



NORGES BANK  
INVESTMENT MANAGEMENT

# Strategy 2021-2022

Norges Bank Investment Management



# Our goal is to be the best global investment fund in the world

Norges Bank Investment Management manages the Government Pension Fund Global on behalf of the Norwegian people. The investment strategy for the fund is laid down in the management mandate from the Ministry of Finance. We manage the fund within the limits of this mandate. This strategy plan outlines how we will work to fulfill our management assignment.

Our strategy for 2021-2022 builds on the previous strategy plan and links to the overall strategy of Norges Bank. High performance, responsible investment and transparency summarise our strategy.

We use diversified investment strategies to manage the fund in a risk-controlled manner, aligned with our management mandate. We will work to attract and retain the best talents. We will enable our people to work efficiently, innovatively and unafraid towards our common goals.

Our goal is to  
achieve the  
highest  
possible return



Photo: GettyImages

# Performance

## **Our goal is to achieve the highest possible return.**

The fund is owned by the Norwegian people. The Ministry of Finance decides the overall investment strategy of the fund, expressed through our mandate. The mandate is a public document, which makes the risk assumed in the management of the fund transparent to all stakeholders. We contribute to the public discussion and the development of the fund strategy by publishing relevant research and through our role as an advisor to the Ministry of Finance. Material changes to the strategy are anchored by the Ministry of Finance in the Norwegian parliament. This supports the fund's long-term investment horizon, which is important during periods of substantial turbulence in financial markets.

As the operational manager of the fund, our objective is to achieve the highest possible return after costs with acceptable risk, as a responsible investor and through a talented team of employees. This strategy plan outlines how we will work to achieve this objective within the limits of our mandate. We will continue to enhance our investment strategies and relentlessly pursue even more cost-efficiency, with a focus on net return after costs. We will make use of the expertise, synergies and economies of scale that Norges Bank offers.

## **Investment strategies**

Central to our mandate is the benchmark index consisting of 70 percent equities and 30 percent fixed income. The mandate puts certain constraints and requirements on our operational management against this benchmark. We manage the fund close to the benchmark index, but all our investment strategies have active elements. We use diversified investment strategies to manage the fund in a risk-controlled manner within the limits of our mandate. The strategies are complementary. They are tailored to the fund's unique characteristics as a large, long-term investor with low short-term liquidity needs and our low-cost management.

- We will emphasise specific, delegated active strategies and have less emphasis on allocation or top-down positioning.
- We will reduce our allocation to systematic factors and exposure to segments outside the benchmark index. The exceptions are our allocations to real estate, unlisted renewable infrastructure and emerging market debt. The reference portfolio, which was established to facilitate such exposures, will no longer be a separate part of our investment process.

## Equity investments

The fund is a large global investor in equity markets. Our investment strategies rest on two pillars: efficient market exposure and fundamental research.

We manage the largest part of our equity portfolio internally through efficient market exposure strategies. With our size and global reach, it is critical to manage overall market exposures and trade efficiently.

- We will improve our portfolio construction and trading strategies to further reduce turnover and market impact in our management of the fund's equity exposure.
- We will take advantage of internal expertise and innovative technologies, products and services to increase our efficiency, improve our risk management and reduce implementation costs.
- We will increase our active positioning around corporate actions and capital market events to enhance portfolio returns.
- We will continue to lend our equities responsibly. We will expand our direct lending activities to diversify our exposure and capture more of the securities lending income.



We will improve our portfolio construction and trading strategies

We are one of the world's largest global equity owners. Our knowledge of our largest company investments helps us achieve the highest possible return after costs. It improves risk management and enables us to fulfil our ownership role. We believe our active management improves our ability to be a responsible investor.



