

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

Introductory statement by Mr Øystein Olsen, Governor of the Norges Bank (Central Bank of Norway), before the Standing Committee on Finance and Economic Affairs of the Storting (Norwegian parliament), Oslo, 25 April 2014.

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

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

The framework for the management of the GPFG rests on a clear division of responsibilities and roles between owner and manager. The Government and the Storting decide the key principles and guidelines for the GPFG. Norges Bank's role is to secure the highest possible return over time within the framework established by the political authorities.

Since the first capital transfer in 1996, the GPFG has grown to over NOK 5 trillion. A third of this amount – NOK 1.8 trillion – is the return.

Achieving returns requires risk-taking. The GPFG's investment horizon is particularly long and its short-term risk capacity is high, which is the reason behind the relatively high allocation to equities. This is also the reason for adding other asset classes, such as real estate. We can outperform the market by taking advantage of these specific features in its investment choices. When new companies become listed, they are included in the equity indices. In some cases, we can achieve better terms by investing in new companies ahead of a planned listing.

As the GPFG has grown so has Norges Bank's experience in investment management. The investment universe has broadened. Every year new emerging economies are added to the list of countries in which we can invest. The aim is always to improve the trade-off between risk and return over time.

The GPFG is subject to an extensive governance and control framework. The Ministry of Finance draws up the mandate for investment management. Norges Bank's Executive Board has laid down, pursuant to the mandate, further detailed guidelines for the CEO of Norges Bank Investment Management. Pursuant to these guidelines, Norges Bank Investment management makes decisions concerning individual investments.

Control and supervision of investment management follow the same lines as the delegation of investment decisions. Risk and return are routinely reported to the Executive Board and discussed at its meetings. Norges Bank reports on investment management to the GPFG's owners on a quarterly basis.

Norges Bank works to safeguard financial wealth over time. Responsible investment is a key component of that task.

The Bank uses a number of instruments to promote active ownership, such as international principles and standards, expectations documents, voting at shareholder meetings and contact with companies. Corporate governance and environmental and social considerations are integrated into the investment process and risk management. In a number of cases, the Bank has sold off or refrained from buying securities as a result of concerns regarding long-term sustainability. Our experience is that there are positive synergy effects between active ownership and other aspects of investment activity.

It is the political authorities that lay down the criteria for exclusion of individual companies from the investment universe. The Government is now proposing that the responsibility for deciding exclusion should be delegated to Norges Bank. An integration of instruments could

strengthen the effectiveness of active ownership. It would make it easier for companies to relate to a single representative of the GPF, which may also enhance consistency and predictability in its performance of active ownership.

Norges Bank aims to expand reporting on responsible investment practices. We are well prepared to take on a wider responsibility within a clearly defined framework. Norges Bank must then have a sufficient degree of freedom to organise and carry out its investment management task as effectively as possible.

The overriding objective of investment management must remain the highest possible return within acceptable risk levels with a view to safeguarding and building wealth for future generations.

Thank you for your attention.