

Folketrygdfondet

Folketrygdfondet's **expectations**



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Introduction

In line with Folketrygdfondet's mandate, we set expectations for companies on managing issues that matter to us as an owner and creditor. This expectations document is divided into different topics:

- Strategy, capital structure, and financial targets
- Anti-corruption
- Human rights and labor rights
- Climate
- Nature
- Remuneration for the board and executive management
- Bond issuance

Purpose

Our expectations are directed at company boards and form the basis for our follow-up as an owner and creditor. Folketrygdfondet expects companies to develop a strategy for long-term value creation that is adapted to the company's risks, including climate, nature, and social factors. The strategy should form the basis for capital structure and financial goals. Executive remuneration should support the strategy. These expectations apply to all companies in our portfolio. For bond issuers, Folketrygdfondet also sets expectations for both bond issuers and lead managers.

How Folketrygdfondet Uses These Guidelines

The Ministry of Finance has mandated Folketrygdfondet to manage the Government Pension Fund Norway (SPN) and the Government Fund Tromsø (SFT). Our management is based on the objective of highest possible returns over time, within the mandates provided. The mandates state that sound long-term returns depend on sustainable development in economic, environmental, and social terms, as well as well-functioning and efficient markets. Our management is based on a long-term goal that companies in the investment portfolio operate in a way that is compatible with global net zero emissions in line with the Paris Agreement.

Folketrygdfondet's expectations assume that companies comply with current laws and regulations, as well as internationally recognized standards and methods. Companies themselves are best positioned to assess how to meet these expectations. Folketrygdfondet's role is to provide clear feedback when a company does not act in line with our expectations.

How to Read Folketrygdfondet's Expectations

Our expectations are based on the Norwegian Code of Practice for Corporate Governance (NUES), the UN Global Compact, the UN Guiding Principles on Business and Human Rights (UNGPs), the OECD Guidelines for Multinational Enterprises, the OECD Principles of Corporate Governance, and other recognized norms and principles related to human rights, labor conditions, climate, nature, and anti-corruption. The expectations are formulated at a general level. It is the responsibility of the board and management to consider these in light of the company's risk profile and implement appropriate measures.

Folketrygdfondet emphasizes a clear division of roles and responsibilities between the board and management, including in the follow-up of governance, environmental, and social issues. Addressing these matters often involves dilemmas and challenges, and conflicting interests may arise. Folketrygdfondet expects companies to assess actions and measures tailored to their risk profile and to be transparent about these processes.



Strategy, Capital Structure, and Financial Targets

A clear and justified long-term strategy with defined financial goals and a deliberate risk profile contributes to good corporate governance, effective resource utilization, and sound operations. This is necessary to achieve sound long-term value creation.

Long-term Strategy, Goals, and Risk Profile

- The board is responsible for preparing and carrying out a clear, well-reasoned long-term strategy. This should cover the business model, financial goals, capital allocation, plans for growth and use of resources, and considerations related to capital structure, risk, and tax.
- Financial goals such as growth and returns, as well as strategic goals, should be based on the company's view of market developments, key assumptions, and competitive advantages. It should be clear how management's compensation is linked to these goals.
- Companies should set targets for return on invested capital and show how these targets reflect risk and the level of capital tied up in the business. Return measures should give a meaningful and transparent picture of underlying profitability.
- Companies should describe the key competitive advantages that make it possible to carry out the strategy.
- Companies should analyse risks related to strategy, business model, and capital structure, and assess whether the capital structure is flexible and robust enough to support the implementation of the strategy.



Capital Structure and Surplus Capital

- Targets for the long-term capital structure should be based on the company's strategy and risk assessment. Any differences between the target and the actual capital structure should be explained. If additional capital is required, the company should clarify what it will be used for and how it will be allocated.
- Surplus capital should generally be returned to shareholders. It should be clear whether this is done through cash dividends, share buybacks, or capital reductions, and these decisions should be anchored with the shareholders.

