



NORWEGIAN MINISTRY OF FINANCE

# The Management of the Norwegian Petroleum Wealth

*- avoiding the resource curse*

*Siv Jensen, Minister of Finance*

Columbia University, 15 April 2015

# Outline

## Petroleum revenues and fund mechanism

Governance

Investment strategy

Fund performance

Responsible management

# Discovery of oil in 1969 – the Ekofisk oil field

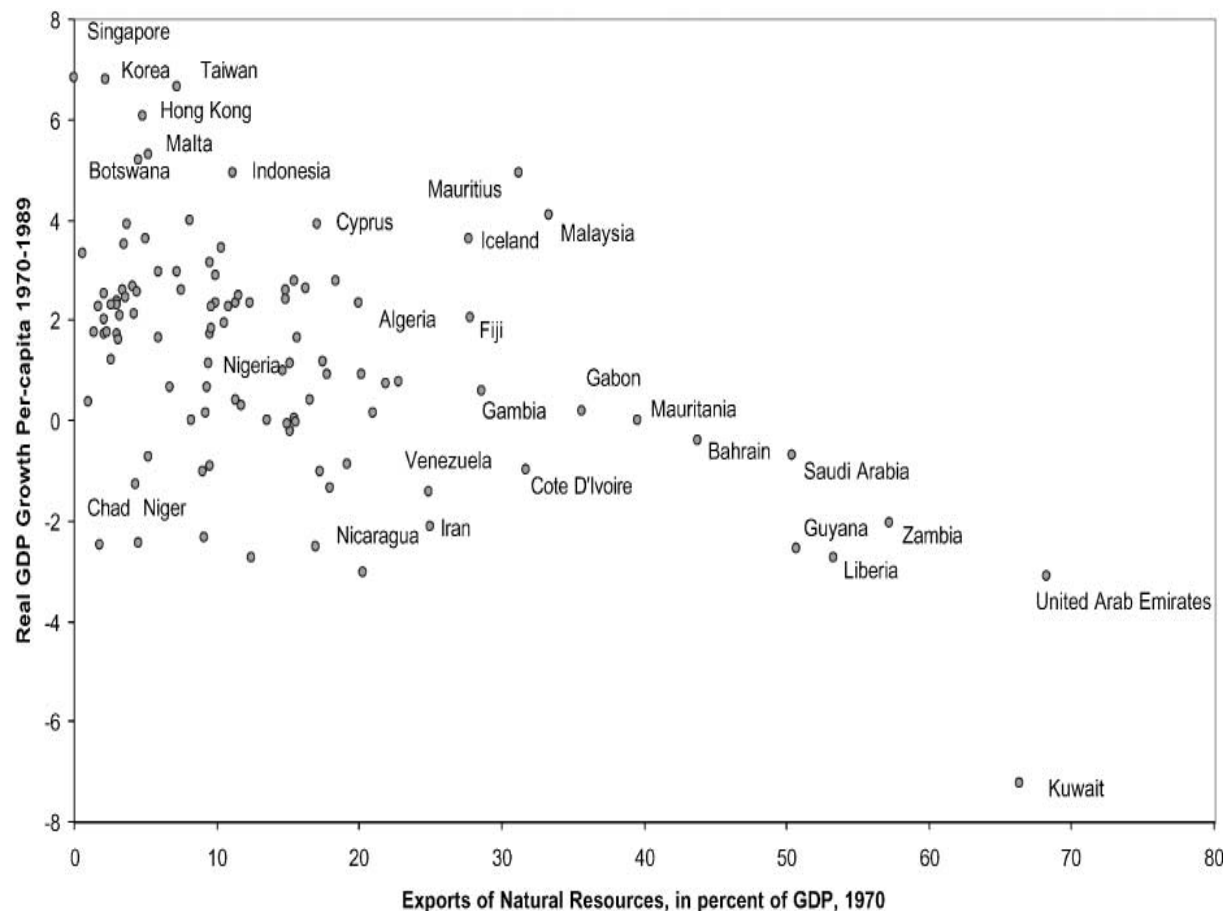


Photo: Kjetil Alsvik/Conoco Phillips

# Blessing or curse: Poor performance in resource-rich countries

## Transmission channels

- Dutch disease – lack of fiscal discipline
- Bad investments - fund invested domestically
- Loss of focus on structural policy
- Poor governance & weak institutions (rent-seeking )



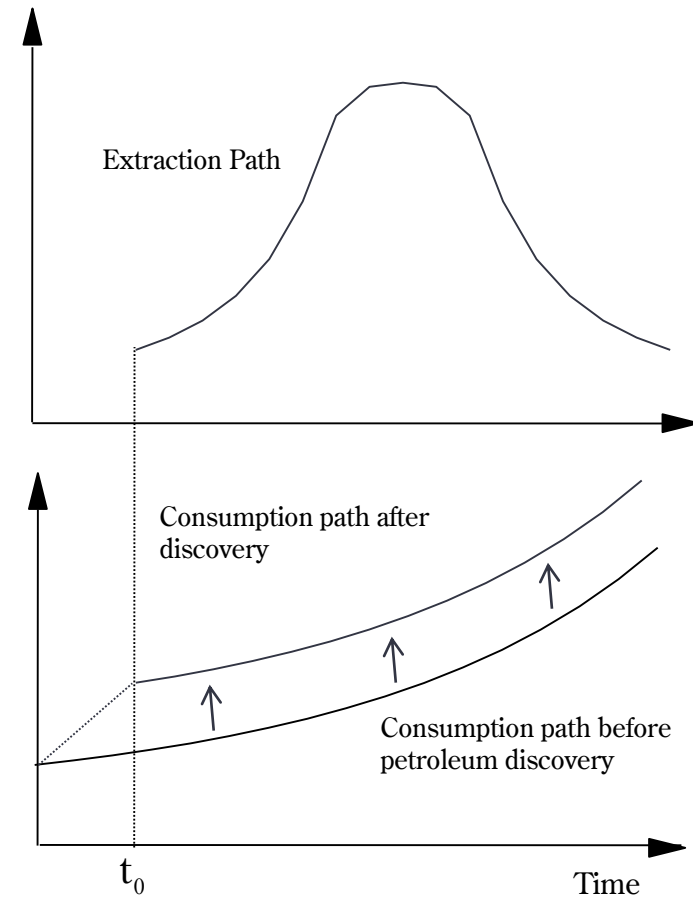
# Petroleum revenues are temporary and volatile

