

ROBERT A. G. MONKS

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Re: Evaluation of the ethical guidelines for the Government Pension Fund-Global

Gentlemen:

There is a fine saying that one should not blame Columbus because he was not Magellan. In that spirit it would be wrong to put at the door of The Government Pension Fund – Global (“Pension Fund”) the manifest failures of shareholder activism.

The “consultation paper” in Section 3.3 hints of failure in the “report” (Albright Chesterman report) concerning Pension Fund activism: “The report notes as far as *effectiveness from the ownership activities* are concerned, that a number of attributes need to be in place in order to succeed in the exercise of ownership rights.” It contents itself with observing that there exists no verification of results. This impresses as mere euphemism. Reality is that much of the advertised success of shareholder activism is a charade, sometimes even involving collusion by an investor wanting to demonstrate results and a focus company wanting to be able to advertise its compliance.

The achievement of substantive results requires adoption of a careful strategy and the commitment of appropriate resources. “The report takes the view that the effect of ownership activities can be increased if Norges Bank teams up, to a larger extent, with other investors when it comes to themes that both fall within and outside the scope of their own areas of priority.” On an ad hoc basis, making common cause with such as Hermes relating to the deficiencies of SEC policy relating to nomination of directors is desirable, but it is uncertain whether more permanent or longer lasting liaisons will be productive. The Pension Fund will always have to be jealous not to allow its reputation to be sullied by the acts of others.

As a practical matter, effective shareholder activism will require that the Pension Fund act as the leader, allowing, even encouraging, others to make common cause. The trustees will have to consider, particularly in light of the attention now focused on Sovereign Wealth Funds, whether high profile leadership is a sensible strategy. If the Pension Fund is going to commit to leadership, it will need the resources of significantly more than 10 persons which is the present allotment. The two funds in the world today with any semblance of leadership in this field – Hermes in the UK, CalPERS in the USA - commit between 50 and 100 professionals to activism and their programs are less ambitious than the Pension Fund’s.

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Each of these institutions has developed a strategy that makes activism cost effective. CalPERS' longtime consultant Willshire Associates periodically evaluates the cost effectiveness of activism and reliably assures the trustees that the increase in value of the entire portfolio due to activist initiatives is significantly larger than the out of pocket cost of the effort. Beyond this CalPERS has "seeded" several special purpose activist funds, a number of which – Relational Investors, Hermes, for example – have produced returns well in excess of the balance of equity investment in their portfolios.

Hermes, armed with the fee producing investment of CalPERS and others, has created a professional competency in the field of shareholder activism. While their results are most conspicuous to date in the UK, there are indications that their efforts will prove effective in Europe and Japan.

It is important to note that both Hermes and CalPERS use activism as a device to improve the measurable management of focus companies, and, therefore, its valuation in the market place. Neither institution uses activism as a tool for influencing social policies, like for example questions concerning carbon levels and global warming. It certainly will be more difficult for "social" activism to be able to demonstrate numeric cost efficiency in the short run. But, that of course is the special genius of the Pension Fund.

In sum, shareholder activism often impresses as being a game, an agreeable hobby. Not only is there need for quantification and verification of results as suggested by the report, but there is need to take leadership and allocate and justify the allocation of adequate resources to get the job done.

I do not want to conclude this letter without thanking you for a quality of care, analysis and spirit that illumines the world.

Respectfully yours,

A handwritten signature in blue ink that reads "Robert A.G. Monks". The signature is written in a cursive, flowing style.

Robert A.G. Monks