Norges Bank's management of the Government Pension Fund Global

Introductory statement by Norges Bank Investment Management CEO Nicolai Tangen at the hearing of the Standing Committee on Finance and Economic Affairs of the Storting (Norwegian parliament).

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

Finance Minister, Members of the Committee:

Earlier this year, I was interviewed by CNN and managed to make what must rank high on the list of the year's stupidest comments. I said: "It's always the unexpected which takes us by surprise." This is, of course, stating the obvious, but my point was that there's a lot of uncertainty out there, and that has an impact on financial markets.

When we met for last year's hearing, we talked about a turbulent world, with geopolitics and inflation as the greatest sources of uncertainty for the Government Pension Fund Global. High global inflation is still a major concern for us. The weapon being used to deal with it is higher interest rates. For banks and financial institutions that haven't done their homework, this could be very bad news. I fear we might see more international companies running into problems.

The fund lost a considerable sum in the Silicon Valley Bank bankruptcy, the biggest bank failure since the financial crisis. We think it's becoming more and more important to put resources into finding what I call the "rotten apples". These are companies whose state of health is perhaps not quite what it might appear. I will return to this in a moment.

Whenever there's market turmoil, the numbers soon mount up. 2022 was the worst year for equities since the financial crisis 15 years ago. For bonds, it was the worst in history. More than USD 30 trillion was wiped off the value of the world's financial markets, or around 25 times the value of the fund. I think we need to be prepared for several years of volatile markets, with low and perhaps negative returns on the fund.

In such a situation, I think it's more important than ever to remember the secrets of the fund's success: active ownership, a long-term approach, broad political support for the management model, and healthy, thorough processes before any changes. This creates predictability. Which is important for us not only as an investment organisation, but also for how we are viewed as an investor in other countries and by other investors.

As many of you are doubtless aware, the fund has hired experts in sports psychology and mental training. They're to help us perform better and make better decisions. One of the most important things they're teaching us is that we need to put our energy into things we can do something about, rather than things we can't do anything about. Just as a ski jumper can do little about the weather and the wind, there is little we can do about crises and turmoil out there in the world and in the markets. Instead, we're trying to put as much energy as possible into things we actually can improve.

While 2022 was a year of mainly negative numbers, the fund produced an excess return of no less than NOK 117 billion. That might not sound much given the size of the fund, but it's still one and a half times Norway's defence budget, and it's a direct consequence of my colleagues putting their energy into the things they can do something about.

I said that I'd return to our focus on finding what I call the "rotten apples". If we manage to find them early, there's money to be saved. Let me give an example. In January this year, US firm Hindenburg Research published a report accusing the Indian multinational conglomerate Adani Group of corruption. The fund previously had holdings in several of its companies. Share prices for these companies fell sharply as a result of the report, but the fund had already sold down its holdings by then and so escaped most of the losses. The background to our sell-down was a series of analyses we've been doing in recent years – investigations and decisions that our people make to reduce the fund's risk. That's active management. We'll never be able to spot all of the "rotten apples", but we can try to find as many as we can.

But it's not just bear markets and "rotten apples" that we need to look out for. We also need to be able to protect ourselves against cyber-attacks, criminals and others who try to trick us. We must be able to stop them 24 hours a day, all year round. To do so, we need a strong organisation with the systems, the processes and especially the people that do the best possible job over time.

Our new strategy for 2023-2025 places great emphasis on the people at the fund. We want to attract, develop and retain the best. Our goal is to be the best large investment organisation in the world.

It must be professionally challenging, interesting and fun to work for the fund. We recently started up the Norges Bank Investment Academy, our own education programme where staff across the organisation can learn from the very best – our own people. This is just one of many things we're doing to develop our organisation. In addition, we use our employees as lecturers at schools and conferences. We do that to give something back to society – we build knowledge. At the same time, it is rewarding for our employees to share their knowledge with the public.

We neither can nor want to be one of the top payers in the financial sector, but salary is naturally an important factor for those who work for us. Many of them make good money, both in-house and at the external managers we use. We're very open about this. Our website provides regularly updated information on performance pay, how many people receive it, and how the schemes work, illustrated with examples.

In our recruitment work, we can see that young talent is choosing us. I think this is because there are few places where you're given this much trust and responsibility and learn so much. And at the same time contribute to the society.

Even with the best people, solid systems and good processes, we can never completely eliminate the possibility of mistakes being made. In February this year, a calculation error was discovered in the composition of the index we're measured against. This error led to a marginal overweight in US fixed income relative to global fixed income. When this was discovered, we immediately set about correcting it, but because the fund is so large, the return was 0.7 basis points. Due to this our previously reported positive relative return of NOK 118 billion was adjusted down to NOK 117 billion.

Mistakes will be made from time to time. When they are, we're more interested in learning from them than in apportioning blame. That's how you avoid making the same mistake again. Which is why building a culture based on psychological safety is one of the most important things we're doing. At the same time, we must continue to develop the organisation so that it keeps step with the size and complexity of the fund.

