BLACK GOLD GOVERNANCE: THE NORWEGIAN OIL FUND

Case overview

It all started in 1969 – on the day before Christmas Eve – in Norway, when one of the world's largest oilfields, Ekofisk, was found. The wealth from the oil was enormous and Norway's economy grew exponentially. It was then decided that prudent management of the oil revenue was needed to avoid economic imbalance. To support this, legislation was passed by the Norwegian government in 1990 through the creation of the Government Pension Fund Global (GPFG), more commonly known as the Norwegian Oil Fund. This allows the Norwegian government to transfer capital from petroleum revenue to the fund and support the long-term management of the revenue. Through the fund, the government has the flexibility to adjust its fiscal policy when oil prices drop or during economic downturns, helping the country's ageing population to manage its financial challenges. As it is only a matter of time before the oil runs out, the fund was designed to allow it to be drawn only when required, ensuring long-term sustainability to safeguard the future of the Norwegian economy. As of October 2019, the fund was valued at more than US$1 trillion.

The objective of this case study is to facilitate a discussion of issues such as corporate governance of a sovereign wealth fund; accountability of a sovereign wealth fund to the government and other stakeholders; board selection and composition; disclosures; investor stewardship and engagement; and Environmental, Social and Corporate Governance (ESG) investing.

The gold standard

History provides many examples of "problematic" sovereign wealth funds (SWF), such as those of Nigeria[1] or Venezuela. Often, they are fraught with poor governance and become vessels for corruption. There have not been many examples of successful sovereign wealth funds. The Government Pension Fund Global (GPFG) of Norway is often cited as an exception and it is one of the few SWFs that is fully compliant with the Santiago Principles.[2,3]

The Santiago Principles encompass 24 Generally Accepted Principles and Practices (GAPP) setting out best practices for the operation of SWFs. It was developed in response to the rising concerns of investors and regulators about inadequate transparency, independence and governance.[4,5]

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Governance structure

The GPFG has a multi-tiered governance structure with a clear delegation of duties and effective systems for control and supervision as shown in Figure 1.

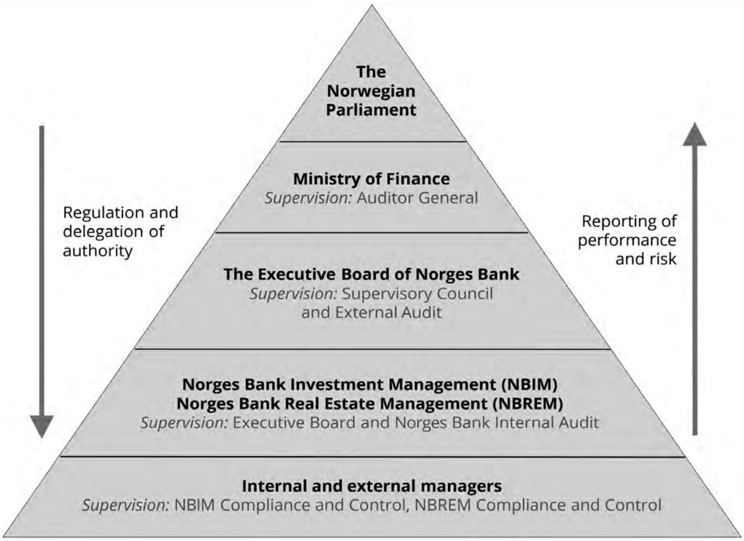

Figure 1: Governance structure of GPFG[6]

The governance structure of the GPFG includes the Norwegian government and relevant governing bodies of the funds in the decision-making process, with regard to cash flows in and out of the funds and any investment made.

The fund is owned by the Storting, the Norwegian Parliament, on behalf of Norwegian citizens. Since its establishment in 1996, the Norwegian Ministry of Finance has been tasked with the formal responsibility of the management of GPFG. In turn, the Ministry has delegated responsibility for operational aspects of GPFG to Norges Bank – the central bank of Norway – through the latter's investment arm Norges Bank Investment Management (NBIM), a wholly owned subsidiary of Norges Bank. The Ministry and NBIM have a written agreement for shared responsibility to manage GPFG.[7]

The current governance model of GPFG is based on a clear delegation of roles and responsibilities from one level to another involving the Storting, Ministry of Finance, Norges Bank's executive board and NBIM. The nature of the responsibilities can be viewed as two separate parts.

