Equity investments of Norway’s GPFG: A European sovereign wealth fund for Europe
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The Norway Government Pension Fund Global (GPFG) is the World’s biggest sovereign wealth fund. Managed by an investment unit of the central bank (NBIM) it counts with $900 billion under management. To give you some sense of the size of the Fund, it owns 1.3% of all World’s listed companies. In this chapter we show the origins of the fund. We also explain something very important: why the GPFG, despite having the word “pension” in its name, is not a pension fund. We analyse the investment model peculiar to the Norwegian fund (already being referred to as the ‘Norway model’) and we compare it with the better-known Yale model. Our analysis of the equity fund’s portfolio from 1998 to 2014 is one of a kind: the first time the fund’s investments have been analysed from its inception at microeconomic (company) level and also at sector, country and continent level. The analysis reveals a fundamental bias: The GPFG is a European fund for Europe. The fund has taken a deliberate decision to give preference to investments in European companies and to penalise stakes in North American, especially US, companies. The chapter also addresses matters such as the governance of the fund, its investments in the BRICS, how its Spanish investments have evolved and its presence in tax havens.

History of the world’s biggest sovereign wealth fund

In 1990, the Norwegian government established a fiscal policy instrument to improve the long-term management of the revenues from its abundant oil resources: the Petroleum Fund. Its establishment was the result of years of deliberations in the Storting (Norwegian parliament). These deliberations had started in 1974 when the Minister of Finance presented the parliamentary report “The role of petroleum activity in Norwegian society”, which posited different uses for the country’s oil wealth, and ended in 1983 with the Tempo Committee’s approval of Report NOU 1983:27, which proposed the creation of a fund in which the government would be able to store the profits arising from the exploitation of the oil resources and spend only the real profitability deriving from them. Following its establishment, the fund received its first transfer of capital from the Ministry of Finance in 1996. Until 1997, its investment strategy was the same as that of the Norwegian central bank with its foreign currency reserves. The fund, which at that time managed $20 billion, was invested entirely in fixed income.

In 1997, following a gruelling parliamentary debate, the Ministry of Finance redefined the fund’s investment strategy and decided to invest 40% of its assets in equities. Consequently, on 1 January 1998 Norges Bank Investment Management (NBIM) was established to manage the fund under the supervision of the Ministry of Finance. In that first year it made 7,851 investments, most of them in the US (2,265), Japan (1,363) and the UK (454). In the period from 2000 to 2008, higher oil prices led to more and bigger transfers of capital from the Ministry of Finance, causing the fund to grow more than expected (from $44 billion to $322 billion). During this period the fund also changed its name to Government Pension Fund Global (GPFG), and the Ministry of Finance decided to increase the weight of equities in the portfolio by 20% to 60%.

In 2009 the fund’s ethical standards were evaluated, investments in equities reached 60% of the portfolio in June, and the fund published a return of 25.6%, a record at the time.

In the past four years the fund has reoriented its investment strategy, taking in more sophisticated assets and emerging market equities. In 2010 it introduced a mandate for the fund to be allowed to invest up to 5% in the real estate sector, and in 2012 the Ministry of Finance announced a plan to gradually reduce its European exposure to 40% and increase investments in emerging markets to 10%. The fund recently took a further step in its strategy of diversification by announcing that it would allocate around 1% to investments in frontier markets such as Nigeria and Pakistan. This is aimed not only at diversifying the portfolio, but also at generating greater returns in the coming years.

Clarification: The Government Pension Fund Global is NOT a pension fund

In 2006 the fund changed its name to Government Pension Fund Global. With this change the Norwegian government was hinting at the fund’s possible role in a future characterised by an ageing population: defraying the increased costs of public pensions. And yet despite the change of name and the declaration of intent implicit therein, the fund has never operated as a pension fund.

Unlike the traditional pension funds, such as those of Canada or Japan, the GPFG has no pension obligations. In fact the Norwegian government has not yet taken any decision on how to finance its existing pension commitments. It has not even decided the date from which the fund can be used to cover the costs arising from future pensions. This, together with the limitations on the Norwegian executive’s use of the fund’s resources, not only ensure the fund’s long-term view but also determine the nature of the vehicle: For many commentators, this absence of pension commitments is what defines a sovereign wealth fund.

