

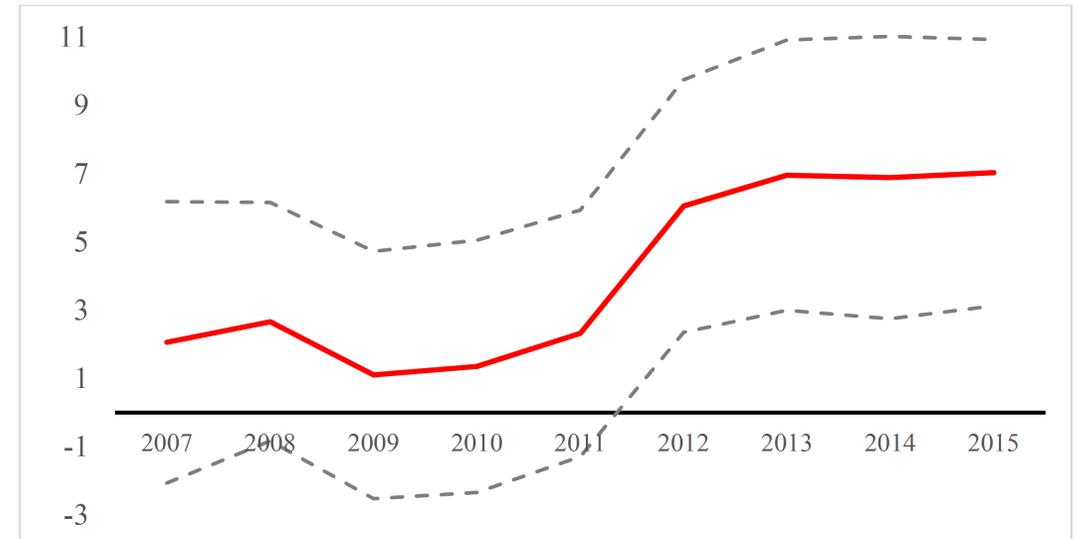
DISCUSSION: “ACTIVE OWNERS AND FIRM POLICIES”
BY AGUILERA, BERMEJO, CAPAPÉ, AND CUÑAT

OĞUZHAN KARAKAŞ
CAMBRIDGE JUDGE
BUSINESS SCHOOL

SUMMARY

- November 2012 – “Note”: NBIM unexpectedly declares its portfolio firms should meet certain “corporate governance expectations”.
- Based on “Management Scores” of EIKON: Overall governance index of NBIM’s portfolio firms increases post Note.
 - 1) Increased (decreased) investments in firms with better (worse) governance.
 - More effect through discretion.
 - 2) Improved firm governance.
 - Both in the extensive and intensive margins.
 - 3) Governance and investment weight changes become more correlated post Note.
- The most salient element: Firms’ reaction to Note.

• Figure 1: Governance Index differences among NBIM and non-NBIM firms



• Three step decomposition:

$$\Delta G_{it} = \sum_{i=0}^I w_{it+1} g_{it+1} - \sum_{i=0}^I w_{it} g_{it} \quad (1)$$

$$\Delta G_{it} = \sum_{i=0}^I \Delta w_{it} g_{it} + \sum_{i=0}^I (w_{it} \Delta g_{it}) + \sum_{i=0}^I \Delta w_{it} \Delta g_{it} \quad (3)$$

$$\text{Weight}_{it} = \text{Investment}_{it} / \sum_{i=1}^I (\text{Investment}_{it})$$

$$\text{Investment}_{ict} = I(\text{Ethics}_{it}=1) \times I(\text{Engage}_{it}=1) \times$$

$$(\text{FTSE Global}_{it} \times \text{Country}_c \times \text{Stance}_{it})$$

COMMENTS – FROM WHERE I STAND

1. Active Ownership – Dimson, Karakaş, and Li (RFS-2015)

- **G-Index** increases for firms successfully engaged by an ESG activist.
- **Reputational** concerns and **collaboration** are key for success and impact.

2. Coordinated Engagements – Dimson, Karakaş, and Li (WP-2019)

- Investor's **exposure to** and **holdings in** target increase success/impact.
- Is the effect **solely** attributable to NBIM, or could (some of) it be due to **coordinated/collaborative/correlated** efforts?

COMMENTS – RELATED (NBIM) LITERATURE

3. **BlackRock vs Norway Fund at Shareholder Meetings: Institutional Investors' Votes on Corporate Externalities – Briere, Pouget, and Ureche (WP-2018)**

- NBIM **opposes** management more often than BlackRock does.
- NBIM is more active on **Environmental** and **Social** issues than Governance issues.
- **Delegated philanthropy** stronger than **universal ownership** in addressing negative externalities via institutional investors' engagement.