Responsible Tax Practices

- The company should follow the OECD Guidelines for Multinational Enterprises. In line with these principles, the company is expected to comply with local tax laws and provide the relevant authorities with the information they need
- Transfer pricing practices should adhere to the arm's length principle.

Financial Communication and Transparency

- Companies must communicate clearly about strategy, financial goals, and tax practices, and report on goal achievement.
- Companies should maintain open and consistent communication with the capital markets. Financial information should be provided in a timely manner, following the principle of equal treatment of market participants.

Corporate Governance

- We expect companies to follow NUES or equivalent national guidelines for good corporate governance. Folketrygdfondet generally applies the NUES recommendations also to companies outside Norway
- The board must ensure that decisions regarding capital raising, share issues, buybacks, major transactions, or changes in ownership structure safeguard the equal treatment of shareholders.
- Authorizations should be well-justified and time-limited. The board's composition and work should support independent and competent oversight and contribute to long-term value creation. For further guidance, see Folketrygdfondet's voting principles at ftf.no.



Anti-corruption

Corruption includes activities such as money laundering, embezzlement, fraud, competition crimes, tax evasion, accounting manipulation, insider trading, and other forms of financial misconduct. Such practices undermine trust between parties, distort markets and fair competition, and weaken long-term value creation. Corruption can expose companies to significant financial, legal, and reputational losses, and represents a material financial risk.

Folketrygdfondet's expectations for companies' anti-corruption efforts are based on the UN Global Compact, the OECD Guidelines for Multinational Enterprises, and the Extractive Industries Transparency Initiative (EITI).

- Companies have an independent responsibility to prevent, detect, and address corruption. The board must ensure that the company has appropriate systems and measures in place to manage this risk.
- Companies should assess corruption risk across business areas, markets, and partners. The board must ensure that it has the competence and insight needed to understand the company's overall risk profile.
- Companies must dedicate sufficient resources to anti-corruption work, and maintain effective systems for whistleblowing, background checks, and follow-up of business partners and ownership interests.
- We expect the board to demonstrate clear zero-tolerance for corruption, and to ensure that breaches of internal procedures are addressed immediately. Anti-corruption guidelines should be well understood internally and clearly communicated externally.
- Companies should provide thorough training for employees, especially in roles exposed to higher corruption risk.
- The anti-corruption program should be reviewed regularly to ensure that they work in practice, are further developed, and are adapted to changes in the risk landscape and new legal requirements.
- We expect companies to report openly on their anti-corruption work, including key risk areas, whistleblowing activity (broken down by topic or geography), how the work is organised, and planned improvement measures.

