

Ethical Investment of Oil Wealth? Devising a Strategy for Norway's Petroleum Fund

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NBIM and the “Oil Fund”

1990: The Norwegian Government Petroleum Fund established by law

1996: Initial capital transfer (May), based on direct and revenue income from petroleum activity

1998: Equities added to the investment universe

2002: Non-government bonds added to the investment universe

2004: Ethical investment guidelines issued

Per 01-01-2007: Assets under management: approx. US\$ 300 bn.
(40 % equities – 60% fixed income)

Hypocritical to earn money off “destructive products”? Or rather responsible and frugal, in a way few others have managed?

Corporate Governance in NBIM

- NBIM has its own guidelines on corporate governance, based on OECD and UN Global Compact guidelines, and on the guidelines of the Norwegian Government. Aim: To secure financial wealth for future generations.
- From September 2005: A new Corporate Governance group within the bank, with combined competence in governance, ethics, and finance. Division of labour with the Finance Ministry (exclusions) and the Council on Ethics (corporate governance / active ownership).
- Aim: to be a responsible investor and a responsible and influential voice internationally in corporate governance.

Ethics, business, and investment

- As long-term institutional investors we are negotiating between at least two (often more) ethical concerns. *So it is not necessarily “ethics vs. business”, but equally often “ethics vs. ethics”,* since the long-term financial profitability of the fund *is* an ethical concern in itself.
- We also need to negotiate between different motivations (financial, ethical, social) – guided, however, always by our main aim as an investor.
- A natural aim: To find a motivational overlap.

Ethics, business, and investment (cont'd)

- Large investors are increasingly expected – by their fiduciaries and society at large – to be sensitive to social and environmental effects of their portfolio companies' activities – both ethically and financially.
- Two main ways of doing this:
 - (a) integration into investment decisions;
 - (b) “overlay” engagement on ESG issues.

Ethics, business, and investment (cont'd)

- At least four reasons why seemingly “extra-financial” factors are important:
 1. The long-term solidity and functioning of the markets themselves.
 2. The reputational and subsequent financial damage to the companies we are invested in.
 3. The profile of our fund(s) – what our owners expect of us, and our reputation vis-à-vis our owners.
 4. ... And the fact that it is right in itself.

What issues should we address?

- Issues where we can contribute to change.
- Issues that do not make us “spend our reputational resource” as an investor.
- Issues where we can work with others.
- Issues that are linked to recognized norms.
- Issues that have long-term impact on the markets, and where the actions of businesses and investors today will likely be decisive for future states of affairs.
- There are several examples of concrete successes.

NBIM's strategy

- **Good governance:** The right to have proper influence and voting rights, incl. on board nomination and election, and the right to transparent information on issues of long-term importance.
- **Child labour and children's right:** How do companies use their influence and power to secure the rights and welfare of the workers, customers and citizens of tomorrow?
- **Government interaction on long-term environmental issues:** Do we, as owners, sponsor lobbying against our own interest? How can we shed more light on this problem?
- Must not be “flavours of the month”, but must be part of a consistent engagement based on clear messages.

Practical tools

- Voting
- Company contact
- Engagement with standard setters
- Networking
- Public communication
- Academic research
- Aim: *concrete change (in companies and markets), and contribution to the ongoing debate*
- Kant: “*Ought implies can*”. We can – and we ought.