



NORGES BANK
INVESTMENT MANAGEMENT

THE NORWEGIAN FINANCE INITIATIVE (NFI)

Annual report 2015

Contents

1. The Norwegian Finance Initiative	3
1.1 Overview	3
2. Activities under established NFI programmes	4
2.1 Programmes targeting faculty	4
2.1.1 Publication Bonus	4
2.1.2 Co-Financing of Senior Professorships	5
2.1.3 Co-Financing of Junior Professorships	6
2.1.4 Visiting Scholar	6
2.2 Programmes targeting students	7
2.2.1 PhD Scholarship	7
2.2.2 Master`s Thesis Award	7
2.2.3 Summer School	8
2.2.4 Junior Researcher	9
2.3 Other programmes	9
2.3.1 Annual Research Conference	9
2.3.2 Lecture Series	9
2.3.3 Co-Financing of Conferences	10
2.3.4 Research Programme	10
3. Annual Review	11
3.1 Changes to programmes targeting finance faculty	11
3.2 Changes to programmes targeting students	11
3.3 Changes to other programmes	12

1. The Norwegian Finance Initiative

1.1 Overview

The Executive Board of Norges Bank established the Norwegian Finance Initiative (NFI) on October 13, 2010. The purpose of the NFI is to strengthen research and education in financial economics in Norway, and facilitate for research of the highest academic standard in areas of particular relevance for the long-term management of the Government Pension Fund Global (GPFG). The responsibility for the management of the NFI is delegated to the CEO of NBIM.

The NFI Scientific Advisory Board is an independent committee of internationally renowned professors in financial economics, who supports the NFI by providing independent recommendations on academic and scientific matters. During 2015, the Board composition changed. Per Strömberg, Stockholm School of Economics, and Richard Green, Tepper School of Business at Carnegie Mellon University, stepped down from the Board. Annette Vissing-Jørgensen, Haas School of Business at the University of California, Berkeley, replaced Rick Green as chair, and was joined by two new members; Laura Starks, McCombs School of Business at The University of Texas at Austin, and Thierry Foucault, HEC Paris.

The aim of the NFI is to provide clear and predictable incentives (NFI programmes) that will lead to structural improvements. Currently, we have 12 NFI programmes.

- **Programmes targeting finance faculty**
 - Publication bonus
 - Co-financing of Senior Professorships
 - Visiting Scholar
 - Co-financing of Junior Professorships
- **Programmes targeting students**
 - PhD Scholarship
 - Master's Thesis Award
 - Summer School
 - Junior Researcher
- **Other NFI programmes**
 - Annual Research Conference
 - Lecture Series
 - Co-financing of Conferences
 - Research Programme

This report provides an overview of NFI activities during 2015 and summarise the changes to the existing programmes following the 2015 annual review.

2. Activities under established NFI programmes

2.1 Programmes targeting faculty

2.1.1 Publication Bonus

The Publication Bonus Programme was established by NBIM management on December 21, 2011.

The NFI Publication Bonus is an incentive for outstanding research in financial economics by faculty members at academic institutions in Norway.

The Publication Bonus Programme is a two-tier system. The bonus is up to NOK 400 000 per author per publication in first tier journals and up to NOK 150 000 per author per publication in second tier journals. If a publication has more than one author, the bonus will normally be distributed evenly among the authors, as follows:

- NOK 200 000 + NOK 200 000 divided between the number of authors for first-tier journals, and
- NOK 75 000 + NOK 75 000 divided between the number of authors for second-tier journals

Authors must have an academic institution in Norway as their primary place of work, and have this institution as the primary affiliation cited in the printed article, beside from NBER and CEPR, to be eligible. Co-authors from institutions outside Norway are not eligible for the publication bonus, and their share of the bonus is not paid out.

The bonus for publications in first-tier journals is paid in three equal, annual instalments. The bonus for publications in second-tier journals is paid in two equal, annual payments. Each payment is conditional on authors continue to have their primary place of work at an academic institution in Norway.