Footnotes:
1 Last August, GPFG changed its investment units aiming to increase in-house investment capabilities. It named three new CIOs and strengthened its real estate team (See http://www.ipe.com/norwegian-oil-fund-restructures-investment-team-grows-property/10002781.fullarticle)
2 See http://blogs.ft.com/beyond-brics/2014/05/22/guest-post-frontier-markets-more-profitable-less-volatile/
However, the absence of current pension obligations does not prevent some sovereign wealth funds from aiming to meet future pension contingencies (what in 2008 the IMF called ‘contingent pension reserve funds’). Two clear examples of this type of sovereign wealth funds are in Australia and New Zealand. Australia’s Future Fund ($97.57 billion) and New Zealand’s sovereign wealth fund, New Zealand Superannuation Fund ($25.51 billion) were set up with the purpose of serving as a deposit to face future pension obligations, although they do not currently pay any pensions. The Irish sovereign wealth fund (National Pensions Reserve Fund) was also created with this intention of accumulating returns to face the future cost of pensions. However, following the serious crisis the country has come through, in 2009 the Ministry of Finance decided to change the purpose of the NPRF as reserve for pensions and to use it to recapitalise the two stricken major banks: Allied Irish Banks (AIB) and Bank of Ireland. They invested €20.7 billion in this operation. At the end of 2013, the positions and cash generated by the sale of stakes in the two banks were valued at €15.4 billion. They lost 26% of the value of the initial investment in the transaction. The question that still hangs in the air is: Will Australia, New Zealand or Chile resist the temptation to apply short-term transaction. The question that still hangs in the air is: Will Australia, New Zealand or Chile resist the temptation to apply short-term transaction.

From the Yale to the Norway model

The workings of the GPFG and the returns it obtains have not gone unnoticed by institutional investors around the world. In the past few years, the management of the Norwegian fund has not only become a reference in terms of transparency and corporate governance for other sovereign wealth funds, but an exemplary model of asset management for private investors, given the track record.

But what investment principles can private investors incorporate in order to follow a strategy similar to that of the Norwegian fund? The white paper “Yale versus Norway” published in September 2012 by Curtis Greycourt, addresses this matter, comparing the investment strategies followed by David Swensen at the head of the Yale endowment portfolio with those of Yngve Slyngstad at the head of Norges Bank Investment Management.

The Yale model bases its strategy on concentrating its investments in illiquid assets such as property, infrastructure and private equity. This investment model, designed by David Swensen, has generated an average annual return of 13.7% for the Yale endowment over the past twenty years. As a result, the Yale model, which also informs the investment style of the Harvard and Stanford endowments, has consolidated its position in recent decades as the main investment strategy among institutional investors.

However, the model appears to be exhausted, or at least not to have successfully come through the crisis and its consequences. The Yale endowment has posted returns below the S&P 500 for five years in a row, and we are seeing a change of paradigm. The poor results being posted by the asset management industry since the onset of the crisis have led many investors to explore new models. One of those gaining most favour is the model behind the workings of the Government Pension Fund Global. The Norwegian model, unlike the Yale one, is showing that attractive returns can be obtained by investing a good part of the portfolio in equities (more than 60%), and with a reduced exposure to illiquid assets (up to 5% in real estate).

From the comparison carried out by Greycourt, we can draw several conclusions allowing us to pinpoint the differences and similarities between the two models. In fact the two models are not so very different, sharing as they do a number of investment principles such as:

1. Markets are mostly efficient (2) diversification is one of the best ways of controlling risk (3) the profitability of equities is the main source of returns (4) the fund must be administered on the basis of a specific benchmark and (5) external managers are important.

Nonetheless, the Norwegian model presents a series of differences compared with the Yale model:

1. It stresses risk reduction though diversification (2) it has very little or no exposure to short-term bonds (3) it has a much smaller exposure to illiquid assets such as real estate or investments in timber (4) it has rigorous allocation of assets, which significantly reduces tracking error and protects the investment strategy (5) it follows socially responsible investment criteria (6) it plays the role of activist shareholder to improve the governance of the companies in which it invests (7) it has less complex management and significantly lower costs (8) it has a governance structure designed to follow a clear investment strategy, avoiding improvised changes (9) it reduces possible principal-agent problems (between the owner and the manager of the assets) since the valuation of the assets is carried out by the market and is easily identifiable.