The first part involves the formulation of the general policy. Currently, the legislative basis is determined by the Storting in the Government Pension Fund Act while the Ministry of Finance is responsible for drafting the management mandate that is then issued to Norges Bank.[8] This detailed and prescriptive mandate serves as an important tool in ensuring that management of funds is in line with its objectives, by setting out the general investment framework for the fund and stipulating requirements with regard to risk management, along with institutional management principles. Some guidelines in this management mandate include the Principles for Responsible Investment Management in Norges Bank[9] and the Principles for Risk Management in NBIM.[10]

The second part relates to the operational management of the GPFG which NBIM is put in charge of. At the NBIM, the management is again divided into four main sections of the executive board, committees, CEO, compliance and senior managers' leadership group. Together with the Ministry of Finance, the executive board sets guidelines for investment thresholds for GPFG regarding the size and risk of investment deals in the mandate.[11] The general investment strategy is therefore largely determined by the mandate as it sets out the benchmark index and tracking error limits as well as impose constraints on the fund's investment.[12] Thus, while managers of NBIM are independent from the Ministry of Finance in pursuing opportunities and making investment decisions independently of the Ministry, it has limited room for determining the overriding investment strategy due to the need to adhere to the investment mandate in comparison with other large public investment funds.

As can be seen, the governance model and principles the fund has built itself upon are such that duties and authorisations are delegated downwards in the system, while reporting on performance and risk are made upwards. Important changes have to be submitted to the Storting for approval. Additionally, at all management levels of the fund, sound controls and supervisory bodies are put in place.[13]

The world's most transparent SWF?

While the Santiago Principles encompass a total of 24 different criteria, two important overarching principles relate to transparency and accountability in managing SWFs. For such funds like GPFG, this becomes especially vital to instill trust and confidence in the investment management by the relevant bodies. Generally, common reasons for inefficiency in funds relate to the lack of clear rules and operations. Funds should instead be transparent, supported by rigorous mechanisms put in place to ensure accountability and prevent resource misuse.[14]

Due to its extensive reporting, the GPFG has a reputation of being one of the world's most transparent SWFs, with few able to match it in terms of public disclosure of assets, returns, and performance.[15] This is because the GPFG is operated under far more rigorous reporting requirements based on the mandate from the Ministry of Finance and investment criteria, compared to those in other countries.

Norges Bank provides regular and timely reports of all investment activity as well as clear communication of the role of the funds to the public. This includes comprehensive annual reports detailing the management of the fund. These public reports explain how the GPFG is managed and includes a list of companies the fund invests in. Information on the investment view and the selection process for the external managers is publicly available as well. Quarterly reports concerning main revenue and cost data are also published.[16]

The Ministry of Finance presents a separate annual white paper about the management of the GPFG which includes the annual report by Norges Bank to the Storting. These reports, which pertain to general issues regarding the management of the fund capital or the proportion of oil revenue to be spent for the following year, are also made public. In addition, the Office of the Auditor General of Norway monitors the Ministry's exercise of authority in relation to Norges Bank and audits the GPFG line item in the government accounts. The findings are then reported directly to the Storting.[17,18]

On behalf of the executive board, the internal audit unit ensures that adequate and effective risk management as well as appropriate and satisfactory internal controls are in place. It also issues independent statements and provides advice regarding improvements in the risk management and control systems. The internal supervisory function within the asset management unit is carried out by the NBIM and NBREM (Norges Bank Real Estate Management) compliance and control unit. These units have the authority to report independently to the executive board when necessary.[19]

The overall image of the GPFG is thus characterised by a high degree of transparency and accountability.[20]

Who's on the board?

The executive board of Norges Bank is made up of a Governor, two Deputy Governors and six external board members. There are also two board members appointed by and from among the employees to participate in the deliberation of administrative matters.[21]

Name	Position	Educational background
Øystein Olsen	Governor of Norges Bank & Chair of the executive board	Economics
Jon Nicolaisen (resigned on 4 December 2020)[22]	Deputy Governor of Norges Bank & Deputy Chair of the executive board	Economics
Ida Wolden Bache	Deputy Governor of Norges Bank & Deputy Chair of the executive board	Economics

Karen Helene Ulltveit-Moe	Board member	Economics
Kristine Ryssdal	Board member	Law
Arne Hyttnes	Board member	Economics and business administration
Hans Aasnæs	Board member	Economics
Benedicte Schilbred Fasmer	Board member	Finance
Nina Udnes Tronstad	Board member	Chemical Engineering
Mona Helen Sørensen	Employee representative	Economics and administration, and management
Kjersti-Gro Lindquist	Employee representative	Economics

Figure 2: The executive board of Norges Bank in FY2020[23]

With great power comes great responsibility

"Responsible investment is an integral part of the fund's investment strategy. Our aim is to identify long-term investment opportunities and reduce the fund's exposure to unacceptable risks."

