NORGES BANK
INVESTMENT MANAGEMENT

OWNERSHIP WORK IN 9 000 COMPANIES

GOVERNMENT PENSION FUND GLOBAL

CARINE SMITH IHENACHO,
GLOBAL HEAD OF OWNERSHIP STRATEGIES

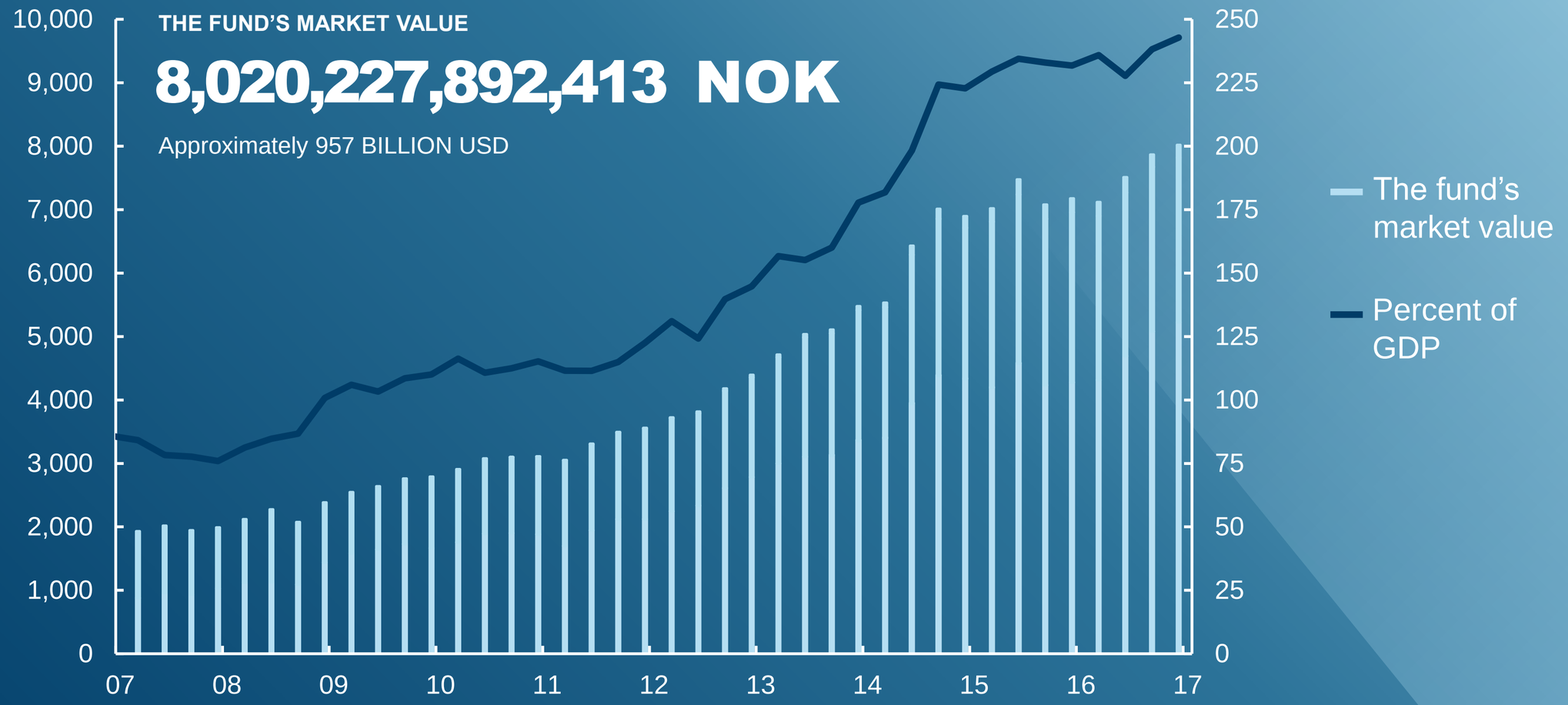
OSLO, 12 OCTOBER 2017

Our mission

Safeguard
financial wealth
for future generations

A large fund

Billions of kroner (left). Percent of Norwegian GDP (right)



