William Michael Cunningham
Economist and Social Investing Advisor

We understand that “the (Norwegian) Ministry of Finance has circulated (a) report from the Expert Group on the Government Pension Fund Global’s investments in coal and petroleum companies for a public hearing amongst Norwegian stakeholders. The Expert Group has evaluated whether the exclusion of coal and petroleum companies is a more effective strategy for addressing climate issues than the exercise of ownership and exertion of influence.”

These comments, submitted by William Michael Cunningham and Creative Investment Research, Inc., reference certain information and text from the response authored by the Network for Sustainable Financial Markets (NSFM). I do not speak for this group. I am, however, a NSFM Participant.

While not a citizen, I believe I have expertise borne of experience that may be helpful. Further, we respectfully remind the Ministry that “All men are caught in an inescapable network of mutuality, tied in a single garment of destiny. Whatever affects one directly, affects all indirectly.” This is certainly true with respect to the subject matter at issue here.

Summary

I agree with NSFM and “appreciate the on-going ESG investing activities of Norway’s Government Pension Fund Global (GPFG), and (am) in general agreement with the recommendations of the expert group regarding how active ownership can be best employed by the fund.” My comments cite proprietary research we have conducted over the years, however, and references our activities in support of strong marketplace ethics.

Background

William Michael Cunningham manages an investment advisory and research firm, Creative Investment Research, Inc. The firm researches and creates socially responsible investments and provides socially responsible investment advisory services.

Creative Investment Research, Incorporated is an independent investment research and management firm, founded in 1989. For clients, our services save millions, if not billions: on December 22, 2003 and February 6, 2006, we warned the S.E.C. and other regulators that statistical models using the proprietary Fully Adjusted Return® Methodology signaled the probability of system-wide economic and market failure (see below). Clients who heeded our warning adjusted their investment portfolios in a manner that allowed them to escape much of the damage caused by the crisis. The firm was formerly in the pool of Corporate Governance Advisors and Diversity Investing Advisors to CalPERS.

Mr. Cunningham is a Global Member of ISOC, the Internet Society (ISOC), a Public Member of W3C, the World Wide Web Consortium, and an Invited Expert Member in the eGovernment Group of the W3C. On November 16, 1995, he launched one of the first investment advisor websites at www.ari.net/cirm (now www.creativeinvest.com).

Track Record

On July 3, 1993, Mr. Cunningham wrote to US Securities and Exchange Commissioner (SEC) Mary Schapiro to notify the Commission about a specific investing scam, the "Nigerian letter scam." A timely warning was not issued to the investing public, members of the public were damaged, and the SEC launched retaliatory regulatory actions *against* Mr. Cunningham.

He designed the first mortgage security backed by home mortgage loans to low and moderate income persons and originated by minority-owned institutions. (See: Security Backed Exclusively by Minority Loans, *The American Banker Newspaper*. Friday, December 2, 1994.)

Mr. Cunningham opposed the application, approved by the Federal Reserve Board on September 23, 1998, by Travelers Group Inc., New York, New York, to become a bank holding company. In October 1998, in a petition to the United States Court of Appeals (Case Number 98-1459) concerning the Travelers Group Inc./Citicorp merger, Mr. Cunningham cited evidence that growing financial market malfeasance greatly exacerbated risks in financial markets, reducing the safety and soundness of large financial institutions.

From October 1999 to March 2002, Mr. Cunningham was responsible for proxy voting activity for the Board of Pensions of the Evangelical Lutheran Church in America. In 2001, he voted on 1395 issues impacting 401 companies. In 2000, he voted on 1903 issues impacting 422 companies. We managed fund efforts and corporate governance matters related to Talisman Energy and its' operations in the Sudan. We researched the issue, contacting various groups involved in the process. For the fund, our efforts also included researching fund policies and procedures. Our collaborative, risk controlled strategy helped lead the firm out of the Sudan. On February 1, 2000, Mr. Cunningham wrote to the office of U.S. Senator Samuel Brownback (R-KS) urging him to encourage pension funds to divest from the Sudan.

On June 15, 2000, Mr. Cunningham testified before the Financial Services Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises (GSE's) of the U.S. House of Representatives and suggested that GSEs Fannie Mae and Freddie Mac be subject to a *Social Audit.* A social audit is an examination of the performance of an enterprise relative to certain social return objectives. It includes a review of ethical practices. Had the GSE's been subject to this audit, certain flaws in their operation, including ethical shortcomings, would have been revealed earlier, in a better market in which to make corrections.

In 2001, Mr. Cunningham participated in the first wide scale home mortgage loan modification project. The Minneapolis-based effort helped 50 families victimized by predatory lending practices. See: Property Flipping Remediation Yields Investment-grade Security.

On December 22, 2003, we warned US regulators that statistical models created by the firm using the proprietary Fully Adjusted Return® Methodology signaled the probability of system-wide economic and market failure See Page 6.

In 2005, Mr. Cunningham served as an expert witness in a case that sought to hold Credit Suisse First Boston, Fairbanks/SPS, Moody's and Standard and Poor's, US National Bank Association, and other parties legally responsible for supporting and facilitating fraudulent subprime lending market activities. ***Had this single case been successful, we believe the credit crisis would have been less severe.***

On December 22, 2005, he issued a strongly worded warning that system-wide economic and market failure was a growing possibility in a meeting at the SEC with Ms. Elaine M. Hartmann of the Division of Market Regulation.

