reynolds American
Sabanchi Holdings
Schweitzer-Mauduit
Shanghai Industrial
Souza Cruz
Swedish Match
Universal Corp
Vector Group

Full transparency

Detailed rationale for exclusion

Beslutning om utelukkelse av Centrais Elébricas Brasileiras S.A. (Eletrobras)

Desember 2016

Sammendrag

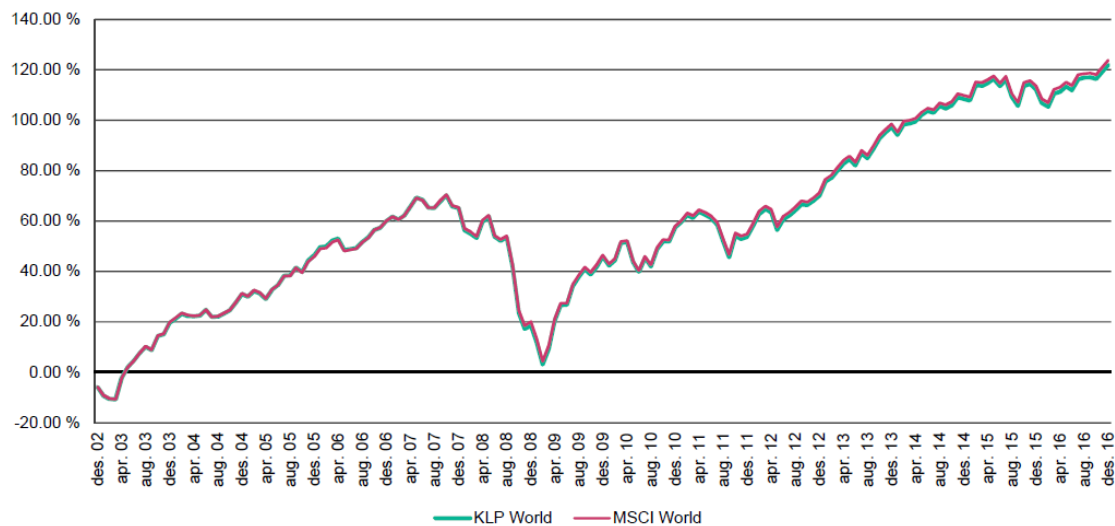
KLP og KLP-fondene (heretter "KLP") har besluttet å utelukke selskapet Centrais Elébricas Brasileiras S.A. (heretter "Eletrobras") grunnet uakseptabel risiko for grov korrupsjon.

Eletrobras er det største elektrisitetsselskapet i Latin-Amerika.¹ Selskapet er basert i Brasil og er børsnotert i Sao Paulo, New York (NYSE) og Madrid.² Den brasilianske regjeringen er majoritetsaksjeeier.³ Eletrobras har en dominerende posisjon i det brasilianske markedet, og de begynte en internasjonal ekspansjon i 2008, til Nicaragua, Uruguay og Argentina.⁴ I forbindelse med analysen av Petrobras tidlig i 2016, avdekket KLP informasjon som tydet på at også Eletrobras sto ovenfor en høy risiko for korrupsjon. Selve saken har fått langt mindre medieoppmærksomhet og vært noen i skyggen av Lava Jato-etterforskningen rundt Petrobras.

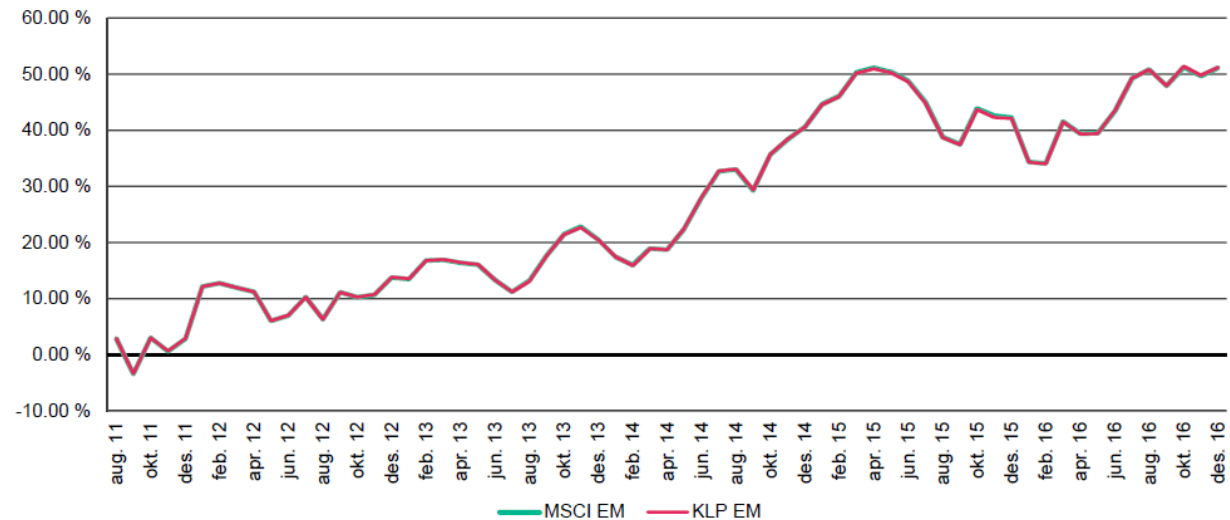
I mai 2016 suspenderte New York-børsen handelen av Eletrobras-aksjer etter en kunngjøring fra selskapet at det ikke ville overholde fristen for innsending av finansregnskap for 2014.⁵ Forsinkelsen skyldtes forhandlinger med US Securities and Exchange Commission (SEC) om beregningen av korrupsjonskostnader.⁶ I august 2016 ble den tidligere administrerende direktøren i Eletrobras' datterselskap Eletronuclear dømt til 43 års fengsel for å ha betalt bestikklser til leverandører i forbindelse med byggingen av et

How do exclusions impact returns?