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- We will take advantage of our highly stable capital base to make investments based on our expectations for long-term developments in company fundamentals.
- We will continue to conduct our own research on companies, seeking differentiation from the analyses of external research providers. Our proprietary research guides our in-depth understanding of our key investments and enriches the dialogue with our investee companies.
- We will benefit from our unique access to companies as a large and long-term owner. We will continue to access them directly to deepen our understanding of them, develop long-term relationships with their management and improve the quality of our meetings. We will scale our internal management with the aim to cover 1,000 companies in depth.
- We will increase our research on negative selection, including forensic accounting, taking company fundamentals into consideration. Our aim is to expand our negative selection by underweighting stocks we expect to underperform.
- We will scale up our external management of the fund's assets in selected segments of the market with external managers that have deep understanding of companies and local market dynamics. This contributes to better return and lower risk in the fund.



We believe our active management improves our ability to be a responsible investor.

## Fixed-income investments

The fund is invested in a broad range of bonds issued by governments and corporate issuers. Our investment strategies are tailored to government and corporate bond segments. The strategies are aimed at constructing cost-efficient portfolios with exposure to key risk drivers, while taking advantage of opportunities at security, issuer and sector level.

- We will strengthen our ability to implement fixed-income investments at low cost.
- We will continue to use diverse strategies based on our research on macro-oriented and relative value opportunities to enhance returns in our government bond portfolio.
- We will invest our corporate bond portfolio based on thorough company research, leveraging company knowledge across equities and fixed income.
- We will actively target attractive liquidity premia that align with the fund's investment horizon.
- We will increase our use of standard derivatives to exploit price differentials between bond and derivative markets and take advantage of segmentation opportunities.
- We will invest up to 5 percent of our bond portfolio in selected emerging market issuers and actively manage associated currency risk.
- We will continue to evolve our fixed-income lending and actively size our lending exposure depending on market conditions.



Our investment strategies are tailored to government and corporate bond segments.

