



Guideline for KLP as a responsible investor

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Approved by: KLP's Board of Directors

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1. Purpose

The purpose of the guideline is to ensure that KLP is a responsible investor and owner. The objective is to deliver competitive returns over time, while at the same time ensuring that KLP fulfills its commitments as a signatory to the *UN Global Compact* and *Principles for Responsible Investment (PRI)*, and contributes to a sustainable development in line with the *UN Sustainable Development Goals*.

That KLP shall be a responsible investor is enshrined in KLP's corporate strategy, corporate responsibility strategy as well as in the investment strategy with underlying investment principles. This guideline describes KLP's approach to responsible investments.

1.1 Definition of a responsible investor

A responsible investor is aware of its role as an asset owner, and promotes effective and well functioning capital markets. As providers of capital, asset owners set the tone for stewardship and may influence market practices.

A responsible investor seeks to integrate environmental, social and governance factors (ESG) in their investment activities and active ownership in order to attain more complete information and better risk management. *The UN Sustainable Development Goals* are a relevant example in this respect, as they define relevant targets for a sustainable development until 2030.

Considering ESG factors can be both ethically and financially rooted: in order to avoid contributing to violations of international norms and regulations and/or because ESG factors can have financial implications.

1.2 Why it is important for KLP to be a responsible investor

Responsible investment practices is important for KLP for multiple reasons.

First and foremost, KLP shall secure and increase the value of its investments on behalf of our customers. Given that KLP has a long-term perspective, KLP's investments and the underlying companies' business must be based on a responsible and sustainable value creation. Therefore, it is in KLP's interest to promote a long-term and sustainable value creation in the companies KLP invest in. Concurrently, KLP's risk and return is contingent on efficient and well-functioning markets.

Secondly, KLP has a responsibility for the impact our business has on society. KLP has recognized this responsibility by becoming a signatory to the *UN Global Compact* and *PRI*.

Thirdly, KLP's customers and owners expect KLP to act responsibly.

2. Rooted in international norms

KLP's work on responsible investment is rooted in international norms, including:

- International conventions and principles that the *UN Global Compact* is based on:
 - UN Declaration on Human Rights,
 - ILO Core Conventions,
 - Rio Declaration on Environment and Development,
 - UN Convention against Corruption;
- UN Guiding Principles on Business and Human Rights
- OECD Guidelines for Multinational Enterprises
- OECD Principles of Corporate Governance and other relevant, international norms for active ownership and corporate governance;
- The Norwegian Code of Practice for Corporate Governance.

3. Scope of application

This guideline forms the basis for responsible investment practices across all units in the KLP group. The guideline is applicable to all investments and all asset classes, and is to be operationalized for each asset class in an expedient manner.

4. Roles and responsibilities

KLP's board of directors is responsible for the overarching directions for KLP's investments, and therefore approves this guideline. The administration is responsible for an appropriate organizational structure in order to manage the guideline.

5. Ownership principles

The ownership principles are signals to stakeholders and the market on KLP's standpoint as an investor and owner. KLP is to execute its ownership in line with the core values **open, clear, responsible** and **engaged**:

1. We are **open** on our behaviour and demeanor
2. We are **clear** as an owner and we act in a predictable manner
3. We are **responsible** and conscious of our corporate responsibility
4. We are **engaged** in the companies we invest in

6. Tools

KLP will utilise four tools in its role as a responsible investor and owner:

6.1 Integration

KLP shall seek to integrate ESG factors into its investment analyses and decision-making processes.

6.2 Active ownership

In line with the ownership principles, KLP shall use active ownership to influence companies, industries, and markets to promote sustainable value creation. KLP shall develop an ownership strategy. The exercise of ownership should be based on an assessment of how and in which areas it can have the greatest effect.

The exercise of ownership should be anchored in KLP's ownership principles and exclusion criteria, the *Voting Guidelines for KLP and the KLP Funds*, and international standards, as mentioned above.

Appropriate means of exercising ownership include:

- a) Voting and possibly submitting shareholder proposals at general meetings;
- b) Dialogue with the company's board of directors and management;
- c) Participation in corporate bodies. KLP may participate in nomination committees, but not on the boards of listed companies. KLP may be represented on the boards of unlisted companies in which it has a large stake or a strategic interest;
- d) Promoting industry and market standards;
- e) Collaboration with other investors in corporate dialogues and ownership questions.

