

## ESG Viewpoint: Secretariat for the Council on Ethics, Norwegian Pension Fund Global

RepRisk interviews Pablo Valverde, Secretariat for the Council on Ethics, Norwegian Pension Fund Global

**RepRisk: Can you explain the role of the Secretariat for the Council on Ethics and briefly outline the Council's specific mandate / ethical guidelines?**

Pablo Valverde: The Secretariat assists the Council on Ethics in carrying out its mandate as determined by the Guidelines for the Observation and Exclusion of Companies from the Norwegian Government Pension Fund Global (the Ethical Guidelines). In particular, the Secretariat's tasks include identifying possible cases to be brought to the Council's attention, researching and documenting cases for the Council, writing the text of recommendations and contacting the companies under assessment on behalf of the Council.



The Council's mandate is found in section 4 of the Ethical Guidelines. The Council recommends the exclusion of companies which themselves, or through entities they control, a) produce weapons that violate fundamental humanitarian principles through their normal use, b) produce tobacco or c) sell weapons or military material to certain states.

Furthermore the Council recommends the exclusion of companies if there is an unacceptable risk that the company contributes to, or is responsible for, serious or systematic human rights violations, serious violations of the rights of individuals in situations of war or conflict, severe environmental damage, gross corruption, or other particularly serious violations of fundamental ethical norms. Where there is doubt as to whether the conditions for exclusion have been met or uncertainty about how the situation will develop, the Council may also recommend the observation of companies. The Ethical Guidelines are available on our website, [www.etikkradet.no](http://www.etikkradet.no).

**RR: How does the Council make use of RepRisk information?**

PV: We use RepRisk to carry out searches for news items about the companies in the portfolio. We receive monthly reports about companies accused of complicity in human rights violations, or of being responsible for corruption, severe environmental damage or other factors encompassed by the ethical guidelines (companies for product-based exclusion (certain weapons and tobacco) are monitored through a different system). Among these we select the cases that appear to be the most serious for further assessment. We also use the information provided by RepRisk, either in its monthly reports or through its online tool, in the first stages of a sector study or a company assessment.

**RR: How does the Council decide which companies to track before making recommendations to exclude?**

PV: The decision on which companies to follow up on depends on an overall assessment of a number of factors, including the severity of the allegations, the reliability of the information, the future risk (hereunder what the company is doing, has done or is planning to do) and the link between the allegations and the company in which the Fund invests.

How many companies the Council follows up on will vary from year to year, not least because product-based exclusions and sector studies generally encompass a large number of companies at one time. In our annual report for 2011 we reported 160 cases where initial assessments were carried out from a total of 720 cases reported in monthly reports by our consultants. These numbers were respectively 70 and 830 the year before (2010).

**RR: What does the actual research involve before a recommendation to exclude is made?**

PV: The research will depend on a number of factors contingent upon the nature of the criteria used in the assessment (human rights, corruption, environment and so forth) and the company's activities. In some cases there is no disagreement about the facts of a case, and research is only a matter of finding information on the company's website. The problem in these cases is often one of determining whether the company can be said to be acting unethically (defined in terms of our guidelines).

Likewise, sometimes the companies willingly provide a wealth of information early in the process and research in these cases involves making sense of vast amounts of data while comparing them to alternative sources of information. In some cases, however, the facts about the case are more difficult to ascertain or the companies do not provide any information at all. In these cases we make use of different tools including contacting relevant actors and experts, using consultants or, in a small number of cases, carrying out field studies to determine the facts of the case.

**RR: To what extent does the Council and Fund engage with companies?**

PV: To understand our engagement with companies, it is important to note the particular division of labor which characterises the Norwegian Government Pension Fund Global. The Fund is managed by Norges Bank Investment Management (NBIM) on behalf of the Ministry of Finance. The Council on Ethics recommends the exclusion or observation of companies.

Given the Council's mandate, our engagement with companies is primarily aimed at gathering information in order to make an informed and correct decision. For this reason we usually contact companies under evaluation very early in the process. If in the course of our engagement with companies we find that they have executed measures to change their practice, this will of course affect how the Council evaluates future risk. In this way one can say that our engagement can cause companies to change their behavior, but this is not the primary aim for the Council's engagement.

As the manager of the Fund, NBIM does engage with companies with an aim to promote change within a number of thematic priorities. More information on these and on NBIM's ownership strategies is available at <http://www.nbim.no/en/Investments/ownership-strategies/>.