Furthermore, as we noted in the second difference, the majority of sovereign wealth funds do not have defined liabilities (pensions) and therefore do not suffer the problems of asset and liability mismatch seen in the Yale model. It therefore seems logical for sovereign wealth funds to follow the Norwegian model rather than the Yale one. In other words, to follow the model designed by one
5. Equity investments of the Norway’s GPFG: A European sovereign wealth fund for Europe

of their peers, which also does not face defined commitments and which has a long-term investment horizon.

Of course, the Norwegian model, despite being behind the management of what is considered to be one of the world’s most transparent sovereign wealth funds and with the best corporate governance, is neither perfect nor universally applicable. Not all investors can adopt the investment principles followed by the fund, because among other things they do not have the institutional and organisational framework of the Norwegian fund (parliamentary support or in-house investment teams). Nor can these principles be applied unaltered by managers who have to meet recurring short-term obligations. Even so, the model presents a number of advantages compared with the Yale one, which could be used by institutional investors to improve and modernise their investment strategies.

Corporate governance

The Norwegian fund is a world reference for good governance. As well as heading the ranking of sovereign wealth funds by assets under management, the GPFG is a reference for good governance, both corporate (with regard to the manager, NBIM) and in its relations with its other stakeholders: parliament, central bank, ministry of finance and Norwegian society.

Moreover, the GPFG is also a reference as regards transparency. None of the other funds in the top ten by volume of assets has a similar level of transparency. This is in stark contrast to the opaque nature of its counterparts in the Middle East or South-east Asia. The Norwegian fund publishes information, updated in real time on the value of its portfolio. Every year it also discloses the content of its portfolio in detail, with the names of all companies and bodies receiving its fixed income and equity investments. It also recently started to provide breakdowns of its activity in the real estate sector. In the case of equities, on which we focus in this chapter, it has equity investments in 8,213 companies in 74 different countries. For each one of them it details the volume of the investment, the percentage of the capital that it represents, and the percentage of voting rights it can exercise. The fund has an upper limit of 10 percent of ownership in any given listed company. As at 31 December 2013 the five companies in which GPFG holds the largest ownership positions were Irish packaging Smurfit Kappa Group (9.40%), British property and development Great Portland Estates (8.86%), two Finnish companies in the paper, bio and forestry industries, Stora Enso (8.16%) and UPM-Kymmene (7.76%); lastly, American financial giant BlackRock (7.08%).

This same transparency extends to the rules governing entries to and exits from the fund’s capital. Norway is one of the world’s biggest exporters of oil (seventh) and natural gas (third, behind Russia and Canada). Therefore clear rules on contributions to the fund are essential. Specifically, since 2001 the fund’s “spending rule” establishes that not more than 4% of the fund may be spent on the government’s annual budget.

Together with this transparency and good corporate governance it used to be argued that the Norwegian fund was an example for other funds as regards the non-interference of political considerations in the NBIM’s investment decisions. However, even the Norwegian fund is subject to this political interference.

In October 2008 in Santiago de Chile, the then members of the International Working Group of Sovereign Wealth Funds signed a declaration of 24 Principles on the practices that should govern sovereign wealth funds. This non-binding declaration, known since then as the ‘Santiago Principles’, had a clear intention: to dispel the fears that many governments then had about sovereign wealth funds’ possibly investing for political reasons. Balance, to date appears satisfactory, given Heathrow airport’s current shareholders (including three SWFs) or Qatar Holding’s leading role in the $66 billion Glencore Xstrata mega-merge in 2012 (the fifth-largest in the history of the natural resources sector).

However, this same declaration leaves room for discretionality in many highly significant aspects. Specifically, sub-principle 19.1 stipulates that “if investment decisions are subject to other than economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed.” When a fund, for example Mubadala, decides to serve as a financial lever in changing its country’s production base, it does not specify which activities are in pursuit of a purely economic and/or financial objective and which serve a political interest that facilitates (or in some cases hinders) this diversification.

By this we do not mean to assert that there is necessarily anything wrong with pursuing objectives that go beyond economic-financial ones. Sometimes funds can be used as instruments in international relations, for example, establishing alliances with globally influential governments so as to facilitate the establishment of trading, learning and investment relations, for example.