– *Norges Bank Investment Management*[24]

Keeping the long-term investment horizon of the fund in mind, NBIM recognises that the fund's returns are highly dependent on sustainable long-term growth, well-functioning markets and good corporate governance, and hence actively involves itself in responsible investing.[25] This form of investing involves the consideration of Environmental, Social and Governance (ESG) issues in its investing approach. Environmental issues consider how a company performs as a steward of nature; social issues examine how it manages relationships with employees, suppliers, customers, and the communities where it operates; and governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights.[26] NBIM thoroughly considers these issues when screening companies to invest in.[27]

Over the years, the "highest possible long-term return with an acceptable risk" investment strategy of the fund has generated a net annual return of 4.6%.[28] According to NBIM's website, the aim is "to have diversified investments that bring a good spread of risk and the highest possible return" subject to the constraints set out in the investment mandate from the

Norwegian Ministry of Finance. This mandate specifies the markets the fund can be invested in and sets limits for allocations to different asset classes. A benchmark index is set out by the Ministry, which comprises an equity index based on the FSTE Global All Cap stock index[29] and a bond index based on various Bloomberg Barclays Indices. Returns are measured against this benchmark for market and currency risk. NBIM constructs a portfolio that differs from the actual benchmark index so as to make full use of the fund's advantages and characteristics, manage the portfolio in a more cost-effective manner, as well as to satisfy certain requirements of the mandate, including environment-related investing.[30]

NBIM's approach to responsible investing is based on three main pillars: establishing principles, exercising ownership, and investing sustainably.[31]

Establishing principles

As a global fund invested in 71 countries, NBIM recognises a set of internationally agreed standards and principles which provide a framework for companies and shareholders it works with worldwide. Within this framework, NBIM also sets out expectations of companies to comply with. These standards and expectations are voluntary, non-statutory recommendations, but the companies NBIM invests in are expected to strive to meet them.[32,33]

In the management mandate laid out by the Norwegian Ministry of Finance, three standards from the OECD and United Nations (UN) are specified as a framework for NBIM's responsible investment management. These standards are the OECD's G20/OECD Principles of Corporate Governance, OECD Guidelines for Multinational Enterprises, as well as the UN Global Compact. Additionally, in its own principles for responsible investment, NBIM references two other UN standards – the UN Guiding Principles on Business and Human Rights, and the UN Principles on Promoting Responsible Sovereign Lending and Borrowing.[34]

NBIM is also an active contributor to the development of international standards, drawing on its experience as an investor in 71 countries and its in-depth knowledge of its portfolio companies. NBIM participates actively in consultations – it responded to 16 consultations relating to responsible investment in 2019 – and regularly engages with international organisations and regulators, such as the OECD, UN Global Compact, European Commission, International Accounting Standards Board, as well as national standard setters in key countries.[35]

Since 2008, NBIM has also been publishing expectation documents of companies it invests in. These include clear expectations on anti-corruption and human rights. NBIM believes that the onus is on the companies' respective boards to address environmental and social challenges, and integrate related material risks into the companies' strategy, risk management and reporting.[36] This in turn assists investors like NBIM in analysing the risks and opportunities that are related to their investments.

Exercising ownership – "Responsible shareholder"

It is NBIM's ambition to become a responsible shareholder, and despite small ownership stakes in each company it invests in, NBIM recognises that ownership, regardless of size, confers upon it rights and influence. In view of this and to protect its interests, NBIM takes its ownership responsibilities seriously, constantly raising ESG issues and pushing for good corporate governance of companies worldwide.[37] In 2014, NBIM's Chief Investment Officer for equities, Petter Johnsen, said that the GPFG had around 2,500 meetings with companies yearly and aimed to vote at all annual meetings if practically feasible.[38]

In the past, the GPFG was not a very active investor. It was difficult for it to actively influence its investee companies regarding their corporate governance matters, given the size of the fund and the number of companies it invested in. This changed in 2013 when the fund set up its corporate governance advisory board, which was tasked to advise the fund on becoming a more active investor.[39] The former CEO of NBIM, Yngve Slyngstad, acknowledged the fund's responsibility in promoting good governance in portfolio companies and the market as a whole, calling the new advisory board "a sounding board for both long-term ownership matters as well as specific issues".[40] However, despite the effort, the GPFG did not often publicly express views about the corporate governance of its investee companies.[41]

This approach drew some criticism to the fund, especially in markets which placed great emphasis on corporate responsibility. In 2015, the GPFG came under attack in Sweden for its lack of oversight, after one of Sweden's largest corporate scandals involving Swedish papermaker Svenska Cellulosa AB, a company in which the fund had an eight percent stake.[42] The Chief Executive of Sweden's shareholder association, Carl Rosén, commented that "NBIM has not done a good job [in terms of corporate governance in Sweden]. We want them to become more professional owners".[43] At the same time, fellow sovereign fund managers in Sweden have called for greater involvement in corporate governance oversight by NBIM. The Chief Investment Officer of Sweden's AMF Pensionsförsäkring AB, Peder Hasslev, said that he would "welcome greater involvement from NBIM".[44] In the fund's defence, former NBIM CEO Slyngstad said that silence to the media should not be mistaken with a lack of action.[45]