As at 30.06.2017. Source: Statistics Norway and Norges Bank Investment Management.
GDP as at 2Q 2017 is estimated based on GDP as at 1Q 2017

Management objectives

OBJECTIVE

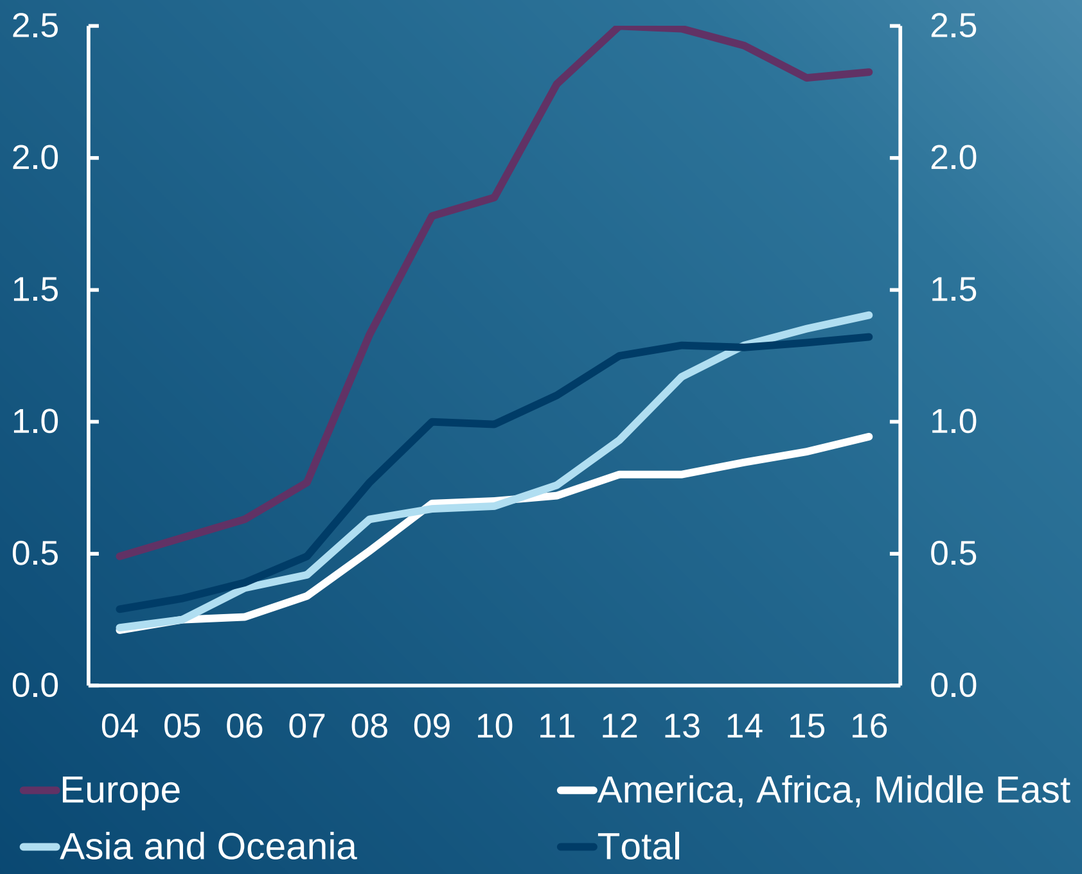
HIGH LONG-TERM RETURN

SUBJECT TO

- Acceptable risk
- Efficient organisation
- Responsible investment
- Full transparency

