Norges Bank Investment Management

2025 Climate action plan

Driving our portfolio companies towards net zero 2050

As a long-term and globally diversified financial investor, our return depends on sustainable development in economic, environmental and social terms. We will be a global leader in managing the financial risks and opportunities arising from climate change.

It is the goal of our responsible investment management for our portfolio companies to align their activities with global net zero emissions in line with the Paris Agreement. On this basis, our ambition is for our portfolio companies to achieve net zero emissions by 2050.

This document describes our approach to managing climate risks and opportunities. It sets out the actions we aim to take over the period 2022-2025. These actions are targeted at improving market standards, increasing portfolio resilience, and effectively engaging with our portfolio companies. At the heart of our efforts is driving portfolio companies to net zero emissions by 2050 through credible targets and transition plans for reducing their scope 1, scope 2 and material scope 3 emissions.

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We will be a global leader in managing the financial risks and opportunities arising from climate change.

Climate change and the fund

Our exposure to climate change risk and investment opportunities

Climate change is one of the defining challenges of the 21st century. Greenhouse gas emissions stemming from human activities are driving a rise in mean temperatures. This is affecting human health and well-being as well as the natural environment, and poses significant risks to the global economy and hence the companies we invest in.

The objective of the fund is to achieve the highest possible return with acceptable risk in line with the investment mandate issued by the Norwegian Ministry of Finance. We are invested in listed equities, tradable bonds, unlisted real estate and unlisted renewable energy infrastructure. Our investment mandate and our investment strategy as a long-term, global and diversified financial investor determine how we manage climate risk and opportunities.

We believe that a good long-term return for the fund depends on sustainable economic, environmental and social development, as well as on well-functioning, legitimate and efficient markets. Climate risk has long-term and systematic characteristics, and outcomes and trajectories are associated with great uncertainty. Mitigating and adapting to climate change is also associated with significant economic opportunities. Modelling from the International Energy Agency and the International Monetary Fund suggests that net zero 2050 could add 0.4 percentage point to annual global GDP growth through to 2030. Such an orderly transition requires the continued support of effective climate policies at both the global and the market level to efficiently price and restrict greenhouse gas emissions; it will not be achieved by companies and investors alone.

Our investments are exposed to two types of climate risk: physical risk and transition risk. Physical climate risk stems from the physical changes resulting from climate change, either the temperature increases themselves or associated changes in weather patterns, sea levels, ecology or human habitation. There is also uncertainty around tipping points in the climate system that – when exceeded – may lead to irreversible changes. Transition risks are generated by the economic and societal shifts towards a low-carbon economy. They can stem from policy changes to achieve climate goals, but also from

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new technologies and changing consumer behaviour. Producing and consuming goods and services in ways that emit less greenhouse gases also create investment opportunities.

The fund seeks to manage risks and capture investment opportunities by being broadly invested. The greenhouse gas emissions associated with portfolio companies give rise to transition risk. Their contribution to climate change may also adversely affect other companies in the fund's portfolio, and the economy at large. Analysis of the equity portfolio's transition risk shows that a scenario with a delayed policy response would create greater financial losses for the fund than staying on a 2°C pathway throughout. We therefore stand to benefit from an orderly transition that allows for the investment and technological advances needed for a sustainable economy, the redeployment of financial and human capital over time, and the phasing out of carbon-intensive energy provision and activities.

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Safeguarding our investments through the climate transition

We have worked for more than 15 years to better understand the effects of climate change on our portfolio and to manage the associated financial risk. Our strategy addresses climate risk and opportunities at the market, portfolio and company levels.

At the market level, engaging with standard setters, climate-related initiatives and other investors is at the heart of our efforts to support global principles and standards that underpin an orderly climate transition. Inherent uncertainty and limited access to high-quality data on the climate risk faced by companies hamper the market's ability to price climate risk and allocate capital to profitable projects. Better information from companies enables better investment decisions, more purposeful company engagements and tailored voting decisions. We have promoted the development of strong reporting frameworks for corporate climate risk disclosure for over a decade. Since 2015, we have also supported academic research to advance understanding of how climate effects influence financial markets.