Eligible academic journals as of January 2016:

Eligible first-tier finance journals:

- *Journal of Finance*
- *Review of Financial Studies*
- *Journal of Financial Economics*

Eligible first-tier economics journals:

- *Econometrica*
- *Journal of Political Economy*
- *American Economic Review*
- *Quarterly Journal of Economics*
- *Review of Economic Studies*

Eligible second-tier finance journals:

- *Review of Finance*
- *Journal of Financial and Quantitative Analysis*
- *Journal of Financial Intermediation*

Eligible second-tier economics journals:

- *Journal of Monetary Economics*
- *Journal of Economic Theory*
- *Journal of Business and Economic Statistics*

2015- activities:

We received and approved eight publication bonuses during 2015, five for publications in first-tier journals and three for publications in second-tier journals. This is the highest number of awarded bonuses in a calendar year to date.

- Hans Hvide (UiB) was awarded a bonus for the article “Social Interaction at Work” in the *Journal of Financial Economics*. The article is co-authored by Per Östberg.
- Richard Priestley (BI) was awarded a bonus for the article “The Expected Returns and Valuations of Private and Public Firms” in the *Journal of Financial Economics*. The article is co-authored by Ilan Cooper.
- Ilan Cooper (BI) was awarded a bonus for the article “The Expected Returns and Valuations of Private and Public Firms” in the *Journal of Financial Economics*. The article is co-authored by Richard Priestley.
- Charlotte Østergaard (BI) was awarded a bonus for the article “Social Capital and Viability of Stakeholder-Oriented Firms: Evidence from Savings Banks” in the *Review of Finance*. The article is co-authored by Ibolya Schindele and Bent Vale.
- Ibolya Schindele (BI) was awarded a bonus for the article “Social Capital and Viability of Stakeholder-Oriented Firms: Evidence from Savings Banks” in the *Review of Finance*. The article is co-authored by Charlotte Østergaard and Bent Vale.
- Karin Thorburn (NHH) was awarded a bonus for the article “How costly is corporate bankruptcy for the CEO?” in the *Journal of Financial Economics*. The article is co-authored by B. Espen Eckbo and Wei Wang.
- Paul Ehling (BI) was awarded a bonus for the article “Complete and incomplete financial markets in multi-good economies”, in the *Journal of Economic Theory*. The article was co-authored by Christian Heyerdahl-Larsen.
- Nils Friewald (NHH) was awarded a bonus for the article “Secondary Market Liquidity and Security Design: Theory and Evidence from ABS Markets” in the *Review of Financial Studies*. The article is co-authored by Christopher A. Hennessy and Rainer Jankowitsch.

2.1.2 Co-Financing of Senior Professorships

The Co-financing of Senior Professorships Programme was established by NBIM management on December 21, 2011.

The NFI Programme for Co-financing of Senior Professorships strengthens the ability of academic institutions in Norway to recruit senior staff in the highly competitive, international market. It is designed to provide individual new recruits with incentives for continued excellence in research and teaching in financial economics.

The NFI funding may cover up to 50% of the host academic institution’s documented costs for the new senior professorship. The NFI funding is limited to NOK 1 500 000 per academic year. The co-financing agreement is entered into for a five-year period with the option of renewal at the end of the five-year period. The NFI funding is conditional on the professor maintaining at least a normal teaching load at academic institutions in Norway.

We currently sponsor one senior professorship.

2015- Activities

- Application from BI to co-finance Samuli Knüpfer was approved. Knüpfer accepted the offer, and started at BI in June 2015. The co-financing was entered into for a period of five years, with an option of renewal.
- One application from BI was not approved, as the candidate did not fulfil the eligibility criteria.
- Application from NHH was approved, but the candidate turned down the offer.

2.1.3 Co-Financing of Junior Professorships

The Co-financing of Junior Professorships Programme was established by NBIM management on December 17, 2012.

The NFI Programme for Co-financing of Junior Professorships strengthens the ability of academic institutions in Norway to recruit academics with high potential for excellence in research and teaching in financial economics.

The NFI may provide NOK 250 000 per academic year for a full-time position. In addition, the NFI may cover documented social costs incurred by the institution on the NFI salary contribution. Eligible candidates must have a documented job offer from a top-ranked academic institution outside of Norway. The NFI funding is not contingent on matching funding from the host institution.