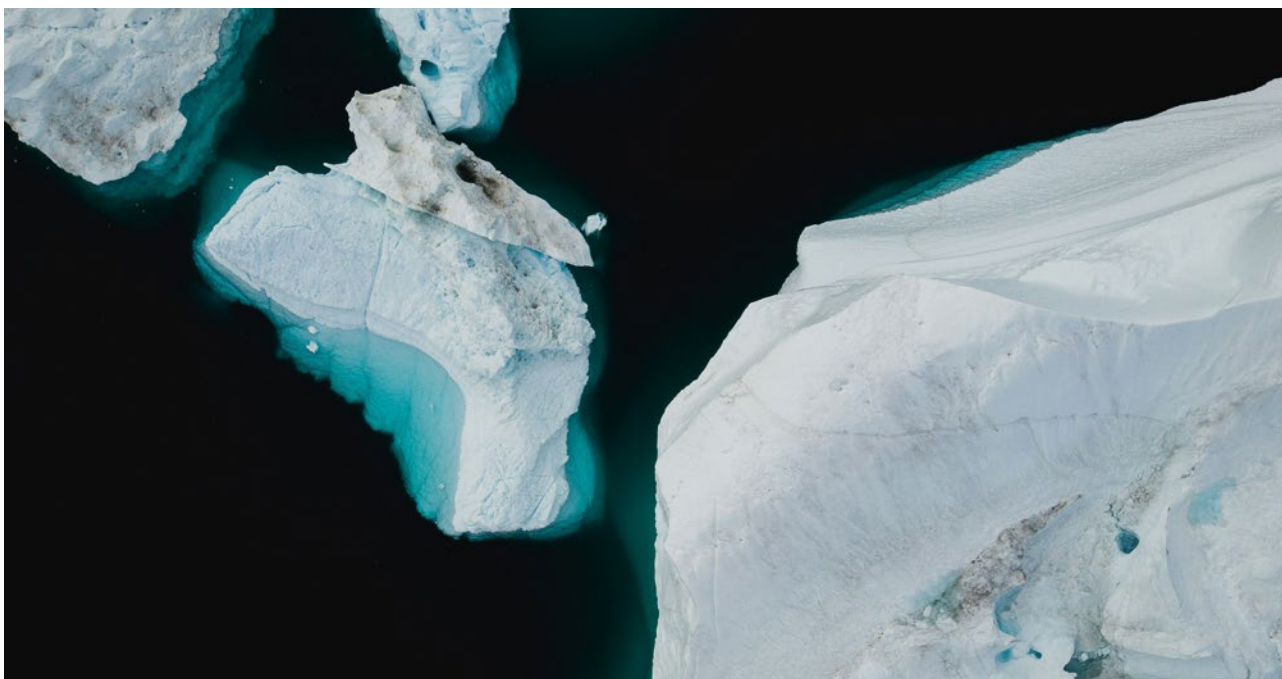


Human Rights and Labour Rights

A lack of respect for human rights and labour rights can lead to reputational damage, loss of customers, operational disruptions, and other negative financial consequences.

Folketrygdfondet's expectations for companies' conduct in this area are based on the UN Global Compact, the OECD Guidelines for Multinational Enterprises, the UN Universal Declaration of Human Rights (1948), the UN Guiding Principles on Business and Human Rights, and the ILO Core Conventions.

- States are responsible for protecting human rights and labour rights under international conventions, but these standards are also relevant for companies. We expect companies to use them as part of their risk assessment, both in their own operations and throughout the value chain.
- Companies are expected to follow the OECD Guidelines for Multinational Enterprises.
- The board is responsible for ensuring that human rights and labour rights are respected across the company's activities, and that this is embedded in the corporate culture. Policies in this area should be well understood internally and clearly communicated externally.
- Companies should have ongoing processes to identify and manage risks of human rights or labour rights violations. Risk management systems should be updated regularly to ensure they work as intended. Specific assessments should be carried out before entering into new agreements, investments, or business areas.
- The risk of violations will vary by industry, geography, value chain, and type of production. In conflict zones, high-risk geographies, or sectors where serious or systematic violations of basic human rights or labour rights are documented, we expect enhanced due diligence.
- Companies should report openly on their work related to human rights and labour rights.



Climate

Folketrygdfondet expects companies to align their business activities with a global net-zero pathway in line with the Paris Agreement. This requires a sustainable and future-oriented business model that reduces climate risk and supports long-term profitability.

There are different types of climate risk:

- **Physical risk** refers to the effects of climate change that can cause financial loss or damage, such as extreme weather events, rising sea temperatures, and changing precipitation patterns. These can harm assets, disrupt supply chains, and reduce operational capacity.
- **Transition risk** arises from changes driven by climate policies, including new regulations, emerging technologies, and shifting market expectations that may affect operations and costs.
- **Liability risk** relates to potential financial claims resulting from insufficient action to prevent or mitigate climate-related harm.
- The board is responsible for ensuring that climate risk and opportunities are integrated into strategy, decision-making and incentive structures, and that this is reflected in reporting, risk management, and financial planning.
- Companies should conduct analyses that explore different outcomes and transition pathways. These should include a scenario that reflects rapid decarbonisation consistent with the Paris Agreement, and a scenario where such goals are not met and climate risk becomes a major threat.
- Companies should set interim and long-term emission-reduction targets. Targets should be realistic and science-based where relevant and applicable. Companies also have a responsibility to ensure that emissions associated with the use of their products and services align with overarching goals. Targets should cover both direct emissions and material indirect emissions (Scope 3).