## Petroleum revenues not income in traditional sense

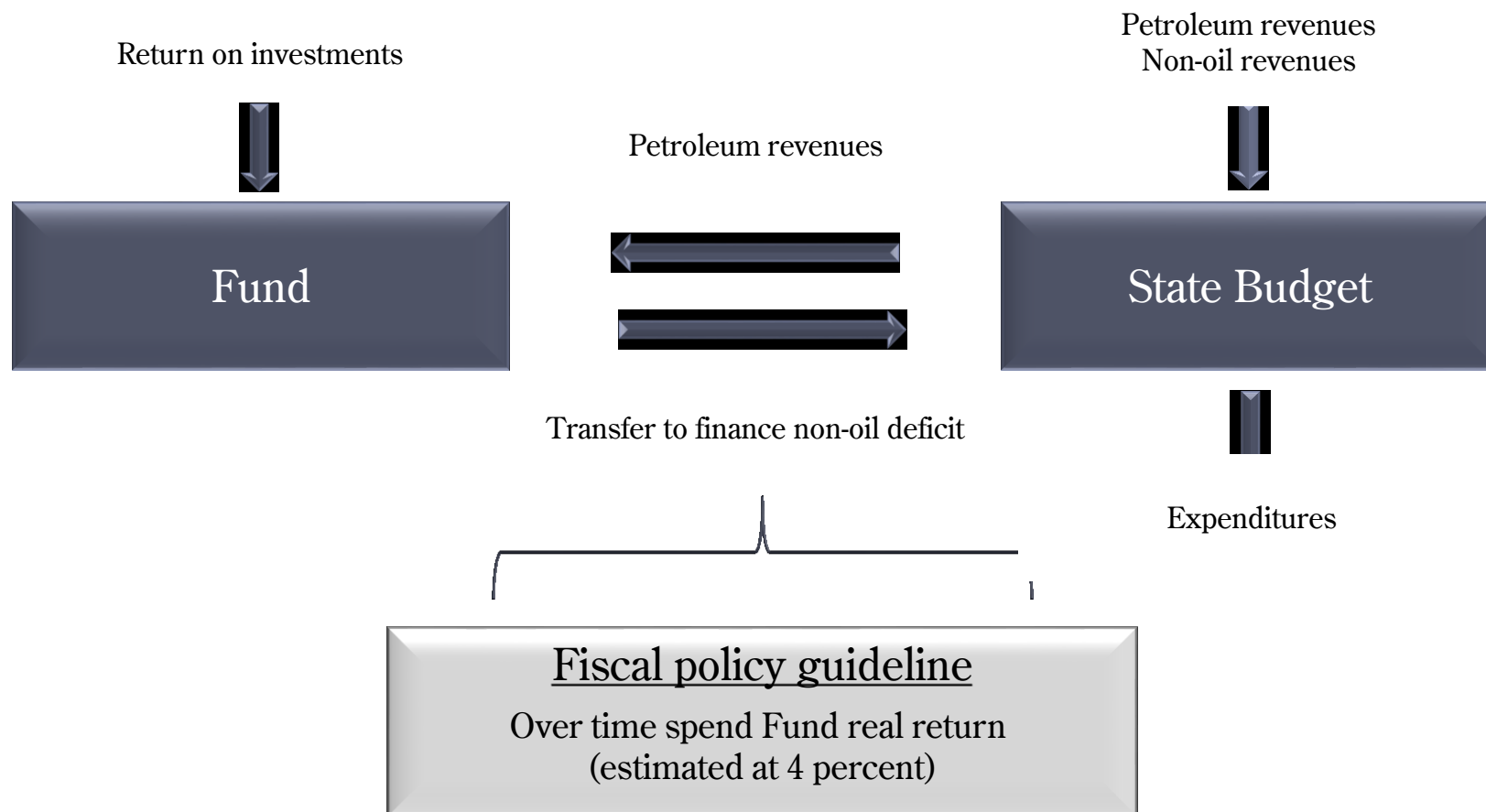
- Income stemming from depletion of non-renewable natural resources
- Transform windfall gain to permanent increase in consumption
- Need for separating current accrual from spending



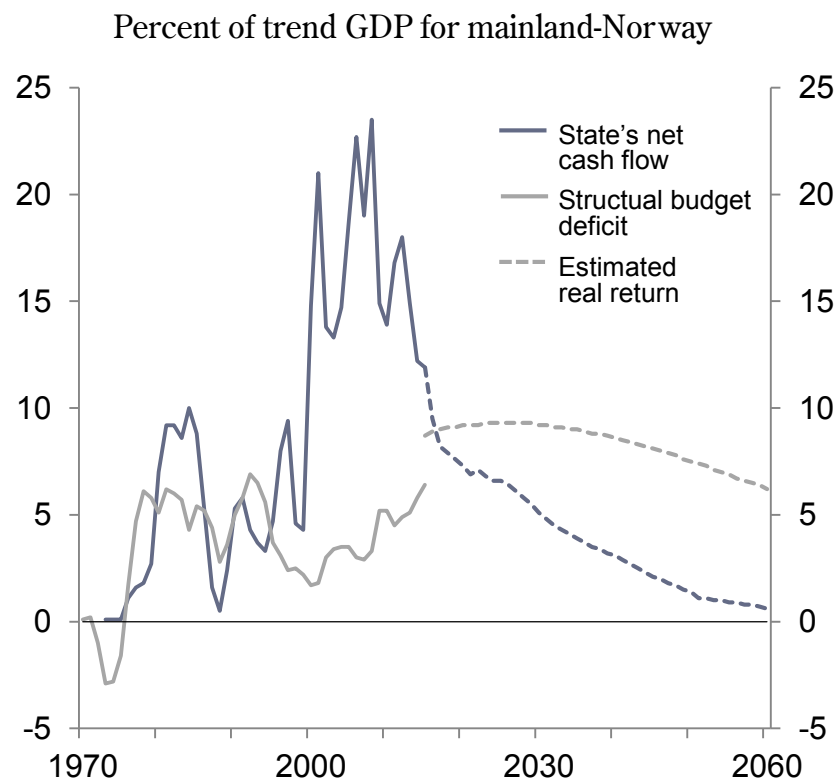
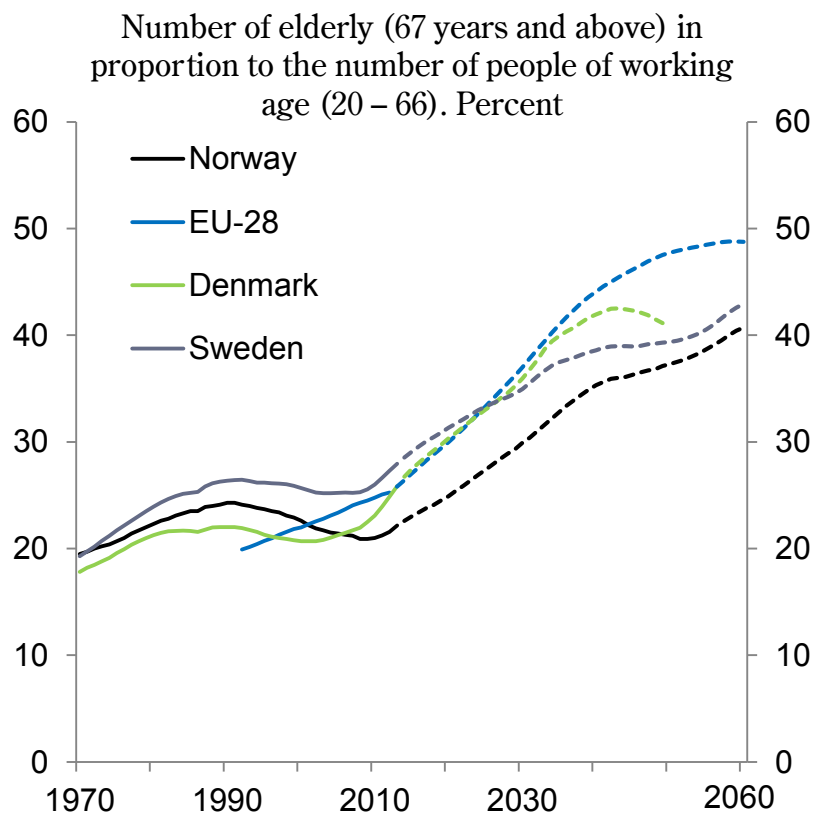
Necessitates saving a large part of petroleum revenues



