

CASE STUDY

Leading the way

Natalie Tuck speaks to Norges Bank Investment Management on the Norwegian Government Pension Fund Global's investment strategy and ESG policy

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Can you explain the purpose of the Norwegian Government Pension Fund Global and how much it has in assets under management?

The Government Pension Fund Global was set up in 1990 to underpin long-term considerations when phasing petroleum revenues into the Norwegian economy. Norges Bank Investment Management manages the fund on behalf of the Ministry of Finance, which owns the fund on behalf of the Norwegian people. The ministry determines the fund's investment strategy, following advice from, among others, Norges Bank Investment Management and discussions in parliament. The management mandate defines the investment universe and the fund's strategic reference index. The fund had a market value of 7,510 billion kroner at 31 December 2016, of which 62.5 per cent was invested in equities, 34.3 per cent in fixed income and 3.2 per cent in real estate.

How has the fund's investment strategy changed over the past few years to deal with market volatility? What have your returns been?

The fund's investments are diversified across asset classes, regions and sectors. The goal is to have well-diversified investments

that spread risk and generate high long-term return. The fund is invested in three major asset classes, equities, fixed income and real estate. Of these, 42.3 per cent of the fund's investments were in North America, 36 per cent in Europe and 17.9 per cent in Asia and Oceania. Emerging markets accounted for 10 per cent of the fund's investments.

The fund returned 6.9 per cent, or 447 billion kroner, in 2016. Equity investments returned 8.7 per cent and fixed-income investments 4.3 per cent. The overall return on the fund's equity and fixed-income investments was 0.1 percentage point higher than the return on the benchmark index. Real estate investments returned 0.8 per cent.

The fund seems very proactive in terms of its attitude towards ESG issues. What strategy do you have in place? How has this helped the fund?

According to our mandate, Norges Bank shall establish a broad set of principles for the responsible management of the investment portfolio. In designing the principles mentioned previously, the bank shall emphasise the long-term horizon for the management of the investment portfolio and that the investment portfolio shall be broadly diversified across the markets included in the

investment universe. The principles shall be based on the considerations of good corporate governance and environmental and social conditions in the investment management, in accordance with internationally-recognised principles and standards such as the UN Global Compact, the OECD's Principles of Corporate Governance and the OECD's Guidelines for Multinational Enterprises.

We seek to identify, measure and manage all relevant risks to which the fund is exposed. Monitoring environmental, social and governance risks in the portfolio is an important aspect of Norges Bank Investment Management's risk management. We take a systematic approach to risk monitoring and assess risk at many levels, including at the market, sector and company level. Our approach means that we perform general assessments before going into specific issues in greater depth. These assessments contribute to a greater understanding of risk in the portfolio. ■

RESPONSIBLE INVESTMENT

- During 2016, Norges Bank voted at 11,294 shareholder meetings globally on behalf of the Government Pension Fund Global.
- It states that the three pillars of its responsible investment pillars are standard setting, ownership and risk management.
- During 2016, it divested from 23 companies on the basis of its assessment of environmental, social and governance-related risk factors. In the past five years it has divested from 210 companies.