The GPFG has since taken steps to become a more active investor and promoter of good corporate governance. It began to reveal its voting intentions at portfolio companies' annual meetings, issue "position papers" setting out its corporate governance principles, as well as place representatives on a number of the boards of its key portfolio companies. The last initiative is in line with the Nordic model of governance whereby a company's largest shareholders often sit in the Nomination Committee.[46]

In February 2016, NBIM revealed that it had been in a company dialogue with German carmaker Volkswagen AG (Volkswagen) since 2008 to discuss issues such as board independence and capital allocation.[47] In 2015, Volkswagen was involved in the emissions scandal in the U.S.[48] In May 2016, the GPFG publicly declared that it would take legal action against Volkswagen over the scandal.[49]

In 2018, the GPFG published three papers detailing its position on various issues related to companies' board of directors.[50] These issues include: a limit of five concurrent board memberships for directors;[51] the separation of Chairman and CEO roles;[52] having a majority of independent directors with industry knowledge and at least two independent directors with industry experience.[53]

"Sitting as a director in a board has become a much more demanding job than 10 to 20 years ago", said NBIM's then CEO Slyngstad, while emphasising that these principles were some of the most important ones ever created by the fund.[54]

Voting and having one-to-one meetings with companies are two of the most important ways for NBIM to influence the corporate governance of its portfolio companies. In 2020, NBIM voted at 11,871 shareholder meetings – or 98.0% of all shareholder meetings of its portfolio companies. At these meetings, NBIM voted against only 4.9% of company resolutions. Some of these instances related to director elections. Of the 45,966 votes cast for resolutions relating to board candidates in 2020, NBIM voted against recommendations in 5.4% of director elections, mainly due to a lack of independence on the board or board committees in those companies. A significant example was Alphabet Inc. (Alphabet), where NBIM voted against seven resolutions in 2020. The subject of the resolutions rejected related to the board, remuneration, and shareholder protection.[55]

In 2020, NBIM held 2,877 company meetings with its portfolio companies[56] – down from 3,412 company meetings in 2019.[57] Issues discussed in 2020 include sustainability, effective boards, executive remuneration, capital allocation, climate change and the environment, human rights, anti-corruption, and tax.[58]

NBIM expects its portfolio companies to contribute constructively to solving challenging issues for the world, and these expectations are largely in line with the UN Sustainable Development Goals. Key issues which NBIM has highlighted to its portfolio companies include children's rights; climate change; water management; human rights; tax and transparency; anti-corruption; and ocean sustainability.[59]

Investing sustainably

In 2020, NBIM had invested 98.9 billion kroner in environmental investments. The returns from its environmental investments in the equity portfolio amounted to 34.3%. NBIM considers climate issues in its investment decisions and assesses companies' impact on the environment and society before investing in them, choosing not to invest in certain companies due to sustainability or ethical reasons.[60,61]

The sustainable investment strategy undertaken by NBIM comprises the following three steps:[62]

1. Risk assessment

NBIM aims to understand the full range of risks affecting companies and how these risks affect long-term fund-level risk and return.

As part of risk management and investment decisions, NBIM assesses sustainability issues and monitors its investments closely. In 2020, it analysed sustainability risks in 1,300 companies in emerging markets in the externally-managed portfolios. NBIM has a framework in place to map sustainability risks at companies in high-risk sectors and pick up investments in companies with exceptionally high long-term sustainability risks. In this regard, it identified 114 serious sustainability incidents – including breaches of laws, regulations or norms, or accidents caused by negligence – in 2020. NBIM also carries out an annual review of the portfolio against its expectation documents in order to identify portfolio companies which could have substantial adverse impacts on the environment or society, and to take steps to reduce the risks from investing in these companies.[63]

2. Investment

NBIM identifies long-term investment opportunities by analysing companies' operations and the impact they have on the climate and the environment. It utilises governance and sustainability data to identify long-term investment opportunities. Such data is obtained from companies' own reports and from external data providers, including external specialists where required.[64]

Investments are made in three main areas, aligned with the UN Sustainable Development Goals for climate, clean energy and resource management. In order to be considered as an investing opportunity to NBIM, companies must minimally have 20% of their business in one of these areas: low-carbon energy and alternative fuels, clean energy and energy efficiency, and nature resource management.[65]

