



Guideline for KLP as a responsible investor

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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 fulfils its commitments as a signatory to the *UN Global Compact*ⁱ and *Principles for Responsible Investment (PRI)*ⁱⁱ, 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.

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 based on stable institutions and social structures. As providers of capital, asset owners set the tone for good management and may influence market practices.

A responsible investor seeks to integrate sustainability risk and factors in their investment activities and active ownership. Considering sustainability risk and factors can be both ethically and financially justified.

Sustainability risk is the potential impact on the investment's value as a result of environmental, social or governance-related events and/or circumstances.

Sustainability factors are environmental, social, and governmental matters, which can be positively or negatively affected by a company's activity.

Why it is important for KLP to be a responsible investor

Responsible investment practices are 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 invests in. Concurrently, KLP's risk and return is contingent on efficient and well-functioning markets, and thus also that institutions and social structures that form the basis of stable markets facilitate sustainable development.

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 internationally recognized goals and norms. These includes:

- 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
- Global climate and nature targets negotiated under the UN Framework Convention on Climate Change (UNFCCC) and the Convention on Biological Diversity
- 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 to operationalize and manage the guideline.

5. Ownership principles

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

1. We are **open** on our behaviour and way of being.
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 and in the development of institutions and social structures that set the framework for our investments.

6. Tools

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

6.1 Integration

KLP shall integrate sustainability factors into its investment analyses and decision-making processes. Efforts will also be made to assess the long-term effects of investment strategy and investment decisions on sustainability factors.

6.2 Active ownership

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

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 shall be based on the assessment of how and in which areas it can have the greatest effect.

Appropriate means of exercising ownership include:

- a) Dialogue with the company's board of directors and management.
- b) Voting and submitting shareholder proposals at general meetings.
- 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 shall exclude from its investments any companies that are associated with gross and/or systematic violations of generally accepted standards of business conduct. The exclusion criteria shall be rooted in the standards mentioned above. Exclusion decisions shall 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:

- a) 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.
- b) serious violations of the rights of individuals in situations of war or conflict.
- c) sale of weapons to states i) in armed conflicts that use the weapons in ways that represent serious and systematic breaches to international law governing the conflicts, or ii) that is covered by the scheme for state bond exception described in the mandate for the governance of the Norwegian Government Pension Fund Global.
- d) severe environmental damage.
- e) acts or omissions that on an aggregate company level led to unacceptable levels of greenhouse gas emissions.

- f) gross corruption.
- g) other particularly serious violations of fundamental ethical norms.
- h) other particularly serious violations of business ethics.

Product-based exclusion criteria

KLP shall not invest in companies that:

- Develop or produce weapons or key components of weapons that violate fundamental humanitarian principles through their normal use. Such weapons include, biological weapons, chemical weapons, nuclear weapons, non-detectable fragments, incendiary weapons, blinding laser weapons, anti-personnel mines, and cluster munitions.
- Derive 5 percent or more revenue from coal and/or oil sands-based operations (oil sands extraction, extraction of coal for energy purposes [thermal coal] or coal-based power generation) have a coal power capacity of more than 10,000 MW, or mine more than 20 million tons of thermal coal per year. In the assessment, emphasis shall be placed on forward-looking assessments, including the construction of new capacity and plans that will reduce the coal-based share or increase the share of renewable energy sources.
- Produce tobacco, alcohol, non-medical cannabis, gambling services or pornography.

Due diligence-based exclusions

KLP shall perform due diligence assessments in the investments and may decide on due diligence-based exclusions of companies if there is an unacceptable risk of company contributing to the violation of KLP's guideline based on a combination of country, sector, and 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 comply with sanctions and freezing provisions implemented in Norwegian law, and shall monitor investments against relevant sanction lists, including sanction lists from the UN and the EU.

6.4 Impact investments

KLP shall have a portfolio of investments that, in addition to financial returns, is dedicated to contributing to *the UN Sustainable Development Goals*. The portfolio may have a somewhat higher risk than what is normally used as a basis for KLP's investments.

7. External management

Primarily, KLP manages pension funds internally, but also engages external managers. KLP shall:

- Assess the work of external managers on integrating sustainability risk and factors.
- 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 shall be a central principle for implementation of this guideline.

KLP shall report externally on how the guideline is complied with, compared to current legal requirements and best practices for sustainability reporting in the financial industry. The reporting shall include any updates to the list of excluded companies and supporting rationales. KLP shall be open about its ownership activities, which includes publishing its voting decisions.

9. Reference to other relevant documents

Group strategy (in Norwegian)

Strategy for corporate responsibility (in Norwegian)

Investment strategy (in Norwegian)

KLP's expectations as an investor

Voting guidelines for KLP and the KLP Funds

Ethical guidelines for KLPs employees

Guidelines for compliance with money laundering and sanctions regulations in the KLP Group (in Norwegian)

10. Approval

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

NOTE: This is an unofficial translation of the original guideline prepared and approved in Norwegian. In case of discrepancies, the Norwegian version shall prevail.

ⁱ UN Global Compact's ten principles

The United Nations Global Compact is a non-binding United Nations to encourage businesses and firms worldwide to adopt sustainable and socially responsible policies, and to report on their implementation.

1. Businesses should support and respect the protection of internationally proclaimed human rights
2. Make sure that they are not complicit in human rights abuses.
3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining
4. Eliminate of all forms of forced and compulsory labour
5. Eliminate the effective abolition of child labour
6. Eliminate the discrimination in respect of employment and occupation.
7. Businesses should support a precautionary approach to environmental challenges
8. Undertake initiatives to promote greater environmental responsibility
9. Encourage the development and diffusion of environmentally friendly technologies
10. Businesses should work against corruption in all its forms, including extortion and bribery.

For more information: www.unglobalcompact.org.

ⁱⁱ Principles for Responsible Investment (PRI)

A UN-supported international network of investors working together to implement the six Principles for Responsible Investment, all actions for incorporating ESG (environmental, social and governmental) issues into investment practice. The Principles were developed by and for investors in order to contribute to developing a more sustainable global financial system.

The six principles:

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

Se mer informasjon på www.unpri.org.