# GPFG is fully integrated with fiscal policy



# Sharp increase in public pension expenditures coincides with declining funding contribution from the GPFG – a long term challenge to government finances



Source: Ministry of Finance (National Budget 2015)

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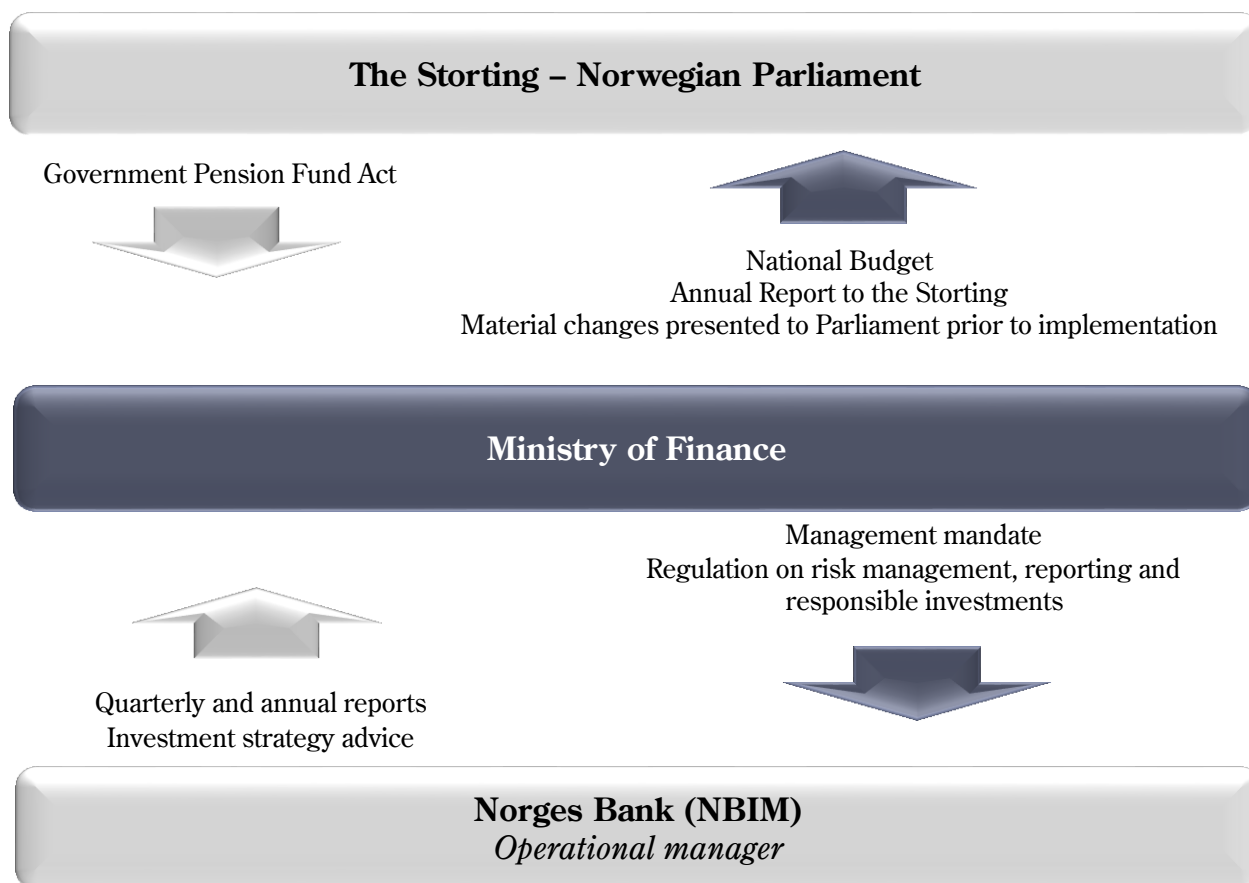
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# Governance structure marked by clear lines of responsibilities



# High degree of transparency in Fund management



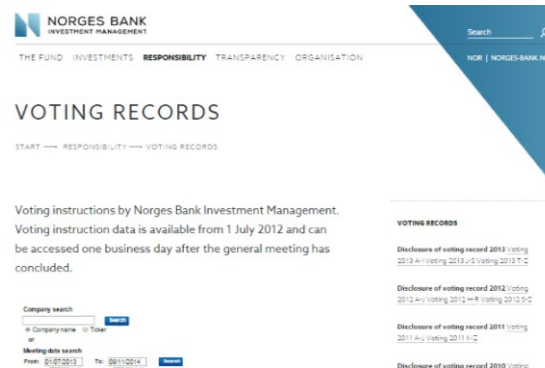
**Meld. St. 21**

(2014–2015)

Melding til Stortinget

Forvaltningen av  
Statens pensjonsfond i 2014

- Prerequisite to ensuring broad support for and trust in the management of Fund
- Management mandate states; *...greatest possible degree of transparency within the limits defined by a sound execution of the management assignment*
  - Reporting
  - Holding lists
  - Voting records
- Contributes to a robust investment strategy
  - Anchoring of risk profile with stakeholders