3. Divestment

Based on its definition of sustainable economic growth, there are certain sectors and companies which NBIM does not invest in. The GPFG's approach towards environmental sustainability is to divest in certain industries and businesses such as coal and energy companies.[66] Generally, it divests its investments in companies that violate fundamental ethical norms or operate a business which is incompatible with long-term sustainability. NBIM makes divestment decisions based on recommendations by the Council on Ethics, an independent council set up by the Norwegian Ministry of Finance to make ethical assessments of companies. Divestments may be due to product-based or conduct-based considerations.[67]

Before a decision is made to exclude a company, NBIM will take into consideration whether other actions or measures – such as active ownership – might be more appropriate to reduce the risk of ethical norm violations.[68]

Risk-based divestments

A number of companies have been excluded from the fund due to risks of severe environmental damage. For example, Elsewedy Electric Co S.A.E. was blacklisted as a result of its participation in the development of a hydropower project in Tanzania, and Vale S.A. was excluded due to a series of dam breaches which had caused devastating environmental and social impacts in Brazil.[69] However, the GPFG has retained its stakes in large integrated companies, such as Royal Dutch Shell plc and BP plc, as it believes that these companies will invest heavily into renewable energy in the future.[70]

In 2020 NBIM divested from 32 companies after the assessment of ESG risks. NBIM integrates the analysis of ESG issues in its risk management process, and risk analysis is comprehensively conducted at the country, industry and company levels. NBIM also takes a systematic approach to risk-based divestment due to the nature of its diversified portfolio. According to NBIM's 2020 responsible investing report, "divestment as a form of risk management is used primarily for relatively small investments where other actions are not considered suitable".[71]

In 2019, GPFG was placed among the 25 most responsible asset allocators by the Responsible Asset Allocator Initiative (RAAI), an initiative under the World Bank that ranks the world's sovereign funds and pension investment funds.[72]

Greenwashing

At the end of 2019, Morten Balterzen, head of Norway's Financial Supervisory Authority, commented that ESG investments have resulted in the creation of a new risk. In a bid to meet investor demand, many companies have begun overstating their green credentials – otherwise known as greenwashing – while investors do not actually know what they are investing in, because there is no policing of whether the companies' claims are indeed true. This, coupled with the lack of standardisation across ESG classifications, approaches and definitions used in companies' sustainability reports, has become a problem for investors like NBIM.[73]

Risky business

At the start of 2020, the GPFG lost 1.3 trillion kroner (US$125 billion) as markets collapsed due to the COVID-19 pandemic.[74] In managing its risk, NBIM aims to have a plan which is customised to its specific responsibilities while recognising its distinctive relationship with the Norwegian government. Risk management should be systematic and structured, and integrated in NBIM's strategic planning, business processes, and decision making. There should also be a reasonable balance between risk and return in the management of the GPFG. Additionally, the plan should be compliant with legal and regulatory requirements.[75]

NBIM emphasises the segregation of duties in managing the risks relating to the GPFG. The Principles for Risk Management published by NBIM specifically states that segregation of duties should be present between its three lines of defence, which are operational management activities (first line of defence), the risk management and control functions (second line of defence) as well as Norges Bank's internal and external auditors (third line of defence).[76]

To identify the potential risks associated with the fund, NBIM requires all new investment activities to undergo a comprehensive and documented risk assessment process. In each case, the risk assessment must provide an overview of the relevant issues, such as measurement of return and valuation, together with the controls and management of these risks.[77]

Unlisted investments are subjected to due diligence. The process includes relevant risk assessments (including operational risk, counterparty risk, liquidity risk, legal risk, market risk, technical risk and tax risk), assessments of ESG risk factors as well as risks regarding the handling of various stakeholders relating to the investment. Lastly, there is also an assessment to check whether sufficient and appropriate systems and procedures are in place. All these assessments are documented, with unlisted investments requiring formal approval.[78]

Three risk classes

The framework which governs enterprise risk management considers strategic risk, investment risk and operational risk as NBIM's three main risk classes. Reputational impact is a consequence across all three classes.[79]

1. Strategic risk

NBIM defines strategic risk to be "the risk of not achieving strategic objectives set out in the strategic plan". By implementing enterprise risk management, NBIM is able to evaluate the risks and opportunities under strategic objectives. NBIM identifies, assesses, and monitors strategic risks, and ensures that they are within specified limits and thresholds.[80]

2. Investment risk

NBIM defines investment risk to be "the risk of events that affect the return on [its] investments". This includes market risk, credit risk and counterparty credit risk. Furthermore, NBIM assesses and incorporates ESG risks into the investment management process. Other additional considerations include activities such as leverage, use of derivatives, securities lending and shorting.[81]

