Introductory statement by CEO Yngve Slyngstad, Norges Bank Investment Management, before the Standing Committee on Finance and Economic Affairs of the Storting (Norwegian parliament), 25 April 2014.

Please note that the text below may differ from the actual presentation.

I would like to thank the Chairman of the Committee and for this opportunity to make some introductory remarks on the management of the Government Pension Fund Global (GPFG) in 2013.

Our objective is to achieve the highest possible long-term return. We seek to achieve this objective at an acceptable risk level and place substantial emphasis on being a responsible investor. Norges Bank seeks to earn a high return without investing in companies that violate fundamental ethical norms. We execute the management task with an efficient organisation. Our long-term investment capacity depends on there being confidence in the way we manage the GPFG. A high degree of transparency is a means of achieving such confidence.

The return on the GPFG came to 15.9 percent in 2013, which is the second highest percentage return in its history. The return amounted to NOK 692 billion measured in international currency, and a total of NOK 983 billion adjusted for the krone depreciation – the highest ever return in NOK terms.

Returns have been favourable over the past five years, with an annual return of 12 percent. Since 1998, the annual return has been 5.7 percent.

An objective of Norges Bank's investment management is to produce excess returns. Compared with broad markets, illustrated here by the GPFG's actual growth in value terms and changes in the benchmark index, the annual excess return has been 0.3 percentage point since 1998. Over the past five years, the annual excess return has been 1.2 percentage points and all main investment strategies have made a positive contribution to performance.

The GPFG closely tracks the benchmark index, which is composed of broad indices from leading index providers. Public indices feature essential weaknesses and are not suited to the GPFG's specific requirements. Norges Bank has therefore constructed internal reference portfolios, which take account of distinctive features such as the GPFG's considerable size and long-term investment horizon. The aim is to achieve an optimal trade-off between risk and return over time.

Our active management has produced substantial excess returns without increasing overall risk. Norges Bank has – as discussed in Report No. 19 to the Storting – proposed a moderately higher risk limit. The proposal will support the GPFG's long investment horizon and facilitate further development of the investment strategy. The proposal does not imply a change in overall risk. A change in relative risk can just as easily reduce as increase actual risk.

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Norges Bank attaches importance to cost-effective investment management where costs must be kept under control. The Bank's budget and accounts are adopted by the Supervisory Council. In recent years, management costs have been reduced as a share of assets under management.

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Costs are low compared with other funds. We have reduced the scope of external investment management and have exploited economies of scale in recent years. We have reduced overall costs despite a higher allocation to equities, increased investments in a larger number of small capitalised companies, new markets and countries, and unlisted investments in real estate.

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Even so, the most important aspect of our cost-effective investment management is being able to trade in the market at a low cost. Over the past 10 years, we have received inflows of NOK 2 500 billion, which is to say that on every trading day we have invested about NOK 1 billion more in the market.

In the same period, there have been substantial changes in the composition of the GPFG, primarily a change in the geographic composition of the investment portfolio, but also changes in the benchmark portfolio for equities and bonds. In addition, we rebalanced the equity portfolio under demanding market conditions with low liquidity in the first quarter of 2009 and rebalanced under fairly benign market conditions in the fourth quarter of 2013. Rebalancing and changes in the strategy involve total trades of an additional NOK 2 500 billion.

Norges Bank has absorbed total trading costs for capital transfers, rebalancing and strategy changes without adjusting the benchmark indices for the costs. That is our main contribution to cost-effective management of the GPFG.

The work relating to responsible investment is important for the GPFG. It is a long-term endeavour and the results must be assessed over time.

Safeguarding financial wealth is the core objective of the GPFG. We give weight to the interdependence between sound long-term returns and economic, environmental and social sustainability, combined with well-functioning, legitimate and efficient markets. We place substantial emphasis on voting, dialogue with companies and analyses of investee companies with a view to preserving wealth for future generations.

We operate with a long-term investment horizon and take a principles-based approach, but do so actively in order to achieve results in the exercise of ownership rights. As a minority shareholder, we can only have an impact if we apply norms that are also promoted by other shareholders.

The exercise of ownership rights is based on internationally recognised standards for investors. We work systematically to improve the standards. In 2013, we continued the work on the CDP Water Disclosure programme aimed at improving company disclosure and

reporting of water resources. We have ongoing industry initiatives concerning companies' impact on the rainforest and the need for an industry standard for metal extraction. We also continued the work to support the implementation of the UNICEF Children's Rights and Business Principles initiative, as member of an advisory group.

We are working further to enhance our active ownership principles, such as voting principles. Going forward, we will intensify our research in the field and active ownership is one of the main components of the Norwegian Finance Initiative (NFI).

The instruments we use to promote active ownership are voting and dialogue with companies, investors, regulators and other standard-setters. We vote at general shareholder meetings and make shareholder motions. In 2013, we voted at nearly 9 600 shareholder meetings in broadly all the 8 200 investee companies. As from the third quarter of 2013 we started publishing our voting instructions on our website the day after each shareholder meeting.

We had 2 300 meetings with investee companies last year. Ownership matters were raised at more meetings than earlier and board chairmen were more frequently present. In recent years, ownership-related issues have been further integrated into our investment activity and we have systematised data on ownership conditions for 4 100 companies.

We are working, albeit not exclusively, on our focus areas of children's rights, climate change, water management, well-functioning markets, equal treatment of shareholders and board accountability.

We have established a Corporate Governance Advisory Board on active ownership, which provides important input to our work in this area.

In 2013, we continued our work on adjusting the portfolio in relation to the risk linked to environmental and social conditions that may have an impact on returns. The adjustments were based on sector and company analyses to identify business models that are assessed to be less sustainable and profitable over time. We conducted a risk assessment of sectors featuring considerable environmental challenges, such as extractive industries and the palm oil industry. In 2012 and 2013, we disinvested from 65 companies based on findings from these analyses.

Since 2009, Norges Bank has issued environment-related investment mandates to internal and external managers. All total, these investments came to NOK 31.4 billion at the end of 2013. Of the 166 companies in this part of the portfolio, the main weight was on water management, energy efficiency and renewable and alternative energy.

Norges Bank's investments in environment-related mandates are made in listed companies. We have recently started investing in "green" bonds. The investment universe is complex and changes rapidly both in terms of the market and framework conditions. The environment-related investments are well suited to active management.

The proposal to integrate the instruments for responsible investment may enhance the effectiveness of active ownership. We will increase our reporting, strengthen our expertise and improve our work in the area of responsible investment in the years ahead.

Thank you for your attention.