We expect companies to be transparent about how they manage climate risk and how they plan to deliver on their climate ambitions.

Folketrygdfondet's expectations apply to companies with material climate risk and are based on the OECD Guidelines for Multinational Enterprises, IFRS S2, and UN Global Compact.

- Targets should be supported by a transition plan outlining necessary investments, expected financial implications, and how the company will adapt to a low-emission economy.
- Companies should report on their management of climate risk in line with recognised frameworks and standards. If carbon offsets are used to meet climate targets, this should be clearly explained, including information on the origin and verification of the offsets.
- Companies should also disclose the carbon price they apply in their profitability assessments.
- We expect companies to report on any lobbying activities related to climate regulation, including influence exerted through third parties.



Nature and Ecosystems

Nature provides fundamental contributions that underpin business activity, including food supply, clean water, energy and carbon capture.

To halt and eventually reverse the loss of nature, the private sector must operate within the planet's ecological limits. Folketrygdfondet expects companies to align their operations with a nature-positive transition. This implies considering the long-term costs of nature loss, as well as the opportunities that come from strengthening ecosystems.

The loss or degradation of nature and ecosystems can create major challenges for companies that depend on natural resources or have significant environmental impacts. Nature and climate risks are also interrelated. Climate-friendly development requires conservation, restoration, and sustainable management of nature.

There are different types of nature-related risk (NOU 2024:2):

- **Physical risk** arises when the loss or degradation of nature and ecosystems affects a company's operations. This includes businesses directly dependent on natural resources, such as aquaculture and power production, but also insurance, transport, construction, and other land-intensive activities. Most companies are also exposed to physical risk through their value chains.
- **Transition risk** stems from regulatory changes, taxes, market expectations, consumer preferences and technological developments. Companies that fail to adapt may face liability, loss of permits, reputational harm, reduced market access, and other challenges. Businesses with nature-positive or circular models may benefit from new opportunities.
- **Liability risk** relates to financial responsibility for nature loss or environmental harm caused or contributed by the company.

Folketrygdfondet's expectations apply to companies with material nature-related risk and are based on the OECD Guidelines for Multinational Enterprises, the UN Global Compact, the recommendations of the Taskforce on Nature-related Financial Disclosures (TNFD), and the Kunming-Montreal Global Biodiversity Framework (2022).

- The board is responsible for ensuring that nature-related risks and opportunities are integrated into strategy, decision-making and incentive structures, and that this is reflected in reporting, risk management, and financial planning.

- Companies should assess how the impact of different nature-related events could affect strategy and financial planning in both the short and long term. Scenarios should include events with potentially large impacts, such as ecosystem collapse, pollution incidents or tighter regulation. Companies should also consider stress-testing their business model against nature loss in the value chain.
- Companies should set goals, roadmaps and measures for managing nature-related risks, opportunities, impacts and dependencies. Both physical and transition risks should be assessed continuously across the whole business. Targets should be realistic and science-based where relevant and applicable.
- Companies should explore methods to quantify nature-related risk, for example by assessing the value of ecosystem services, exposure to high-risk areas, or the financial implications of environmental measures.
- Companies should work on developing an internal nature price or shadow price to highlight and manage their impacts and dependencies on nature. They should be transparent about assumptions, ranges of outcomes and sensitivities, including how the company plans to manage scenarios and potential regulatory changes.
- Companies should be open about how they identify, assess and manage nature-related risk, including in their value chains.
- Companies should report on their management of nature-related risk in line with recognised frameworks and standards.



Remuneration for the Board and Executives

Folketrygdfondet places great importance on ensuring that the remuneration of senior executives support long-term value creation. Guidelines for pay and compensation should be designed to reinforce the company's strategy and contribute to sustainable value creation over time.

Folketrygdfondet's expectations for the remuneration of board members and senior executives are based on the OECD Principles of Corporate Governance, the Norwegian Code of Practice for Corporate Governance (NUES), and the Norwegian Public Limited Liability Companies Act with its associated regulations.