It is therefore logical that the finance industry, multilateral bodies, receiving countries and regulators should seek to minimise the effect of these other objectives of the sovereign wealth funds. However, isolating public entities, which in the final analysis are governed by politicians, from political interests, is something really hard to achieve. Furthermore, it will be difficult to correct in the context of this new “state capitalism” on which many emerging
economies have embarked, in which the connections between governments and corporate managers are so ingrained: former politicians managing state companies, former managers of state companies going on to manage public investment agencies, etc.

In the case of Norway, the risk of political interference is limited, but it does exist. The procedures and accountability to which the NBIM-managed fund is subject, both to the Ministry of Finance itself and ultimately to Parliament, ensure that investment policies are not dictated by short-term political considerations. Furthermore, in Norway, the fact that the fund does not invest in any domestic assets (equities, debt or real estate), reduces the incentive to interfere in particular industries or companies for political reasons.

However, the Norwegian fund’s determination to become a global reference as a “responsible investor” exposes it to non-economic-financial interference or influence. In 2002, the Parliament set up a committee of experts, the Graver Committee, to implement a mechanism to ensure responsible investment by the fund. Two years later, the fund’s lines of action in the field of ethics were defined and the Board of Ethics was set up. The Board, composed of five persons with varied profiles (a lawyer, an engineering agronomist, a biologist and two economists from different fields), is charged with reviewing all the GPFG’s investments and assessing which, if any, are inconsistent with the fund’s ethical approach. These recommendations are submitted to the Ministry of Finance, which decides, based on the recommendations received, whether to exclude these investments or place them on a watch list.

The Committee’s recommendations have led to the exclusion of 21 companies in the tobacco sector. Moreover, those which the Ethics Committee described as causing serious environmental damage (as in the case of Rio Tinto in 2008), or having seriously or systematically violated human rights (Walmart being the best-known case, with its exclusion in May 2006), or producing nuclear weapons (EADS, Boeing and Lockheed Martin), have also been excluded from the GPFG’s investment universe by the Ministry of Finance.

It is in this area that the Committee, and ultimately the GPFG may be or may have been subject to significant political or other influence. In fact, when the new government came to power, it attempted to dissolve this independent Committee and incorporate it into the central bank (where NBIM operates). Although this move was not approved, because it did not receive majority parliamentary support, a significant reform has nevertheless been proposed. The recommendations of the Committee, which will continue to operate independently, would be submitted directly to the central bank, not passing through the Ministry of Finance. The main reason given in support of this change is to avoid projecting an image of the fund as an instrument of Norway’s foreign policy. If this change comes about based on the reason put forward, then it is hard to avoid thinking that at some time in the past the fund has been used as an instrument of foreign policy.

Therefore we may conclude that at least the “responsible investment” decisions are not necessarily based on strictly economic or financial considerations. The case of the Norwegian fund demonstrates that the “risk” of being subjected to non-economic influence in its investment decisions is real; whether to exclude individual companies or certain entire sectors, or to include mandates in ‘responsible’ investment sectors. And all this in the context of a fund that operates with very well defined and transparent internal policies. Therefore, in light of the Norwegian case, we may conclude that the likelihood of a public financial instrument’s being used as a tool of the country in the pursuit of other (more or less laudable) objectives is still very significant.

**Investment strategy: long-term investor, the European bias and external managers**

The GPFG was created in order to provide the Norwegian government with an instrument with which to handle the country’s fiscal policy in the event that oil prices should fall or Norway’s onshore economy (i.e. excluding oil and gas) should contract.

In order to safeguard the fund’s founding mandate, the Ministry of Finance established a clear investment strategy from the outset, with the objective of taking advantage of its long-term view to generate high profitability and preserve the country’s wealth for future generations.

The long-term view is the cornerstone on which the Norwegian sovereign wealth fund’s investment strategy rests. The NBIM has no short-term commitments. It identifies long-term investment opportunities in sectors and specific companies, invests in assets that it expects to generate high returns over time, and is able to withstand periods of high volatility in the capital markets. It thus takes advantage of opportunities that arise, while other investors find themselves constrained to take short-term decisions.

**Geographical spread of the fund’s investments: preference for Europe**

Another of the key elements in the fund’s strategy is the setting of benchmarks for its investments. The fund’s investments are valued against the benchmark indices for equities, bonds and real estate compiled by FTSE Group, Barclays Capital and Investment Property Databank (IPD) respectively. At present, the fund holds 60% of its assets in equities, 35% in fixed income and up to 5% in real estate. All GPFG’s investments are made outside Norway.