Equity investments

Percent of FTSE Global All Cap Index



77 COUNTRIES

8,985 COMPANIES

1.3% OF LISTED COMPANIES GLOBALLY

2.3% OF LISTED COMPANIES IN EUROPE

Three pillars of responsible investment

Standard setting

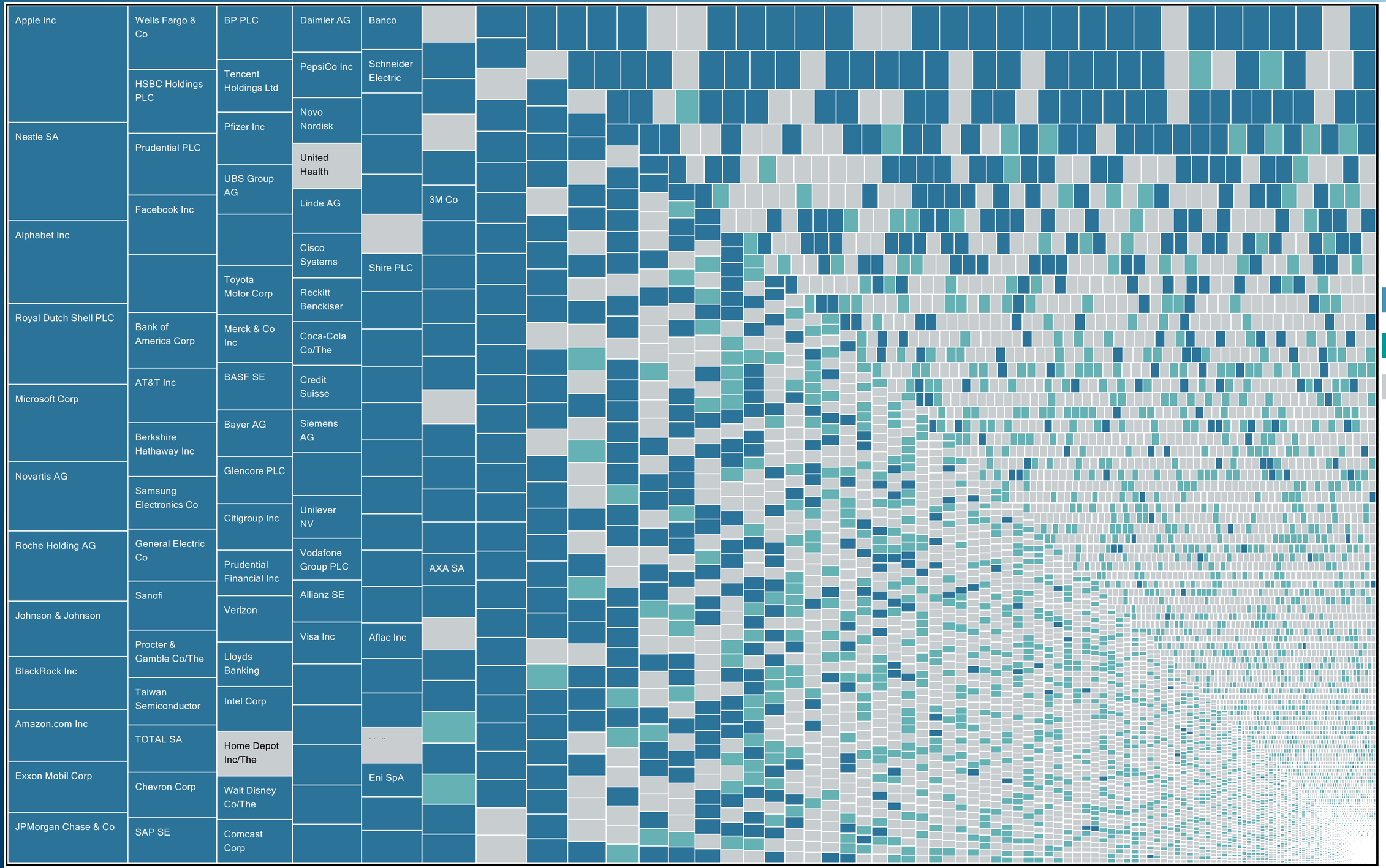
- Principles and expectations
- Standards and practices
- Research and data

Ownership

- Voting
- Interaction with companies
- Environmental investments

Risk management

- Risk monitoring
- Risk-based divestments
- Ethical exclusions



All companies in the portfolio. The size of the square represents the size of the company.