Board remuneration

- Board compensation should reflect the board's responsibilities, expertise, time commitment and the complexity of the business.
- Shareholder-elected board members should not be included in incentive-based remuneration schemes.
- Share ownership helps align interests around long-term value creation, and we expect shareholder-elected board members to hold a meaningful ownership stake in the company.

Remuneration of senior executives

Remuneration includes fixed and variable pay, pension schemes, severance arrangements and any additional benefits. Variable pay may take different forms of incentive schemes.

- The board must establish guidelines for the pay and remuneration of senior executives. The total level of remuneration should not result in an unreasonable transfer of value from shareholders.
- There should be an upper limit for variable pay.
- Executive remuneration schemes should be simple and transparent to support good governance and align the interests of management and shareholders. A significant portion of total annual remuneration should be provided in the form of shares with long-term holding requirements. The holding period should be independent of the end of the employment relationship, and a longer holding period should be considered for the CEO than for other senior executives.
- We expect that guidelines and reporting are clear and communicated openly in accordance with applicable laws and regulations.





Bond Issuance

A well-functioning market for debt capital depends on all participants fulfilling their responsibilities and obligations effectively. Bond financing relies on loan agreements that vary in their level of standardisation, and lead managers play a central role in ensuring a sound issuance process and ongoing follow-up of the issuer. Because lead managers act as a crucial link between issuers and creditors, we have established dedicated expectations for them. In our view, this contributes to more accurate pricing and more efficient and transparent markets.

As a creditor, we have expectations toward both bond issuers and lead managers. Our expectations are based on the specific features of the Nordic debt capital market, which differ in some respects from responsibilities in the equity market.



The issuer's role

- We expect issuers to have a solid understanding of debt capital financing and how the bond market operates. We also expect issuers to follow the NUES recommendations where appropriate.
- Loan agreements should be drafted in a way that reflects the relevant risk factors associated with the issuer and the bond in question. The rights and obligations in the loan agreement must be made clearly known to all investors before they invest.
- Issuers should provide information about material financial and operational risks, including those related to environmental and social factors. They must facilitate regular reporting and investor meetings throughout the life of the loan.
- If there is a risk that the issuer may breach one or more loan covenants, we expect a clear explanation of how this will be handled, either through preventive measures or actions to be taken if a breach occurs.
- Issuers should promptly disclose relevant news to the market, including negative information.
- Issuers should take an active role in situations involving amendments to the loan agreement or credit events. This includes ongoing communication with bondholders, the trustee, and the lead manager, in parallel with any negotiations with other stakeholders.
- All creditors should be treated equally within the established priority structure.
- Any renegotiation of the loan agreement must appropriately account for the altered risk profile, ensuring that compensation is correspondingly aligned, irrespective of the timing or manner in which bondholders cast their votes.
- When issuing sustainability bonds, issuers should establish a framework that sets out the purpose of the financing and reporting requirements, and includes relevant sustainability information. The framework should specify the use of proceeds, the projects to be financed, and include clear and ambitious sustainability targets. It should follow recognised market standards such as ICMA's principles for sustainable bonds and be supported by third-party verification.





The lead manager's role

- We expect lead managers to assess the issuer's financial position and relevant organizational and legal aspects in accordance with regulatory requirements, industry standards, and relevant recommendations. Creditors shall have access to relevant documentation and analyses.
- We expect credit analyses to be updated throughout the life of the loan, as needed and depending on the issuer's credit risk. The credit analysis must be balanced and provide a credible account of the issuer's risk profile, as well as relevant factors related to risk and governance.
- We expect lead managers to explain any deviations from what is considered a standard loan agreement, especially clarifying definitions and which key terms may not be included in the agreement.
- We expect lead managers to guide issuers on recommended standards and principles to follow in preparing all relevant documentation related to sustainability bonds. We further expect all documentation to comply with established market standards, such as ICMA's principles for sustainability bonds, and to include ambitious sustainability targets.

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Folketrygdfondet

Haakon VIIIs gate 2
Postboks 1845 Vika, 0123 Oslo
Tel: 23 11 72 00
folketrygdfondet@ftf.no