Akkumulert avkastning siden oppstart



Akkumulert avkastning siden oppstart



Integration tools and tactics – company level

- Adjustment of normalized expected returns in calculation of the terminal value
- Adjustments for necessary provisions or expected writedowns
- Scenario analyses that take into account ESG-related events
- Adjustment of prognosis for operating costs and/or operating margins
- Adjustment of multiple
- Adjustment of prognosis for capex
- Adjustment for revenue prognosis
- Adjustment of company's equity Beta or discount rate

Integration tools and tactics – company level

Examples:

- New question on Norwegian Society of Analysts annual survey of the risk premium in the Norwegian market:
 - *Bør det benyttes et påslag for selskaper med dårlig performance knyttet til miljø og bærekraft? Svaralternativ Ja / Nei*

Handelsbanken Capital Markets

Environmental, social and governance analysis: ESG in focus

- **Rolling out our ESG coverage to a larger number of companies**
- **Equity and credit analysts lead our ESG research efforts**
- **All actively covered companies will be incorporated in due course**

After producing detailed ad-hoc environmental, social and governance research (ESG) on a range of companies for some years (including Statoil, H&M and Pandora), we now begin to roll out this important aspect across our entire coverage universe. We have no doubt that ESG factors will become increasingly important ahead, and not just from a holistic perspective either: more money is likely to be allocated to companies that can benefit from those trends and the earnings/valuations of companies that fall short of the required standards are likely to be punished. Our ESG rollout begins today.

Integration tools and tactics at the portfolio level

Main approaches

- **Use of negative screening or positive screening** («best-in-class») to select more sustainable portfolio – with goal of increasing returns/reducing risk
- **Use of ESG data to adjust security weights**, e.g. low carbon funds, ESG Smart Beta funds



Future of responsible investing?



Increased focus

UN Sustainable Development Goals (SDGs) and the Paris Agreement



COP21-CMP11
PARIS 2015
UN CLIMATE CHANGE CONFERENCE

Kahoot!

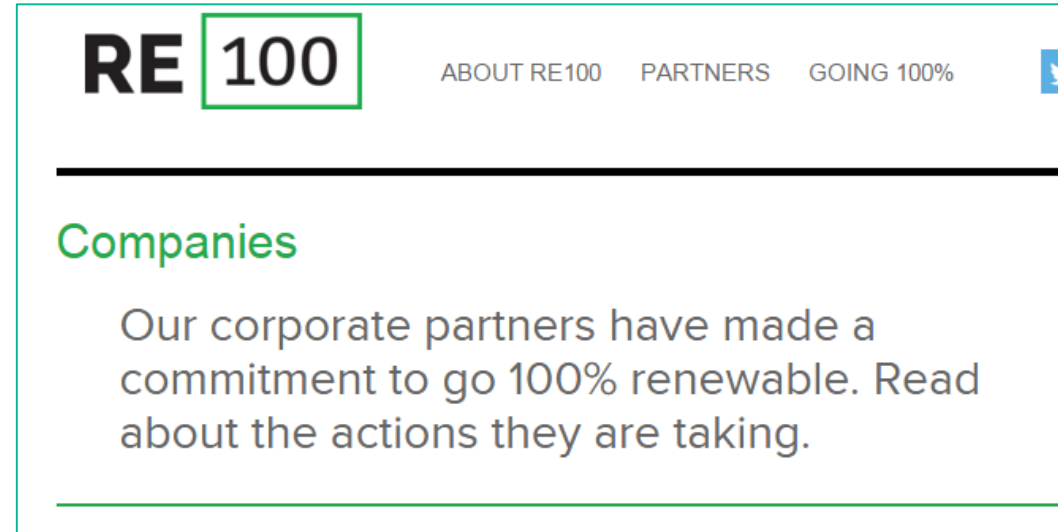
(ARE YOU AWAKE?)



ALP

Climate

1. Reporting of emissions and climate strategy through CDP.
2. Norwegian leaders on renewables/RE100
3. Engagement to reduce emissions among portfolio companies with highest carbon intensity
4. Joint engagement with Nordic investors based on CDP sector reports.
5. KLP is CDP's Norwegian partner.



The screenshot shows the top section of the RE100 website. At the top left is the 'RE 100' logo, with 'RE' in black and '100' in white inside a green-bordered box. To the right are navigation links: 'ABOUT RE100', 'PARTNERS', and 'GOING 100%'. Below this is a horizontal line, followed by the heading 'Companies' in green. The main text below reads: 'Our corporate partners have made a commitment to go 100% renewable. Read about the actions they are taking.'

