Managing Ambiguity: Governance for Responsible Investing

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Abstract

While the rapid growth of sovereign wealth funds incites fear of state capitalism in some, these government owned but privately invested funds are well positioned to engage in long-term investment strategies that encourage the integration of environmental, social and governance (ESG) factors into global financial markets. However, SWFs must constantly negotiate their position along dynamic dimensions of accountability and in absence of a governance system capable of reconciling conflicting dimensions of accountability, these funds may become paralyzed by ambiguity. Defined as a function of (i) conflict over preferences; (ii) the intersubjectivity of discourse; and, (iii) uncertainty over technical states of affairs, ambiguity inhabits the principles, norms, rules and contracts that constitute social life. This paper interrogates the conditions under which different forms of ambiguity emerge, the impact of ambiguity on organizational function and how SWFs can more effectively manage ambiguity, particularly under an RI strategy. It is argued that if properly managed, ambiguity can be a constructive basis for a governance framework that reconciles conflicting forms of accountability by introducing *negotiability*; copes with intersubjectivity through *self-reflexivity*; and, manages uncertainty by embedding *flexibility*.

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1. Introduction

As government-owned institutional investors that participate in private financial markets, sovereign wealth funds (SWFs) have good reasons to integrate their concern for long-term financial performance with environmental, social and governance (ESG) considerations. This is because in addition to recognizing new investment opportunities and risks, a responsible investment (RI) strategy can be instrumental for achieving the multiple and diverse objectives of these funds, including the transfer of wealth to future generations, macro-economic stabilization and the diversification of national revenue away from non-renewable resources. Given that these funds are growing faster than any other class of institutional investor (Monitor Group 2011), coupled with their high tolerance for risk and low liquidity requirements, many are optimistic about their potential for generating the critical mass needed to transition to a more sustainable economy (e.g. Bolton et al. 2012; Halvorsen 2010).

However, their hybrid public-private nature is proving to be a double-edged sword. Demands from domestic constituents for ethical investment practices, for example, may conflict with the functional discipline required to participate in global financial markets (Clark and Monk 2010). As a result, SWFs must constantly negotiate their position along dynamic dimensions of accountability (Gelpern 2011). In absence of a governance system capable of reconciling conflicting accountabilities, SWFs may become paralyzed by ambiguity. This is because their organizational form is deeply entrenched in historical legal and political traditions of their sponsoring government, often leaving only their internal governance as a shock absorber for institutional design flaws and an uncertain environment (Clark and Urwin 2008). This ambiguity can also manifest in other forms. For example, the proximity of SWFs to political actors (Clark and Monk 2011) introduces potential for intersubjective interpretations of the rules and norms governing these funds and the lack of clearly defined liabilities introduces a significant degree of technical uncertainty over performance benchmarks.

However, like complexity, traditional economics frames ambiguity as reducible, which means we know very little about its causes and consequences for institutional decision-making. In fact, ambiguity is a permanent feature of institutions (Mahoney and Thelen 2010); it is embedded in their design, the gaps between our rules, their implementation and enforcement, the moral and psychological character of decision-makers, our interactions with others and the myriad of interpretations of the discourses that govern us. Defined as (i) conflict over preferences; (ii) the intersubjectivity of discourse; and, (iii) uncertainty over technical states of affairs, ambiguity inhabits the principles, norms, rules and contracts that constitute social and economic life.

The analytical power of ambiguity applies to internal governance frameworks of all institutional investors, but it is amplified in the case of SWF governance and RI. In the first instance, SWFs have ambiguous inter-organizational dynamics, given the diverse set of actors and interests involved in these hybrid institutions. Further, their organizational form provokes tensions between conflicting objectives of different geographic and stakeholder dimensions of accountability that do not face other institutional investors. In the second instance, RI is inherently ambiguous, as integrating non-financial factors into investment decision-making requires assumptions about the valuation of intangible assets (Clark and Salo 2008) and discount rates for the future. This is further complicated by challenges of competing political interests tied to ESG issues, such as social and economic development projects, and the intersubjective nature of concepts such as ‘long-term’ and ‘universal owner’, which rely on several disciplines including economics, politics and physical sciences.

This paper interrogates the conditions under which different forms of ambiguity emerge, the impact of ambiguity on organizational function and how SWFs can more effectively manage it, particularly under an RI strategy. Rather than seek to eliminate ambiguity, it is argued that if properly managed, ambiguity can be a constructive basis for a governance framework that reconciles conflicting forms of accountability by introducing *negotiability*; copes with intersubjectivity through *self-reflexivity*; and, manages technical uncertainty by embedding *flexibility*. Further, if supported by such a governance framework, an RI strategy can be part of the solution to the multiple and often conflicting objective functions facing these hybrid institutional investors.

These arguments, whose main contribution is theoretical, are developed through a literature review that draws on theoretical debates in resource based governance, law, political economy and institutional and management literature. To illustrate the process of managing ambiguity in practice, a comparative case study of the Alberta Heritage Savings Trust Fund (AHSTF) and the Norwegian Government Pension Fund-Global (GPF-G) is also presented. These two funds invest non-renewable resource royalties in global markets to earn a return above the national rate of growth. They have adopted the same ethical screening criteria, but have different organizational forms, functions, and governance structures. While Norway and Alberta are not typical SWFs, the transparent nature of western funds and their unique RI programs makes them a valuable contrasting case for the purposes of this research. In other words, ambiguity is not specific to democratic institutions and the broad principle of managing rather than eliminating ambiguity can provide useful insight for the governance of all SWFs.

This paper proceeds as follows: Section 2 explains the analytical value of ambiguity in contrast to alternative theoretical perspectives. The governance challenges posed by these different forms of ambiguity are also identified. Section 3 presents a literature review of pension and SWF governance. Particular attention is paid to how this literature addresses ambiguity. Section 4 introduces the methodology and reviews political, legal and historical origins, RI strategies and governance frameworks of the AHSTF and the Norwegian GPF-G. Section 5 explores how ambiguity is internalized by the two funds and Section 6 concludes.

2. Defining Ambiguity

To appreciate the analytical value of ambiguity, it must first be set free it from the stigma it has earned in economic and financial literature as a result of often being defined as synonymous with uncertainty and by second order, complexity (see Williamson 1975). Uncertainty and complexity are often viewed as a source of market failure and institutions are seen as instrumental in facilitating greater supply of information required to compensate for these conditions. However, these institutions do so at the expense of increasing rigidity, which inevitably fragments into new forms of ambiguity (contested and intersubjective ambiguity). In fact, ambiguity can never be eliminated, because (1) preferences are endogenous and inconsistent over time (March and Simon 1958; Pettit 2002); (2) information is often divorced from its context in which it is engineered (March 1987) and; (3) politics cannot be separated from economics (e.g., Roe 2006). These arguments are developed below. The point is not that uncertainty or complexity are unimportant for understanding institutions, but that there is significant analytical gain from theorizing ambiguity. To illustrate, the following sections draw the distinction between uncertainty and ambiguity and uncertainty and complexity.