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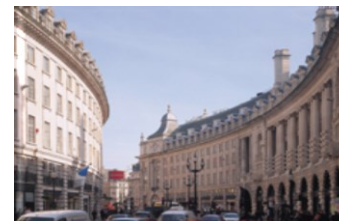
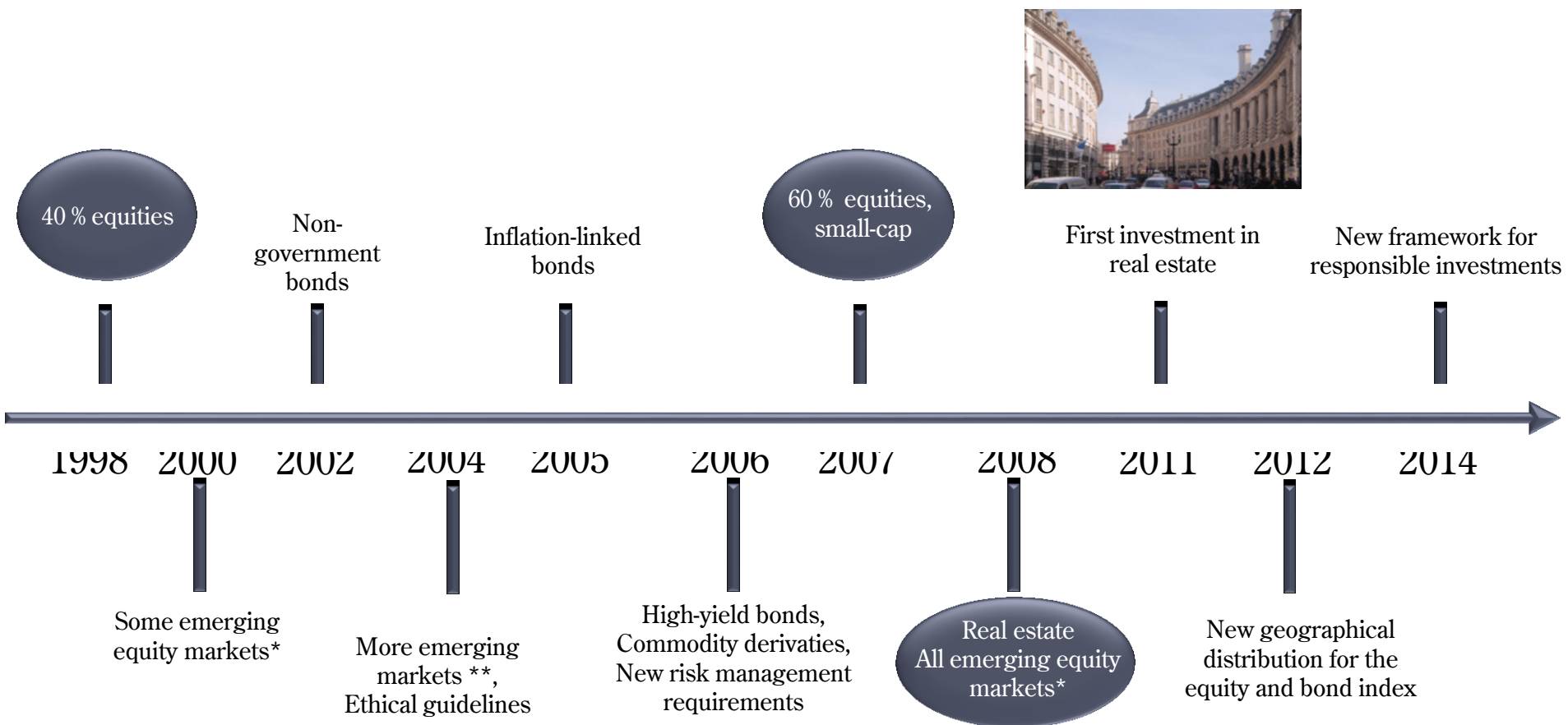
# Investment strategy premised on Fund objective, investment beliefs and Fund characteristics

Highest possible long-term financial return within a moderate level of risk.

The investment strategy is in particular characterized by:

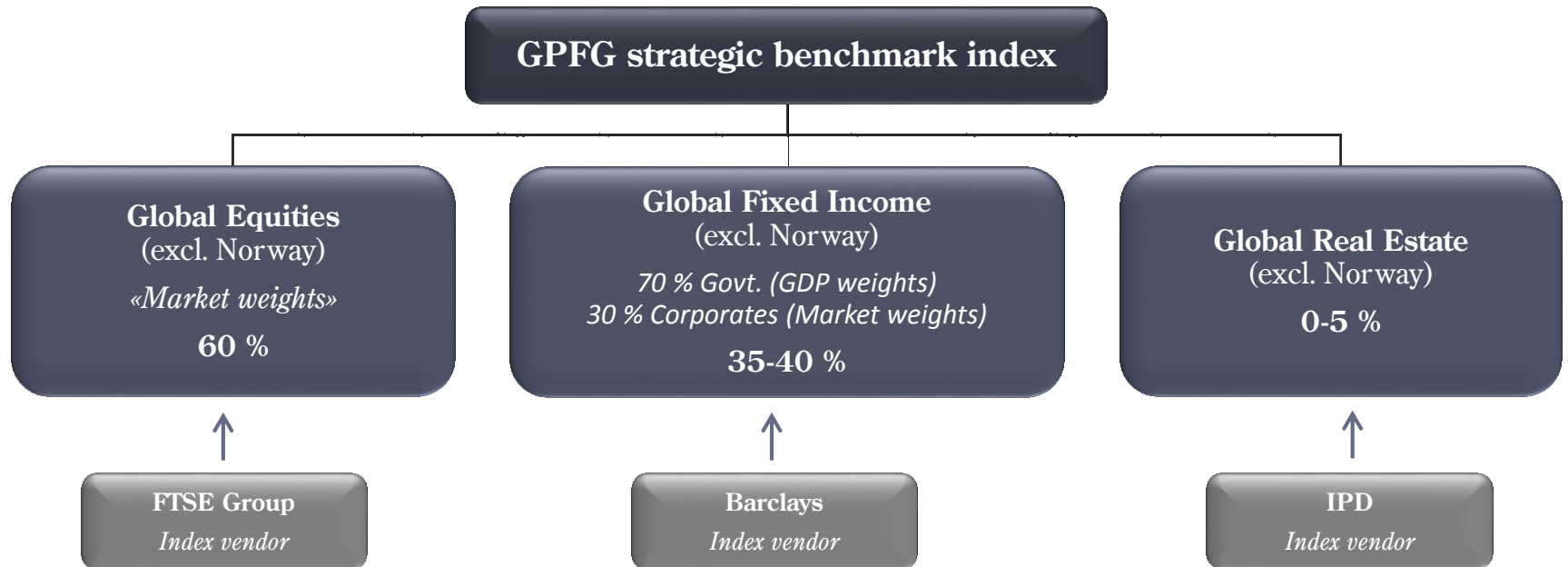
- Diversification
- Harvesting risk premiums
- Exploitation of the Fund's long-term horizon
- A moderate degree of active management
- Responsible management
- Cost efficiency
- A clear governance structure