6.3 Exclusion

KLP should exclude from its investments any companies that are associated with gross and/or systematic violations of generally accepted standards of business conduct. As a general rule, the exclusion criteria should be rooted in the standards mentioned above. Exclusion decisions should be based on thorough reviews rooted in these guidelines.

Behaviour-based exclusion criteria

KLP should exclude companies from its investments where there is an unacceptable risk that they could contribute to or be responsible for:

- Serious or systematic violations of human rights, such as murder, torture, deprivation of liberty, forced labour, the worst forms of child labour, and other serious or systematic violations of labour rights;
- serious violations of the rights of individuals in situations of war or conflict;
- severe environmental damage;
- acts or omissions that on an aggregate company level lead to unacceptable levels of greenhouse gas emissions;
- gross corruption;
- other particularly serious violations of fundamental ethical norms;
- other particularly serious violations of business ethics.

Product-based exclusion criteria

KLP shall not invest in companies that:

- Produce weapons that violate fundamental humanitarian principles through their normal use;
- Obtain more than 5 percent of their revenues from coal- or oil sand-based activities (oil sand extraction, coal mining or coal-based power generation), produce more than 10,000 megawatts (MW) of energy from coal power, or extract more than 20 million tons of coal annually. The analysis should be forward-looking and take into consideration factors such as construction of new capacity, or plans that will reduce the share of revenues from coal-based activities or increase the share of renewable energy sources;
- Produce tobacco, alcohol, gambling services or pornography.

Due diligence-based exclusions

KLP shall conduct due diligence in its investments and can decide due diligence-based divestments from companies if there is an unacceptable risk to contribute to complicity with KLP's guidelines based on a combination of country, sector or company risk.

Exclusion by the Norwegian Government Pension Fund Global

KLP shall observe exclusions from the Government Pension Fund Global made according to the current *Guidelines for Observation and Exclusion from the Government Pension Fund Global*, and generally follow these exclusions.

Government bonds

KLP shall not invest in the lowest-ranked countries in the World Bank's *Worldwide Governance Indicators* (WGI).

Excluding a government bond from the investment universe does not normally require the exclusion of other forms of investment in the same country.

Sanctions

KLP shall consider freezing purchases of, or divesting from, securities in companies subject to UN and EU sanctions to which Norway adheres.

KLP shall not invest in bonds issued by countries where the state or government officials are the object of UN or EU economic sanctions to which Norway adheres.

6.4 Impact investments

KLP should have a portfolio of investments with the aim of contributing to sustainable development, as defined in *the UN Sustainable Development Goals*.

7. External management

Primarily, KLP manages the pension funds internally, but also makes use of external managers. KLP shall:

- Assess the work of external managers on ESG integration;
- Incorporate this guideline into mandates and management agreements;
- Follow up on external managers' adherence to this guideline.

Wherever possible, external managers should comply with KLP's exclusion criteria and normally follow KLP's exclusion list.

8. Reporting

Openness should be a central principle for implementation of this guideline.

KLP shall quarterly and annually report externally on application of the guideline. The reporting should include any updates to the list of excluded companies, and the rationales on which these are based. KLP shall be open about its ownership activities, which includes publishing its voting decisions.

KLP shall report through relevant industry initiatives or standards, including *PRI*.

KLP shall, to the degree possible, report the carbon footprint of its investments in order to track the development over time.

9. Reference to other relevant documents

- Group strategy
- Strategy for corporate responsibility
- Investment strategy
- Voting guidelines for KLP and the KLP Funds
- Ethical guidelines for employees in KLP

10. Approval

This guideline has been adopted by the Board and will be revised as necessary.

11. Document history

| Version | Approved by | Date of approval |
|----------------|--------------------|-------------------------|
| 1 | Board of Directors | 1997 |
| 2 | Board of Directors | 08.12.2005 |
| 3 | Board of Directors | 06.12.2012 |
| 4 | Board of Directors | 04.11.2014 |
| 5 | Board of Directors | 08.12.2017 |
| 6 | Board of Directors | 13.06.2019 |
| 7 | Board of Directors | 15.04.2020 |