2.2 Uncertainty and Ambiguity:

Uncertainty is often used to describe technical economic problems of decision-making resulting from a lack of information (see Knight, 1921; Diebold, Doherty and Herring 2010), requiring investors to form ‘beliefs’ about probabilities of various states in the future (Kodijk and Slager 2007). While some literature on uncertainty acknowledges the social nature of the market (e.g., Epstein 2005; Camerer and Weber 1992), the governance solution is invariably cast as the need for increased transparency to reduce transaction or agency costs (Williamson 1985; Jensen and Meckling 1975). Uncertainty, which is often used interchangeably with ambiguity (e.g., Curley, Yates and Abrams 1986; Einhorn and Hogarth 1985), is therefore considered to be reducible to risk if sufficient information is made available.

But uncertainty is only one form of ambiguity and financial literature has largely ignored other sources of ambiguity resulting from conflicts and the intersubjectivity of discourses (e.g. Camerer and Weber 1992). While increasing transparency can contribute to combatting market instability arising from technical ambiguity (uncertainty), greater transparency will not reduce or eliminate other varieties of ambiguity, such as those resulting from conflicts between individuals or institutions or intersubjective interpretations of information (see Best 2005; Gupta 2008).

2.2 Uncertainty and Complexity:

Institutional economists often treat complexity in the same breath as uncertainty. To illustrate, consider Williamson's (1975) interpretation of Simon's chess game; it is impossible to map all possible moves, even though they are certain, given the exponentially vast number possibilities. For all intensive purposes, we are uncertain of the outcome. In this sense, complexity, like uncertainty, is ostensibly an exogenous 'environmental' factor. The two complexities that economics has been most concerned with are (1) bounded rationality and (2) conflicts of interest (Jensen and Meckling 1976). The problem in both cases is simultaneously posed and resolved; the problem being uncertainty/ complexity, its solution cast as the provision of more information, through the creation of institutions and contracts.

There are three key distinctions between complexity and uncertainty that serve to free ambiguity from its theoretical enslavement to uncertainty:

1) Uncertainty, difficulty and complexity are all non-linear, but complexity has interdependent terms that influence the probabilities of future events (Page 2008).

2) Complexity is irreducible (pushing it down results in it popping up somewhere else) but uncertainty can be 'solved' through greater information.

3) Complexity is endogenous to institutional decision-making models, whereas uncertainty is an exogenous factor.

Complexity, unlike uncertainty, can be endogenous to both optimization and rule-based models of behaviour. For example, while a complex and/or uncertain environment can cause conflict among individuals and groups within an organization (March and Simon 1958; Jensen and Meckling 1976), conflict and inconsistency between an agent's own preferences within the decision-making model can be a source of ambiguity itself (March 1987; Pettit 2002) and the effects of endogenous complexity are amplified when we consider real institutions in our society, which consist of more actors than a two by two game-theory matrix (Page 2008) but not enough to take advantage of the law of large numbers (see Williamson 1975). In other words, institutions are not only designed to cope with complexity, but institutions can also contribute to creating it.

Because complexity is interdependent, irreducible and endogenous to optimization and rule-based models of decision-making - ideas, norms, interests, conflicts and interpretations matter in addition to technical accounts of the state of affairs (i.e. prospects). As such, we need a deeper theorization of decision-making based on empirical observation.

2.4 Theorizing Ambiguity:

But if the governance challenge is framed as managing complexity, why should we be concerned with ambiguity? Using ambiguity to explore the presence and implications of complexity for institutional governance avoids the problems inherent in the complexity economics project (see Martin and Sunley 2007), while gaining comparable analytical traction. Evolutionary sciences are particularly attractive for understanding conflicts that arise within an institution and how agents adapt and learn from experiences (Simon 1979). But evolutionary economics relies on the introduction of an interactive set of parameters to provide richer explanations, at the expense of parsimony and ultimately, at the expense of a cohesive theoretical alternative to neoclassical economics. Managing ambiguity can be conceived as a parallel process as 'harnessing complexity' (Axelrod and Cohen 2000), but it avoids debates over the extent to which biological sciences can explain economic patterns such as the agglomeration of production and investment.

2.5 Three Forms of Ambiguity

Ambiguity manifests in three forms: conflict, intersubjectivity and technical uncertainty. Decision makers tend to focus on only one form of ambiguity at a time (this is required to reduce or eliminate ambiguity) and in doing so, fail to recognize the ambiguity as it arises in other forms. This aversion to ambiguity has resulted in an impoverished understanding of institutions and decision-making processes because it assumes that ambiguity dissipates over time (e.g. Knight 1992), rather than seeing ambiguity as a permanent feature of all institutions. Ironically, it is the ambiguous definition of ambiguity that has prevented recognition of its constructive power for designing and governing more resilient and effective institutions. The section below briefly describes the three forms of ambiguity, explains why ambiguity cannot be reduced or eliminated and considers the governance challenge these different forms of ambiguity pose.

(1) Technical ambiguity (uncertainty)

Technical ambiguity, or 'uncertainty' is pervasive in economic and finance literature and significant effort is dedicated to understanding its consequences for decision-making and governance. Uncertainty is the result of a lack of information or vagueness about the accuracy of information. Exogenous shocks causing shortages and price volatility, opaque management styles and poor legal and regulatory environments are some sources of 'technical ' ambiguity, or 'uncertainty'. Unlike risk, where probabilities of an event occurring are known, uncertainty is a function of unknown probability distributions (Knight 1921) and as such, requires decision-makers to form beliefs about probabilities of prospects.

Given the negative consequences of uncertainty for maximizing utility, significant attention is dedicated to eliminating it. Our current obsession with transparency is testament to this (see Mehyrpouya 2010). However, more information does not always lead to better decision outcomes. For example, while greater transparency in corporate ESG information can support the universal owner hypothesis, which suggests that large institutional investors have an incentive to integrate ESG factors (Hawley and Williams 2005), universal owners often suffer from coordinated action problems, even when a compelling material impact for incorporating ESG considerations is present (see Gjessing and Syse 2007). Instead of a blanket appeal to transparency in investment decision-making designed to rigidly hold investors to account by pure economic standards that arguably no institutional investor meets (see Balding 2011), institutional investors need a framework that allows them to navigate their various dimensions of accountability and react effectively to shifting geographies of finance. The governance challenge posed by technical ambiguity is therefore the need to be flexible in the face of change.

(2) Contested Ambiguity (Internal and External):

Conflict is treated as a sub-optimal state of affairs, leading to deceit, tyranny and inertia (e.g, Page 1979). Conflict can arise when preferences of individuals are inconsistent over time or organizations and actors within them exhibit incompatible preferences. However, consequences of this form of ambiguity are subordinated in traditional economics and finance literature, as it has been assumed that greater diffusion of information can resolve such conflicts. For example, monitoring and the design of explicit contracts are assumed to return the behaviour of institutions to equilibrium (see Jensen and Meckling 1976).