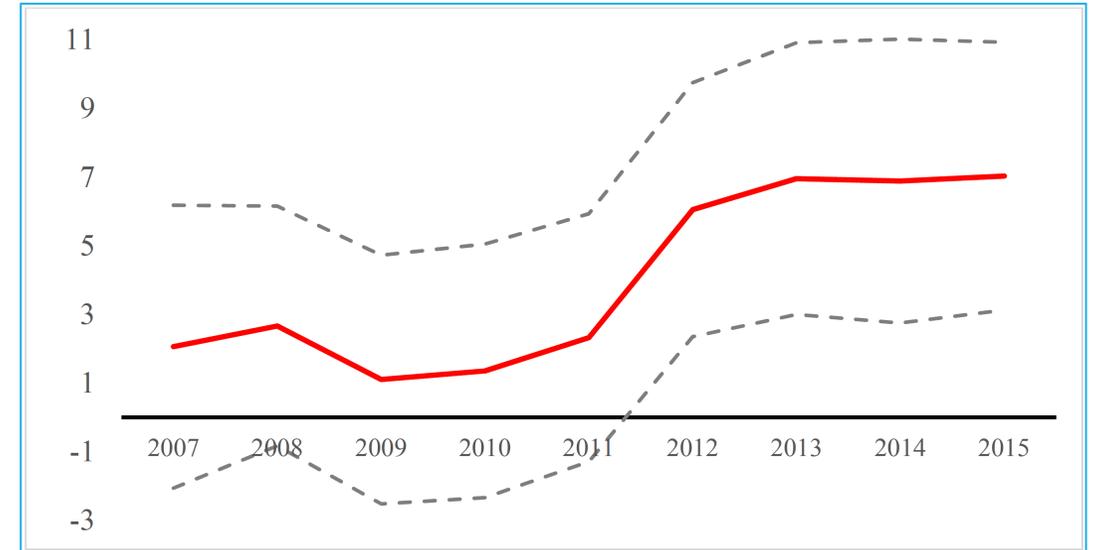
4. **Corporate Ethical Behaviours and Firm Equity Value and Ownership: Evidence from the GPF's Ethical Exclusions – Atta-Darkua (WP-2019)**

- **Dual-Problem:** Analyses the changes in firms excluded by NBIM.
- Documents a **negative return** impact on the exclusion announcements, and a **modest divesting** behaviour by some ethics sensitive investors.

COMMENTS – ANALYSIS 1/3

5. Announcement of the Note

- **November 2012:** Biggest reaction seems to be over 2011-2012 (e.g., Figure 1).
 - Could firms respond to the Note in a month?
- **Year 2011:** Unusually high number of discretionary exits (Table A4).
 - Are these exclusions driving results?
 - Could (some of the) firms/investors have anticipated the Note in 2011?



	Exits	Entries	Exits (Discretionary)	Entries (Discretionary)
2009	70	150	50	77
2010	31	169	25	73
2011	228	157	219	52
2012	70	205	64	149
2013	60	279	50	177
2014	81	235	76	105

COMMENTS – ANALYSIS 2/3

6. EIKON index scores

- Detailed discussion/analysis of the scores would be helpful.
- Could other indices be exploited?
 - Environmental, Social, Governance (Shareholders and CSR).



Source: Thomson Reuters ESG Scores (February 2019)

COMMENTS – ANALYSIS 3/3

7. NBIM Investment Strategy

- $\text{Investment}_{ict} = I(\text{Ethics}_{it}=1) \times I(\text{Engage}_{it}=1) \times (\text{FTSE Global}_{it} \times \text{Country}_c \times \text{Stance}_{it})$
 $\text{Weight}_{it} = \text{Investment}_{it} / \sum_{i=1}^I (\text{Investment}_{it})$
- “The benchmark index is set by the Ministry of Finance on the basis of indices from FTSE Group and **Bloomberg Barclays Indices**.”
- “The equity allocation in the strategic benchmark index has been set at **62.5 percent** ... decided to increase ... to **70 percent**. The increase will be implemented gradually.”
- “If the equity allocation in the actual benchmark index moves significantly higher or lower than the strategic allocation ... there are ... rules on **rebalancing** of the equity allocation in the actual benchmark index.”

(Source: <https://www.nbim.no/en/the-fund/how-we-invest/investment-strategy/>)

SUGGESTIONS/QUESTIONS

- Which **components** (out of 34) of governance score improve after NBIM involvement?
- How did the **value/performance, risk,** and **ownership** of NBIM firms change after the announcement?
- Is equation 1 (and related analyses) **forward-looking**?
- **Proxy voting agencies** (e.g., ISS) may also serve a similar function by setting/announcing certain ESG standards, and voting accordingly.
- It would be great if the analysis in **Section 6.5** could be explained/discussed further.

POTENTIAL TYPOS

- **Abnormal returns** are mentioned at p.10, but I am not sure in which analysis they are utilized.
- I suspect:
 - “Soverign” at p.6 is “Sovereign”.
 - “NBIMportfolio” at p.14 is “NBIM portfolio”.
 - “Table A5” at p.16 is “Table A4”.
 - “in 2012” at p.16 is “in 2011”.
 - “governaance” at p.19 is “governance”.
 - “Table A8” at p.20 is “Table A10”.
 - “yeat” at p.49 is “year”.