# The investment strategy of the Fund has been developed gradually



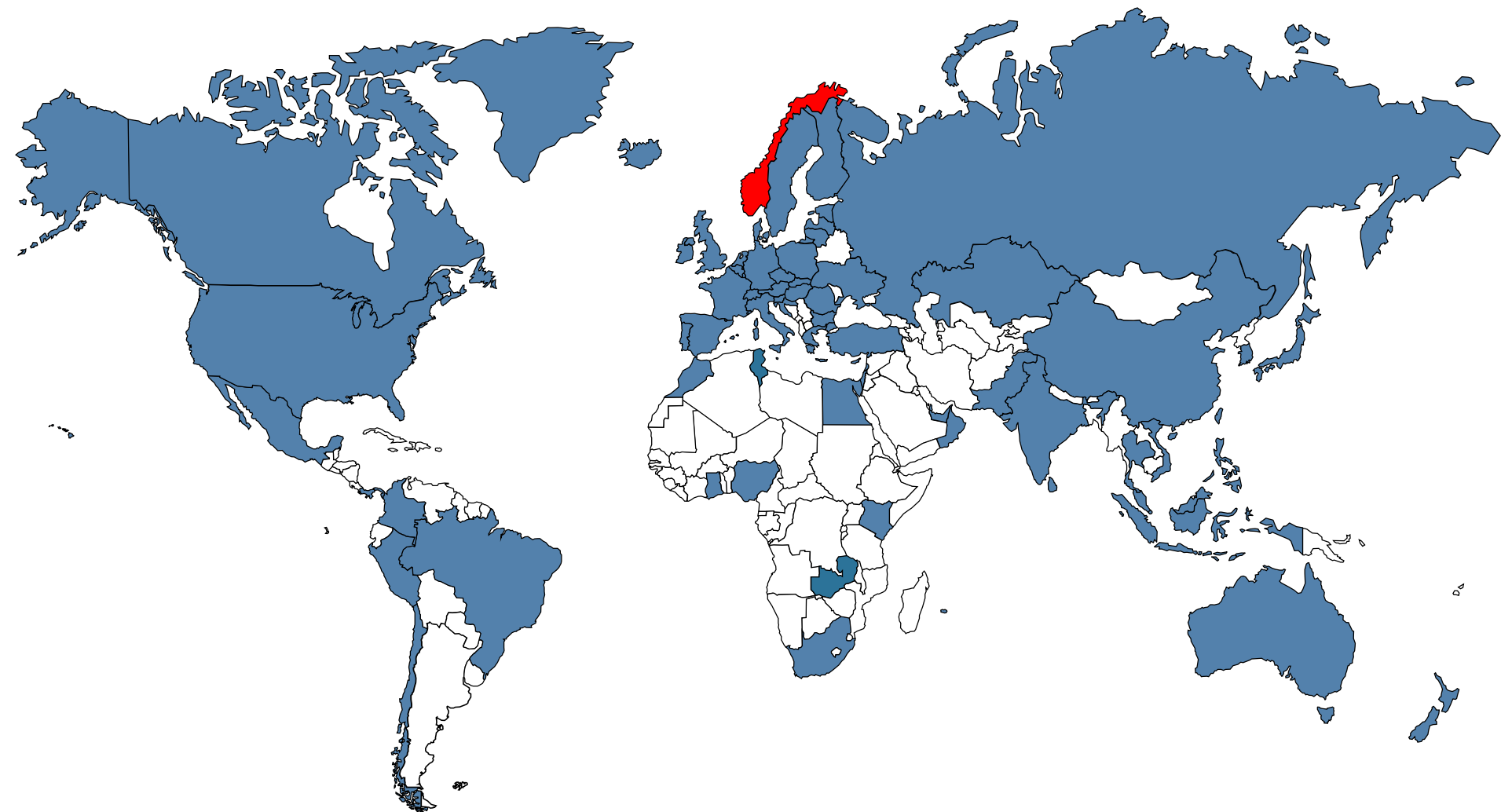
\*Benchmark index  
\*\*Investment universe

# The investment strategy



# Broad geographical distribution of Fund investments

Actual investments at yearend 2014



Source: Norges Bank



# Real estate investments

- First investment in unlisted real estate completed in April 2011 – Regent Street, London
- First unlisted property investment in the US in February 2013 – New York City, Washington D.C. and Boston
- Objective: Global real estate portfolio