If we challenge the assumption that decisions are made in reference to consistently ordered utilities and instead consider preferences as endogenous, inconsistent and capable of changing over time (March 1987), then conflict will inevitably arise within and between organizations. For example, attempts at eliminating contested forms of ambiguity result in ignorance of these ambiguities to shape interests of actors involved. Had Suharto imposed unambiguous power over his subjects, he would not have gained the support required from constantly negotiating with a heterogeneous group of supporters (Slater 2010). Likewise, the United States' ambiguous China position is critical for maintaining stability in the region. Adopting an unambiguous position of its support for either the PRC or ROC would compromise this stability (Wedeman 2007). The governance challenge is the need to negotiate, and while principal-agent problem of alignment through contracts, it is not a relationship that can be once and for all solved; it must be constantly negotiated as interests and circumstances change.

(3) Ambiguity of discourse (intersubjectivity)

Intersubjective ambiguity refers to the differences in interpretations of discourses used to communicate rules, policies and contracts governing institutions and relationships, and its consequences are often observed in the divergences between intention and application. While positivist legal theory subordinates or denies the existence of such intersubjective ambiguity (e.g., Hart), Dworkin (1976) suggest that intersubjectivity plays an important role in explaining the inconsistent application of such laws. The elimination of intersubjective ambiguity is proposed through the recognition and appeal to norms and principles as opposed to specific rules, thereby shifting focus to the underlying principles to which a society agrees (ibid). However, the elimination of 'intersubjective' ambiguity is only possible if we ignore or subordinate the manifestation of ambiguity in other forms; uncertainty and conflict. By attempting to eliminate ambiguity of intersubjective discourse, we compromise the capacity for innovation to meet new challenges and the adoption of new ideas, as rules, norms and conventions are deeply entrenched and by their very nature and design, are resistant to change.

Clark (2011) illustrates this point well in his consideration of fiduciary duty under different legal contexts. The notion of fiduciary duty is based on norms and conventions, where it is assumed that when we cut away the details/specificities of a case, which is the basis for common law regimes, we are left with a coherent and accurate norm structure on which to base future decisions. Essentially, this appeal to norms is an attempt to reduce or eliminate intersubjective 'ambiguity' in the law governing management of finance on behalf of beneficiaries. But as Clark suggests, fiduciary duty has been captured by interests "largely antagonistic to innovation in investment management". By focusing on eliminating intersubjective forms of ambiguity, we have ignored the ambiguity manifesting in another form, that of conflict of interests that are served by such power, such that "fiduciary duty remains as a trump card for those that would wish to protect their own interests in the face of obvious demands for profound change in the nature of investment practice". The governance challenges is need to embed mechanisms for feedback and reflection and allow for new ideas to permeate existing norm and social structures.

2.6 Managing Ambiguity

As these examples demonstrate, *technical, contested and intersubjective* forms of ambiguity can be paralyzing if not effectively managed. Best (2005) considers the constructive role of ambiguity in the international governance of financial institutions and argues the fixation on eliminating technical ambiguity by policymakers led to the demise of the Bretton Woods I regime. Policymakers tried to eliminate ambiguity by imposing rigid policies aimed at resolving uncertainty through enhanced transparency. In doing so she argues they failed to address other ambiguities arising from political contestation and intersubjectivity because ultimately, ambiguity can never be eliminated; it can only be managed. Paradoxically, according to Best (2005), the best way of managing ambiguity in the international policy framework is through internalizing it in the form of *flexibility*, *negotiability* and *self-reflexivity*. If effectively managed, ambiguity can actually play a constructive role in the international policy framework.

This paper suggests ambiguity is also constructive for internal governance frameworks of SWFs, particularly with respect to RI strategies. Recent trends for internal governance 'best practices' for SWFs strongly emphasize transparency (i.e. Santiago Principles). But as illustrated in the section above, transparency alone cannot address the ambiguities that arise out of political contestation and intersubjectivity (different interpretations within the investment value chain). Eliminating one form of ambiguity within a fund's governance results in it transforming into another state [See figure 1]. The subsequent section considers how ambiguity is addressed within the relevant literature and in relation to different forms of legitimacy facing SWFs.

Figure 1: The irreducibility of ambiguity

Technical (Uncertainty)	***Intersubjective***	***Contested***
1a. Santiago Principles promote transparency among SWFs and aim to reduce uncertainty (ambiguity) related to their investment motivations.	1b. Information itself can be ambiguous (e.g. A foreign SWF discloses that it invests in crown corporation Canadian Potash, but how to determine that this is 'politically' rather than 'economically' motivated decision)?	1c. Disagreement can arise over what type of information to disclose (e.g,, process or outcome- see Dixon and Monk 2012 typology of transparency).
2b. Principles and norms can lead to failure to incorporate new information (e.g. climate changes as the result of several incremental changes and are excluded from Norway's screening and exclusion criteria)	2a. Intersubjective ambiguity can be reduced through appeal to broad 'principles' and norms rather than specific rules (e.g. Dworkin 1967). E.g., overlapping consensus is the basis for Norway's ethical criteria.	2c. Ignores conflict that may arise (e.g. as more US companies are excluded as a result of increasing environmental disasters, Norway may face pressure to change its ethical criteria to maintain global market legitimacy).

3b. Uncertainty of future conditions can undermine the relevance of an institutional compromise over time.	3c. Fails to account for norms that uphold the power of delegated authority (e.g., government suing tobacco industry may provoke public pressure for divestment from tobacco, challenging delegated authority to investment management).	3a. Delegation of authority can reduce politically contested forms of ambiguity (granting autonomy to investment manager for decision making and appealing to market based logic)

3. Sovereign Wealth Funds and Institutional Governance

3.1 Form, Function and Governance

Organizational form is inherited from the fund's legal structure and frames the set of resources that are available to perform an organization's functions. The form of SWFs is intertwined with the state (Clark and Monk 2012) as these institutions are often embedded directly in the national budget process. Yet their function does not necessarily follow form and there is a degree of variability within the assumed relationship (Dixon 2012). In other words, the functions of institutions are more stable than their form (ibid), and as such, function can play a key role in the shaping financial systems. The interdependent relationship between form and function is key to framing the governance challenges related to innovation that is demanded by the current global financial market (Clark and Urwin 2010).

Governance, defined as decision-making processes, actors and institutions, can be a powerful defense against corruption, mismanagement and short-termism by creating the conditions that promote long-term interests of the company and its shareholders (e.g. Core et al, 1999; Monk and Minnow, 2002; Bebchuk and Weisbach, 2010). In this sense, governance is designed in relation to the institution's need to establish legitimacy (Monk 2009) and accountability (Nye and Donahue 2003). While corporate governance literature is extensive, surprisingly little attention has been paid to internal governance frameworks for institutional investors (Monk, 2009).

Governance is subject to an institution's set of resources, time, expertise and collective commitment, which in turn is determined by the inherited form of the organization (Clark, 2007; Clark and Urwin, 2008; 2010). The challenge of governance is therefore cast as a function of size and scale. Despite the widely acknowledged existence of a governance premium for long-term investors (Ambachtsheer, Capelle and Lum, 2008; Clark and Urwin, 2008), current internal governance frameworks of these institutional investors are largely viewed as inadequate (Clark, 2004; 2008; Monk, 2009; Ambachsteer, 1997; 2007; 2011). The apparent deficit in trustee expertise is frequently the target of this scrutiny (see Clark et al., 2007). However, tension is mounting between expertise and representation, as a result of perceived democratic deficit contrasted with the increasing emphasis on technical expertise required to navigate a complex global market environment (Clark, 2004; 2007).