We currently have no sponsored NFI junior professorships.

Activities 2015

- One application from BI was not approved, as the candidate did not have a competing offer from an institution outside of Norway.
- One application from BI was approved, but the candidate declined the offer, and accepted an offer from a competing institution outside of Norway.
- One application from NHH was approved, but the candidate declined the offer, and accepted an offer from a competing institution outside of Norway.

2.1.4 Visiting Scholar

The NFI Visiting Scholar Programme was established by NBIM management on March 13, 2012.

The NFI Visiting Scholar Programme has been established to strengthen the ability of academic institutions in Norway to attract scholars in financial economics of high international standing for visiting positions for periods ranging from two months to one year.

For visiting scholars on paid sabbatical leave from their home institution, the NFI may cover up to 75% of documented costs, limited to NOK 1 000 000 for a full academic year of nine months. For visiting scholars on unpaid leave from their home institution, the NFI may cover up to 75% of documented costs, limited to NOK 1 500 000 for a full academic year of nine months, aiming at matching the visiting scholar's base salary at the home university adjusted for differences in teaching load. For shorter visits of two to three months, an additional top up of 20 % may be added to the co-financing.

2015- Activities

- One application from NHH to co-finance a two-month visit by B. Espen Eckbo in May/June and September 2015 was approved. However, the visit was postponed, and NHH re-applied for funding of visit in 2016. The application was approved.

2.2 Programmes targeting students

2.2.1 PhD Scholarship

The NFI PhD Scholarship Programme was established by NBIM management on October 25, 2011.

The NFI PhD Scholarship Programme provides financial incentives for students to pursue studies at top-ranked international doctoral programmes in financial economics.

The scholarship is NOK 225,000 per academic year. The scholarship is awarded annually, with a possibility of renewal for the period of the PhD programme at the host institution, but limited to five academic years in total. Eligible applicants must be Norwegian nationals or have a close connection to Norway, and accepted by a top-ranked international PhD programme in financial economics on equal terms as other top students.

Since inception, we have awarded five scholarships:

- Einar Kjenstad, Simon School of Business, University of Rochester (2012)
- Magnus Nybø, Swiss Finance Institute, University of Zürich (2013)
- Marius Ring, Kellogg School of Management at Northwestern University (2014)
- Erik Hapnes, Swiss Finance Institute, University of Lausanne (2015)
- Eirik Brandsås, University of Wisconsin at Madison (2015)

2015- Activities

- Application from Erik Hapnes, who has been accepted to the PhD programme at Swiss Finance Institute, was approved.
- Application from Erik Brandsås, who has been accepted to the PhD programme at the University of Wisconsin at Madison, was approved.
- The scholarships to Kjenstad, Nybø and Ring were renewed for the academic year of 2015/2016, following the Scientific Advisory Board's approval of their progress reports.

2.2.2 Master's Thesis Award

The Master's Thesis Award was established by NBIM management on March 13, 2012. The annual NFI Master's Thesis Award has been established to provide incentives for outstanding Master's theses in financial economics by students at universities and equivalent institutions in Norway.

The award may be up to 25 000 kroner per student. The winners and runner-ups for the award may also be invited to participate in a travel programme paid for and organised by the NFI.

2015- Activities

- Eline S. Fjell and Martin N. Eide (NHH) received the 2015 NFI Master`s Thesis Award for their thesis "The real exit: Implication of the post-IPO divestment process. An empirical analysis of the post-IPO divestment period of buyout investors".

In addition to the thesis by Fjell and Eide, the NFI Master`s Thesis Award Committee also named the following runner-ups to the award for 2015:

- Thomas Herud, Eirik Rime and Christian Fredrik Scheel (NTNU) for their thesis: ""Managerial Risk Profile in Hedge Funds with Multiple High-Water Marks – Numerical Modelling and Fund Structure Analysis".

The award ceremony was organised at NBIM`s London office on 22 September 2015, where the winners and runner-ups presented their theses.