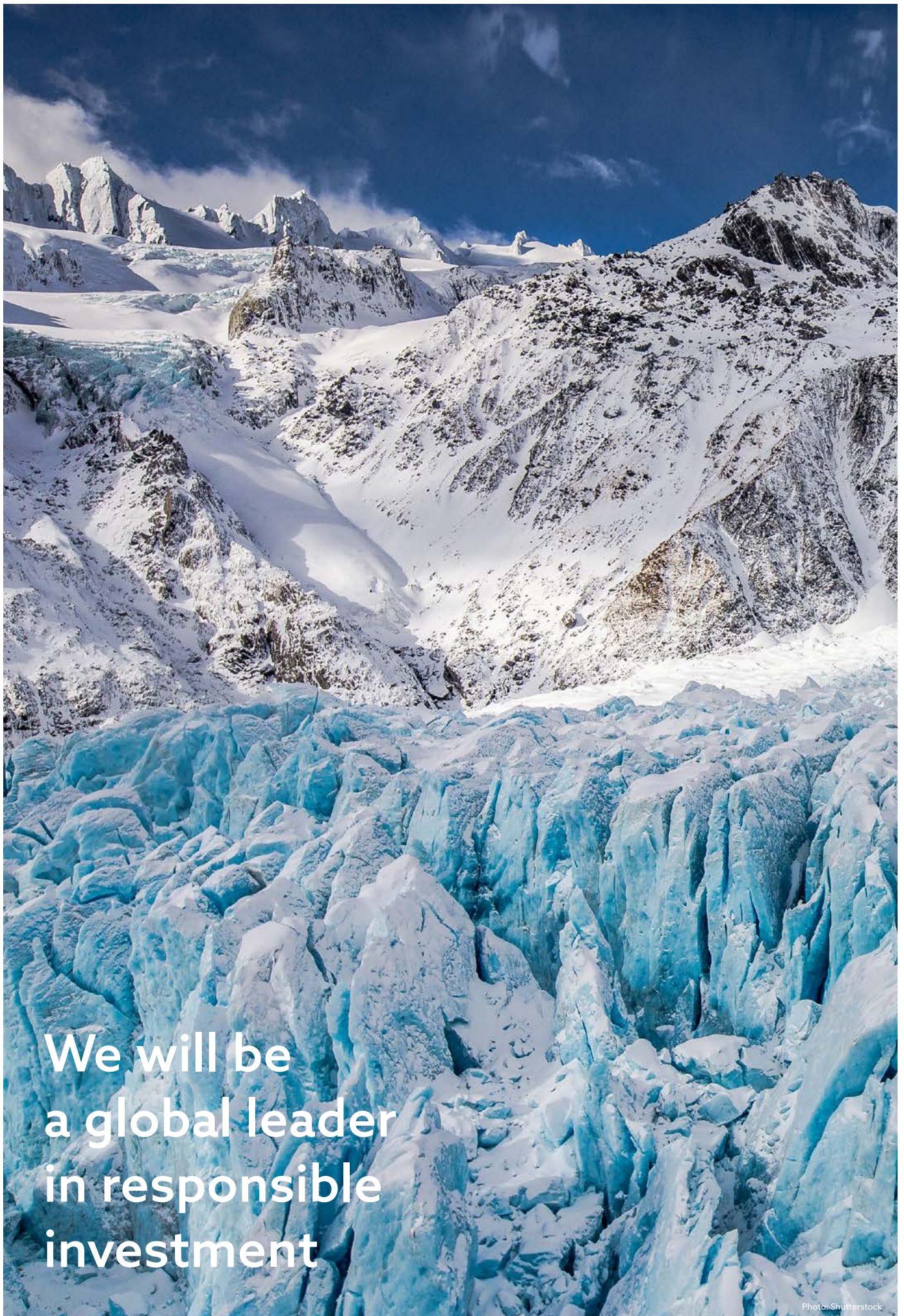
## Real assets investments

We invest in real assets to improve diversification. Our real asset investments include listed and unlisted real estate and renewable energy infrastructure. Important strategic guidelines for investments in real assets are laid down in the management mandate.

- We target a real estate portfolio of up to 5 percent of the fund, made up of listed and unlisted assets managed under a combined strategy. Flexibility in the strategy will allow us to take advantage of changing market conditions.
- We will gradually build up the renewable energy portfolio. We will primarily aim to invest in wind and solar power. We will focus on projects with reduced power price risk, stable cash flow and limited risk to the principal investment.
- We will focus on investing alongside high-quality partners with proven operational experience.



We invest in real assets to improve diversification



We will be  
a global leader  
in responsible  
investment

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## Responsible investment

We will be a global leader in responsible investment.

We are the largest single shareholder in the world. Responsible investing and ownership activities form an integral part of our management of the fund. These activities support the return objective of the fund by improving the relationship between long-term return and risk. We have built up expertise in our organisation and a robust platform for responsible investment. We will be a global leader in responsible investment. We will increase external collaboration, use new technologies and provide new solutions to emerging issues.

### Market

As a long-term and diversified investor, we benefit from well-functioning, legitimate and efficient markets and a sustainable economy.

- We will support regulators in promoting sustainable economic growth and financially material and standardised corporate sustainability reporting.
- We will continue to develop clear and relevant expectations of companies, including on capital allocation, biodiversity, human capital management, data security and consumer interests.
- We will support the development of well-functioning markets, good governance and responsible conduct, with increased focus on emerging markets.

### Portfolio

We own a small share of the global economy. We want our investments to be resilient to environmental and social developments and to capitalise on the opportunities created in the market.

- We will further integrate ESG data into our investment process. We will structure proprietary and external data and use new methods for analysing them, including artificial intelligence.
- We will further develop the strategy to analyse and address climate change risks and identify investment and ownership opportunities.
- We will further develop responsible investment management in fixed income and real assets.



We are the largest single shareholder in the world.

### Companies

As a shareholder, we have a right to influence the companies in which we invest. Our starting point is to support the companies while being clear about our expectations.

- We will scale up our dialogue. We will hold boards accountable for the outcomes of their decisions, including companies' financial performance and their impact on society and the environment.
- We will continue to develop shareholder voting as a scalable and effective way of exercising ownership. We disclose our voting intentions five days ahead of the shareholder meeting.
- As a long-term investor, we will further reduce our exposure to companies with unsustainable business models and re-allocate capital to more sustainable companies.

