

A commitment to leading

Sunniva Kolostyak speaks to KLP's CFO Aage Schaanning about new regulations for public-sector occupational pensions, interacting with its members and its dedication to creating a sustainable economy and society

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Can you tell us about KLP, the pensions you offer and how much assets you have under management?

Kommunal Landspensjonskasse (KLP) is Norway's largest pension company. We are a mutual company owned by municipalities, businesses and health enterprises with public-sector occupational pensions. We provide services within pensions, banking, fund management and insurance with assets totalling approximately NOK 652 billion as of 2017.

Since our customers are also our owners, they benefit from our profits. Our mission is therefore to deliver the best possible services at the lowest possible price, with the best possible return on their pensions.

Pensions are KLP's core product and largest activity. We have extensive experience in understanding what is important to our customers and providing good customer experiences. We know that pensions can seem complicated, so we make a conscious effort to simplify and be a helpful guide in everything relating to pensions.

Our aim is to be the preferred provider of pensions to the public sector. To achieve this goal, we have to provide competitive returns on the pension funds under our



management, and we need to run an efficient operation with the lowest administrative costs on the market. At the same time, the need for information on pensions, both for employers and employees, is very great and must be met effectively with access to good personal service and excellent online solutions.

What are KLP's asset allocations and how have they performed?

We have allocated approximately 35 per cent of our assets in equities and real estate. The rest is allocated to fixed income (bonds and loans). We focus on risk reduction through diversification of our assets and have a large share of our investment exposed to market index. We focus on stable asset allocation

over time to harvest risk premiums and have a more active approach in the Norwegian market than the global. We have achieved a solid historical investment performance over the years.

KLP appears to focus heavily on making responsible investments; can you tell us why this is important?

The world is facing major sustainability issues, both at the local and global level. Like every institutional investor, KLP both influences and becomes influenced by these developments, and we face both risks and opportunities resulting from these issues. Our thinking as a pension provider is long term, and we are dependent on a sustainable economy and society. That is why responsibility and sustainability is fundamental to us.

Our ambition is to actively contribute to a sustainable economy and society. We contribute to this through the way we invest and how we act as a shareholder and owner. We use the UN Sustainable Development Goals, which sets a common global direction, as a framework for our work.

Both our stakeholders and our managers have a strong commitment towards applying environmental, social and governance (ESG) criteria

in our investments policy.

Several of our owners are public health enterprises. Their first-hand experience dealing with the consequences of tobacco use, led to the tobacco sector being the first sector to be excluded in 2000. Since then, KLP has expanded its exclusion criteria to other sectors and themes based on the UN Global Compact and international norms. The latest additions are coal and oil sands.

KLP has integrated ESG as a part of the investment process since the early 2000s. We have built a strong team on the strategic and operational level of responsible investments. In addition to the exclusion list, KLP also has a dedicated strategy, building an impact portfolio where we invest in companies and projects with positive impact to the Sustainable Development Goals. We believe in a strategy focusing on both excluding non-sustainable sectors and companies not performing according to our ESG criteria, in combination with impact investments that will reduce the impact on the climate.

What are the main challenges for KLP at the moment?

For KLP and our members, it is important to get new pension rules into place, so everyone can find good answers when planning their retirement. We reached a milestone on 3 March 2018 when the involved parties came to an agreement on a new public-sector occupational pension. The proposal for a new public-sector occupational pension first has to be 'bedded down' in the individual labour organisations before the government can refer it to the Norwegian parliament. The new agreement was adopted in 2018, with the effects coming in from 1 January 2020.

We are prepared for these changes.

When the old and new pension schemes exist side by side, with complicated transitional arrangements, it is important for us to establish good solutions that give customers the best overview of their own situation, whether they are employers or employees.

The world is facing great challenges in sustainability, both locally and globally. KLP aims to contribute by using the influence that we have as Norway's largest pension company. The desire to be a leader in the industry, and to make a difference when it comes to social responsibility and sustainability, is important to us.

Low interest rates are still a challenge for a long-term investment manager like KLP, as we are facing an annual guaranteed return requirement. We have to identify and invest in projects/asset classes that will assist us meeting the investments targets. We need to develop our digital and automation skills. We need to develop our products and services as the market changes and report on our exposure to climate risk.

How do you communicate with your members?

Having a good dialogue with our members and owners is of strategic importance. This provides us with important input to strategic questions and useful feedback on day-to-day operations. As an example, we arranged owners' meetings around the country throughout 2018 – with great success. Finally KLP invites local authority chief executives to dedicated meetings to get feedback and input on how things are working and how we can improve.

What are your goals over the next year?

Our vision is for KLP to be the best partner for the days to come. This is

what we want our owners and customers to perceive when interacting with us. We aim to strengthen their finances, simplify their everyday life, help to make them attractive employers and contribute to a more sustainable public sector.

The key to this work are the values: Open, clear, responsible and committed, which all staff should reflect in their dealings with the company's customers and colleagues.

Our main goal is to be Norway's leading provider of pensions to the public sector. We will strive to deliver secure and competitive pension, financial and insurance services to the public sector, enterprises associated with it, and their employees. Our most important task is therefore to provide pensions with a competitive rate of return over time, the lowest costs and a high level of service.

Additionally, we are well positioned to withstand a weak market. We are in a good position to maintain investments in asset classes that are expected to produce returns above the guaranteed interest rate over time. The asset allocation and risk taking is set up so the company can survive a weak year without greatly reducing its ability to take risks in the next year.

Managing hundreds of billions of kroner on behalf of the community imposes an obligation. How well the community's funds are managed has a great impact on KLP's owners and thus indirectly on most people. KLP has socially engaged owners who want the company to both ensure a good predictable return and also to lead the industry in social responsibility. In particular, the owners want KLP to help ensure that global warming is limited. ■