Management of the Government Pension Fund Global

Introductory statement by Governor Øystein Olsen 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).

The GPFG's management framework ensures a clear division of roles between owner and manager. Key constraints and the GPFG's overriding strategy are determined by the Ministry of Finance and endorsed by the Storting (Norwegian parliament). Norges Bank's role is to manage the GPFG and provide advice on the investment strategy. The objective of Norges Bank's investment management is stated in the mandate issued by the Ministry of Finance: the Bank shall seek to achieve the highest possible return on the fund within the established management framework.

Over time, the GPFG has grown in size and complexity. The Executive Board's role is to oversee the operational management of the fund and exercise strategic management. The Board's capacity has been expanded; last autumn, two new subcommittees were established to serve the Executive Board, a risk and investment committee and an ownership committee. Both are chaired by the new deputy governor.

Investment management is subject to an extensive system of governance and control. Responsibility for operational management is delegated to Norges Bank Investment Management, which reports to the Executive Board on return, risk and compliance. Internal Audit is the Executive Board's control body. The Supervisory Council has an important role as the Storting's supervisory and control body.

Norges Bank places considerable emphasis on transparency in our management of the fund. In addition to the annual report and a supplementary report on responsible investment, we have published two new reports this year – a supplementary performance and risk report and a report on the GPFG's unlisted real estate investments.

Unlisted investments are one of the topics in this year's White Paper on the management of the GPFG. The Ministry plans to pursue an overall approach to the management of market and exchange rate risk in the GPFG. The return on unlisted real estate investments will now be measured against the return on equities and bonds.

At the beginning of this year, 2.4 percent of the GPFG was invested in unlisted real estate. The investments have been made through subsidiaries. Norges Bank has established subsidiaries in a number of countries, including the UK, US and Luxembourg. In choosing jurisdictions, the emphasis is on whether legal frameworks are predictable and are proven to be effective. By investing through subsidiaries, the fund is protected from any liabilities linked to unlisted investments. Local tax rules and bilateral tax agreements are also taken into consideration.

The Executive Board has laid down principles for tax management based on the Bank's mandate from the Ministry of Finance. Norges Bank complies with accepted market practices and protects the GPFG's tax position as a sovereign wealth fund invested abroad.

There is full transparency with regard to Norges Bank's establishment and use of subsidiaries in the management of the GPFG's real estate investments. The control bodies, including the Supervisory Council and the Bank's auditor, have full access, in the same way as for Norges Bank's other investments.

In Norges Bank's letter to the Ministry of Finance of November last year, we gave an account of the Bank's experience of unlisted real estate investments, joint ventures and the use of subsidiaries. The letter also mentions that the Bank is exploring the possibility of using Norwegian subsidiaries.

Finally, I would like to offer some brief comments on the fund's results. The annual gross excess return on equity and fixed income investments since the GPFG's inception and to the end of the first quarter of this year has averaged 0.25 percentage point. This is a good result given the constraints in the management mandate. Management costs are low and have fallen over time as a share of total assets under management. Management costs were equivalent to 0.06 percent of the fund's capital in 2015.

In the supplementary report on performance and risk, published in March, the excess return is broken down by main investment strategy. The report also includes a cost analysis and assesses the fund's performance against a variety of risk measures. The Executive Board is of the view that the analyses support the conclusion that the Bank's investment management has produced good results.