

## **Øystein Olsen: Management of the Government Pension Fund Global (GPFG)**

Introductory statement by Mr Øystein Olsen, Governor of Norges Bank (Central Bank of Norway), before the Standing Committee on Finance and Economic Affairs of the Storting (Norwegian parliament), Oslo, 4 May 2015.

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*Please note that the text below may differ from the actual presentation.*

*I would like to thank the Chair of the Committee for the invitation to speak on the management of the Government Pension Fund Global.*

The objective of the Government Pension Fund Global is to underpin long-term considerations in the spending of government petroleum revenues. Norges Bank manages the GPFG with the aim of achieving the highest possible return subject to the framework defined by the Ministry of Finance, including the limitations set for risk-taking.

The investment strategy is designed with a view to achieving this aim. The proportion of real assets in relation to nominal assets is the most important choice with regard to the investment strategy. Today, the allocation to equities is 60 percent. The proportion invested in real estate is likely to reach 5 percent in a few years.

The Ministry of Finance has started work on assessing the allocation to real estate and the possibility of investing a portion of the GPFG in unlisted infrastructure. We have been requested to provide advice to the Ministry on this matter.

Real estate investment, and infrastructure in the event, is more resource-intensive than securities investment, both in operational and management terms. Norges Bank is therefore in the process of establishing a clear organisational divide between the investment division for real estate and other investment divisions. A management team for the real estate division has been established and we will appoint a division head in the course of the year. Large real estate investments will be subject to consideration by an investment committee. The largest investments will also be subject to approval by Norges Bank's Executive Board. The integrated structure for the management and reporting of GPFG performance and risk will be continued.

Moreover, the Ministry proposes increasing the number of central bank deputy governors from one to two, and that both function as members of the Executive Board. The Executive Board will in that case aim to establish a risk and investment committee for investment management. The committee will comprise one deputy governor and two of the Executive Board's external members. The committee will strengthen and improve the Executive Board's work on overarching risk management of the GPFG, the framework for the GPFG's real estate management and decisions relating to large real estate investments.

The GPFG is a long-term and responsible owner. Our work on responsible investment is an integral part of the investment process. As of this year, the Council on Ethics issues recommendations on company exclusion directly to Norges Bank. Norges Bank's Executive Board will on the basis of these recommendations assess exclusion against other tools in the exercise of ownership. The aim is to establish a unified chain of tools.

Climate change has been among the focus areas of management since 2006. Our work on financial risk as a result of climate change is incorporated in the investment strategy and the financial objectives of the GPFG.

The Ministry of Finance is now working to introduce a new behavioural criterion for companies' climate emissions in the guidelines for observation and exclusion. Such a criterion must then be managed in line with the highest defined threshold for exclusion.

It is important that the overriding principle for Norges Bank's investment management continues to be that the GPFG is a responsible investor with a financial objective. If the GPFG is increasingly used as an instrument for pursuing objectives other than financial ones, it may reduce the clarity of the GPFG's role as a financial investor. If the GPFG investment scope is subject to considerable restrictions, it may entail increased risk or lower returns.

The management of the GPFG has been successful to date. The total return since the establishment of the GPFG amounts to more than NOK 2 500 billion, or about 40 percent of GPFG capital. Through its management, Norges Bank will continue to promote its overriding objective: to safeguard the Fund's assets over time.

Thank you for your attention.