The NFI Master`s Thesis Award Committee, chaired by Espen Henriksen (BI), and further consisting of Tyler Hull (NHH) and Bernt Arne Ødegaard (UiS), assessed the submitted theses, and provided the NFI with their recommendation.

We received 11 applications for the Master`s Thesis Award 2015.

2.2.3 Summer School

The NFI Summer School was established by NBIM management on March 11, 2013.

The NFI Summer School has been established to identify talented students at academic institutions in Norway or abroad and motivate them for PhD studies and potentially an academic career in financial economics. The annual weeklong summer school will normally be organised during the summer break each year, in cooperation with academic institutions in Norway. Eligible applicants for the NFI Summer School are Norwegian nationals or EEA-nationals with a close connection to Norway, and should as a minimum requirement have completed a bachelor`s degree.

2015- Activities

The summer school was organised between June 22 -26, 2015. Professor William Goetzmann, Yale University, lectured on topics in fund management. Karin Thorburn, Professor at NHH, lectured on topics in corporate finance and corporate governance. The last day was devoted to NBIM presentations and information about PhD studies in Norway and abroad.

- 32 eligible applications received.
- 15 students admitted, and 11 applicants accepted.

The Summer School Committee was chaired by Michael Kisser (NHH), and further consisted of Charlotte Østergaard (BI), Kjetil Storesletten (UiO), Snorre Lindset (NTNU) and Bernt Arne Ødegaard (UiS).

2.2.4 Junior Researcher

The Junior Researcher Programme (former Research Assistant Programme) was established by NBIM management on March 4, 2014. The programme is designed to motivate talented students for PhD studies, and increase their chances of being accepted to top-ranked international PhD programmes in financial economics. The position is equivalent to Norges Bank's junior researcher position in macroeconomics.

2015- Activities

We received 22 applications, of which 11 satisfied the eligibility requirements. Three candidates were interviewed, and we offered the position to one candidate. However, the candidate turned down the offer.

2.3 Other programmes

2.3.1 Annual Research Conference

The annual Norwegian Financial Research Conference aims to bridge the gap between the challenges faced by investment professionals and academic researchers in the field of financial economics. The conference provides a meeting ground for academics and practitioners, and stimulate discussion on topics in financial economics relevant for the long-term management of the fund.

2015- Activities

- The fifth Norwegian Financial Research Conference was organised on August 18, 2015, and approximately 170 people attended the conference. The overall theme of the conference was "Well-functioning financial markets – macro and micro perspectives".

Speakers were:

Henry M. Paulson, Jr. (Paulson's Institute)

Franklin Allen (Imperial College)

Albert Menkveld (VU Amsterdam)

Charles Jones (University of Columbia)

Carole Comerton-Forde (University of Melbourne)

2.3.2 Lecture Series

The Lecture Series Programme was established by NBIM management on March 13, 2012.

The NFI Lecture Series Programme has been established to strengthen the ability of academic institutions in Norway to attract leading international scholars in financial economics for short visits and seminars. The intention of the programme is to provide incentives for seminars and lectures beyond existing and routine seminar series at academic institutions. The programme is also designed to strengthen NBIM's ties with the academic community, and to strengthen the education within financial economics in Norway.

Academic institutions in Norway are encouraged to cooperate to attract international scholars to Norway.

2015- Activities

- Application from NHH to fund visit from Alexander Ljungqvist (Stern School of Business) was approved. Ljungqvist also visited NBIM and gave an academic seminar on September 3rd, 2015.
- Application from NHH to fund a visit from David Easley and Maureen O`Hara (Cornell University) in June 2016 was approved. Easley and O`Hara will also visit NBIM and give an academic seminar.
- Application from NHH to fund a visit from Lars Løchstøer (Columbia University) in August 2015 was approved. Løchstøer held a lecture for students at NHH on August 18th.
- Application from NHH to fund a visit from Ronald Masulis (UNSW Australia Business School) in August 2015 was approved.

2.3.3 Co-Financing of Conferences

The NFI Co-financing of Conferences programme was established by NBIM management on May 14, 2014.

The purpose of the NFI Co-financing of Conferences Programme is to strengthen the ability of academic institutions in Norway to organise academic conferences or similar events, on topics in financial economics, beyond the existing and routine conferences at the academic institutions.