3.2 Sovereign Wealth Fund Governance

This ‘governance challenge’ that has the potential to inhibit the realization of a more sustainable economy is not specific to pension funds. While pension fund governance literature is extended to SWFs (Monk, 2009; Clark and Urwin 2010), it is widely acknowledged that SWFs face unique challenges that prevent direct application (Clark and Monk 2010b; Clark and Urwin 2010). Unlike other institutional investors, fiduciary duty does not impose the same discipline on SWFs. Further, SWFs do not have direct liabilities outside of government (Monk, 2009), which introduces new challenges related to the proximity to political actors and bureaucratic processes (Clark & Monk 2011). This is as far as consensus extends on the governance of these funds.

The debate revolves around two interdependent issues: The first is whether SWFs pose a threat to recipient countries and the global economy. Following from this, a second point of contention is how SWFs should be governed in relation to other institutional investors. The first issue is taken up empirically by academics who consider whether SWFs exhibit attributes most common with active or passive owners and whether their investment behaviour is motivated by economic or political incentives. While this literature focuses on the purported external threat posed by SWFs, its conclusions have important implications for internal governance frameworks. Mehrpouya et al. (2009) survey ten of the largest SWFs and find mixed evidence of active ownership. Dewenter et al. (2009) find stronger evidence of active ownership traits, documenting instances where firms are exposed to monitoring in more than 50% of their sample. In contrast, Kotter and Lel (2008; 2010) find no significant differences between target and control samples in their comparisons of post-investment governance activity and conclude in both studies that SWFs are passive investors.

With respect to the motivations for engaging in active ownership, Botrolotti et al. (2010) and Chhaochharia and Laeven (2009) find that firms perform worse after acquisition by SWFs despite an initial positive market reaction, suggesting political influence may be present. Knill et al. (2011) focus on both risk and return and also conclude SWFs behave more like government investors than efficient market investors.

Those who perceive SWFs as a threat advocate for higher governance standards for SWFs relative to other investors. Gilson and Milhaupt (2007) present what they call a minimalist response to balancing SWF ambitions for global investment and the target countries’ concern for political motivations by suspending SWF held voting shares. Truman (2010) rejects this response, arguing such a policy would fail to prevent political motivations from seeping in through other avenues. Strong emphasis on accountability and transparency are key to disciplining these investors, as a means to expose and sterilize political motivations

(Kimmit 2008; Truman 2010).

These views have strongly influenced the development of the Santiago Principles[1], an international framework that seeks to standardize governance practices across SWFs. Bherendt (2009) praises the Principles, despite significant disparities in their implementation (see Mehrpouya et al. 2009), and predicts they will lead to a future where SWFs are "no longer feared as destabilizing and opaque investors, but 'sought after providers of capital". Others have been more critical of the Principles, noting the lack of flexibility for incorporating ethical considerations (Halvoresen 2010). Mehrpouya (2010) suggests there are different transparency logics and similarly, Gelpern (2011) questions the link between transparency promoted by the Principles and the accountability relationship to the host countries' citizens and authorities. Echoing this view, Ang (2012) suggests transparency is neither a necessary nor sufficient condition for legitimacy.

Many of those who believe the 'threat' to be overstated argue SWFs should be held to the same governance standards as other institutional investors (Avendaño and Sanisto, 2009; Dewenter et al., 2010; Anina and Mohan, 2009). For example, Avendano and Santiso (2009) find SWF investment patterns emulate U.S. mutual funds, leading them to conclude SWFs are financially motivated and therefore should not be subject to more rigourous governance standards. Knill et al. (2009) suggest SWF investment decisions are politically motivated, but the implications depend on the bilateral relationship between the SWF country and target country receiving the investment and level of openness of the target country, concluding that one-size fits all approaches to governance are not appropriate.

Yet all of these studies hold SWFs to a test of legitimacy measured by a market-based institutional logic. Those studies that perceive SWFs as a threat are concerned with domestic regulations and international standards to eliminate ambiguity associated with politically motivated investments, by attempting to condition their behaviour with transparency. Those that do not perceive SWFs as a threat are concerned with first measuring the level of uncertainty in SWF investment motivations, and presenting evidence that these funds invest on a purely financial basis. This second group does not necessarily view politically motivated investment as a threat, but it is considered a source of inefficiency for the fund itself and therefore, an indefensible position requiring more transparency to move toward more efficient investment allocations.

3.3 The Business Case

[1] Santiago Principles have been adopted by 26 funds, all members of the International Working Group on Sovereign Wealth Funds (IWG). The Principles are voluntary and aspirational. Available at: http://www.iwg-swf.org/pubs/gapplist.htm

Business case literature, which emphasizes the material impact of ESG factors empirically demonstrates that the incorporation of ESG factors can lead to superior performance over the long-term (Donald and Taylor 2008; Gompers, Ishii, and Metrick 2003; Orlitzky, Schmidt, and Rynes 2003). Further, large sovereign sponsored funds can generate material value by adopting an effective RI strategy, because it is the success of the economy (which is dependent on ESG factors) rather than individual corporations that is of consequence to these 'universal owners' (Hawley and Williams 2007). In this sense, financial markets have come to be recognized as important policy mechanisms for promoting sustainable economies and financial systems. The universal owner hypothesis continues to gain traction, evident by the $30 trillion committed under the UN Principles for Responsible Investment (PRI).

But the business case has largely been framed around the task of eliminating 'technical' ambiguity by attempting to translate ESG issues into financial risk/return equations and in doing so, assumes that economics can be separated from politics. Those ESG issues that cannot be divorced from their political context are, as a result, excluded from the investment process. For fiduciary investors, this exclusion is deemed necessary, as trustee performance is conditioned by a legal obligation to their beneficiaries and current legal interpretation of fiduciary duty is based on conventional investment practices (Woods 2011). While SWFs are not subject to fiduciary duty in a formal legal sense, the international community informally holds them to the same expectations as fiduciary investors (Clark and Monk 2010b).

This has lead to the idea of expanding the interpretation of fiduciary duty to accommodate a broader and more integrated range of ESG issues (Richardson 2009; Woods 2011). Some call for embedding the movement in ethics, arguing the business case can lead to giving preference to profitability over virtue and may actually result in delaying action (Richardson 2009; 2011). But as Clark and Monk (2010a) emphasize in the Norwegian case, this ethical basis can actually undermine its capacity to contribute to a sustainable economy. This is because political legitimacy may begin to erode as the viability of the fund is compromised in the face of an increasingly complex investment environment that requires expertise and due deference to financial imperatives. Therefore, a governance framework for RI must reconcile these competing yet interdependent financial and political imperatives.

3.4 SWFs and Political Legitimacy

As government-owned institutions, it is also possible to hold these investors to account by another source of legitimacy that gives weight to the democratic process - political legitimacy (Blackburn et al., 2009; Clark and Monk, 2010; 2011, Dixon and Monk, 2011; Keenan and Ochoa, 2010; and Richardson, 2011). For example, Blackburn et al. (2009)

consider various thresholds for determining when a SWF should be dissolved to meet other needs of its citizenry, such as reducing distortionary taxes, and they assign a significantly high discount rate to the future. Clark and Monk (2009), Woods and Urwin (2010) Bolton, Samama and Stiglitz (2012) and Clark and Knight (2011) conversely acknowledge the function of some SWFs to provide intergenerational equity and give consideration to longer-term investment horizon that requires the inclusion of non-financial factors (e.g. climate change) into investment decision-making.