At the portfolio level, we have calculated our portfolio's carbon footprint since 2014, and we use scenario analysis to understand how different climate scenarios may impact the future value of the fund. We have invested more in companies that are well-positioned for the low-carbon economy, and we made our first investment in renewable energy infrastructure in 2021. To reduce risk, we have divested from selected companies with high exposure to financial risk stemming from carbon-intensive business models since 2012. With scope 1 and scope 2 emissions concentrated in specific sectors, we adopted sector policies to manage our climate risk exposure. The Ministry of Finance introduced a specific exclusion criterion for coal in 2016 under the norms-based guidelines for exclusion and observation of companies. The removal of coal companies was an important contributor to reducing the carbon intensity of our portfolio.

At the company level, engagement is the key tool for managing the fund's climate risk exposure. How companies respond to and prepare for climate change will influence the extent to which our portfolio is affected by it. Since we started raising climate risks and opportunities in our dialogues with portfolio companies in 2006, we have continuously expanded our knowledge and built up specialist expertise. We believe that voting can be a powerful tool in cases where companies fail to manage material climate risks and opportunities adequately, and we started to disclose our voting intentions ahead of shareholder meetings in 2021.

Our responsible investment efforts are underpinned by transparency. To communicate our views, we published our first investor expectations on climate change, directed at company boards, in 2009. We published our first dedicated report on our engagement activities and results in 2015. Since 2020, we have provided extensive information in accordance with the guidelines issued by the Task Force on Climate-related Financial Disclosures (TCFD).

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Driving our portfolio companies towards net zero 2050

The current decade is crucial for achieving an orderly climate transition in line with the goals of the Paris Agreement. We believe that companies that understand the drivers of net zero emissions and anticipate regulatory developments will be well-positioned to capture the financial opportunities arising from a low-carbon economy. While some high-emitting companies may decline in value, others will transform their business models and grow among the greening companies supporting an orderly transition.

We believe that our engage-to-change approach will yield the best financial results for the fund. It will also contribute to improved real-world outcomes. We will scale up the breadth and depth of our climate work. We will continue our approach of addressing climate risk and opportunities across the market, portfolio and company levels. We will develop our work in line with internationally accepted principles and standards. Working towards a net zero 2050 target for our portfolio companies gives a strategic direction for all our climate activities.

We aim to be a global leader in managing climate-related risks and investment opportunities through this action plan. We will work together across the organisation to achieve our goals and aim to expand our reporting to provide a high level of transparency on our progress.

Our approach for managing climate risks and opportunities:

Market	**Elevate market standards and collaborate with other stakeholders by** • Engaging with standard-setting bodies • Supporting and following academic research • Increasing collaboration with investors and other market participants	**Elevate and collaborate**
Portfolio	**Analyse climate risk exposure and adjust the investment portfolio by** • Monitoring portfolio companies' emissions and stress-testing the portfolio • Seeking investment opportunities in the climate transition • Divesting from companies with high and unmitigated climate risks	**Analyse and adjust**
Company	**Own companies through the climate transition and engage for net zero by** • Integrating climate considerations into all active investment decisions • Engaging with companies for net zero targets, transition plans and emission reductions • Communicating our concerns through voting and reporting	**Own and engage**

2025 climate action plan

This 2025 climate action plan outlines our next steps in supporting and challenging our portfolio companies to adapt their business models and align them with net zero emissions by 2050. We expect high emitters to set net zero 2050 targets as a matter of urgency, and all companies in our portfolio to have done so by 2040 at the very latest.

Our plan describes specific actions that we will implement at the market, portfolio and company levels. The plan follows up our new mandate requirements and will be integrated into our evolving strategy for the management of the fund.