3. Operational risk

NBIM defines operational risk to be "the risk of an unwanted operational event with financial or reputational impact". Well-structured and systematic, NBIM's operational risk management is included in its decision-making processes and supports continual improvement of all processes. In addition, NBIM has a policy statement for operational risk management which is supported by a framework based on internationally recognised standards and frameworks. NBIM regularly assesses its exposure to operational risks and such risks are to be mitigated by the implementation of applicable internal controls or other actions to reduce the risk level.[82]

Tax risk management

NBIM makes a point to manage risks related to tax. It complies with all local laws, considers standards published by appropriate bodies and aims to follow market practices. It also emphasises transparency regarding tax matters and the need to keep abreast of global tax changes. NBIM implements processes to ensure that tax risks related to investments are properly assessed and managed in accordance with its risk management framework.[83]

Internal controls

NBIM defines internal control to be "all measures and processes, effected by the executive board, administration and employees, designed to provide reasonable assurance that NBIM's objectives related to operations, compliance, and reporting will be achieved". NBIM's processes related to risk reviews and internal controls are based on the Regulation on Risk Management and Internal Control in Norges Bank, as issued by the Norwegian Ministry of Finance. NBIM also has processes in place to ensure that control activities are performed on an ongoing basis and are properly documented. NBIM also regularly evaluates its risk management and internal control framework.[84]

Risk reporting

Reports on risk management in NBIM are presented to the executive board, in line with reporting requirements. Assessment of reputational impact from all three risk classes will also be reported to the executive board. Furthermore, critical and major operational incidents, including breaches of mandates of the executive board or Norwegian Ministry of Finance shall be reported to the executive board.[85]

You see what you get and pay for

The GPFG's market value is publicly available real-time on NBIM's website, and stands at around 11.7 trillion krone (US$1.36 trillion) as at 30 June 2021.[86] GPFG invests in more than 9,000 companies around the world,[87] which it fully discloses. Anyone is able to access all of the fund's investment information through an interactive map, which discloses the value invested in each single company over time, the fund's ownership percentage, and the fund's voting rights.[88] The fund's full voting records in its portfolio companies' annual meetings are fully disclosed.[89]

In terms of portfolio performance, GPFG publishes all information relating to its returns on its website. It publishes both the annual return of the fund, as well as that of each asset class – equity, fixed income, and real estate. On top of annual figures, returns for the fund and different asset classes are also published in 5-year time periods. Furthermore, with regard to unlisted real estate investments, GPFG discloses how its performance compares to the MSCI Global benchmark.[90]

The remuneration amounts for the executive board of Norges Bank, as well as senior executives of NBIM, are published in Norges Bank's annual reports.[91] It is disclosed in Norges Bank's 2020 annual report that the bank's executive board is responsible for setting the limits for the bank's salary and remuneration schemes and monitoring how they are put into practice. Norges Bank also engages external consultants to perform annual comparisons of salaries with other peer groups. The salaries of the Governor and Deputy Governors of Norges Bank are determined by the Norwegian Ministry of Finance. In addition to gross salary and other benefits, they also receive pension benefits, based on the existing pension plan for members of the Storting and the Norwegian government.[92] The remuneration of Norges Bank's executive management team in FY2020 is disclosed in Figure 3 below.

Amounts in NOK millions					2020
	Name	Gross salary	Value of other benefits	Pension benefits earned	Employee loan
Governor	Øystein Olsen	2 524 121	163 647	269 977	-
Deputy Governor	Ida Wolden Bache	1 538 299	13 408	243 109	-
Chief Executive Officer – NBIM	Nicolai Tangen	2 216 666	2 432	133 240	-
Chief of Staff / Deputy Chief Executive Officer – NBIM	Trond Grande	4 713 889	7 688	342 921	-
Executive Director, Norges Bank Administration	Jane Kristin Aamodt Haugland	1 996 058	9 217	348 320	1 812 296
Executive Director, General Secretariat	Birger Vikøren	1 795 363	9 041	378 415	-

Figure 3: Remuneration to the Norges Bank executive management team in FY2020[93]

Norges Bank's executive board also lays down the principles for NBIM's salary system. The leader group receives only a fixed salary. In addition to a fixed salary, employees of NBIM whose work directly involves investment decisions, and certain other NBIM employees, will be entitled to performance-based pay. Performance-based pay is calculated based on the performance of the GPFG, group and individual, which are measured against set performance goals.[94] The remuneration to senior executives in NBIM for the FY2020 is detailed in Figure 4.