But even within the studies that give credence to political legitimacy, there is deliberation over appropriate governance frameworks to manage SWF's political accountability. The Norwegian Fund's ethical investing is the most frequently referenced case. Chesterman (2007) cautions against the fund's deontological approach to ethical investment decision-making, arguing it can lead to unintended consequences. Clark and Monk (2011) and Backer (2010) note the paradox inflicted by dual objectives of financial imperatives and ethical criteria and warn of the potential for the fund to undermine itself if it misjudges what is required to meet both objectives. These criticisms are offset by more positive accounts of the fund's ethical criteria that suggest the Norwegian Fund's ethical investing is a model for other sovereign funds (Reiche, 2010; Halvorsesen, 2010).

A common attribute of studies that give weight to political legitimacy is that a degree of ambiguity in governance frameworks is permissible. For example, Woods and Urwin (2010) suggest mission clarity and investment beliefs can be used to introduce more *flexibility* into governance frameworks for sustainability. Gelpern (2011) focuses on the conflicting accountabilities of SWFs, noting a degree of *negotiability* is important. Nilsen (2010) recommends a governance framework on the basis of value-based discourse that allows for *self-reflexivity*. This approach attempts to manage intersubjective ambiguity, rather than eliminate it through appealing to overlapping consensus. While implicitly these studies are concerned with managing one or more forms of ambiguity (economic, politically contested and intersubjective), none of them explicitly frame their solution this way nor do they consider a governance framework for addressing all three forms.

By focusing explicitly on the presence and management of ambiguity and by addressing the key challenge of SWF governance as reconciling financial and political imperatives, this paper contributes to the development of a theory for RI governance for SWFs. The few studies on governance frameworks for RI (Woods and Urwin 2011; Hess 2005) focus on traditional fiduciary investors. Given the increasing influence of SWFs in the global economy, managing the unique challenges related to the various forms of ambiguity that arise is critical if these funds are to fulfill the role envisioned for them as catalysts for a more sustainable economy. The rest of the paper is dedicated to illustrating what managing ambiguity looks like in practice.

4. What do Norway and Alberta have in common?

In 2011, the AHSTF divested its portfolio from companies on the Norwegian GPF-G ethical exclusion list but did not adopt a commensurate governance framework, like the Norwegian fund, to manage the process (Calgary Herald 2011). This provides a unique opportunity to explore contrasting cases that share the same ethical screening strategy. The case study pays particular attention to the derivative relationship between organizational function and form (Clark and Monk 2010b), the tension between expertise and representation (Clark 2007; 2008) and the resource dependency of governance frameworks to interrogate how ambiguity manifests and its consequences for the two funds.

Before proceeding with case analysis, some attention is required to the issue of case selection. The Norwegian and Alberta funds do not exactly conjure up the image of a SWF for most. The typical narrative around SWFs casts them as pools of capital owned by autocratic regimes, such as Middle Eastern oil revenues or the consequence of development state policies of East Asian economies with bloated US foreign exchange reserves. Further, these funds are often portrayed as chasing political agendas in Western economies, inciting fears of state capitalism (Summers 2007). As a result, much of the attention around these funds has been on their function of staving off Dutch disease and their political motives.

This narrative serves to shade the SWFs that are owned by Western states from scrutiny, at least among their peers. SWFs are susceptible to ambiguity in the form of conflict, despite their political context in which they originate. For example, funds owned by Norway, Ireland, New Zealand and Australia all face challenges with political interference and conflicting demands among domestic constituents, while maintaining the legitimacy required to participate in global financial markets (e.g, Clark and Knight 2011; Clark and Monk 2011; Monk 2009). SWFs are also owned by subnational governments, such as provinces and states, yet these funds receive even less attention. Take for example Alberta, Alaska, Alabama, Wyoming and North Dakota (Rose 2011; Monk 2009). These state funds are susceptible to the same political pressures and temptations as nationally owned funds, and in some instances, are exposed to even more complex political dynamics given the federalist context in which they exist (see for example Rose 2010). SWFs in general have been difficult to study empirically, as they have low levels of transparency. Because western funds are significantly more transparent (Truman 2008; 2010), they offer a unique window into the SWF experience. By starting with investigation with Western funds, we can draw important lessons for the management of this ambiguity, which also has relevance for the more ‘typical’ SWFs, such as ADIA, Kuwait and CIC. In other words, ambiguity is not specific to democratic states, and the general principle of managing ambiguity is relevant for all SWFs, and arguably, all public investment funds.

Before taking up these questions, the case begins with an overview of the institutional forms and RI strategies of each fund, which will serve as a basis for analyzing ambiguity that is embedded by design in the funds. A more detailed account of each funds' institutional and legal structure is provided in *Appendix A.*

4.1 Norway:

Institutional and Legal Structure

The Norwegian fund was established by an *Act of the Government Petroleum Fund* in 1990 and in 2005, statutory changes were made and the fund was renamed the Norwegian Government Pension Fund-Global. Despite its name, the fund has no current pension liabilities. Since it began depositing revenue from oil royalties into the fund in 1996, approximately 90% of oil royalties that are directed to the fund have been reinvested in the Fund. The Minister of Finance is ultimately responsible for the $560 billion fund[2] and reports to Parliament. The Norwegian fund's regulations provide an accountable and transparent decision-making procedure (Truman 2010). However, the fund's investment decisions, which include decisions made by the Council on Ethics, are not subject to judicial review and as a result, this accountability is political rather than legal.

Ethical Investment

The Norwegian ethics criteria were established in 2004, upon release of the Graver Report.[3] The report is the result of extensive consultation with the Norwegian public and its recommendations successfully transcend partisan politics, gaining the support of all major political parties (Reiche, 2010). The fund's RI policy is integrated into its governance documents and investment management contracts (Ministry of Finance, 2010). The basis for the ethical criteria is overlapping consensus, where decisions are removed from the political process and form a consistent set of 'norms' of the Norwegian citizenry (Graver, 2003). The Council on Ethics was established in 2004 to manage the implementation of ethical criteria and while not a formal legal body, it follows a quasi-legal process. Justification for exclusions and outcomes are transparent to the public. Recommendations are made to the Minister of Finance, which are then communicated to the Norges Bank and its investment manager (NBIM) responsible for their implementation. NBIM also has a mandate to engage with corporations on ESG issues but contrary to the deontological motivation underpinning ethical screening, engagement is intended to manage long-term financial risks by influencing corporate behaviour (Clark and Monk 2010).

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[2] Monitor Group, July 2011

[3] Norwegian Ministry of Finance (2003) The Report from the Graver Committee available online: http://www.regjeringen.no/en/dep/fin/Selected-topics/the-government-pension-fund/responsible-investments/ The-Graver-Committee---documents/The-Graver-Committee-and-Ethical-Guideli.html?id=434926.