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5. Equity investments of the Norway’s GPFG: A European sovereign wealth fund for Europe

**Infographic 4**

**GPFG Top 10: Conquering the world’s largest companies**

Major investments in emerging-markets companies in 2013

Source: ESADEgeo (2014).
Sovereign Wealth Funds 2014
Equity investments of the Norway’s GPFG: A European sovereign wealth fund for Europe

GPFG Top 10: Conquering the world’s largest companies

Nestlé
Shell
Novartis
HSBC
Vodafone
Roche
BlackRock
BG Group
Apple
BP

Volume of GPFG investments by sector in 2013

Utilities 3.43
Telecommunications 3.84
Technology 7.43
Oil & Gas 8.34
Industrials 14.29
Health Care 8.66

Basic materials 6.34
Consumer goods 13.91
Consumer services 10.10
Financials 23.65
5. Equity investments of the Norway’s GPFG: A European sovereign wealth fund for Europe

According to the latest annual report of the NBIM (31 December 2013), the fund measures the relative returns of its portfolio against the FTSE Global All Cap index, which contains 7,476 large-, mid- and small-cap companies from 47 countries. It includes frontier markets such as Pakistan, Morocco and the Philippines (with a total weight in the portfolio of less than 1%).

The analysis of the NBIM’s portfolio at the end of 2013 also allows us to evaluate the geographical distribution of the shares. The Fund held shares in 8,213 different companies in 74 countries (or territories, as we shall see).

From this group of 8,000 companies we have filtered the Top 10 investments yearly since 1998 (See Infographic 4). Many trends can be identified. First, some telecoms simply disappear from the Top 10 (the most prominent case is Nokia which toppled in 1999, but British Telecom, NTT, Cisco, Ericsson, fell too). Second, The oil company BP is the only firm which endured in the Top 10 since the beginning of the Fund’s activity in 1998 (the trend shows that most probably it will not be the case in 2014). Third, two pharmaceutical Swiss companies represent well the Swiss GPFG’s preference, now including consumer goods Nestle as top investment destination, too. Fourth, analyzing sectors, many conclusions arise but current diversification remains on top. This diversification is even more evident now if compared with recent 2008, when four over five largest holdings were oil&gas companies.

If we compare the geographical distribution of the FTSE index with that of the NBIM, we find some very significant differences. Most of these differences are explained by deliberate decisions: NBIM applies a different geographical weighting from that of the FTSE Global All Cap index. NBIM receives the investment mandate drawn up by the Ministry of Finance and applies it to its management of the GPFG. Specifically, NBIM applies an over-weighting of 2.5 to European equities, relative to the weight assigned by the FTSE index. It does likewise with “other developed markets” (1.5) and “emerging markets” (1.5). However it maintains the weighting of the US and Canada unchanged. In other words, according to the FTSE index, Europe should account for 23% of the portfolio.

However, applying the NBIM’s weighting, it must represent 40% of its portfolio. The current weight of Europe in the portfolio is 40.3%. So in aggregate terms, the GPFG maintains its European investment in excess of its benchmark. In the opposite extreme is the US, with a weight of 49% in the FTSE index, assigned just 34% in the new weighting and accounting for only 29% of the GPFG’s investment.

The following figures show the deviations. First, we compare the FTSE benchmarks with those of the NBIM (Chart 1). We see an almost perfect offsetting between the extra weight allocated to Europe and the penalisation of the US. Specifically, the UK, with 5.52% more, is the clear winner from the adjusted index used by the NBIM. In monetary terms, the new index increases exposure to the UK by more than $28.2 billion given the Fund’s current market value. France, Germany and Switzerland also gain in this respect. At the other extreme, the US sees its benchmark reduced by just over 15%, which in monetary terms is more than €79.5 billion. In terms of the benchmark then, the European bias is patent.

