

Management of the Government Pension Fund Global

Introductory statement by Governor Øystein Olsen before the Storting's Standing Committee on Finance and Economic Affairs, 17 April 2012.

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

I thank the Chairman and thank you for giving Norges Bank the opportunity again this year to report on its management of the Government Pension Fund Global (GFPG) in connection with the Storting's (Norwegian parliament) deliberations on the report to the Storting of the Fund.

As investor, the Fund is different from most others. The Fund does not need to borrow to invest and there are no short-term liquidity requirements. The Fund is in a position to manage investments using a long-term investment horizon – to sit tight during periods of heightened uncertainty. At the same time, the Fund has grown rapidly. Its size makes it possible to take advantage of investment opportunities worldwide, in a number of asset classes.

Chart 1: Transparency

Norges Bank is committed to maintaining a high degree of transparency also with regard to the management of the Fund.

The Executive Board's mandate for the CEO of Norges Bank Investment Management – NBIM – was revised and published in 2011, as were documents describing risk management, the exercise of ownership rights, organisation, management and compensation. NBIM has published principles and guidelines for all its main areas of activity.

In the Annual Report for 2011, the financial statements were prepared in full accordance with International Financial Reporting Standards (IFRS), which ensures that the Fund's accounting rules follow best international practice. The information content of the notes has been increased considerably.

Chart 2: Fund management costs

Norges Bank has realised economies of scale in its investment management in recent years. The allocation to equities has increased in the period. The Fund is investing more in smaller markets, small companies and now also in real estate. Management costs as a percentage of the Fund's capital have nevertheless declined.

Chart 3: Letters from Norges Bank with advice on investment strategy

One of Norges Bank's key tasks in its management of the fund is to provide advice on the investment strategy. Investment management must be adapted to the prevailing operating

environment. The world's economic geography is changing. While growth in the developed economies has been weak and slowing, growth has been robust in Latin America and Asia for a long period.

In the past year, Norges Bank has provided advice to the Ministry of Finance as to what the country and regional distribution of equities and fixed-income instruments should be. It is the Bank's view that global weights calculated on the basis of companies' market value should be the basis for equity investments. The Bank has further recommended that the currency composition of government bond investments be determined on the basis of the size of a country's economy, which would entail among other things a decline in the portion of European bonds over time.

Studies conducted by Norges Bank show that systematically bringing back the equity allocation to the strategic weight – so-called rebalancing – has been a profitable strategy. Rebalancing should continue through the introduction of a public rule.

I would now like to give the floor to the CEO of NBIM, Yngve Slyngstad, who will also provide further details regarding the Bank's proposed changes to the Fund's investment strategy.

Thank you for your attention.