Internal research li

Covered externally

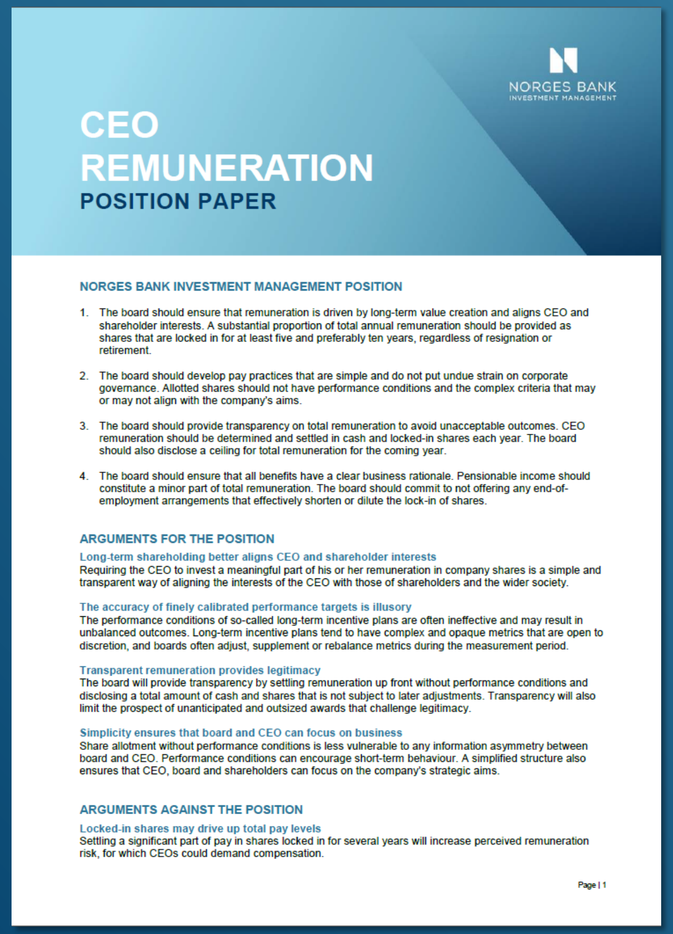
Not covered

Principles and expectations

- Executive Board principles
- Expectation documents
- Voting guidelines
- Position papers

Position on remuneration

Available at www.nbim.no



NORGES BANK
INVESTMENT MANAGEMENT

CEO
REMUNERATION
POSITION PAPER

NORGES BANK INVESTMENT MANAGEMENT POSITION

1. The board should ensure that remuneration is driven by long-term value creation and aligns CEO and shareholder interests. A substantial proportion of total annual remuneration should be provided as shares that are locked in for at least five and preferably ten years, regardless of resignation or retirement.
2. The board should develop pay practices that are simple and do not put undue strain on corporate governance. Allotted shares should not have performance conditions and the complex criteria that may or may not align with the company's aims.
3. The board should provide transparency on total remuneration to avoid unacceptable outcomes. CEO remuneration should be determined and settled in cash and locked-in shares each year. The board should also disclose a ceiling for total remuneration for the coming year.
4. The board should ensure that all benefits have a clear business rationale. Pensionable income should constitute a minor part of total remuneration. The board should commit to not offering any end-of-employment arrangements that effectively shorten or dilute the lock-in of shares.

ARGUMENTS FOR THE POSITION

Long-term shareholding better aligns CEO and shareholder interests
Requiring the CEO to invest a meaningful part of his or her remuneration in company shares is a simple and transparent way of aligning the interests of the CEO with those of shareholders and the wider society.

The accuracy of finely calibrated performance targets is illusory
The performance conditions of so-called long-term incentive plans are often ineffective and may result in unbalanced outcomes. Long-term incentive plans tend to have complex and opaque metrics that are open to discretion, and boards often adjust, supplement or rebalance metrics during the measurement period.

Transparent remuneration provides legitimacy
The board will provide transparency by settling remuneration up front without performance conditions and disclosing a total amount of cash and shares that is not subject to later adjustments. Transparency will also limit the prospect of unanticipated and outsized awards that challenge legitimacy.

Simplicity ensures that board and CEO can focus on business
Share allotment without performance conditions is less vulnerable to any information asymmetry between board and CEO. Performance conditions can encourage short-term behaviour. A simplified structure also ensures that CEO, board and shareholders can focus on the company's strategic aims.

ARGUMENTS AGAINST THE POSITION

Locked-in shares may drive up total pay levels
Settling a significant part of pay in shares locked in for several years will increase perceived remuneration risk, for which CEOs could demand compensation.