We can also see the fund’s real position in comparison with the adjusted benchmark (Chart 2). In other words, we can see which countries receive greater or lesser amounts than those determined by the adjusted benchmark. In this regard, the US again comes out as the main loser. The gap or difference between the benchmark and the amount invested in the country is $23 billion. Japan and Australia ($5 billion and $4.4 billion respectively), are the other two countries affected by this. We should also highlight two European countries receiving less investment than envisaged in 2013. These are Spain, with a negative gap of $1.1 billion, and Denmark, with $544 million. At the other extreme, the UK ($8.3 billion), Germany ($7.4 billion), France ($5.7 billion), Switzerland ($4.7 billion) and Sweden ($4.1 billion), received a “surplus” in 2013. Also notable on the “surplus” side are investments in two emerging countries, China and Russia, with “surpluses” of $2.6 billion and $1.05 billion respectively.

This therefore constitutes a deliberate play on investment in Europe. This domestic (regional) bias is also seen in other institutional
investors. The pursuit of an “adjusted” diversification which, in
terms of portfolio weighting, “favours” markets that are culturally,
and above all geographically, close, while “penalising” more distant
markets, specifically the US. Moreover, as we have seen, the actual
investments made further emphasise this weighting. In general
terms, the countries with the greatest positive benchmark gaps to
start with are also those that subsequently receive investments in
excess of the adjusted benchmark.

Additionally, the map showing the geographical spread of
the NBIM’s equity portfolio shows some other interesting facts. One is
struck by the presence of “tax havens” among some of the Fund’s
portfolio companies’ holdings. Thus, the Cayman Islands (0.2%)
have more investment from Norway than does Greece or Colombia;
Bermuda (0.06%) has a higher percentage of the portfolio than the
United Arab Emirates or New Zealand; other tax havens, accounting
for less than 0.05% of the fund’s portfolio, are Guernsey, Jersey and
the British Virgin Islands. In view of the Fund’s wish to become a
reference for “responsible investment”, it is not clear how that
objective meshes with the fund’s positions in these tax havens. It
seems reasonable to suppose that it will withdraw from positions in
these territories, as has been seen with sensitive sectors such as
tobacco, nuclear weapons and palm oil.

External Managers

The GPFG uses external managers to administer part of the fund’s
investments in fixed income and equities. The fund grants
investment mandates to entities with experience and a positive
track record in clearly defined areas for which it is not appropriate to
develop in-house skills and teams. Through them, the fund looks for
managers to outperform the markets in which they operate and
obtain a differential return for the fund. The mandates usually cover
investments in emerging markets and small-caps in developed
markets.

At the end of 2013 the fund had $31 billion (3.8% of its total assets,
compared to 2.9% a year before) in hands of external managers.
This was 30% more than at the beginning of the year. To date, the
fund has granted a total of 70 investment mandates to 59
institutions. Of the 70 mandates granted, 50 have been to
administer investments in equities in emerging and frontier
markets, 13 for investments in equities of small-caps in developed
markets, 5 for investments relating to the environment and 2 for
fixed income in emerging markets.

Historical analysis: GPFG’s equity investments from 1998 to 2013

The GPFG shows a European bias in 2013, as discussed previously.
This bias is nothing new: The Norwegian fund’s investment history
contains a permanent bias in favour of European companies. To
date, GPFG owns 2.5% of Europe’s listed companies.

In Chart 3 we show the changes in GPFG’s equity portfolio from
inception until the end of last year. We see a relatively stable history,
with Europe dominating throughout, followed by the US and Asia
and to a lesser extent Australasia. In 2001 it incorporated Latin
America (Brazil and Mexico) and in 2004: Africa (South Africa) and
the Middle East (Israel dominates investments in the region, with
UAE and Qatar joining later).
A more detailed analysis of changes in European investments can be found in Figure 4. Dominated by the UK from the outset, the European portfolio presents some peculiarities: among them, the historical preponderance of France over Germany, although in 2013 France fell to fourth place, behind Switzerland. Moreover, the domestic bias puts Sweden in seventh place by cumulative investment (stock). Within Europe, Italy is relegated to eighth position, in contradiction to the weight of its GDP in Europe’s economy, which is far greater than that of Switzerland, the Netherlands or Sweden, all of which are ahead of it in the ranking.

We sought to ascertain the Norwegian fund’s exposure to the BRICS (Figure 5). In this case, as has already been said, both Brazil and South Africa are reference countries in their respective regions. They served as entry points for their continents and continue to lead the fund’s investment. In the case of South African companies, for example, Naspers receives more investment than Alcatel-Lucent (France), Aviva (UK) or Commerzbank (Germany); likewise with the MTN Group, which has investments ahead of those in Vestas (Denmark), EDP (Portugal) and Fiat (Italy). In the case of Brazil, giants such as Petrobras, Vale and Itaú also have more investment than many European and North American companies.