4.2 Alberta:

Legal and Institutional Structure

The Alberta Heritage Savings Trust Fund was established in 1976 by the Conservative government of Alberta. The most obvious institutional difference between the Norwegian and Alberta fund is that the latter is a subnational institution (sponsored by the provincial government). While there is general consensus for including subnational funds in this class of investors (see Monk 2011; IFSWF 2010), there are some unique features that set subnational funds apart from nationally sponsored SWFs (Rose 2011). For example, Alberta operates within a federal system, and while no direct transfer payments are made from its oil royalties to the federal government, the Government of Alberta has authority over setting the royalty rate[4] and in this sense, indirectly affects the amount of tax revenue available for the federal equalization program.[5]

Like the Norwegian fund, Alberta's fund is also held to a political rather than legal accountability, as the Minister of Finance is ultimately responsible for the now $15 billion fund. An additional layer of political accountability is added with the Standing Committee made up of nine Members of Legislative Assembly (MLAs) from all major provincial political parties. Income is transferred directly into a General Revenue Fund and used to fund provincial budget expenditures, although some is reserved for inflation proofing. In contrast to the Norwegian fund, the AHSTF has an independent investment manager, AIMCo, a crown corporation.

Ethical Investment

In contrast to the extensive review process and governance restructuring undertaken by the Norwegians to implement their ethical exclusion and screening, the AHSTF adopted a screening and exclusion strategy as a result of a motion proposed by two Liberal MLA members of the Standing Committee to divest the fund on the basis of the Norwegian ethical criteria. The recent lawsuit that is being launched against the tobacco industry by the Government of Alberta was also cited as a reason for divesting from tobacco stocks (Calgary Herald, 2011). Despite the exclusion of other companies deemed 'unethical' by the Norwegian exclusion criteria, tobacco is the only exclusion that appears in the funds investment policy. There is no evidence that the fund dedicates any resources to

[4] Alberta has one of the lowest royalty rates in the world (GAO 2006). In 2007, changes were made to the province's oil royalty raising cash-flow tax -tax was 1% pre-payout period (before profit) and a sliding scale post-payout period depending on oil prices rather than a fixed rate.

[5] Revenues from oil are accounted for in the federal government's calculation of equalization and means that income and corporate taxes collected from Alberta population are redistributed to other provinces.

establishing ethical criteria. There is also no evidence that the fund engages with corporations on ESG issues.

5. Causes, Consequences and Management of Ambiguity

In the absence of an existing theory for RI governance, it is instructive to consider empirical examples of how different forms of ambiguity manifest in different institutional organizational forms to understand how it can be better managed under an RI strategy. The section below highlights examples of ambiguity in the two funds and provides an initial consideration for how such ambiguities could be managed to benefit the respective institutions.

5.1 Technical Ambiguity and Flexibility

Conventional fiduciary duty seeks to eliminate technical ambiguities associated with investment decision-making, but as Woods (2011) and Clark (2011) illustrate, the application of fiduciary duty in practice is prone to contestation and a variety of interpretations, rendering the legal construct inept in the absence of supporting statues and regulations. Institutional flexibility is instrumental for effective implementation of sustainable investing, given the challenges associated with changing financial, material and policy environments. Clarity of mission and investment beliefs are particularly valuable instruments for integrating such flexibility (Woods and Urwin, 2010). While SWFs are not formally held to account by fiduciary duty, the expectation imposed by the international community for these funds to adhere to strict market based logic raises similar issues.

The AHSTF has a commitment to intergenerational equity and arguably this requires the incorporation of environmental and social factors that have material impact on long-term equity premium (see Clark & Knight, 2011). Yet the only mention of ESG considerations in the fund's governance documents is related to tobacco divestment and this arises from concern with consistency of the province's current law suit against the tobacco industry, rather than an expression of its long-term investment commitment. Second, as the fund continues to make ad hoc divestment decisions related to ethical issues, it exposes itself to the risk of undermining its own domestic legitimacy. This is because as the issue continues to receive media coverage, the fund may face increased public scrutiny, which may provide the impetus for establishing governance to accommodate such an RI strategy. It is also possible that Alberta citizenry will be satisfied with ethical screening on the basis of Norwegian values and any debate will be overshadowed by broader issues related to the fund's purpose, which is currently disputed (see Mintz 2009).

The AHSTF makes reference to being a 'long-term investor' in its investment beliefs, but there are no other references to the consequences of holding such a belief. The Fund expresses its belief that active management is 'a source of risk mitigation' but does not include reference to ESG considerations in active ownership practices. The rest of the Fund's investment beliefs resemble those of a conventional fiduciary investor. Since the AHSTF transfers revenue generated from investment to a general revenue fund used to fund provincial budget expenditures, it is possible to compare the AHSTF to a fiduciary investor concerned with matching assets to liabilities (i.e. provincial budget expenditures). However, a government budget is dependent on political interests, rather than strict actuarial equations that determine traditional liabilities of pensioners. The AHSTF is therefore exposed to another source of ambiguity arising from political contestation that influence the fund's risk and return profile.

While Norway's mission "to safeguard and build financial wealth for future generations" is ambiguous like that of AHSTF, the ambiguity is managed through the provision of clearly articulated investment beliefs. Norway's belief in a long-term premium is strongly integrated into its governance institutions. The governance of the fund is flexible in the sense that it has objectives related to ESG and these are communicated between all actors in the investment value chain and its stakeholders. However, Clark and Monk (2010) suggest that the Norwegian fund may suffer from a different form of inflexibility resulting from entrenchment of investment decisions in bureaucracy "in the face of changing global financial circumstances and the increasing premium on distinguishing the types of decisions according to their timeliness, resource- intensiveness and reliance upon expertise" (pp2).

5.2 Contested Ambiguity and Negotiability

The relationship between the fund sponsor and the investment manager rests on the intersection of SWF's market based and political institutional logics (see Greenwood et al. 2011), making the governance of this relationship particularly challenging. Introducing a degree of negotiability into this relationship can contribute to the management of competing dimensions of accountability required to participate in global financial markets while also maintaining domestic legitimacy. In the context of the international political economy, clear authority and the creation of politically neutral institutions can be conceived as instrumental for eliminating politically contested sources of ambiguity, but as Best (2005) argues, this relies on continued maintenance of the authority and respective institution's power, in relation to its alternatives. The parallel of this for internal governance frameworks of institutional investors is the full delegation of investment decision-making to expertise through granting investment managers autonomy. But as Clark and Monk (2010) suggest, this can be detrimental to social cohesion and the fund's political legitimacy. However, a symmetrical relationship between sponsor and investment manager (see Clark and Monk 2011) may not be the most efficient form of negotiability required to navigate complex matrix of accountabilities.