Amounts in NOK millions		2020				
	Name	Gross salary	Gross performance pay	Value of other benefits	Pension benefits earned	Employee loan
Chief Executive Officer	Nicolai Tangen	2 216 666	-	2 432	133 240	-
Chief of Staff/Deputy Chief Executive Officer	Trond Grande	4 713 889	-	7 688	342 921	-
Chief Technology Officer	Age Bakker	3 801 524	-	8 554	410 981	-
Chief Operating Officer	Birgitte Bryne	814 555	-	2 536	89 114	-
Chief Real Assets Officer	Mie Caroline Holstad	742 145	-	2 837	62 997	-
Chief Risk Officer	Dag Huse	4 561 828	-	7 296	578 352	-
Chief Governance and Compliance Officer	Carine Smith Ihenacho	4 091 916	75 934	90 456	409 192	-
Chief Equities Officer	Petter Johnsen	8 438 073	-	110 216	843 807	
Chief Real Assets Strategies Officer	Geir Øivind Nygård	4 521 252	351 680	7 296	241 751	-

Figure 4: Remuneration to senior executives in NBIM in FY2020[95]

NBIM also publishes the compensation principles of its employees. It states that an employee's compensation is closely tied to his competencies, responsibilities and performance and must be aligned with local market compensation practices. For NBIM, variable components of an employee's compensation cannot exceed 100% of the fixed component. Of the variable component, at least 50% will be deferred and paid over a period of at least three years.[96]

Another side of the story?

Despite the fact that the GPFG is commonly seen as a model of governance and transparency, it has faced criticism.

Growing politicisation

"This is the time for thinking 20 years ahead and getting the structure right. I feel that the proposals are going in the wrong direction."

– Knut Kjaer, former CEO of NBIM[97]

Knut Kjaer, who was CEO of the GPFG from 1998 until 2007, wrote a formal letter to the Norwegian Parliament in 2019 arguing against a government proposal on the governance of the fund. Kjaer, together with a group of experts, were against the idea of placing the fund under the Norges Bank. In his view, the proposed structure would "pulverise accountability". Thus, he believes that the fund should be an independent organisation with its own dedicated board instead.[98]

Lack of investment expertise

"Monetary policy and investment have two completely different skill sets."

– Knut Kjaer, former CEO of NBIM[99]

Placing the fund under the management of the central bank has also led to concerns about the lack of investment expertise. The investment decisions relating to the fund have to be submitted to the board of directors of Norges Bank, which also runs the country's monetary policy. Meanwhile, asset allocation policy is mostly set by the Norwegian Ministry of Finance and approved by politicians "with little financial experience". Kjaer pointed out that the skill sets involved in monetary policy and investment are very different, and believes that changes are required to establish "a much more professional board".[100]

Governance hiccups

On 30 October 2019, a few days after the GPFG's value reached 10 trillion kroner (US$1.08 trillion), Slyngstad – who had been the CEO of NBIM since 2008 – stepped down from his position as CEO.[101,102] He took on a new role in the fund, which involves building a unit to invest in "unlisted infrastructure projects" such as renewable energy.[103]

Under Slyngstad's leadership, the GPFG had seen a five-fold increase in value.[104] He turned the fund into an activist investor, tackling issues such as board composition, executive pay and climate change disclosure at its investee companies worldwide.[105]

Some believe that Slyngstad's departure was caused by the straining of ties between the Norwegian Ministry of Finance and the GPFG under Slyngstad's leadership. According to Espen Henriksen, associate professor at BI Norwegian Business School, "The person who is appointed CEO must be able to reset the relationship and rebuild trust with the Ministry of Finance. During the past few years, the relationship has soured and trust has eroded."[106] Financial Times reporter Richard Milne echoed this sentiment, saying that there has been "a growing debate over political influence in the fund".[107]

New blood

"I want to be CEO of the oil fund, and have only one objective: creating wealth for future generations,"

– Nicolai Tangen, CEO of NBIM[108]

On 26 March 2020, NBIM announced that Nicolai Tangen has been appointed as the new CEO and would take over the reins in September 2020.[109] The central bank's executive board was unanimous in selecting Tangen for the role.[110] The Governor of Norges Bank and Chair of NBIM's executive board, Øystein Olsen, expressed strong trust in him, saying in a press release: "The executive board feels confident in Nicolai Tangen being the best candidate to manage the Government Pension Fund Global. Tangen has built up one of Europe's leading investment firms and has delivered very good financial results as an international investment manager. He has extensive experience with equity management, which is the fund's largest asset class."[111]

In 2005, Tangen had set up AKO Capital LLP (AKO),[112] an investment management firm which has approximately US$24 billion in assets under management.[113] AKO's flagship European fund has had an annual return of 10.1% since its launch, as compared to 3.4% for the market. In the first quarter of 2020, although the market had a return of negative 21.8%, the fund still managed to attain a positive return of almost one percent.[114]

Roadblocks

"I will only have one hat, and that will be the oil fund hat."