## Investment process

As a long-term, large, single-owned, global investor, we have developed a unique investment process. We will continuously look for new ways to challenge and improve the process through innovative technology and developing our people. We will strengthen our mental resilience and grit, allow mistakes, and thereby improve our investment decisions and risk-taking.

- We will further strengthen our investment performance by improving risk-taking, fine-tuning our processes and decision-making, and building a culture where we learn from our mistakes and leverage our successes.
- We will develop a proprietary research and simulation tool to analyse our investment decisions. The tool will support our portfolio managers and traders with their investment decisions and give them feedback so that they can make better decisions in the future.
- We will further improve our ability to retrieve relevant, reliable and sufficiently detailed information during company meetings.
- We will seek inspiration from top performance environments outside the financial industry to improve our risk management and mental resilience.
- We will further develop a world-class operating model to support our investment organisation.
- We will further emphasise a long-term mindset and approach to our investment process.
- We will continue to ensure that we comply with the highest standards of integrity and conduct and achieve business objectives with acceptable risk.



We will continuously look for new ways to challenge and improve the process



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## Technology

Our goal is to become a leading technology organisation.

Our investment process is driven by data and analytics. Our technology is based on our cloud platform, ensuring security, adaptability and scalability. We focus on automation, innovation, removal of legacy solutions and robust cyber security measures.

- We will continue to invest in our solutions and people, with agile, autonomous teams working in close collaboration with investment areas.
- We provide opportunities for reskilling and upskilling, which is important in a fast-paced industry.
- We will increase our IT development capabilities throughout the organisation.
- We will continuously adopt the latest, proven industry trends, such as serverless computing, everything-as-code methodology and machine learning.
- We aim to be a preferred technology employer, attracting and retaining leading talents.



We will continuously adopt the latest, proven industry trends

We prefer buying mature, managed systems and solutions. However, our unique investment process often requires internally developed solutions.

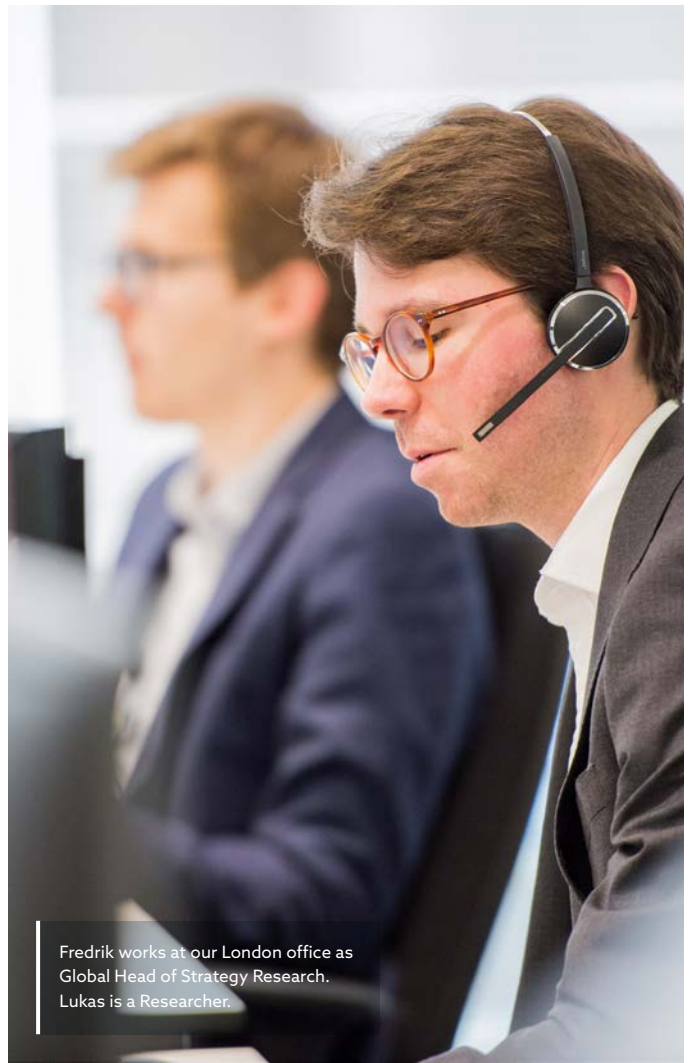
- We will build systems and solutions using a service-based architecture to ensure scalability and easy integration.