On February 6, 2006, we again warned regulators that statistical models we created using the proprietary Fully Adjusted Return® Methodology confirmed that system-wide economic and market failure was a growing possibility. We stated that: *Without meaningful reform there is a small, but significant and growing, risk that our (market) system will simply cease functioning.* This is, of course, exactly what happened. See pages 2 and 8.

On December 9, 2013, Mr. Cunningham filed a "Friend of the Court" brief in the United States District Court, Central District of California in a case concerning an action that the U.S. Department of Justice, acting on behalf of the United States of America (Plaintiff), brought against McGraw-Hill Companies, Inc., and Standard & Poor's Financial Services LLC, et. al., (Defendants) under 12 U.S.C. § 1833a; 18 U.S.C. §§ 1341, 1343 & 1344. Our comments led to a significant change in enforcement strategy, including the first ever, albeit temporary, rating firm suspension.

Comments on the proposal

We agree with NSFM that:

1. "GPFG could invest far more in environmentally beneficial investments.

2. "Exclusion and engagement undertaken by GPFG could significantly reduce the effects of climate change." As noted above, we, along with others, were effective in moving firms to action on the Sudan.

3. "A more focused effort would call on investee companies to stop lobbying against climate change measures, both directly and via trade associations and think tanks. Specifically, since corporate political

info@creativeinvest.com
www.creativeinvest.com

capture is arguably the most detrimental factor contributing to the malfunction of financial markets , GPFG should use its leadership status to help insure issuer transparency around lobbying and political contributions. Such disclosures will enhance the ability of GPFG and its asset managers to identify and evaluate issuers' contribution to solutions or conversely, their maintenance of political gridlock, thus building upon the aforementioned ability to accurately evaluate issuers' ESG performance."

This is particularly important. As the market value of environmental factors continues to grow, companies and investment managers will engage in fraudulent practices related to these factors. These practices will range from simple falsification of environmental and financial records to more sophisticated, but no less fraudulent methods related to "environmental ratings." We remind the Fund that unethical practices have flourished in capital market institutions, propelling ethical standards of behavior downward. Thus, unethical behavior has become standard in the financial services marketplace. This behavior has also become prevalent in the oil and gas industry and refer the fund to the following:

"On 13 August 2013, the oil and gas industry in Indonesia was shaken again. Following hard on the heels of the Constitutional Court's decision in late 2012 to disband BPMIGAS (Indonesia's upstream oil and gas regulator responsible for handling production sharing contracts), Rudi Rubiandini, Chairman of the Oil and Gas Special Task Force (SKKMIGAS) – the institution that replaced BPMIGAS – was arrested at his home. He was arrested by Indonesia's Corruption Eradication Commission (KPK) over a case involving gratification and potentially bribery. Rubiandini had apparently been caught red-handed accepting US$700,000 from Simon Gunawan Tanjaya, an executive of Kernel Oil, a Singapore oil trading firm."
http://www.nortonrosefulbright.com/knowledge/publications/113978/corruption-scandal-shakes-indonesias-oil-and-gas-industry

"BP found 'grossly negligent' in Gulf of Mexico oil spill."
http://www.neworleanssun.com/index.php/sid/225407625

"Shell is pushed to explain its role in $1.1bn Nigerian corruption scandal."
http://www.theguardian.com/sustainable-business/shell-nigeria-oil-payment-corruption-scandal

This is a cursory review. We expect a more thorough review, beyond the scope of this comment, to reveal even more ethically suspect behavior.

Environmental Issues and Stock Returns

Our research supports NSFM's contention that "there is no contradiction between the financial goals of the fund and an objective of influencing climate policy."

Using data from both old and new sources, Creative Investment Research, Inc. explored and quantified the impact environmental factors have on stock prices using several statistical techniques.

Our research is structured into two parts. In the first, we specify three standard market models and test the hypothesis that environmental factors do, in fact, impact equity prices.

In the second part, we examine the impact of a major environmental incident on stock prices, using new data sources and with the assistance of the equity market models specified in phase one.

We created three portfolios based on a ranking of environmental impact forecasts and preparations, as outlined below. The first portfolio returned -21.974% from March 10, 2011 to August 10, 2011. This portfolio consisted of firms with an environmental impact forecast who were well prepared for an environmental incident. The second portfolio consisted of firms with an environmental impact forecast who were marginally prepared for an environmental incident. Returns were +30.686% from March 10, 2011 to August 10, 2011. The final portfolio consisted of firms without an environmental impact forecast who were not prepared for an environmental incident. Returns were -24.036% from March 10, 2011 to August 10, 2011.

Our analysis strongly suggests that investors and publicly traded companies must recognize the impact environmental incidents and issues have on a given firm's ability to use company assets and therefore generate revenue and profits.

We look forward to reviewing your continuing efforts to carry out your mission. We appreciate the time and effort devoted to this task. Thank you for your leadership.

Please contact me with any questions or comments.

Sincerely,

/William Michael Cunningham/

William Michael Cunningham
Social Investing Adviser for William Michael Cunningham and Creative Investment Research, Inc.