The AHSTF delegates its investment decision-making to its investment manager AIMCo (see Clark 2007, for discussion on deference and delegation). This delegation extends to the fund's proxy voting and active ownership practices. The Minister is responsible for the investment policy and the investment manager has autonomy to make decisions within these parameters. While autonomy is granted to the investment manager, political influence is still capable of subverting decision-making. For example, at a Steering Committee meeting a Liberal Party MLA member of the committee proposed a motion to apply Norwegian ethical screening criteria to the Alberta Fund. While it was determined by the Chair of the Committee to be outside the mandate to propose such a motion, discussion on the issue ensued. At the subsequent meeting, two Liberal committee members congratulated AIMCo for divesting the fund from a series of stocks Norway has deemed unethical. The CEO commented:

> "the reason I divested of the things that were mentioned in the heritage fund meeting last time (refers to Norwegian ethical criteria), altogether amounting to something like $20 million I didn't do it particularly because I agreed with the assessment of what was ethical, but if I spend 5% of my time on .001 percent of assets, that's not a good use of AIMCo time or AIMCo management time".[6]

The relationship between sovereign sponsor and investment manager is more symmetrical in the case of Norway's fund. There is a new mandate in place issued by the Ministry for the investment managers, which includes requirements for the fund's investments with respect to its RI policy and contributes to a clearer division of roles and responsibilities. However, the relationship between sponsor and manger is embedded within the bureaucracy, and representation is given precedence over expertise. Further, the relationship between the NBIM and the Council on Ethics may require an additional layer of governance to manage conflicting mandates. This is because exclusion undermines the corporate engagement function (Clark and Monk 2010; Nilsen, 2010) as the threat of divestment can be conceived as a form of corporate engagement itself (Hebb 2008). In other words, when the Council makes the recommendation to exclude a company, the potential to change behaviour of the firm through engagement is compromised. But governance requires the dedication of significant resources, time and public commitment. Given the fund's legal structure, negotiability of the fund requires formal processes and significant degree of oversight. But as complexity continues to increase under its RI mandate (given the fund's increasing public equity allocation), the costs of maintaining a symmetrical relationship may become too high to justify, signaling the need to adopt more efficient forms of negotiability.

[6] AHSTF Standing Committee transcripts available online at: http://www.assembly.ab.ca/committees/abheritagetrustfund/index.html

5.3 Intersubjective Ambiguity and Self-reflexivity

A third source of ambiguity arises from intersubjectivity; norms and principles are taken for granted and in absence of a mechanism for addressing consequences of their entrenchment, they can contribute to inertia. In particular, the tension created by the residual of these norms between different actors can prevent the effective implementation of RI strategies. This is further complicated by the international finance community, which imposes its own set of norms and rules on these institutions (see Monk, 2011). With bureaucracy, politicians, professional investment managers all having a hand in the investment activities of SWFs, the 'principal-agent' challenge that afflicts fiduciary investors (see Gillan and Starks 2007; Jensen and Meckling 1976) becomes more acute among SWFs. To illustrate, the culture of risk aversion embedded in bureaucracy starkly contrasts with the risk-taking culture in the investment industry. This disconnect between different actors in the investment value chain can be problematic for effectively implementing an RI strategy and there are significant costs associated with monitoring required to overcome conflict between these actors (see Jensen and Meckling 1976). As an alternative to expensive monitoring costs, particularly once an RI strategy is introduced, *self-reflexivity* can be critical for creating more adaptive governance frameworks and can ultimately contribute to overcoming ambiguity related to conflict.

The Norwegian Fund is a UN PRI signatory and its commitment is reflected throughout its governance documents. While the fund has a high degree of public openness and transparency (92% on the Truman scoreboard) and mechanisms for stakeholder consultations and norms, this transparency is not the same as the *self-reflexivity* needed to implement an effective RI strategy. For example, climate change mitigation is excluded from Norway's investment criteria (Nilsen, 2010) on the basis of a lack of overlapping consensus. Isolated incidents such as severe environmental damage are incorporated in its RI mandate, but climate change is result of the accumulation of incremental incidents (see Richardson 2011). Overlapping consensus takes significant time to achieve, resulting in the sustained omission of these integrated issues. If the Norwegian system were more self-reflexive, arguably it would be more adept to recognizing these interconnected patterns.

The AHSTF does not have a forum for reflecting on decisions regarding screening and the consequences of acting on these norms, although arguably, given the novelty of its ethical screening, it is too soon to pass judgment. Currently, divestment has been based on the belief that if an investment is unethical for Norway, then it is unethical for Alberta. However, there is no indication as to how the AHSTF might deal with future investment decisions related to ethical issues. This necessitates a broader consideration for the on-going public policy debate among the Government and Alberta citizenry regarding the purpose of the fund. A public survey conducted in 2003 revealed that Albertans are divided on several issues related to the management and purpose of the fund. Leadership from political sponsors may be a prerequisite for an effective RI governance framework. Recent conflict over the Mackenzie pipeline with the province of British Columbia has revived this public debate.

6. Conclusion

The paper has argued that if effectively managed, ambiguity can be a constructive basis for reconciling competing dimensions of accountability that confront sovereign sponsored funds. Further, if supported by a governance framework that internalizes ambiguity in the form of *flexibility, negotiability and self-reflexivity*, RI can be part of the solution to the challenges these hybrid funds face.

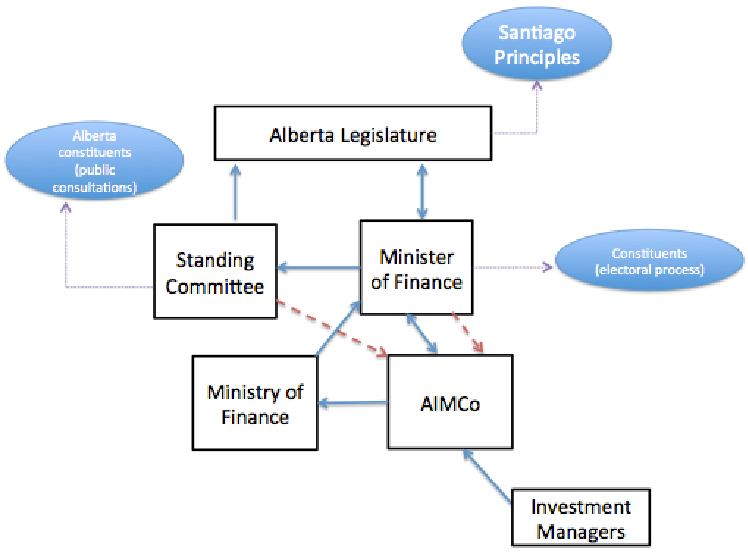
Institutional *flexibility* can accommodate technical issues that arise with respect to aligning RI with fiduciary duty. This is important, because while SWFs are not subject to fiduciary duty, they are often held to similar or even higher standards as fiduciary investors. *Negotiability* can be constructive for managing the complex relationship between sponsor and the institution, recognizing that SWFs are subject to political legitimacy as well as functional legitimacy, often requiring decision-making respectful of the democratic process while being cognizant of attendant costs in a fast-paced investment environment. *Self reflexivity* can overcome challenges of inertia resulting from embedded norms, through facilitating the incorporation of new ideas and learning required to make connections between temporally and spatially isolated events.

At its most ambitious level, this research suggests that the logic of 'pension fund capitalism' set out by Clark and Hebb (2004) extends to sovereign sponsored funds. But instead of aggregating interests of beneficiaries, SWFs are tasked with negotiating competing dimensions of accountability, requiring a broader political-economic theorization of their emergence and the geographical shifts in global finance they have set in motion.