The NFI may cover up to 50% of budgeted costs (total estimated funding needs net of potential conference revenues such as fees or similar), limited to NOK 1 000 000 per conference or event.

2015- Activities

- Application from NHH to fund a conference on Corporate Governance (CCF Workshop) was approved. The conference was organised in November 2015.
- The NFI-sponsored conference on Corporate Governance (BICCG) hosted by BI was organised in May 2015.

2.3.4 Research Programme

The NFI Research Programme was established by NBIM management on November 3, 2014. The purpose of the research programme is to facilitate financial economic research of the highest academic standard in areas of particular relevance for the long-term management of the fund. Many of the questions and challenges facing the management of the fund may intersect with the research frontier of finance and economics.

The NFI Research Programme gives incentives for academically meriting research on topics of particular relevance to the long-term management of the fund within the areas of asset pricing and portfolio theory, market microstructure, responsible investing and corporate finance and corporate governance.

2015- Activities

- We received five applications under the topic “Engaged Ownership” and eight applications under the topic “Portfolio Choice for Long-term Investors”.
- One project within each of the topics were approved for funding:

- **Portfolio Choice for Long-Term Investors:**
 - “New Developments in Long-Term Asset Management” by Luis Viceira/Monika Piazzesi, NBER
- **Engaged Ownership**
 - “How Active can Institutional Investors be? Evidence from Standard Life Investments” by Marco Becht, Université Libre de Bruxelles / Julian Franks, London Business School

The commencement day for both projects is 1 January 2016.

- The second call for research proposals within the topic “**The Financial Economics of Climate Change**” was initiated in 2015. The call is publically announced, and the deadline for submission of research proposals is 30 June 2016.

3. Annual Review

We perform an annual review of the established NFI programmes. As part of the review process, we invite representatives from NHH, BI, UiS, NTNU and UiO to provide feedback on the NFI. Representatives from the schools are also invited to a meeting with the Scientific Advisory Board, which this year took place on 27 August 2015.

Based on our own experience with the programmes and the review process, we arrive at a set of proposed programme changes for the 2015 review in which we ask the Scientific Advisory Board to advice on.

The changes below were approved by the NBIM CEO in January 2016.

3.1 Changes to programmes targeting finance faculty

3.1.1 Publication Bonus

The payment of the publication bonus for publications in second- tier journals has been reversed back to two annual payments. The publication bonus for publications in first-tier journals continues to paid in three annual instalments.

3.1.2 Visiting Scholar Programme

We have increased the amount of available funding for shorter visits. In addition, we have explicitly stated in the programme details that one year equals one academic year of nine months.

3.1.3 Co-Financing of Junior Professorships

The NFI co-financing agreement can be extended to a maximum of seven years for candidates hired in “tenure track” positions by institutions participating in the trial project commissioned by the Ministry of Education and Research. The NFI has the possibility to discontinue the support if a candidate hired in a “tenure track” position fails to demonstrate satisfactory progress.

3.2 Changes to programmes targeting students

3.2.1 PhD Scholarship

The PhD Scholarship amount has been increased to NOK 225 000 per year. This is the first adjustment of the scholarship since the programme was established in 2011.

We have specified in the programme details that we award scholarships to students accepted at the PhD programmes at the business schools of Columbia University, Stanford University and Harvard University only.

3.2.2 Summer School

The eligible requirement of completion of the first year of a master's degree has been replaced with the completion of a bachelor's degree, to reflect current practice. In addition, we have reduced the number of years required of residency in Norway for EEA- nationals from five to two years.

3.3 Changes to other programmes

3.3.1 Lecture Series

We have included an eligibility criteria equivalent to the criteria for co-financing of senior professorships: Eligible candidates for lecture series should have a minimum of four publications in tier-one finance or economics journals. Informally, this criterion has been applied in the assessment of candidates under the lecture series programme since the programme was established.

3.3.2 Research Programme

We have revised the programme documentation to reflect current practice where funding of research projects are approved by the NBIM CEO.

"Responsible investing" is included as an area of particular relevance for the long-term management of the fund in the programme details.