Foto: Eastdil Secured



Foto: Bill Horsman

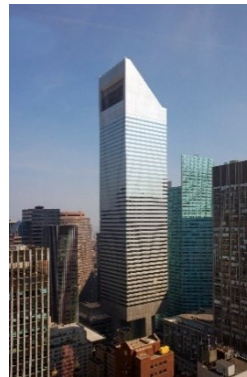


Foto: Boston Properties



Foto: Anton Grassl/Esto

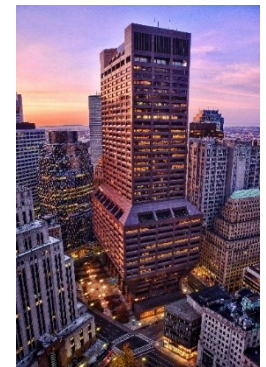


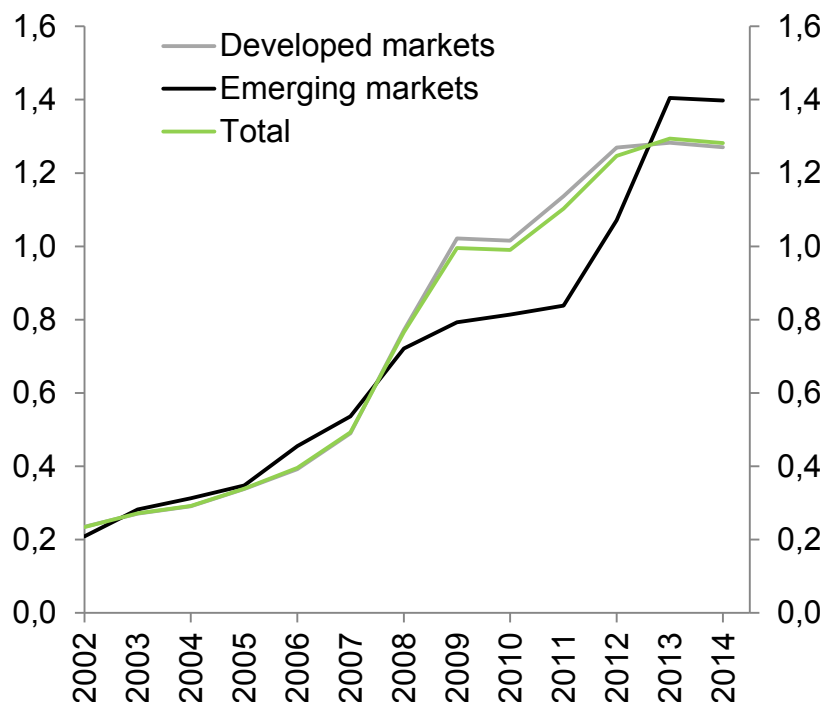
Foto: Boston Properties



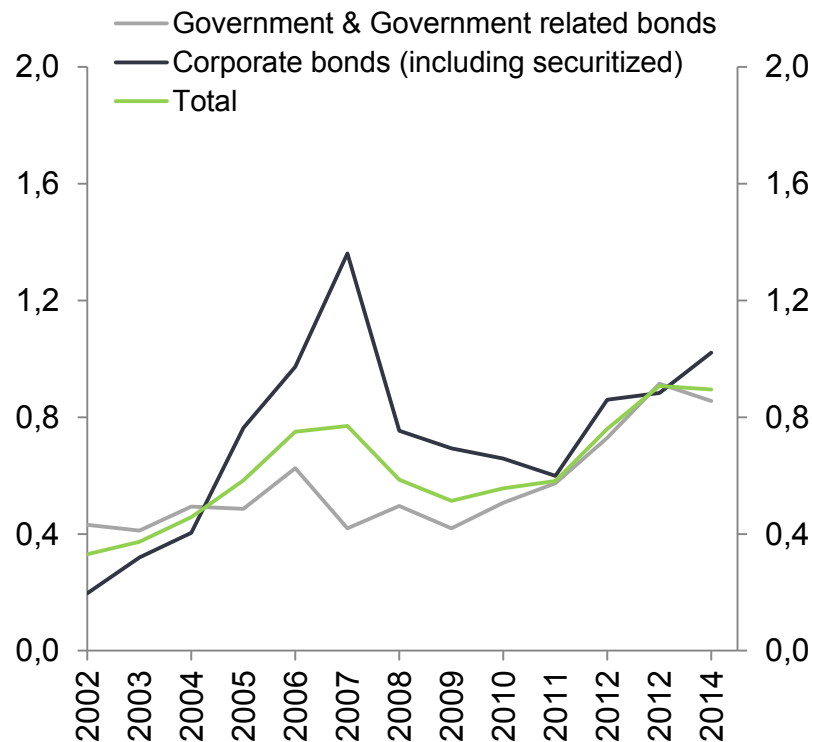
# The Fund holds significant ownership shares in global markets

Yearend 2014

## Average holdings in equity markets



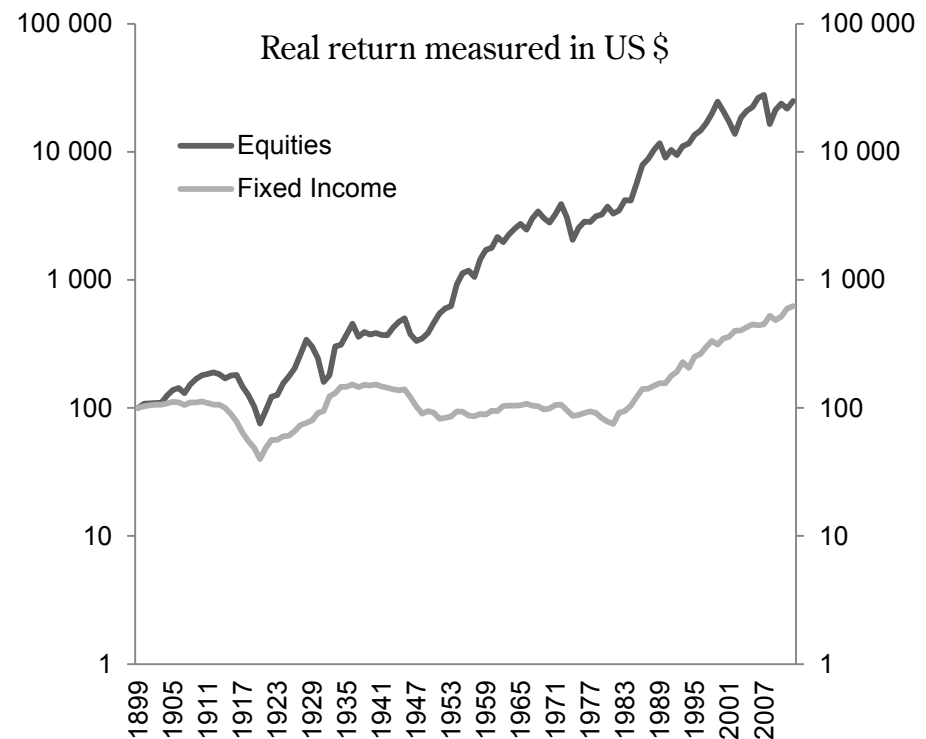
## Average holdings in fixed income markets