Market level

Our principles for responsible investment management are based on international standards. We support standard setters in their efforts to improve the management of climate-related risks. More efficient carbon markets and standardised climate disclosures, including on emissions targets and performance, are needed to achieve an orderly transition to a low-carbon economy. This will reduce externalities and allow investors to assess how companies are responding to the climate transition. Our goal is improved global, science-based standards that create a level playing field for companies. By 2025, we aim to have contributed to more sustainable and efficient financial markets by advocating for better corporate climate reporting, encouraging the establishment of credible transition pathways, and supporting promising academic research.

1. We will encourage regulators and standard-setting bodies to set mandatory requirements for climate-related reporting for listed and unlisted companies, and we will support the development of sustainable financial markets, including for green bonds.

2. We will share our technical expertise with standard-setting bodies and industry initiatives to support them in developing robust methodologies for climate risk management, including transition pathways to assess companies' progress in reducing their emissions over time.

3. We will support academic research on the financial impacts of climate change to strengthen the scientific foundations of the management of climate risk in the fund, and we will follow the development of benchmark indices that adjust for climate risk.

4. We will update our expectation document on climate change to sharpen our engagement with companies by asking for science-based short-term, medium-term and 2050 net zero targets and credible transition plans covering scope 1, scope 2 and material scope 3 emissions, and improved disclosures on performance.

5. We will increase our collaboration with other investors to share best practices, to develop common expectations, and to promote the fund's views more effectively.

Portfolio level

We use quantitative tools to better understand climate-related risks and opportunities and how these are valued by the market. Our processes and data interfaces ensure that climate-related insights are shared widely across the organisation. Analysis of climate risk is integrated into our investment decisions and informs our divestments. By 2025, we aim to have a comprehensive system in place for measuring our exposure to climate risks and opportunities and potential portfolio emission trajectories.

1. We will develop principles for measuring and managing climate risk, and stress-test the equity portfolio against a 1.5°C and other climate scenarios on an annual basis.

2. We will set a net zero 2050 target for our unlisted real estate portfolio and an interim target for 2030 of reducing scope 1 and 2 greenhouse gas emissions intensity by 40% (compared to 2019). We will integrate these targets into our acquisition and asset management practices.

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3. We will analyse the emissions of our portfolio companies and unlisted real estate investments relative to their sector-specific emission pathways and monitor progress in reaching their emission reduction targets.
4. We will continue to increase our investments in renewable energy infrastructure.
5. We will systematically monitor climate risk in the portfolio, including equity benchmark inclusions, and divest from companies with unmitigated climate risks, especially where engagement has failed or is unlikely to succeed.

Company level

Investment
We will be an owner of companies through the climate transition and integrate climate considerations into our investment analysis to reduce risks and increase returns. We will consider sector- and company-specific climate information when evaluating ownership and investment cases. By 2025, we aim to analyse increasingly granular climate-related data to inform our investment decisions.

6. We will use our access to companies and analytical expertise to build climate knowledge and use advanced data analytics to assess climate risks and opportunities.
7. We will integrate companies' exposure to climate risks and opportunities, including through their value chains, in our investment analysis.
8. Investment mandates will target opportunities in the climate transition.
9. We will have specific net zero engagement agendas if we take large positions in companies with significant transition risks.
10. Companies whose transition plans fall significantly short of those of their peers, and which do not respond to engagement, will be candidates for assessment under the climate-related conduct exclusion criterion.[1]

[1] Guidelines for Observation and Exclusion of Companies from the Government Pension Fund Global (GPFG), Section 4: "Companies may be excluded or placed under observation if there is an unacceptable risk that the company contributes to or is responsible for [...] acts or omissions that on an aggregate company level lead to unacceptable greenhouse gas emissions."

Engagement

We want to support our portfolio companies to deliver long-term financial value, adapt their business models and achieve net zero emissions. Our engagement focus list includes companies representing 70 percent of our equity portfolio's financed scope 1 and scope 2 greenhouse gas emissions, our largest holdings in sectors with significant indirect exposure to climate risk, and additional companies with elevated climate risk based on proprietary assessments. By 2025, our aim is that a significantly higher share of our portfolio companies, and in particular companies with high emissions, will have set net zero targets – putting us on a path where all companies in the portfolio have such targets by 2040.

