Sustainability due diligence

Conducting ongoing due diligence on environmental and social topics is integral to our work as a responsible investor. We seek to identify and assess potential and actual adverse impacts which our investee companies may cause, contribute to, or be directly linked to. As a minority investor, we cannot direct companies to take action, but we seek to use our leverage to encourage them to take steps to prevent and mitigate these impacts.

Activities from 2023 that form part of our sustainability due diligence are disclosed in our Responsible Investment report 2023.

Embedding responsible business conduct into policies and management

We respect human rights in our activities. As stated in our principles and policy for responsible investment management, we follow relevant international standards, including the UN Global Compact, the OECD Guidelines for Multinational Enterprises and Guidance for Institutional Investors, the UN Guiding Principles on Business and Human Rights, and the G20/OECD Principles of Corporate Governance.

These principles and standards form the basis for our expectation documents. We set clear expectations that our portfolio companies should integrate material sustainability issues into their policies, strategies and risk management practices, and that they should identify and manage adverse impacts on the environment or society. The expectations are the starting point for our risk monitoring and ownership dialogue with investee companies.

We embed due diligence in our work across asset classes, including with external managers.

Identifying and prioritising actual and potential adverse impacts

We have several integrated processes that aim to identify companies that could have significant adverse impacts on the environment or society–before and after we invest. We do our best to analyse risks, but limited information can make it challenging to determine adverse impacts and the companies' connections to them. We use external ESG data sources, news media, company reports, as well as information from stakeholders, including rights holders, to make our assessments and focus our work. We systematically analyse ESG risks across all companies due to enter the fund's equity benchmark on a quarterly basis. Once in our portfolio, companies are monitored for severe ESG-related incidents on a daily basis.

Our quarterly environmental and social due diligence screening evaluates portfolio companies' exposure to sustainability risks like environmental concerns and labour conditions. The screening metrics are based on our expectation documents and are selected depending on relevant quantitative data from our providers.

Beyond our quantitative and automated processes, we may conduct deeper research into themes and trends with heightened ESG risks. For companies where our ownership share exceeds five percent during the year, thus making the fund a significant owner, we undertake a detailed assessment of their ESG risk profile.

Our ESG risk monitoring efforts focus on companies with the most significant impacts in terms of scale, scope and irremediability. Based on the level of risk identified and other factors including size of investment, we may take any of the following actions, listed in increasing severity: i) ongoing monitoring, ii) initiate or continue dialogue, iii) share information with the Council on Ethics, and iv) risk-based divestment.

Seeking to prevent and mitigate adverse impact

Active ownership is our primary tool for seeking to prevent and mitigate potential and actual adverse impact. Our engagement approach is informed by the nature of the risk or issue, and an assessment of our leverage, including the size of our investment and previous dialogue with the company. We set clear objectives for each company dialogue, such as improved policies and management systems, remediation or increased transparency. We engage with company boards, management, subject-matter experts and operational staff, and send letters to company boards, especially those seeming to inadequately manage sustainability risks.

In addition to dialogue, we may address adverse impacts or escalate engagement by voting against management or board members at a company's annual meeting, supporting relevant shareholder proposals, referring cases to the Council on Ethics for further investigation, or choosing to divest.

We may also work collaboratively with other investors and organisations and engage with standard setters. For example, we are a member of the advisory committee for ADVANCE, the PRI stewardship initiative on human and social rights issues.

We publish our responses to consultations and disclose our engagement with organisations.

Tracking and communicating results

We have systems to track companies' progress in addressing their sustainability risks. We set bespoke objectives for our company dialogues and track outcomes after engagement. This helps us focus our company interactions and ensure internal co-ordination.

We communicate with stakeholders through our Responsible Investment Report, website and stakeholder dialogue. We publish our policies and frameworks, and report on our prioritised dialogues, divestments and exclusions. We also publish our voting decisions five days ahead of shareholder meetings. We explain publicly why we vote against sustainability shareholder proposals.

Stakeholder engagement and grievance mechanism

Our stakeholders include the Norwegian people, our own employees, those working for our portfolio companies or in their supply chains, and those affected by our portfolio companies' operations, for instance as consumers or community members.

We encourage stakeholders to share information that they believe could be relevant for our investments, and we regularly engage with stakeholders through bilateral or multilateral dialogues.

We expect companies to maintain effective and accessible grievance channels and to engage with their stakeholders, including workers and their representatives. We also expect companies to provide or cooperate in remediation where required, as set out in the OECD's Due Diligence Guidance for Responsible Business Conduct.

Who is involved in this work?

The Executive Board is responsible for establishing principles for responsible investment management, which cover Norges Bank Investment Management's due diligence efforts. Daily due diligence tasks are conducted by several teams, including risk monitoring, active ownership teams and portfolio managers. Norges Bank Investment Management's Leader Group and Norges Bank's Executive Board are regularly apprised on responsible investment-related matters. The Executive Board decides on ethical exclusions, either based on the Council on Ethics' recommendations or their own initiative for certain criteria.