Sources: Norges Bank and Ministry of Finance

# Investment strategy – Equity proportion

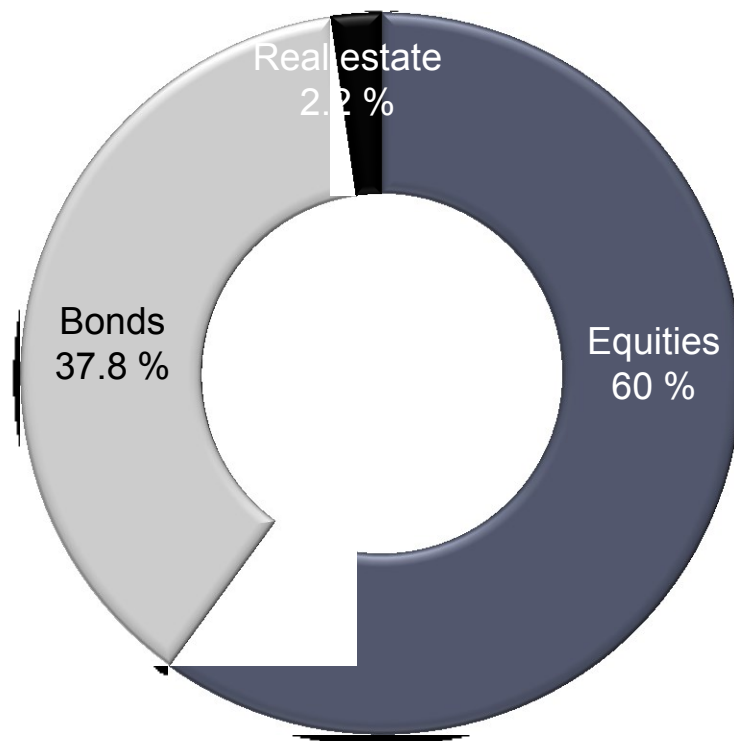
- No “optimal” equity allocation
- Return and risk considerations
- Single most important decision for total portfolio risk
- High risk bearing capacity – The Fund is highly resilient to short-term return volatility
- Large fund → Harvesting risk premia to a large extent confined to «classical» listed equity and fixed income markets



Source: Dimson, Marsh and Staunton

# New assessment of real estate and infrastructure investments

- We will assess whether the 5 pct. limit on real estate should be increased and if we should open up for infrastructure investments
- Has appointed an expert group:
  - Stijn Van Nieuwerburgh, NYU
  - Richard Stanton, UC Berkeley
  - Leo De Bever, ex. CEO AIMCo
- The government will conclude in the annual report to be presented in the spring of 2016.



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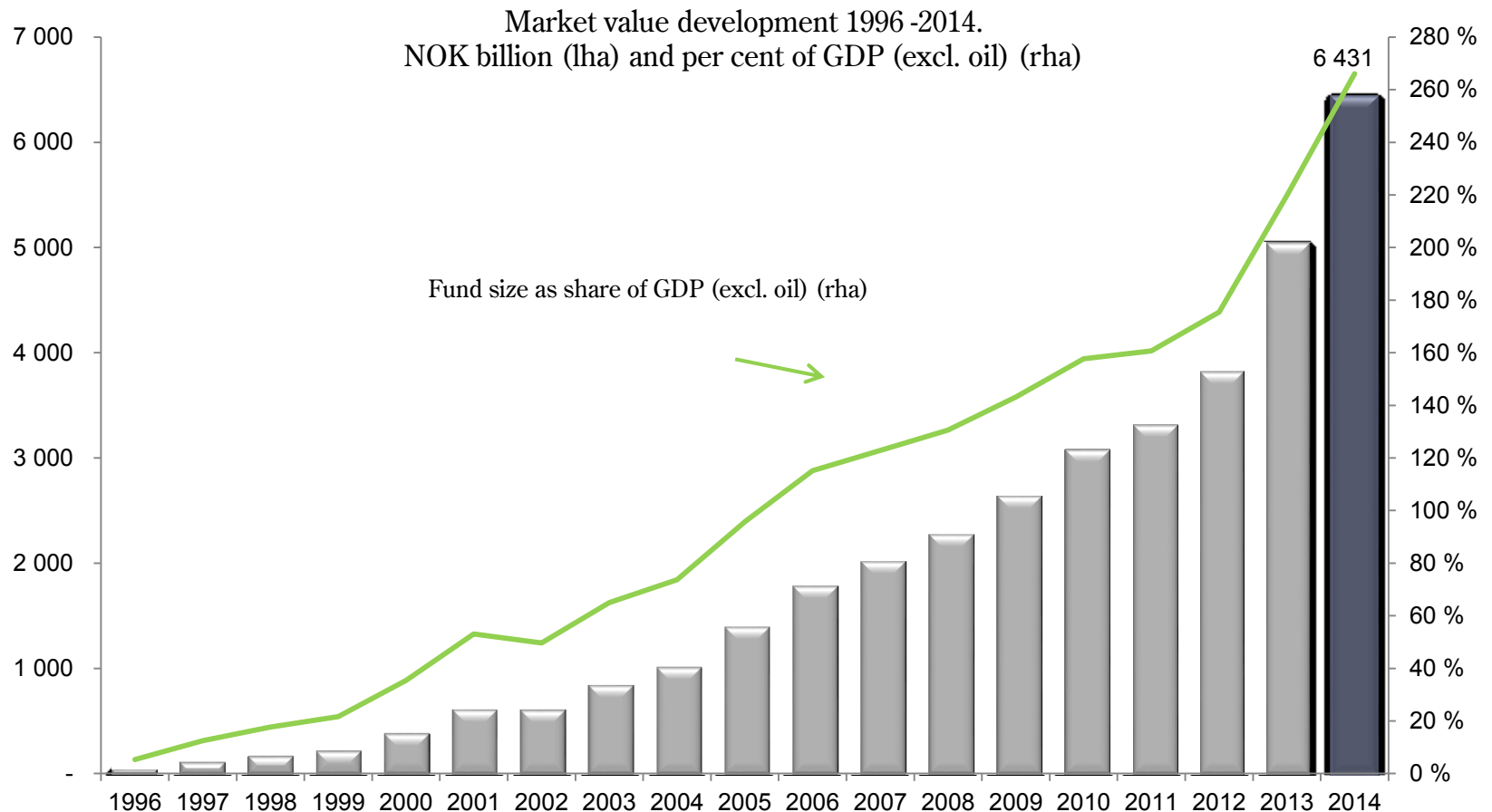
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# GPFG is among the largest funds in the world