The people at the fund are also a key part of our work on responsible investment and active ownership. We play an important role globally here.

A few weeks ago, I was in the US and met the heads of some of the world's largest investment managers. They told me they're struggling to take a proper stand on climate challenges because their clients are so divided on this, and because in some countries this is increasingly a politicised issue in what is becoming known as the "ESG backlash".

Here in Norway, we have a broad consensus that the world faces real climate challenges. We also have a shared sense of what constitutes a responsible way to run a company. This gives the fund very different opportunities to take a leading role and a stand on climate risk compared to other investment managers.

The fund's objective is to generate the highest possible return, but we also want the companies we own to be run responsibly. Why? Because ultimately it's a financial problem if they're not. Companies that are irresponsible will eventually have problems with both earnings and survival, making them a poor financial investment.

We aim to be the world's leading fund in terms of responsible investment. And we aim to communicate our views on important topics even more clearly, so that companies around the world understand what we mean. We publish well-reasoned positions and expectations on our website so that we come across as a transparent and professional investor. We need to lead the way.

Last year, we published an ambitious Climate Action Plan through to 2025. We're actually very proud of it. But a plan in itself is not enough. Our approach to responsible investment is to be a long-term owner that communicates clear expectations and keeps tabs on companies' progress towards net zero emissions. This work demands a lot of us and will probably demand even more in the years to come. We've set the bar high.

When I was here last year, I was asked a number of questions about investments in renewable infrastructure, which was added to our mandate in 2021. At the end of last year, we had still made only one investment. It has been a difficult market in which to find good and profitable investments, but so far this year we've made two further investments in wind and solar energy, one in Spain and one in Germany.

Yesterday, I was having my hair cut by Gro, my wonderful hairdresser here in town, and she said something very apt during our conversation: "Technology is here to stay." I couldn't agree more. As a financial investor, we're completely reliant on technology. This brings both risks and real opportunities. We had already transferred all of our systems into the cloud before the Covid pandemic. Without this decision, it would've been near-impossible for us to do our job, all around the world, when everything was locked down.

Recently, Bill Gates featured in our podcast "In Good Company". He spoke enthusiastically about AI – artificial intelligence. The debate about the opportunities and challenges it presents has only just begun, but he believes this technology is a greater invention than the computer, the Internet and the mobile phone.

At the fund, we see considerable potential in machine learning and AI. We're already using this technology to optimise our investments and reduce the number of transactions, and I'm absolutely certain that it will become a more important part of our work in the future. We're also very interested in how the companies we invest in are approaching this technology. During the summer, we will be publishing a new expectations document on consumer rights, which will cover responsible use of AI.

The fundamental idea of the fund is for us to generate a return by participating in global value creation. We started out investing only in fixed income, but 70 percent of the fund is now invested in equities. We've also started investing in unlisted real estate and renewable energy infrastructure. All of this has come as a result of healthy and thorough processes anchored here with the Standing Committee and the Storting.

The Ministry of Finance has now asked us to look at whether the fund should be permitted to invest in unlisted equities – companies not quoted on a stock exchange. We've been seeing a growing proportion of global value creation taking place in the unlisted market, one in which we do not currently participate.

The matter of unlisted equities has been looked at before, so why might it make sense to revisit it? The market for unlisted equities has grown significantly in relation to the listed market. In 2007, it was 3 percent of the size of the listed market. The figure today is 8 percent. The companies being floated on the stock market are also older and larger than a few years ago. This means that more value creation is occurring before companies are listed and so before we can invest in them. As the unlisted market has evolved, so has the cost structure for large investors.

Funds we’re often compared to have substantial allocations to private equity funds and unlisted equities.

We’re pleased that the Ministry has asked us to look into the possibility of the fund investing in a new asset class. It’s an important matter that needs to be examined carefully. We need to be sure that we can invest responsibly and cost-effectively with the greatest possible transparency. We will submit our recommendation to the Ministry in December.

Finance Minister, Committee Members, last year’s word of the year in the UK was “permacrisis”. The equivalent in Germany was “Zeitenwende”. They neatly encapsulate the times we’re living in. The Sverdrup Committee too chose to title their report on the long-term outlook for the Government Pension Fund Global “The Fund in a changing world”.

We seem to have lurched more or less from one crisis to another in recent years. A global pandemic, the outbreak of war in Europe, growing geopolitical tensions. How do we approach such an uncertain world, and where do we need to be prepared for things to be different from before?

I think it’s vital to stick with the fundamental pillars on which the fund has been built – a long-term, stable, predictable investor with a well-anchored mandate from its owners. But we must also have the ability to innovate, become more robust, embrace new technology and keep a close eye on what’s going on around us. To be a good investor, you need to be far-sighted, tenacious and patient, yet able to change your mind when the facts change. This is how the fund can continue to thrive in a changing world.

Thank you for your time.