Norges Bank’s management of the Government Pension Fund Global

Introductory statement by CEO of Norges Bank Investment Management, 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, Chair and Members of the Committee:

528 people worked in Norges Bank Investment Management at the end of the first quarter.

As the fund’s manager, it is our job to invest the revenue from Norwegian oil, and try to outperform the market [within the limits for deviation from the benchmark index that we are given by the Ministry of Finance].

Since the inception of the Fund, return has been 0,29 percent higher than the benchmark index. Equivalent to an excess return of 308 billion kroner.

The first quarter this year brought a negative return in the Fund, but it was far smaller than it might have been, thanks to a great job by my colleagues. It was a turbulent quarter in global markets.

The fund’s return in Q1 2022 was 0.66 percentage point, or 82 billion kroner, better than the return on the benchmark index the Ministry of Finance measures us against. This means that each individual employee at the fund made 155 million kroner in the first quarter. I must say I am rather proud of this.

Of course, we cannot count on numbers like this every quarter, and it is the long run that matters, but they do give you an idea of the sums we are talking about here.

Since its inception in 1996, the Government Pension Fund Global has delivered an absolute annual return of 6.3 percent, corresponding to an accumulated return of no less than 7,355 billion kroner.

As finance minister Sigbjørn Johnsen said 25 years ago: “Now we have money in the bank!”

Except the money is not “in the bank”. It is invested in equities, bonds, unlisted real estate and a wind farm.

The return on our investments has meant that the Norwegian people have a fund that is three times larger than if we had simply sold the oil and put the money in the bank.

Sigbjørn Johnsen knew the fund would grow, but he could hardly have anticipated that the total return, a couple of decades later would contribute a quarter of the government budget. Or that we would own 1.3 percent of the listed equities in the world.

That is how large and important the fund has become.

I have now been in charge of Norges Bank Investment Management for just over 18 months. It has been a period dominated by the pandemic and working from home.

It took me more than a year before I could visit our offices in New York and Singapore and meet our people there.

And when we began to put the pandemic behind us and think things would return to "normal", disaster struck again. Just as the pandemic made its mark on the fund and the work we do, so will Russia's invasion of Ukraine. Not just directly on our investments in Russia, but also through increased inflationary pressures.

The fund is invested widely in global markets. That is the idea behind it. And it means that what happens around the globe impacts on the fund. There is nowhere to hide. In our world, risk is something we must live with. Our job is to manage it.

When asked what I consider to be the greatest challenges facing the fund in the years ahead, I would answer inflation and geopolitics.

Inflation was already on the way up before war broke out in Ukraine, and it has continued to rise.

The geopolitical consequences of the war are difficult to predict, but we probably face the greatest changes for 30 years. There is little doubt that growing frictions between superpowers and a reversal of globalisation will affect the markets.

On top of this, interest rates are still very low, and share prices are high.

All this taken together means that we have a rocky ride ahead.

What is the new normal for the fund? Is it greater uncertainty and more risk than we have seen before? I think my answer has to be a "yes".

We need to evolve and prepare for what lies ahead. Two things are particularly important here:

First, we must have an organisation with sufficient resources to manage the risk and uncertainty – because there is a lot of money to be made there.

It is not that difficult to make money when times are good. Harder is making money when the going gets tough.

Second, we must communicate well with our owners – the Norwegian people. We are entirely dependent on their trust in what we do. And there is a direct link between knowledge and trust. We are now being seen and heard more than in the past.

To succeed in generating the highest possible return for current and future generations, we must remain among the global elite of investment managers.

In many ways, the fund is a sack of money that we carry around the world. We must handle trades and transactions around the clock. It starts in Europe in the morning, moves on to New York in the evening, and then Singapore during the night. Altogether, this money is put to work on behalf of the Norwegian people for 23 of the 24 hours in the day.

At the end of 2021, around 50 percent of the fund was invested in North America, 30 percent in Europe and 15 percent in Asia. These are by far our three largest markets.

Proximity to the markets is crucial for us, and a more unstable global situation only makes it more important.

But we also want to strengthen investment management in Oslo. We have launched graduate and summer intern programmes where we bring in young people straight from university. Some stay at the fund, while others take what they have learned here to other parts of the Norwegian investment management industry.

Given our role of managing wealth for future generations, we need the best people. Allow me to dwell on some key reasons why we will be strengthening our stable in the time ahead.

First, I want to talk about active ownership. We are already an active owner, following up the companies we invest in and building knowledge of the markets where we operate. We plan to do more of this.

To be an active owner, we need an in-depth knowledge of markets and companies. Recently, for example, we have had a particular focus on finding what we call “rotten apples” and removing them from the fund’s portfolio.

