Mandate for report on how climate change, climate policy and the green transition may affect the Government Pension Fund Global

Background

The investment objective for the management of the Government Pension Fund Global (GPFG) is to seek the highest possible return after costs, given an acceptable level of risk. Within the overall financial objective, the fund shall be managed responsibly. A satisfactory return in the long run is assumed to depend on sustainable development. There is broad political consensus that the fund is not a climate nor a foreign policy instrument.

The Ministry of Finance has established an investment strategy, based on the fund's purpose and characteristics and assumptions about how the financial markets work. The strategy rests on the key assumptions that financial markets are well-functioning, ensuring efficient allocation of capital and risk, and that risk may be reduced through diversification of investments.[1]

The GPFG forms an integral part of the Fiscal budget and the fiscal policy framework. Government petroleum revenues are in their entirety transferred to the GPFG, whilst withdrawals from the Fund are determined by resolutions of the Storting.

The conversion of oil and gas resources into a broad portfolio of financial assets in the GPFG, has overall contributed to reducing the risk associated with Norway's national wealth. Whilst reducing the exposure to the petroleum sector, the accumulation of large financial assets abroad does give rise to new sources of risk.[2]

The investment strategy implies that the return on the GPFG will largely reflect the return in the global financial markets. In these markets, the Fund is exposed to a number of risk factors, including climate change risk. Climate-related risk factors may affect overall returns, but may also vary between asset classes, regions, sectors, and companies.

Climate and environmental matters have for many years been a central part of the Ministry of Finance's work with both the investment strategy and the framework for the management of the Fund, including the framework for responsible investment. Norges Bank applies considerable resources in this area.

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[1] Further information about the fund is available at www.government.no/gpf.

[2] NOU 2018: 17 Climate risk and the Norwegian economy.

Assessments of financial risk arising from climate change are integrated into both risk management, investment decisions and ownership activities.[3] Furthermore, the ethically motivated guidelines for observation and exclusion from the GPFG include several criteria for climate and the environment.

In 2009, the Ministry of Finance established separate, environmental-related investment mandates for the GPFG. Investments under these mandates currently range between NOK 30-120 billion. Investments are to be directed towards environmentally-friendly assets or technology, including climate-friendly energy, energy efficiency, carbon capture and storage, water technology and environmental services such as waste and pollution management, etc. In November 2019, the Ministry of Finance extended the environmental mandates investment universe to also include unlisted infrastructure for renewable energy.

In 2011, the Ministry of Finance, together with other major investors, participated in an international research project on the long-term consequences climate change implies for global capital markets. A report from the project was prepared, as well as an additional report on climate risk in the GPFG from the consulting company Mercer.[4]

In a letter to the Ministry of Finance on 26 November 2019, Norges Bank reported on its climate risk efforts in the management of the GPFG. This was discussed in Meld. St. 32 (2019-2020) *Government Pension Fund 2020*.[5] Climate risk has also been discussed in several previous reports to the Storting. In the report in the spring of 2017, there was a comprehensive discussion of climate risk and climate risk integration in the Fund management. In the report in the spring of 2018, a special account of the climate risk reporting framework was given, based on the TCFD recommendations.[6]

Climate risk is a complex financial risk factor. Climate risk management therefore requires up-to-date knowledge and expertise. The Ministry of Finance has initiated work to investigate the ways in which climate change, climate policy and the green transition may affect GPFG risk and return and the management of the Fund.

Task statement

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[3] Norges Bank reports annually on its work on climate risk in the publication on responsible investment, see https://www.nbim.no/no/publications/. Norges Bank has also described its work on climate risk in several letters to the Ministry of Finance, including November 26, 2019, March 15, 2019, February 21, 2018, and February 5, 2015.

[4] "Climate Change Scenarios Tailored Report Norwegian Government Pension Fund Global", Mercer March 2012

[5] Meld. St. 17 (2011–2012) - regjeringen.no

[6] The Task Force on Climate-Related Financial Disclosure (TCFD) is a working group appointed by the Financial Stability Board. The working group presented its recommendations on climate risk reporting in the summer of 2017 and has since published two status reports on the implementation of the recommendations. In NOU 2018: 17 Climate risk and the Norwegian economy, it is observed that the TCFD framework may be a useful tool for companies in order to identify climate-related threats and opportunities, and that the framework may also be of relevance for the public sector.

In order to provide the Ministry of Finance with a foundation for further deliberation, the report should provide insight into the significance of financial climate risk and climate-related investment opportunities for a fund with GPFG characteristics. The report should discuss alternative approaches to addressing these issues in the management of the GPFG.

The report should further discuss whether new, climate-related knowledge carry importance as to the key premises underpinning the fund's investment strategy, including implications for the operational management. As part of this analysis, the report should discuss how financial climate risk affects financial markets, the properties of such risk in relative to other elements of financial risk, including to what extent climate risk is priced in financial markets.

Where appropriate, the report should also provide examples on how these issues are addressed by peers.

The expert group is to submit its report by 15 August 2021.