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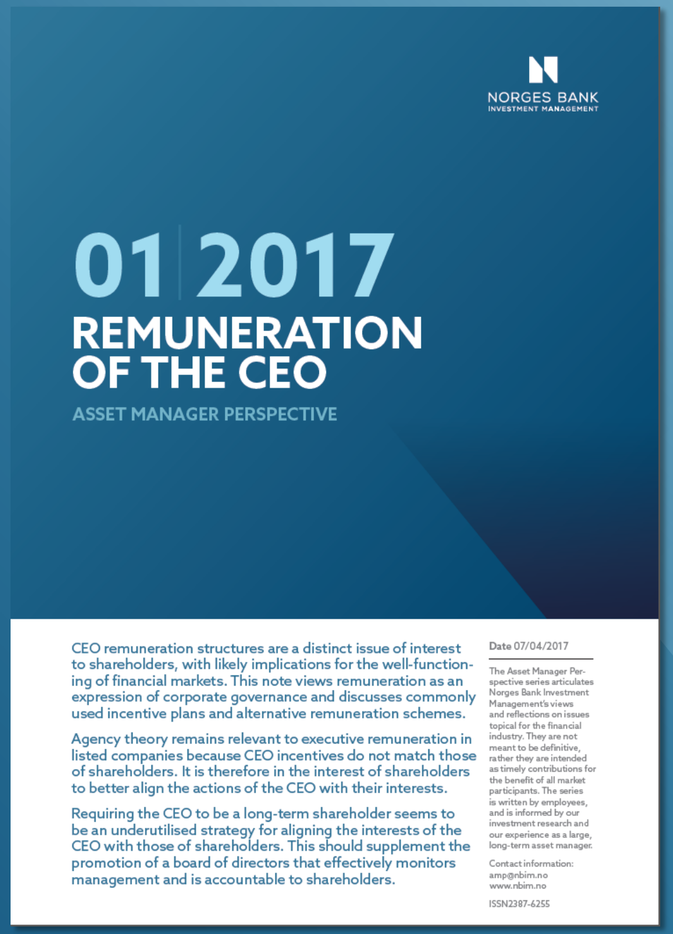

NORGES BANK
INVESTMENT MANAGEMENT

01 | 2017
REMUNERATION OF THE CEO
ASSET MANAGER PERSPECTIVE

CEO remuneration structures are a distinct issue of interest to shareholders, with likely implications for the well-functioning of financial markets. This note views remuneration as an expression of corporate governance and discusses commonly used incentive plans and alternative remuneration schemes.

Agency theory remains relevant to executive remuneration in listed companies because CEO incentives do not match those of shareholders. It is therefore in the interest of shareholders to better align the actions of the CEO with their interests.

Requiring the CEO to be a long-term shareholder seems to be an underutilised strategy for aligning the interests of the CEO with those of shareholders. This should supplement the promotion of a board of directors that effectively monitors management and is accountable to shareholders.

Date 07/04/2017

The Asset Manager Perspective series articulates Norges Bank Investment Management's views and reflections on issues topical for the financial industry. They are not meant to be definitive, rather they are intended as timely contributions for the benefit of all market participants. The series is written by employees, and is informed by our investment research and our experience as a large, long-term asset manager.