Some companies are not good investments. Others may behave in ways that are not good. They are not always easy to identify. A little while ago, we recruited four specialists in forensic accounting and fraud. We believe that this will pay off in the longer term.

The fund works on responsible investment in many different areas: Children's rights, water management, human rights, anti-corruption, tax transparency, ocean sustainability, biodiversity and climate change are some of the areas where we have clear expectations of the companies, we invest in.

We do this both by engaging with companies and by voting. To give you an idea of the scope of this work, we held around 3,000 company meetings last year and voted on around 120,000 items. Voting enables us to clearly express our views as an investor.

We are currently in the busiest time of year for our ownership group, because the majority of annual shareholder meetings take place before the summer. This year, we have a particular focus on executive pay, board diversity and climate change.

I would like to look at the last of these now and say something about how we are working on climate risk.

We are a financial investor. That means that our objective is the highest possible return. Our work on climate risk is rooted in this role as a financial investor.

The fund is exposed to a variety of risks, of which climate risk is one. It is important for us financially that the companies we invest in cope well with the transition to a low-carbon economy. We want to be a driving force in their journey towards net zero emissions.

Companies that do not take climate risk seriously pose a financial risk to the fund. In a scenario where the world fails in transitioning to a low-carbon economy, the risk to the fund will also increase, because the consequences will be felt everywhere.

So why not just sell these companies? We do not believe that divesting from these companies is the solution. Instead, we believe the best way we can contribute to our goals is by being an active owner. One that is seen and heard by companies. One that promotes the development of good international reporting standards, which are crucial for understanding companies' climate risk.

Active ownership is a long-term process, however, and change can take time. So, it is positive that our annual surveys show our active ownership efforts getting results. Each year, we carry out around 4,000 detailed assessments of companies' governance structure, strategies, risk management and sustainability objectives. We are seeing continuous improvements in performance, and the companies we have engaged with have made more progress than the rest.

This does not mean that we should invest in every company. We will continue to divest from companies if we do not consider their business model to be sustainable and we have little chance of influencing their behaviour. In addition, we began last year to review sustainability risks at companies before they even join our benchmark index, so that we can avoid buying into high-risk companies. Taken together, we believe this reduces the risk in our portfolio, and more opportunities to follow up what companies are doing about it.

This White Paper suggest removing the Funds environmental mandates. The Fund support this proposal. For years we have invested and developed expertise in environmental technology and investments. This expertise is highly important in a world targeting net-zero emission, and we think it is important to further emphasise this work.

We have in our mandate permission to invest two percent of the Fund in renewable infrastructure. In April last year we did our first investment in renewable infrastructure. In this area competition is fierce and good prospects is hard to find. It will therefore take some time for us to fulfil the task on investments in renewable infrastructure.

We are now working on a climate plan that takes account of the changes that will be formalised once the consideration of the white paper is complete. It is important to stress that we are not starting from scratch. We have been working on climate risk for 15 years.

Now that we are to set our sights higher, we will need more resources than we have today. Not only because we want to strengthen and develop this work, but also to ensure that it does not come at the cost of other activities.

Climate risk is a financial risk to the Fund. But we also face risk to our daily operations. One of these risks comes from cyber.

The world's largest sovereign wealth fund is naturally an attractive target, and the war in Ukraine has increased the risk of cyberattacks on the fund.

A successful attack on our IT systems putting them out of action for a short or long period would have consequences for the operation of the fund.

It could steal market data and other sensitive information and damage our reputation and credibility.

We work systematically on information security in all our IT processes.

The battle for the best IT people is fierce, both in Norway and abroad.

We are therefore working on being a more attractive employer in technology and IT. We know that we are not always on the radar of Norway's top tech graduates. We need to do something about that!

We do not use technology solely to defend ourselves against cyberattacks. We also use it to get better at making money.

We recently launched a test version of an investment simulator for the fund. By feeding millions of historical data points into the simulator, we hope to obtain valuable information that enables our employees to make better decisions.

It is an innovative way of organising information, and we hope that it will help our people improve.

I began today by singing the praises of my more than 500 colleagues at the fund, and I would like to finish by doing the same.

It is an elite team of professionals who get fantastic results 23 hours a day at very low cost.

I am very proud and humble to be their colleague.

But history is full of teams that failed to renew, reinforce, and adapt when necessary.

It is essential for the fund to reinforce and renew itself to meet challenges that we are already facing and will be more tangible in the time ahead. I have been over several of them today.

Troubled markets and climate change spell increased risk for the fund, but also, as mentioned earlier, opportunities.

Thank you for your time.