– Nicolai Tangen, CEO of NBIM[115]

Tangen's road to becoming CEO of NBIM turned out to be a bumpy one. Norges Bank had allowed Tangen to keep a controlling stake in his firm and his own personal finances. However, the parliamentary Finance Committee took issue with this, saying that the CEO "cannot have assets or interests that create, or could appear to create, conflicts of interest that could weaken confidence in the reputation" of the fund. In response, Tangen promised to reduce his stake in AKO to 43%, and to place his assets into a blind trust.[116] However, this was deemed inadequate by the Finance Committee. To satisfy the demands of the committee, Tangen transferred his stake in AKO to a charitable foundation, the AKO Foundation, and restructured his other investments. Tangen estimated the value of his forfeited hedge fund holdings at US$1.15 billion.[117] As a result, he no longer has any ownership interest in AKO. He also disclosed that after the planned conversion of his personal fund investments into bank deposits,[118] he would have bank deposits of about US$778 million.[119]

Norwegian parliamentarians also took issue with the manner by Tangen had been appointed – allegedly without being on the candidate shortlist, and after correspondence with then CEO Slyngstad.[120] However, Tangen said he was first contacted by a head-hunting firm about the role in December 2019.[121] To add fuel to the fire, it was reported that Tangen asked Slyngstad for a favour via email – to inform him "what the job involves in terms of political guidance, opportunities and the like".[122] This came weeks after Tangen paid for Slyngstad's private flight from Philadelphia to Oslo after an all-expenses-paid closed conference in the U.S. organised by Tangen. In his defence, Tangen said that he had planned the seminar for years and extended an invitation to Slyngstad over a year prior in May 2018. Tangen fervently denied that the seminar or Slyngstad's attendance was a deliberate attempt to "smooth his way" into the job of CEO of NBIM.[123] The GPFG had also said that Slyngstad was not involved in the process to select his successor.[124]

Following a media furor over contact between Slyngstad and Tangen before his appointment, Norges Bank disclosed details of its recruitment process and correspondences between Tangen, Slyngstad, and NBIM. This quickly escalated to queries raised by the parliamentary Supervisory Council of Norges Bank and a warning that Tangen's appointment "carries the risk of violations of laws, rules and guidelines".[125] In August 2020, Norges Bank defended its selection of CEO at a hearing in Norway's parliament. Although Norges Bank previously admitted to being too slow in releasing Tangen's name as part of a public list of applicants for the role – which is mandated by law – Norges Bank Governor Olsen firmly defended the bank's decision, stating that "in a thorough process to recruit a new CEO of NBIM, Nicolai Tangen emerged as the decidedly strongest candidate".[126]

As a public servant, Tangen's new annual salary would amount to US$672,400, a modest amount compared to what he would have earned had he not switched jobs. He would also likely pay significantly more in annual wealth tax in Norway as compared to London, where he was previously based.[127] Although it had cost Tangen over US$1 billion to finally obtain his dream job, he said that he had no regrets about giving up his previous job to manage the GPFG.[128]

A new era

Despite the numerous roadblocks, Tangen started his job as CEO of NBIM and manager of the GPFG on 1 September 2020.[129] The new strategy document published by NBIM in April 2021[130] under its new CEO shows "a change towards more active management". NBIM would no longer automatically invest in small companies which were included in the index. Karin Thorburn, professor of finance at Norwegian School of Economics, noted that NBIM's goal – "to achieve the highest possible return" – is very much like a hedge fund as compared to "the highest possible risk-adjusted return net of cost," which is what an index fund strives towards.[131]

With Tangen's extensive experience, GPFG's enhanced financial influence, and three priorities for GPFG – return, communication and talent development[132] – it seems that the SWF is ready for a new era of investor stewardship.

Discussion questions

1. While the multi-tiered governance structure that the GPFG utilises can be an effective system, discuss possible drawbacks if it is not regulated properly by drawing similarities to the relationship between a company's shareholders, board and management.

2. Evaluate the board structure of Norges Bank. Are there any improvements that can be made to strengthen it in order to improve the overall governance of the fund?

3. Evaluate the GPFG's approach in exercising its stewardship. Discuss in relation to the specific approaches NBIM is taking and the corporate governance issues that have surfaced in their portfolio companies.

4. Discuss the extent of stewardship shareholders should practise for companies they own shares in.
5. Evaluate the risk management practices of NBIM.
6. Evaluate how its status as a sovereign wealth fund affects GPFG's governance. To what extent does political influence play a role in its governance? Compare and contrast the GPFG's governance with that of Singapore's Temasek and GIC, or a sovereign wealth fund in your country if there is one.

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