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We are an active owner

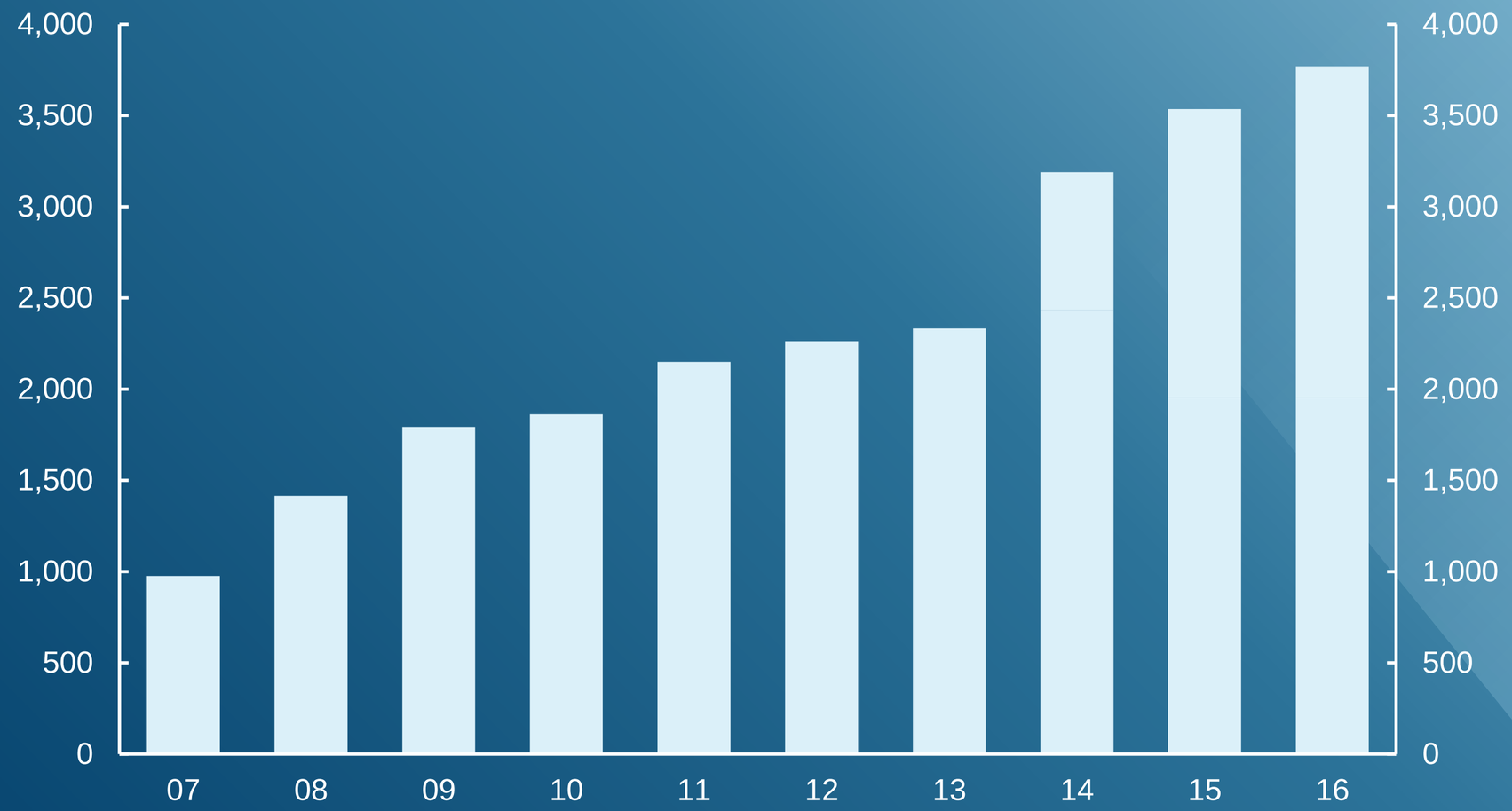
We own
9,050 companies

We voted at
11,562 general meetings

We voted on
112,601 resolutions

Company dialogue

Number of company meetings

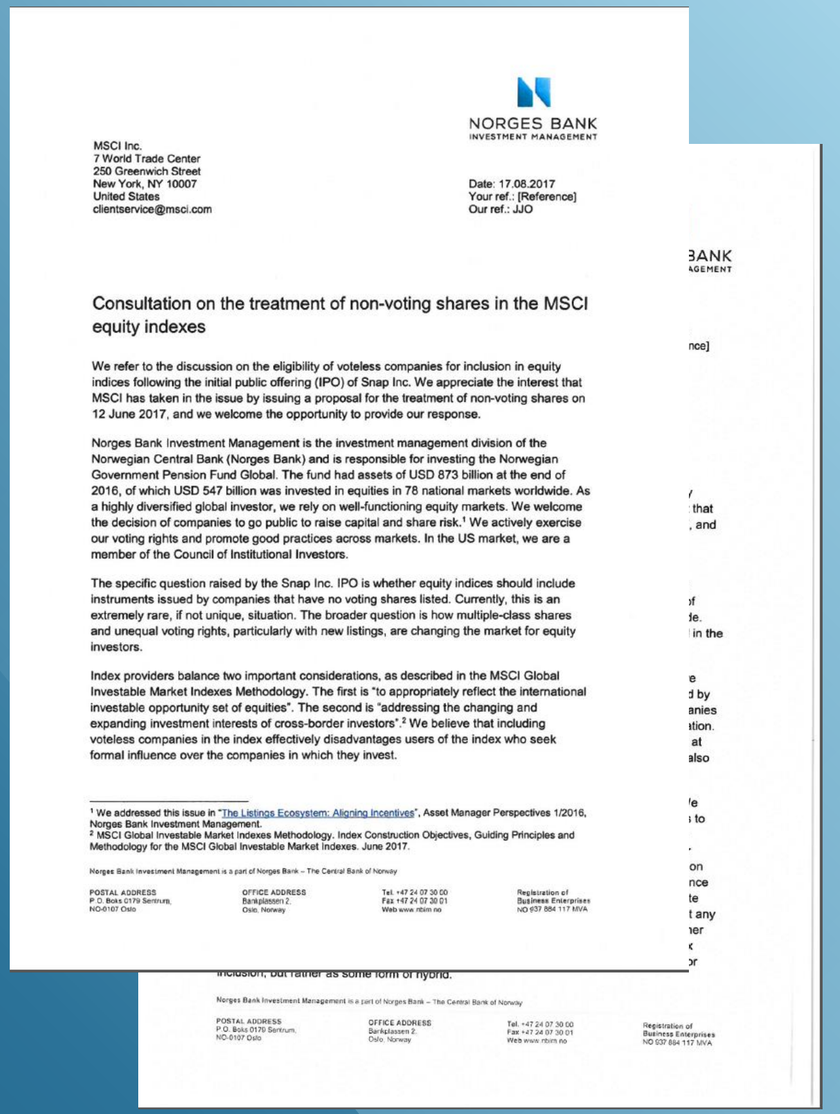


IPOs with weak voting rights

Investors successfully engaged index providers

- FTSE: Zero weight if less than 5% free-float votes
- Dow Jones: No new multi-class shares in S&P 500
- MSCI: Zero weight if listed classes hold less than 25% of votes*

* Proposal



NORGES BANK
INVESTMENT MANAGEMENT

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United States
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Date: 17.08.2017
Your ref.: [Reference]
Our ref.: JJO

Consultation on the treatment of non-voting shares in the MSCI equity indexes

We refer to the discussion on the eligibility of voteless companies for inclusion in equity indices following the initial public offering (IPO) of Snap Inc. We appreciate the interest that MSCI has taken in the issue by issuing a proposal for the treatment of non-voting shares on 12 June 2017, and we welcome the opportunity to provide our response.

Norges Bank Investment Management is the investment management division of the Norwegian Central Bank (Norges Bank) and is responsible for investing the Norwegian Government Pension Fund Global. The fund had assets of USD 873 billion at the end of 2016, of which USD 547 billion was invested in equities in 78 national markets worldwide. As a highly diversified global investor, we rely on well-functioning equity markets. We welcome the decision of companies to go public to raise capital and share risk.[1] We actively exercise our voting rights and promote good practices across markets. In the US market, we are a member of the Council of Institutional Investors.

The specific question raised by the Snap Inc. IPO is whether equity indices should include instruments issued by companies that have no voting shares listed. Currently, this is an extremely rare, if not unique, situation. The broader question is how multiple-class shares and unequal voting rights, particularly with new listings, are changing the market for equity investors.

Index providers balance two important considerations, as described in the MSCI Global Investable Market Indexes Methodology. The first is "to appropriately reflect the international investable opportunity set of equities". The second is "addressing the changing and expanding investment interests of cross-border investors".[2] We believe that including voteless companies in the index effectively disadvantages users of the index who seek formal influence over the companies in which they invest.

[1] We addressed this issue in "The Listings Ecosystem: Aligning Incentives", Asset Manager Perspectives 1/2016, Norges Bank Investment Management.
[2] MSCI Global Investable Market Indexes Methodology. Index Construction Objectives, Guiding Principles and Methodology for the MSCI Global Investable Market Indexes. June 2017.

Norges Bank Investment Management is a part of Norges Bank – The Central Bank of Norway

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Registration of
Business Enterprises
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Climate change

- Better standards for reporting
- Clear expectations to companies
- Vote for disclosure on climate

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