

Management of the Government Pension Fund Global

Introductory statement by CEO Yngve Slyngstad before the Standing Committee on Finance and Economic Affairs of the Storting.

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

I would like to thank the Committee for the invitation to speak on the management of the Government Pension Fund Global (GPFG) in 2015.

Chart: Annual return

The return on the GPFG came to 2.7 percent in 2015 measured in international currency, equivalent to NOK 334 billion. The annual return has averaged 5.6 percent since 1998. The rate of return on the first krone after inflation and costs has been 3.7 percent. The average krone has delivered a real return of 4.2 percent. Returns have been solid in recent years, despite market turbulence. Periods of declining values may occur ahead.

Chart: Accumulated market value

At the end of the first quarter of this year, the fund's market value was NOK 7 079 billion. Since its inception in 1996, NOK 3 475 billion has been transferred to the GPFG. The return amounts to NOK 2 591 billion. Exchange rate movements come in addition. Exchange rate movements in recent years have increased the value of the fund measured in NOK. The return accounts for a substantially higher share of the GPFG's value today than was the case a few years ago.

Our objective is to generate added value in our management of the fund. Compared with the benchmark indices against which the fund's performance is measured, the excess return has been 0.26 percentage point per year between 1998 and the end of 2015. In 2015 in isolation, the fund outperformed the benchmark index by 0.5 percentage point. All our main investment strategies contributed to this positive result in 2015.

Chart: Management objectives

Our goal is to achieve the high possible return in the long term with a moderate level of risk. We will achieve this goal by means of an efficient organisation and low costs. We place considerable emphasis on being a responsible investor – as a shareholder in companies and as manager of the fund on behalf of the Norwegian people. And we will be as transparent as possible.

Chart: New expectation document

Expressing clear expectations towards the companies in our investment portfolio, based on internationally recognised principles, forms the basis of our responsible investment work.

We expect companies to take account of a broad, long-term risk picture in their investment plans, risk management and reporting.

In 2015 we issued a new expectation document on human rights. This document was the result of a dialogue with companies, experts and NGOs. It deals with corporate strategies, risk management, reporting and transparency and provides a starting-point for our dialogue with companies.

Chart: Work related to climate change

Our work to address climate change has been in progress since 2006. In recent years we have undertaken risk-based divestments from companies contributing to greenhouse gas emissions and deforestation, including coal-related companies. We have also started measuring the carbon footprint of the investment portfolio. A range of research and analysis initiatives to address the risks associated with climate change and the consequences for companies and the fund were launched in 2015.

Chart: 52 coal-related companies excluded

The new product-based coal criterion was introduced under the Guidelines for the observation and exclusion of companies from the GPFG on 1 February this year, and the Bank has already carried out the first exclusions under this criterion. The exclusion of 52 companies mining coal or producing coal-based energy was announced earlier this month.

Other relevant companies that may come under the criterion will be analysed over the course of the year ahead. And lists of companies excluded under the product-based coal criterion will be published at intervals.

Chart: Contribution to public debate

We contribute to an open, public discussion on key topics related to the GPFG. We submit letters to the Ministry of Finance concerning investment strategies. In 2015, as in previous years, we published Discussion Notes that underpin the advice we provide to the Ministry. We also published a series we call Asset Manager Perspective, which contains our suggestions for the development of well-functioning financial markets. And, as mentioned above, we release expectation documents directed at the companies in our investment portfolio. Our views on key ownership issues are also published as Position Papers; our voting at companies' annual general meetings, for example, was explained in a Position Paper.

Chart: Published reports

Another important aspect of our commitment to transparency is the publication of reports on our activities. This year we have published three supplementary reports in addition to the usual annual report.

Chart: Three pillars of responsible investment

Our standard-setting, active ownership and risk management activities are described in our Responsible Investment Report for 2015.

Chart: Performance and Risk 2015

We have also published a supplementary report containing information about and an analysis of the fund's performance and risk.

The Performance and Risk Report builds on previous regularly published analyses.

The Report focuses on the fund's equity and fixed income investments. A supplementary report providing information and key figures for the fund's unlisted real estate investments was published yesterday.

Chart: Real estate investment timeline

Our first real estate investment was made five years ago, in Regent Street, London. Since then, we have gradually built up our real estate portfolio, with a number of investments in the largest European markets and the US. Today, we manage a global, though concentrated, real estate portfolio with investments in selected major cities and global distribution networks. The majority of our real estate investments are in office property, followed by logistics properties and shopping centres.

Investing in unlisted and listed real estate has given the GPFG access to a broader set of investment opportunities. The distribution of real estate investment between listed and unlisted real estate will vary over time and depend on local market conditions.

Investing in real estate has provided a broader diversification than investing exclusively in equities and fixed income instruments.

Chart: New real estate investments in 2015

We announced 10 new real estate transactions in 2015: in the US, the UK and continental Europe. We are continuing our strategy of investing in a few major global cities. The share of the GPFG invested in real estate increased from 2.2 to 3.1 percent in the course of 2015.

Chart: The GPFG's current income

In pace with the rise in the value of the fund, the cash flow from the fund's investments has also increased. This cash flow consists of share dividends, interest income and rental income. While interest payments used to be the dominant form of income, this is changing as international interest rates continue to fall.

We have seen a rapid rise in the market value of the GPFG in recent years. With a large fund, substantial fluctuations in value must be expected ahead. Our responsibility is to manage the financial wealth of the Norwegian people in a responsible, efficient and transparent manner.