

Press release from the Commission appointed to examine the GPFG in a long-term perspective:

## **The Fund in a changing world**

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The world is changing, power is shifting and great power rivalry is on the rise. Finance, trade and investment are increasingly harnessed tools in the geopolitical rivalry. These developments have accelerated in the wake of Russia's invasion of Ukraine and mounting tension between China and the US.

### **These international changes will affect the management of the Government Pension Fund Global**

The investment model for the Fund has served Norway well, and provides a sound basis for investing in a volatile world in the years to come. The prevailing circumstances nonetheless necessitate a strengthening of the knowledge base, as well as management of geopolitical risk on the part of the Fund.

*Background: The Commission was appointed by Royal Decree in 2021 to examine the Government Pension Fund Global (GPFG) in a long-term perspective. The Commission was asked to analyse how various international economic and political developments may affect risk and return, as well as to assess the implications of these developments for the management of the GPFG. The Commission is today submitting its report to the Ministry of Finance: NOU 2022: 12 The Fund in a changing world.*

### **The management of the Fund should be strengthened in preparation for more challenging times**

- The Fund has long been reaping gains from globalisation and technological development. However, Norway cannot rely on the international political and economic investment framework remaining unchanged, and as favourable as it has been, says Commission Chair Ulf Sverdrup.
- There is considerable uncertainty, but returns may well be lower than we have been accustomed to, while a new and complex risk situation may make the investment management more challenging, continues Dr Sverdrup.

### **The model is sound**

The investment model, premised on broad diversification, provides a sound basis for investing in a volatile world. The Fund has a long investment horizon and a high ability to bear financial risk.

- However, the GPFG differs somewhat from other investors with regard to ownership, size and time horizon, and we need to ensure that the Fund is well placed to manage various types of risk, including political risk, says Dr Sverdrup.
- The GPFG benefits from having clear rules and procedures, but the Commission notes that a more volatile risk situation makes a certain flexibility in investment management desirable in order to better manage non-financial risk, which is of crucial importance to the Fund's legitimacy and reputation. This may for example involve the Ministry of Finance not automatically adhering to the decisions of the index provider, or lead Norges Bank to making financially motivated investment decisions that diverge from the benchmark index, continues Dr Sverdrup.

## **A democratic accomplishment**

- The Fund is a democratic political accomplishment, based on accountability, knowledge and skill. The petroleum resources on the Norwegian continental shelf, as well as the Fund itself, have been managed prudently, says Ulf Sverdrup.

- A success factor for the Fund has been its continual evolution ever since its inception, and this tradition of a gradual and knowledge based evolution should be maintained.

## **Investor state**

It might be argued that Norway is in some sense in the process of becoming an investor state. Petroleum price risk is gradually being replaced by international financial market risk. The Fund has also become an ever more important source of financing for Norwegian public expenditure, with the Fund now accounting for one fifth of the fiscal budget.

- The Fund provides Norway with opportunities that are not available to other countries, but the Fund is also increasingly shaping Norway's reputation. The Fund is not a foreign-policy tool, but it increasingly affects Norway's international relations, says the Commission Chair.

The Fund's reputation is generally favourable, but it may become more controversial in future. The turbulence in Europe resulting from Russia's war in Ukraine has brought Norway and the Fund into the spotlight, and a fund based on petroleum revenues may attract criticism in future.

## **Resilience in a changing world**

The Fund has become larger and more important to Norwegian welfare. This makes for a greater impact from any negative event.

- There is "nowhere to hide" for a large fund like the GPF. We therefore need to be mentally and politically prepared for fluctuations, for the model to be challenged, and for investment management to become more demanding, says Dr Sverdrup.

He adds that we need to be honest about the many dilemmas the Fund will be facing. The Commission does for example highlight international developments towards more authoritarian systems of government and a weakening of democracy in many countries. This makes responsible investment more important, but also more challenging.

- We need to be conscious that a gap may open up between expectations for the ethical framework and what can realistically be achieved, says Dr Sverdrup.

## **The Commission recommends**

- A time of major international upheaval requires a firm grasp of the prevailing situation and a strengthening of the knowledge base. Knowledge and building support with stakeholders may serve to clarify the owner's risk tolerance and strengthen the ability to bear risk.
- Geopolitical risk should be included in the overall risk assessment.
- The Commission is not in the current situation recommending the exclusion of jurisdictions from the Fund, but addresses available procedures and courses of action. Any future decision that may be needed on the exclusion of countries should be well-considered and made by political authorities.

- The investment strategy should be reviewed on a more regular basis in response to a more unsettled investment outlook.
- The Ministry of Finance should establish an independent council tasked with examining and evaluating various aspects of the Fund, including geopolitical issues.
- The Ministry of Finance should review the mandate to ensure that Norges Bank's strategy and risk taking are in conformity with the overarching interests of the GPF. While the governance structure needs to provide clear lines of responsibility and facilitate good governance, it should be considered whether it might be appropriate to have a somewhat more general investment mandate that stipulates applicable investment management principles.
- Changes in international politics also affect operational investment management risk. The Fund is an obvious target for cyberattacks and disinformation campaigns, as well as other forms of subterfuge aimed at undermining confidence in the Fund. The Fund needs robust systems and contingency plans.

- Being a large investor brings considerable responsibility and will undoubtedly involve challenging ethical and political balancing acts. Political wisdom and good governance will be needed to navigate a new risk situation in ways ensuring that the Fund will be of benefit to future generations as well, says Dr Sverdrup.

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[Executive summary of the Commission's report: NOU 2022: 12 The Fund in a changing world](#)