

# Management of the Government Pension Fund Global (GPFG)

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

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

I would like to thank the Chairman and thank you for giving Norges Bank the opportunity again this year to report on the management of the Government Pension Fund Global (GPFG).

*<Chart: Changing the regional allocation>*

The investment strategy of the GPFG builds on its specific features, purpose and our perception of the functioning of financial markets. The GPFG is a large fund and features a long investment horizon. The objective of investment management is to preserve the long-term international purchasing power of the GPFG.

In 2012, the investment strategy was changed. As a result, investments in emerging markets have increased. Just over 10 percent of the overall portfolio is now invested in these markets.

*<Chart: Increasing investments in real assets>*

The allocation to equities was increased to 60 percent between 2007 and 2009. When the allocation to real estate reaches 5 percent further ahead, the GPFG's allocation to real assets will make up two-thirds of the overall portfolio. The long-term expected return on real assets is higher than on nominal bonds. The risk is also higher, but the long-term investment horizon puts us in a solid position to carry that risk.

The key to realising the higher return is to adhere to the strategy also in times of heightened uncertainty, as we did through the financial crisis in 2008 and 2009. An official framework for rebalancing back to a set allocation to equities has now been established. This will help ensure that this strategy is carried out during the next period of high volatility in financial markets.

*<Chart: Lower costs>*

Management costs for equities are higher than for fixed-income securities. The cost of managing many small shareholdings is higher than managing a few large ones, as is the cost of managing investments in emerging markets in relation to developed markets.

Overall management costs as a percentage of the GPFG have nonetheless fallen over time. We have exploited its size to realise economies of scale. In the past few years, costs have been reduced also in krone terms. This is partly due to reduced use of external managers.

Costs for external services, such as IT, custodian and settlement services, have also been lowered.

Relative to the size of the GPF, management costs are modest. Norges Bank continuously seeks to achieve efficiency gains without impairing the quality of investment management. In 2012, management costs came to 0.05 percent of the GPF.

*<Chart: Transparent and professional management>*

Norges Bank meets international and national transparency standards relating to investment management. We have high ambitions with regard to transparency. Yet, we must weigh different considerations. In the case of investments in individual companies, extensive transparency can come into conflict with confidentiality requirements. In order to ensure confidential communication with the governing bodies of the companies in which we have a stake, both parties must be certain that the dialogue is indeed confidential.

In 2012, we expanded our collaboration with Norwegian academia. NBIM participated by giving lectures on investment management at several universities and other academic institutions.

Our programme, the Norwegian Finance Initiative, has helped support research in financial economics at different levels. This initiative contributes to enhancing the quality of research in financial economics among Norwegian academic institutions and to stimulating public debate on the management of the GPF. This framework for cooperation is also used within Norges Bank, both in investment management and the development of strategy.

Thank you for your attention. I now give the floor to the Chief Executive Officer of NBIM, Yngve Slyngstad.