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:

\[
\Delta G_{it} = \sum_{i=0}^{l} \Delta w_{it} g_{it} + \sum_{i=0}^{l} (w_{it} \Delta g_{it}) + \sum_{i=0}^{l} \Delta w_{it} \Delta g_{it} \tag{3}
\]

Weight_{it} = Investment_{it} / \sum_{i=1}^{l} (Investment_{it})

Investment_{ict} = I(Ethics_{it}=1) x I(Engage_{it}=1) x (FTSE Global_{it} x Country_{c} x Stance_{it})
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?
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 GPFG’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.
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?
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)*
7. **NBIM Investment Strategy**

- 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})$

Weight\(_{it} = \frac{\text{Investment}_{it}}{\sum_{i=1}^{t=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.”

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:
  - “Sovern” 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”.