Due to the nature of our business, cyber threats continuously pose an increasing risk. Our goal is to further increase our cyber security capabilities to a level where we can manage increasingly sophisticated threats. In this respect, we will work together with experts from other areas of Norges Bank in establishing a cyber threat intelligence center.

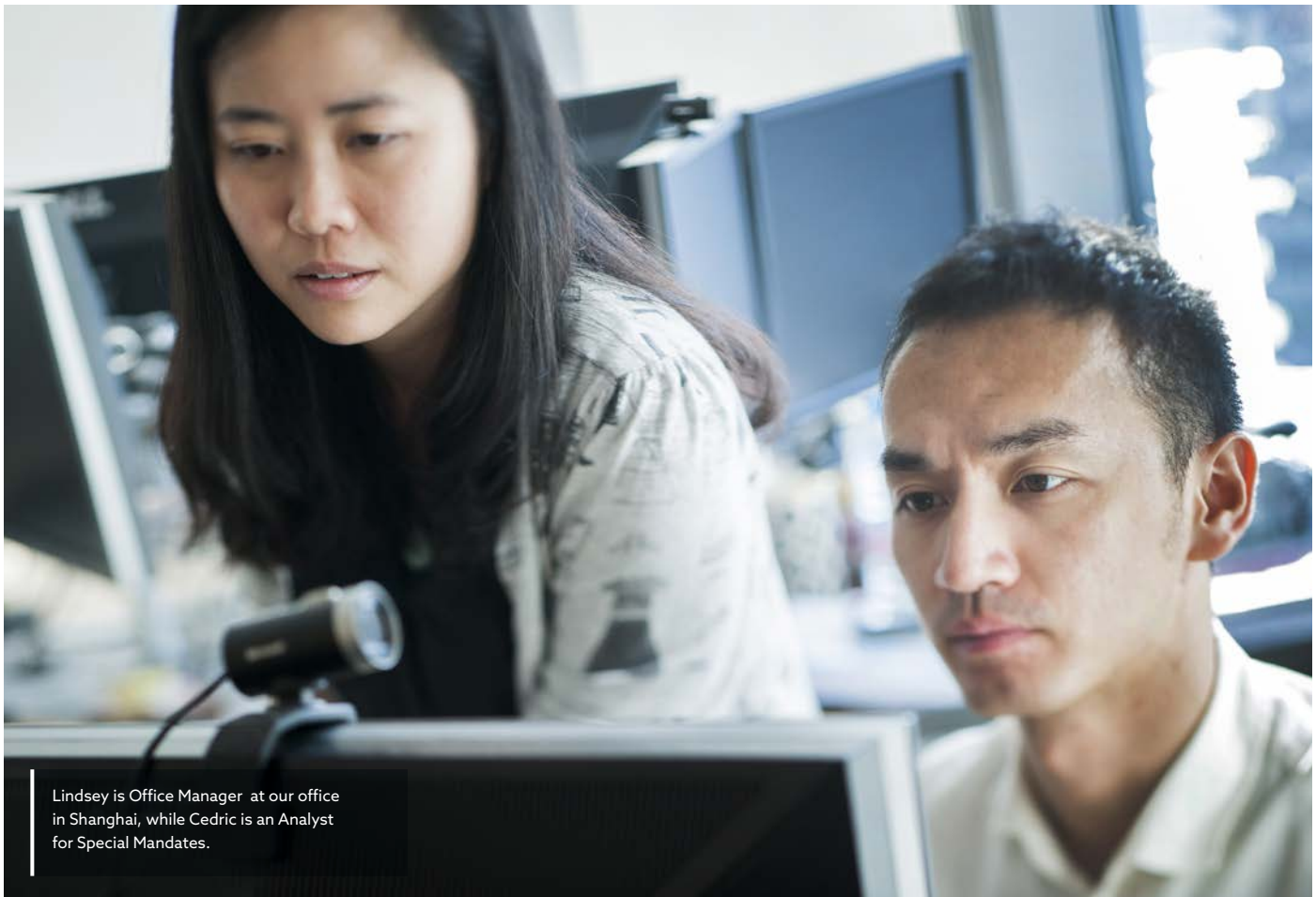
- We will scale up resources and continue to develop our capabilities through identification, prevention, detection, response and recovery measures.
- We will increase the frequency of training and exercises to improve our security culture, posture and resilience.