Sources: Norges Bank and Ministry of Finance

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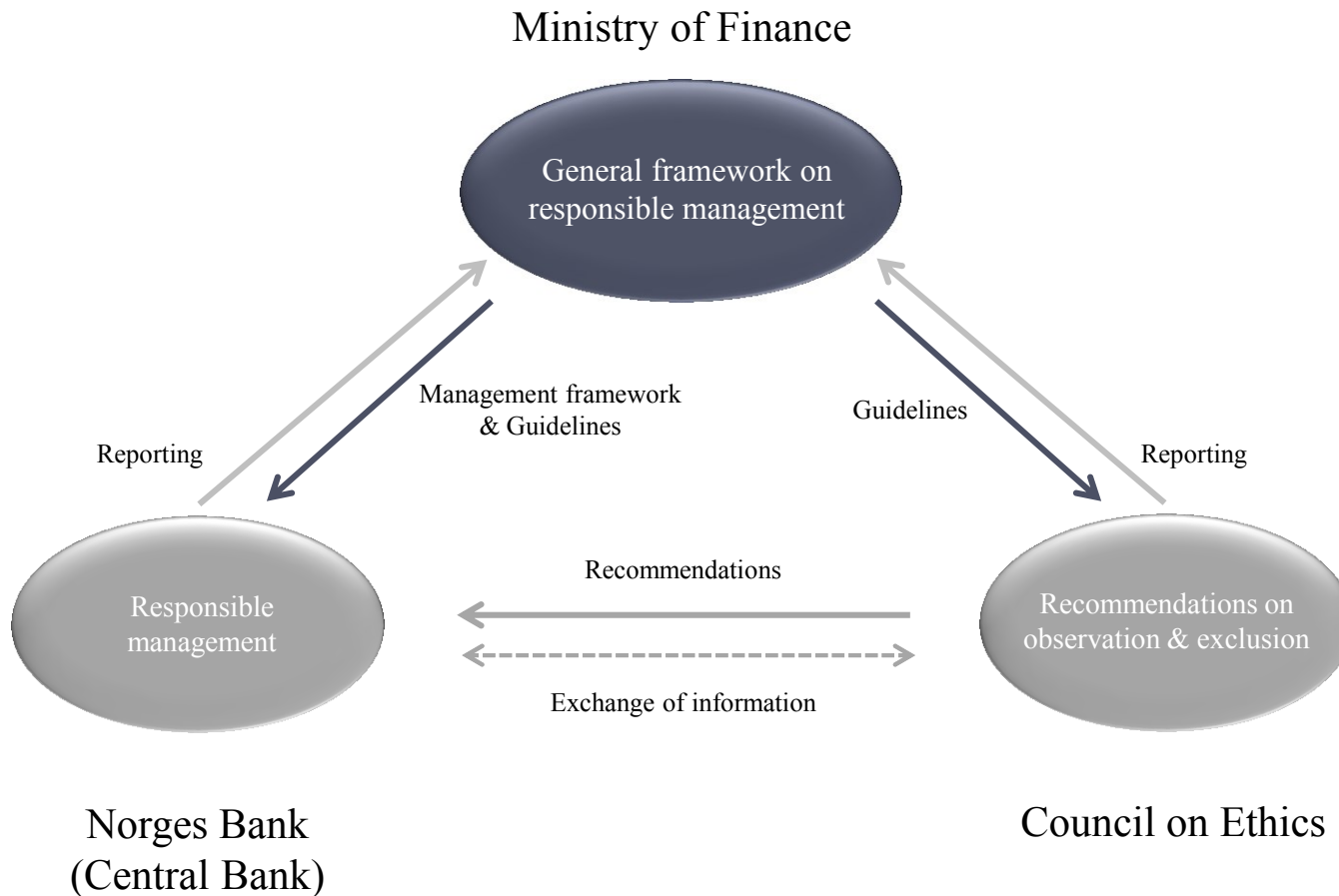
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# Framework for responsible management



# Exercise of ownership rights

- Exercise of ownership rights is based on international recognised principles
- Overall purpose of active ownership is to safeguard the Fund's financial values
- Strategic focus areas
  - well-functioning, legitimate and efficient markets
  - equal treatment of shareholders
  - shareholder influence and board accountability
  - children's rights
  - climate change risk management
  - water management

*Markets*

*Corporate governance*

*Environmental and social issues*





# Exclusion and observation of companies

## ➤ **Product-based exclusion**

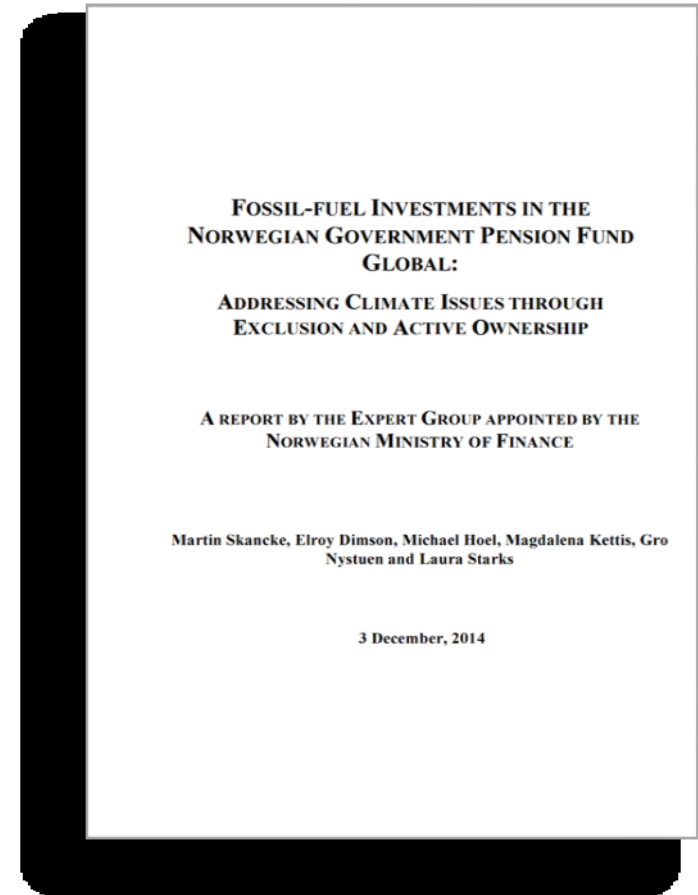
- produce weapons that violate fundamental humanitarian principles in their normal use
- produce tobacco

## ➤ **Conduct-based exclusion** – serious or systematic violations of fundamental ethical norms

- human rights including child labour
- individuals' rights in situations of war or conflict
- gross corruption
- severe environmental damage
- other particularly severe violations of fundamental ethical norms

# Fossil-fuel investments and ownership tools

- Report from expert group
- Public consultation process
- The Ministry's assessments in Report No. 21:
  - Strengthen ownership and dialogue
  - New conduct based exclusion criteria



February 6, 2014 8:23 pm

# Norway: Cruise control

By Richard Milne

There are fears that the country's reliance on oil wealth is threatening its growth prospects



Putting their feet up: there are growing concerns that Norway is becoming a complacent nation

# Summary

- Norway has established a robust and long-term fiscal framework that integrates oil revenues
  - Separate income and spending of oil revenues
  - Invest surplus oil savings abroad
  - A well-designed fund mechanism serves as a tool to support wise and long-term budget decisions
- A sound governance framework is a prerequisite for good management over time
  - Clear lines of responsibility
- Transparent management and an investment strategy with widespread support
  - High degree of transparency
  - A strategy developed “step by step” based on comprehensive professional assessments
  - Risk should be managed, controlled and communicated

## Contact details

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## Links

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