

Management of the Government Pension Fund Global

Introductory statement by CEO Nicolai Tangen before the Standing Committee on Finance and Economic Affairs of the Storting on 30 October 2020.

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

Thank you, and I would like to thank the Chair of the Committee for the invitation to speak on the management of the Government Pension Fund Global (GPFG). Let me start by saying that it is a pleasure to finally meet the members of the Committee.

It is now two months since I took up my position as head of the oil fund. I have big shoes to fill – those of my predecessor Yngve Slyngstad – and it is with great respect I now embark on the task.

Let me begin with some brief remarks about financial markets. The year 2020 has been a special year for us all. We have observed large movements in financial markets. The market value of the GPFG was about NOK 10 100 billion at the end of 2019. After the GPFG returned close to 20 percent in 2019, markets fell abruptly in March because of the Covid-19 pandemic. The current market value is about NOK 10 600 billion.

In investment management, we are constantly trying to do better, in other words earn more, than the indexes we are measured against. With a professional organisation and a clear target to reach for, we have shown that we can. Since the GPFG's inception, we have achieved an excess return, ie a return that exceeds those benchmarks, of around 0.2 percentage point. This is equivalent to about NOK 100 billion extra for the GPFG because of active management.

Comparisons with other, similar funds show that our costs are considerably lower than any other comparable fund. But a low level of costs is not in itself an objective if it is achieved at the expense of potential return. It is the return after costs that ultimately benefits the GPFG's owners.

About 10 percent of the GPFG's equity portfolio is invested in emerging markets. In our experience, local knowledge of the markets is important for assessing the risk associated with investing in emerging markets.

Using external managers has increased profits for the GPFG. It has also allowed us to avoid some companies with reputational risk. By taking advantage of the GPFG's distinctive characteristics, and our knowledge and experience, we gain far more from the GPFG's external managers than we pay for their services. And this is something I believe we should build on further.

External equity managers have contributed with a net excess return of NOK 60 billion.

As Øystein mentioned, the Ministry has proposed changes in the composition of the benchmark index. We will sell equities in Europe and buy equities in North America, especially the US. In order to keep transaction costs as low as possible and reduce timing risk, it is wise to implement the change over a long period of time. As stated in the white paper, the Ministry of Finance will decide on an implementation plan in consultation with Norges Bank.

At the 2019 hearing before this Committee, one of the topics was investment in unlisted infrastructure for renewable energy, for which we received a mandate close to a year ago. We have built up a group specialising in this field, and we are ready to carry out investments in a professional manner.

But in our experience so far, there are many investors looking for these investments and pricing is thus not always as attractive for us. These investments are subject to the same risk and return requirements as the GPFG's other investments. In the near term, finding projects that meet these requirements may be demanding.

Operating the GPFG requires very impressive technological machinery. All our operations have been moved to the cloud. Most of our IT processes have been automated and are now insourced from our previously external IT provider. This is one of the most important things we have done over the past year and will enhance the quality of our work and result in cost savings over time.

When the Covid-19 pandemic broke out this spring, it was an advantage for us to have a global presence, with offices in different parts of the world. Our office in Shanghai, for example, was affected by the pandemic earlier than the main office in Oslo. This gave us experience of the operational challenges at an early stage, and we were better able to tackle further developments.

To manage the GPFG's investments the organisation trades on more than 250 marketplaces and is responsible for settlements, valuations, custodian services, risk management etc. We completed about 30 million equity trades last year, ie an average of about 100 000 per day. This is more than the total for Oslo Børs. This machine has motored on, 24/7, even with all the operational challenges presented by the Covid-19 pandemic and substantial movements in financial markets.

We work on a range of topics related to responsible investment. I will address some of these. We have been working on climate change issues for a long time. In 2009 we launched our expectations document on climate change for investee companies. Since then, we have worked on standards for reporting on greenhouse gas emissions and our dialogue with companies, and we have divested from some small companies associated with climate risks we consider to be too high.

Another topic that is important to us is tax and transparency. As a long-term investor, we focus on real value creation over time and not the potential short-term gains that some companies can achieve through aggressive tax planning. This is why we are clear about our expectations of investee companies. We have recently divested from some companies with weak or no reporting related to tax and transparency.

As a responsible owner, we also have to make many active decisions. This means, for example, that we must continuously work to build up as much knowledge of the companies in our portfolio as possible and invest in companies we believe in and divest from others. Knowing the companies and sectors we invest in also enables us to have a meaningful dialogue with them and to vote at annual general meetings based on sound information. In 2020, we voted on about 115 000 matters on the agenda at close to 12 000 annual general meetings.

Next year, we will start to publish in advance how we are going to vote at annual general meetings. We will be a world leader in this context.

I have three priorities for the organisation going forward: return, communication and talent development.

The highest possible return after costs is our main objective. We receive a mandate from the Ministry of Finance, approved by you in the Storting. Our task is to generate the highest return possible. And that is something I and all my colleagues in the GPFG are really passionate about.

My second priority is communication. And by this I mean communication upwards through the governance structure, internal communication in the management organisation, and communication outwards to the Norwegian public and to global markets. We will continue to be transparent about the management of the GPFG.

My third priority is talent development. I want to develop the GPFG into a more diverse and colourful organisation. I think this will result in more creativity, a more dynamic workplace. And this is what we need to make use of the opportunities to generate returns ahead.

The oil fund has been given an incredibly large and important mandate and is a fantastic place to work. It is the place where everyone should want to work, and we want job applicants to the GPFG that are the best in their fields.