In the case of Russia, already analysed under Europe, banking (VTB Bank and Sberbank) and commodities (Gazprom, Lukoil and Surgutneftegas) are the GPFG’s managers’ priority destinations. In any case, it will be interesting to see whether there is any reaction to the conflict in Ukraine and whether the successive sanctions and embargoes between Russia and the rest of the world have any repercussions for the Norwegian fund’s portfolio selection in 2014.

In Asia, India and mainland China entered the fund’s investment universe in 2005. This was some years after Japan, Hong Kong and South Korea. However, China’s growth is far greater than that of India. Investments were made in 45 Chinese companies in 2005, 116 in 2007 and 941 in 2009. In 2011, GPFG invested in almost as many Chinese companies as Japanese ones. The investments are headed up by insurer China Pacific Insurance Group, the major state banks ICBC and CCB and telecoms groups China Mobile and China Unicom. India for its part shows no particular increase, maintaining a steady number of investments in around 200 different companies and a volume of around $2.5 billion, heavily concentrated in Infosys, Bharti Airtel, financial groups Axis Bank, ICICI and Housing Development Finance Corporation and natural resources, through Reliance Industries for example.
Since the Norwegian Ministry of Finance redefined the fund’s investment strategy in 1997, allowing it to allocate 40% of its assets to investments in equities, Spain and its companies have been one of the main destinations for the fund’s investments in Europe.

Unlike our main European neighbours, the Norwegian fund’s entry into Spanish companies was timid, with an investment barely surpassing $200 million (spread among 34 companies) in 1998. For its initial foray, the fund plumped for multinationals well-established in Spain and with a strong presence in Latin America. Essentially, these were financial institutions such as BBVA and Banco Santander, and energy companies such as Endesa and Gas Natural. Prominent among the first batch of investments in Spanish companies were Telefónica, in which the fund initially invested nearly $38 million, and BBVA and Endesa, in each of which it invested more than $22 million.

During the first few years of the twenty-first century, the fund’s play on Spain and its companies grew continuously, reaching $1.1 billion in 2003. In that year, the fund’s plays were still headed up by Telefónica, and the main investments were still being channelled into financial institutions and energy companies. However, companies from other sectors were beginning to make their appearances, such as Altadis (the result of the merger between Tabacalera and France’s Selta in 1999) with an investment of nearly $106 million, Inditex and construction companies such as ACS, with investments of close to $50 million.

At the onset of the financial crisis, the fund kept its faith in Spanish companies, and in 2008 it invested $5.63 billion in 83 different Spanish companies, for the first time surpassing its investment in Italian companies, with Spain thus becoming the fund’s fifth biggest European investment destination. In 2009, the fund’s stock of investment in Spanish companies reached a new new record, surpassing $9.2 billion and becoming the second biggest year behind last year’s $9.99 billion. In 2010 and 2011 the fund considerably reduced its exposure to Spanish equities, bringing its stock down to less than $7.5 billion. Also, in 2011 the fund granted an investment mandate to the Spanish firm Bestinver Gestión. With this mandate, the NBIM not only entrusted to Bestinver the management of a substantial part of its Spanish portfolio, but also charged it with overseeing the fund’s investments in listed Spanish mid-caps.
5. Equity investments of the Norway’s GPFG: A European sovereign wealth fund for Europe

In 2012 the fund regained its appetite for Spanish equities and again reached $8 billion in investment, in Banco Santander, Telefónica and BBVA, each with investments of more than $1 billion. There were also significant investments in R&D-intensive companies such as Amadeus, with more than $773 million, and Grifols, with $140 million. This shows the Norwegian fund’s interest in investing beyond the usual suspects: financial, construction and energy.

In 2013 the GPFG increased its investment in Spanish equities by 20.1%, from $8.32 billion in 2012 to $9.99 billion in 2013. In total, at the end of 2013, the Norwegian fund had investments in 73 listed Spanish companies, compared with 69 in 2012.