Pia works as a Senior Advisor in real estate and infrastructure investments. Pavlina is a Senior Controller in the Finance department.



Fredrik works at our London office as Global Head of Strategy Research. Lukas is a Researcher.



Lindsey is Office Manager at our office in Shanghai, while Cedric is an Analyst for Special Mandates.

# People

## **We will be the number one choice for top talent in investment and technology.**

Our people are the heart of our organisation and our most important resource. This strategy plan sets out our ambitions with the overall objective of highest possible return after costs. In order to achieve these, we expect the organisation to grow in a few prioritised areas. We will, however, remain a small, flexible and cost-effective organisation.

We continuously seek to develop a diverse and inclusive organisation. We celebrate diversity of gender, mind, ethnicity, age, academic background and life experience. The more diverse we are, the broader our perspectives will be, the more creative we become and the better the decisions we make. We believe in life-long learning, continuous feedback and a framework for our employees to learn and build relevant competencies throughout their careers. To thrive in a competitive, hard-working and high-performing organisation, we nurture a culture where employees have fun at work.

- We will continue to be a global organisation. We will encourage further collaboration across units, foster exchange of knowledge and strengthen our culture across our international offices.
- We will gradually increase the number of portfolio managers based in Oslo to complement our international investment organisation and offer better career mobility. Through our presence in Oslo, we expect to be a positive contributor to the Norwegian asset management community.
- We will strengthen relationships with educational institutions, offer career opportunities through our talent and summer internship programmes, and work to inspire young people of diverse backgrounds.
- We will hire more top investment and technology talents to meet our growing needs. The combination of the best talents from technology and finance will allow us to succeed in building an investment organisation for the future.
- We will provide more training opportunities and encourage flexibility and global mobility.



Our people  
are the heart of  
our organisation  
and our most  
important  
resource



We will be  
the most  
transparent fund  
in the world

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# Communications

**We will be the most transparent fund in the world.**

## External communication

Managing the fund on behalf of the Norwegian people requires transparency. Knowledge of our work, our mission and our core responsibilities is important in building trust. Our ambition is to be open about all relevant matters to the extent this is compatible with sound execution of the management assignment.

- We will increase people's knowledge and understanding of the fund by communicating complex messages in a simple way.
- We will communicate frequently, proactively, clearly and timely. We will increasingly use digital platforms to communicate.
- We will continue to use linear and social media's respective strengths to reach more people in better ways. With social media, we will create an arena for dialogue and reach younger target groups.
- We will increasingly promote leading internal experts as spokespeople who can engage in topical discussions and participate in relevant forums.
- We will collaborate with and learn from our main stakeholders and seek best practices from other leading institutions.
- We will attract international expertise across industries and topics to participate in events and to educate and inspire us. We aim to share this with the wider society.



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## Internal communication

We believe a high-performing organisation depends on efficient communication across all channels. Internal communication is a driver for motivation, strategy execution, culture and collaboration.

- We will explore and experiment both with new and existing channels.
- We will use those channels to build culture and integrate our international offices.
- We will have a transparent and visible management presence and share more information.



Written by Benedicte Wessel and Harald Tolleshaug,  
with input from the entire organisation.

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