

Norges Bank Investment Management (NBIM)
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Summary:

- NBIM manages one of the world's largest funds, and is invested long-term in most of the large and medium-sized German companies.
- We involve in close dialogue with our portfolio companies to improve corporate governance and support value creation.
- Investors often need to consult each other and share analysis of public information in order to be efficient in following up companies.
- We have no ambition or ability to exercise control. Our way of influencing is by engaging in dialogue.
- Ownership attention from international investors is beneficial to European and German companies.
- We would be concerned if "acting in concert" should be defined too widely. A vague regulation would make this communication more complicated and reduce the feedback to companies from international institutional investors, for instance on issues related to corporate governance.

About NBIM and our investment in Germany

Norges Bank Investment Management is an arm of Norges Bank, the central bank of Norway, set up in 1998 for the main purpose of investing the Norwegian Government Pension Fund – Global, formerly known as the Norwegian Petroleum Fund. The Finance Ministry of Norway is our principal in this respect, and we have a pure investment mandate.

NBIM has assets of EUR 278 billion under management, of which EUR 8.0 billion in shares of German listed companies. This makes us one of the larger foreign investors in Germany.

We have been holding shares in German companies since the start of the Petroleum Fund's equity investments in 1998. We are benchmarked against the FTSE All-World market-weighted index, so in the long term our exposure to each company will correspond to the market value of that company's share capital. At the same time we have active management where we and our external managers take investment positions based on fundamental analysis of each company.

Globally, we hold shares in more than 7,000 companies. Our average holding is about half a percent, and this will also be the average of German companies. We publish all our holdings in each year's annual report and show how much we own of each company. We do not do strategic investments and the holding very seldom exceeds two percent. The maximum possible holding is five percent.

Similar kinds of diversification strategies are typical among pension funds because they need to keep the risk down. Such funds make up a dominant category of equity investors in most markets.

The Norwegian Government Pension Fund is also growing rapidly, with the inflow in 2008 estimated at about 34 billion euros.

We are long-term owners and our interest lies with the well-being of individual German companies and the market as a whole.

How we work with companies

Most investors of our kind, pension funds, investment managers and others, agree on a number of key principles for good corporate governance, such as the German Kodex and similar in other countries, and global standards for best practice, such as the code developed by the International Corporate Governance Network, UN Global Compact and OECD principles of corporate governance.

Discussing with individual companies how they relate to such codes and how they can improve corporate governance is something we want to do as much as possible. We see this as a long-term value-creating activity which is mutually beneficial for the investor and the company. And we also see it as an obligation towards our owners, the Norwegian Government, and subsequently the Norwegian people, to work with the companies in which we have invested in order to make them as good companies as possible. The markets need responsible owners who are willing to take the effort to convey their views to the companies and not just vote with their feet, that is: sell the shares if they are not fully satisfied.

Some issues that are common in company engagement would be the composition of the board (should the company think about bringing on other competencies or more independent voices, as recommended by the Kodex?), board election procedures, transparency in reporting and procedures, and the structure of management remuneration and its connection to performance. Common denominators in these issues would often be the need for proper protection of minority shareowners, and improvement of the communication between shareholders and the supervisory board (Aufsichtsrat) and management (Vorstand). These aspects are key qualities of well-governed companies.

We could also have questions on how the company communicates its strategy and the viability of the strategy itself. Sometimes it can be very useful for a company to hear, from a constructive and long-term owner, how its track record is perceived internationally. It could even be issues related to operational ethics or environmental factors. But we would never try to instruct the company in any way or bother it with attempts at micromanagement from outside. The role of the investor as we see it is to be a constructive discussion partner on overriding issues such as corporate governance and overall strategy. This is most likely to be fruitful if conducted in a confidential and cordial setting.

What we do in practice is meeting with management and board members and communicating via letters, e-mail and phone. We would present our views, ideas and questions, based on publicly available information and usually based on best practice. We would then engage in discussions with the company. Such dialogue can be long-lasting and something that is going on over months and years. Since we are having a very long time horizon ourselves we can be patient and build up a good relationship. We involve in this kind of dialogues in a number of countries and on a number of issues.

Our experience, and the experience of other investors, is that most companies find this contact and dialogue very useful. In many cases, the management and the board (Aufsichtsrat or similar) of the company choose to follow suggestions investors have. In other instances the critical questions we raise may help start or support internal processes in the company.

With the small holdings we have in each company, with the investment philosophy that we are financial and not strategic owners, and with the long-term ownership position we have, this is obviously not a question of using hard power against the companies. It is instead more a question of persuading companies to be open and consider arguments from outside.

Communication between investors

This kind of communication is of course demanding considerable resources from us, and it is impossible to cover our entire portfolio. So we must select companies to work with. This selection will be based on company size, performance, the characteristics of the problem and our knowledge of the company and the issues. But we will also look at whether we think the company already is getting appropriate attention from other investors.

If, for instance, another shareholder with good knowledge of the company already has been raising some of the same issues that we consider, we would maybe prefer to support that investor instead of opening a separate dialogue on our own. In other cases, if we have a dialogue with a company, we might like to bring other shareholders into dialogue with the company. Simply knowing that other shareholders are engaging with the company may be enough for us to turn our attention to another company that is not getting enough feedback from investors.

We also find it very useful from time to time to discuss aspects of a company – usually corporate governance or strategy issues – with like-minded investors to get a better understanding of the issues. We could share analysis that is based on publicly known information. This might also end up in common or coordinated contact towards the company.

As expressed above, our way of working to support and strengthen German companies – sometimes in some kind of cooperation with investors with similar views – is no attempt to control decisions in the company, and this would not be possible anyway with the relatively small holdings that both we and other similar funds have in each company.

The worries we have is that a regulation in one member state that is very different from the “acting in concert” definition in EU regulation, such as the take-over directive, will raise compliance risk related the natural communication that I have described above. Identification of closely associated parties through an “acting in concert” clause is useful and necessary, but we would have concerns if that definition becomes vague and far-reaching so that it threatens to root out a communication that we see as beneficial to all parties.