While arguably increased adoption and implementation of RI would lead to a more sustainable economy, convergence of governance frameworks and RI strategies is not necessarily desirable, because "by framing the task of governance in terms of convergence, we tend to downplay the importance of a healthy degree of political-economic diversity" (Best 2005, pp. 29). RI strategies and commensurate governance frameworks of public institutional investors must reflect the democratic process of their sovereign sponsor, while remaining acutely attentive to efficiency, and effectively managed ambiguity is instrumental for the achievement of this goal.

Appendix A

Alberta Heritage Savings Trust Fund



History and Mandate:
The Fund was established in 1976 by the Conservative Government through an Act of Parliament to invest the revenue from Alberta's oil revenue and serve as a 'rainy day' fund. The Mandate has since been revised: "to provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans". Revenue from investment is deposited in the 'General Revenue Fund', after inflation proofing, which is used for health care, education and other community services and allows Alberta to have the lowest provincial tax rate in Canada. In total, as of 2011, $33 billion had been transferred to GRF (Annual Report 2011).

In 2007, a panel conducted a review extending the GAO report released in the US, which found that Alberta and the US were receiving the lowest amount in royalties in the world. "Our Fair Share' report released in 2007, confirmed GAO findings and 'an absence of accountability, province had failed to accurately measure production data over time, failed to review royalty regimes in an open manner and the province was failing to collect $2 billion a year in revenue.

Investment Profile:
Current Asset allocation: 50% equities, 23% fixed income and 23.7% in alternative assets (Timberland in BC and Australia). In 2010, the fund's investment target was set at 4.5%. The fund is valued at approximately $15 billion. The fund currently allocates 30% of its oil and gas royalties but in 1987 stopped allocations completely. The fund did not begin to inflation proof and resume contributions to the fund until 2005.

Legal Structure

There is no legal requirement for Alberta to make contributions to the fund. (No deposits were made in 2008-2011). In 1997 the legislation changed to prohibit the fund from investing for social or economic development purposes. Extensive changes were made to the investment mandate, including legislation for the heritage fund and improved governance structure and selling investments that had been made for other than financial reasons. The fund is managed on similar basis as an endowment fund.

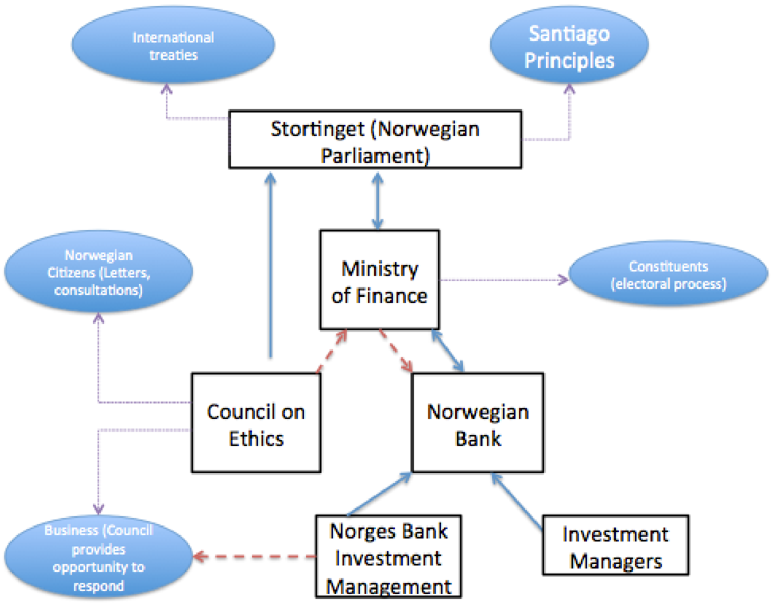
Governance

The fund's investment manager is AIMCo an independent investment crown corporation established in 2008. Before 2008, investment management was internal function of the Finance Department. The Finance Minister responsible for investment decisions, (Department of Finance develops SIP and research and analysis of asset allocation and risk management). Delegates managements of investments to AIMCo. In 2009, the CEO earned $2.1 million (includes a $1million signing bonus).AIMCo pays competitive rates, based on comparable Canadian Pension fund managers. The Board is appointed by the Minister of Finance. In order to be appointed to the Board, a Director must have "demonstrated experience in investment management, finance, law or served as an executive with a large, publicly traded company". The Minister of Finance is responsible for investment decision-making. In 1997, Alberta Heritage Savings Fund Trust Act, which created the standing committee and inflation proofing. The standing committee is responsible for approval of business plan, investment allocation, etc. It consists of nine Members of Legislative Assembly, three of which must be opposition party members. *Force Majeure:* The fund could be dissolved by act of parliament and used to pay off debt, which was considered in the 1990's.

Responsible Investing:

AIMCo is a signatory to the UNPRI, but the AHSTF is not. The Fund or any portion of the Fund cannot directly hold investments of companies in the tobacco industry (2011 SIP). Proxy voting policies are used to support good governance and appropriate management practices. The Province obtains voting rights for the securities held and will act in the best interests of the Fund. The Minister has delegated to the Investment Manager the responsibility to vote proxies "in a prudent manner in order to enhance the Fund's investment returns".

Norwegian Government Pension Fund-Global



History and Mandate

The Norwegian Fund was established in 1990 to invest revenue from oil extraction in the North Sea. The fund is required to transfer capital from the government's petroleum revenue to the investment fund. The fund's purpose is to support the Government's long-term management of petroleum revenue. In 2006, the fund was renamed the Norwegian Government Pension Fund-Global, accompanying statutory changes, but it should not be confused with a pension fund with traditional liabilities. Since it began depositing revenue the fund in 1996, approximately 90% of oil revenues that are directed to the fund are reinvested in the Fund. The fund's mission is to "safeguard and build wealth for the future". In 2007, mandate was issued from the Minister to increase equity investments in its portfolio from 40% to 60%. The total value of the fund is estimated over $560 billion (Monitor July 2011).

Investment Profile

The NGPF-G raised its equity ratio in 2007 and up until 1997, the fund was wholly invested in government bonds. The fund cannot own more than 10% of a company equity holdings and 5% portfolio to real estate. The fund now has approximately 60% equities and 40% fixed assets and made its first real-estate investment in 2010 after a mandate issued from the Ministry of Finance.

Legal Structure

The GPF-G was established by an Act of the Government Petroleum Fund. The Minister of Finance is ultimately responsible (owner) for the fund and the fund is incorporated into the state budget. Government withdrawal requires a parliamentary vote. While public does not have formal mechanism for direct influence over decision-making of the fund, the fund is required to inform the public about its investment decisions and the public can exercise their democratic process.

Governance
In 2009, the CEO of the Norwegian Bank Investment Management made $500,000.

Responsible Investing
The fund has ethical screening criteria (2004) and the mandate to divest on the basis of *complicity* with the state's international commitments. The fund publishes its exclusion list and rationale on its website. The Ministry of Finance establishes the ethical guidelines and the Council on Ethics is responsible for making recommendations to the Minister and the fund's investment manager (NBIM) implements recommendations. The fund has an RI policy (2004). UNPRI signatory. The Council makes recommendations to the Minister regarding exclusion.

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