Within the IBEX 35 (see following table in euros) the main investments continue to be concentrated in Banco Santander (€1.245 billion), Telefónica (€952 million) and BBVA (€840 million). However the only one of these in which the fund increased its stake relative to 2012 was BBVA (up by 0.8%). These multinationals are followed by others such as Inditex (€651 million), Iberdrola (€471 million) and Repsol (€272 million). The fund increased its investments in these three relative to 2012.

However the fund did not confine itself to the usual suspects in the IBEX 35, but took positions beyond them. For example, it made a strong play on Gamesa, one of the stocks that has performed best so far in 2014, increasing its investment by 3,150%. Today, GPFG owns 2.58%, which represents the largest equity holding (relative to the market capitalization) within Top 20, followed by Ferrovial or DIA (it controls 1.92%) and Telefónica (1.73%). It also bet on financial institutions such as Bankinter and CaixaBank, reaching €67 million and €97 million of investment respectively, and Mapfre, which has a strong presence in Latin America, in which its investment increased by 102.2% compared with 2012. Furthermore, the fund also took a position in the group resulting from the merger of Iberia and British Airways, IAG, in which it invested €100 million.
### Table 1

Main Spanish investments of the GPFG

<table>
<thead>
<tr>
<th>Top 20</th>
<th>Company / Bank</th>
<th>2013</th>
<th>2012</th>
<th>2013/2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Santander</td>
<td>1,245</td>
<td>1,389</td>
<td>-10.4%</td>
</tr>
<tr>
<td>2</td>
<td>Telefónica</td>
<td>952</td>
<td>990</td>
<td>-3.8%</td>
</tr>
<tr>
<td>3</td>
<td>BBVA</td>
<td>840</td>
<td>833</td>
<td>0.8%</td>
</tr>
<tr>
<td>4</td>
<td>Inditex</td>
<td>661</td>
<td>600</td>
<td>8.5%</td>
</tr>
<tr>
<td>5</td>
<td>Iberdrola</td>
<td>471</td>
<td>447</td>
<td>5.4%</td>
</tr>
<tr>
<td>6</td>
<td>Repsol</td>
<td>292</td>
<td>240</td>
<td>21.7%</td>
</tr>
<tr>
<td>7</td>
<td>Ferrovial</td>
<td>222</td>
<td>181</td>
<td>22.7%</td>
</tr>
<tr>
<td>8</td>
<td>Amadeus</td>
<td>172</td>
<td>131</td>
<td>31.3%</td>
</tr>
<tr>
<td>9</td>
<td>Gas Natural</td>
<td>160</td>
<td>123</td>
<td>30.1%</td>
</tr>
<tr>
<td>10</td>
<td>Cellisa</td>
<td>127</td>
<td>106</td>
<td>21.1%</td>
</tr>
<tr>
<td>11</td>
<td>Banco de Sabadell</td>
<td>109</td>
<td>90</td>
<td>21.1%</td>
</tr>
<tr>
<td>12</td>
<td>IAG</td>
<td>100</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>13</td>
<td>Abertis</td>
<td>98</td>
<td>93</td>
<td>5.4%</td>
</tr>
<tr>
<td>14</td>
<td>CaixaBank</td>
<td>97</td>
<td>38</td>
<td>155.3%</td>
</tr>
<tr>
<td>15</td>
<td>Banco Popular</td>
<td>95</td>
<td>53</td>
<td>79.2%</td>
</tr>
<tr>
<td>16</td>
<td>Mapfre</td>
<td>93</td>
<td>46</td>
<td>102.2%</td>
</tr>
<tr>
<td>17</td>
<td>ACS</td>
<td>87</td>
<td>77</td>
<td>13%</td>
</tr>
<tr>
<td>18</td>
<td>DIA</td>
<td>76</td>
<td>70</td>
<td>8.6%</td>
</tr>
<tr>
<td>19</td>
<td>Bankinter</td>
<td>67</td>
<td>24</td>
<td>179%</td>
</tr>
<tr>
<td>20</td>
<td>Gamesa</td>
<td>65</td>
<td>2</td>
<td>3152%</td>
</tr>
<tr>
<td>*<em>Total</em></td>
<td></td>
<td><strong>6,019</strong></td>
<td><strong>5,533</strong></td>
<td><strong>8.7%</strong></td>
</tr>
</tbody>
</table>

Source: In-house with NBIM data as at 31 December 2013.

* Millions of euros.