

Øystein Olsen: Management of the Government Pension Fund Global

Introductory statement by Mr Øystein Olsen, Governor of Norges Bank (Central Bank of Norway), at the hearing before the Standing Committee on Finance and Economic Affairs of the Storting (Norwegian parliament), Oslo, 25 April 2019.

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

The Government Pension Fund Global and the fiscal rule have long been important pillars of economic policy in Norway. Substantial portions of government petroleum revenues have been transferred to the GPFG. The resulting capital has been broadly spread across equities, bonds and real estate and has provided good returns and well-diversified risk.

According to the annual report on the management of the GPFG, total return before management costs came to –6.1 percent in 2018.

The return on the GPFG in 2018 was the second lowest since 1998. The equity portion has increased over time, and the return on equities now has a greater impact on total return than earlier. The negative return reflects the sharp decline in equity markets towards the end of 2018.

The investments in GPFG have a long time horizon. The annual return over the 1998–2018 period was 5.5 percent. The annual net real return, ie adjusted for inflation and net of management costs, came to 3.6 percent in the same period.

Norges Bank manages the GPFG with the objective of achieving the highest possible return over time, within the mandate defined by the Ministry of Finance. The GPFG is to be managed within an adequate control and risk management framework and in a responsible and efficient manner with a high degree of transparency.

The Bank pursues a variety of investment strategies. The strategies are complementary and aimed at delivering good returns over time.

In 2018, the return was 0.3 percentage point lower than the GPFG's benchmark index.

Over the whole period since 1998 when Norges Bank established Norges Bank Investment Management (NBIM), the annual return has been 0.25 percentage point higher than the return on the benchmark index set by the Ministry of Finance.

A cost-efficient management operation contributes to the aim of highest possible return. Management costs are low, measured as a share of capital under management and compared with other managers.

In 2018, the return was weak both in absolute terms and relative to the benchmark index. In 2017, the return was 13.7 percent, as much as 0.7 percentage point higher than the benchmark index. The Executive Board is prepared for wide variations in return from year to year, and applies the principle that performance must be assessed over time. From that perspective, the return of the GPFG has been good and higher than the return on the benchmark index.

In the report to the Storting on energy stocks, the Government intends to remove exploration and production companies from the GPFG's benchmark index and investment universe. That is in line with the intention in our advice from 2017 and will contribute to reducing the exposure of the state's wealth to oil price risk.

The report to the Storting on the Government Pension Fund provides for among other things the possibility of investing in unlisted renewable energy infrastructure within the environmental mandates. As we have indicated previously, Norges Bank will approach investment opportunities and build expertise gradually. Investments in unlisted infrastructure will be a topic for the Executive Board's work on the new strategy plan to apply from 2020.

On 10 April 2015, the Central Bank Law Commission was appointed. Precisely four years later, the Government put forth a proposal on a new central bank act. At that time, the Storting had already endorsed retaining Norges Bank as the operational manager of the GPFG.

For Norges Bank, the proposal on a new central bank act entails a number of changes, such as increasing the capacity of Norges Bank's Executive Board in the area of capital management.

Norges Bank has already made considerable strides in adapting the internal organisation to the changes ensuing from the new central bank act.

The main exposures that are decisive for the GPFG's long-term performance are decided by the Ministry of Finance and anchored in the Storting. This year's report to the Storting on the GPFG includes several measures to further develop the investment strategy. But the objective remains firm: The highest possible return at an acceptable risk. Within this framework, the GPFG should be managed in a responsible way.

The report to the Storting notes that there is broad political agreement that the GPFG should not be an instrument of foreign policy or climate policy, and it is important that this continue to be the case in the future. Restrictions or instructions that have a significant impact on the trade-off between return and risk will limit the potential to achieve solid performance over time.