1. We will ask companies to commit to business activities aligned with net zero 2050. We will expect them to set science-based short-, medium- and long-term emission reduction targets for their scope 1, scope 2 and material scope 3 emissions, accounting for demand and supply side risks in a net zero scenario.

2. We will ask companies to develop transition plans, define their time frames and milestones, and disclose their progress annually. We will examine the robustness of these plans, including governance structures, capital allocation frameworks, carbon price assumptions, and use of carbon offsets and their quality.

3. We will ask companies to undertake appropriate short-term actions to help mitigate global warming and reduce exposure to climate risk. For selected industries, this might include significantly reducing methane emissions or eliminating deforestation impacts from their business activities and/or value chains.

4. We will ask companies to report in line with the TCFD recommendations, including their externally verified scope 1, scope 2 and material scope 3 greenhouse gas emissions, climate risk scenarios and their underlying assumptions about scenario choice, asset coverage and emission trajectories.

5. We will communicate our concerns to boards if they fail to meet our expectations on board oversight, management and disclosure of material climate risks. We may also decide to vote against directors, climate transition plans and/or executive remuneration plans, and file shareholder proposals.

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We will ask companies to commit to business activities aligned with net zero 2050.

Reporting

The management of the fund is underpinned by a high level of transparency. We engage with stakeholders to receive input on our priorities and the outcomes of our work. We also want our portfolio companies to understand our engagement objectives and processes. Our management mandate makes clear that our reporting should specifically address climate risk and build on international standards. We will gradually expand our reporting on the fund's climate risk exposure, including forward-looking indicators. By 2025, we aim to have comprehensive reporting in place that describes which actions we have implemented and the results we are observing.

1. We will report the implied temperature alignment based on scope 1, scope 2 and material scope 3 emissions of our equity and corporate bond portfolios, and, as practices develop, emission trajectories and the share of our holdings in different sectors that are aligned with reaching net zero emissions by 2050.

2. We will report on our equity portfolio's estimated exposure to climate risk based on the results of stress-testing the portfolio against a 1.5°C and other climate scenarios. We will make an interactive tool available on our website allowing stakeholders to explore the fund's financed portfolio emissions.

3. We will disclose the share of companies in the equity portfolio with which we engage on climate-related issues, the names of these companies, and indicators of progress, including the adoption of science-based net zero targets.

4. We will show the share of our investments that can be classified as climate-related or environmentally sustainable according to emerging classifications and taxonomies.

5. We will publish the share of our unlisted real estate investment portfolio that is aligned with a 1.5°C decarbonisation pathways developed by the Carbon Risk Real Estate Monitor (CRREM) and report annual progress towards our net zero 2050 target.

Outlook

Our understanding of climate effects on the global economy and financial markets will continue to grow. At the same time, governments are introducing new policies, technology is evolving, consumers are changing their preferences, and companies are adapting their strategies. These developments will influence not only the fund's climate risk, but also how investors can best contribute to a successful transition within their investment mandates. Ultimately, the climate risk for the fund depends on governments fulfilling their commitments to enable an orderly transition of the global economy, and companies reaching their net zero targets.

Following the launch of this 2025 action plan, we will set up a Climate Advisory Board to challenge us and support our high ambitions. We will explore how we can get a better understanding and report on the results of our engagement and voting activities, including, as data and methods allow, outcomes such as reduced corporate emissions. By 2025, we will have more information on what we have achieved by implementing this action plan, companies' responses and whether they are on a plausible trajectory towards net zero 2050. Incorporating this information, we will formulate an updated action plan with goals for the following five-year period up to 2030. In this way, we will support the fund's financial interests, maintain leadership in this fast-moving field, and continue working towards net zero emissions with our portfolio companies.

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Norges Bank Investment Managament
2025 Climate action plan

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