

**Exchanges at Goldman Sachs: Great Investors
Investing with Norges Bank Investment Management's
Nicolai Tangen**

**Nicolai Tangen, Chief Executive Officer, Norges Bank
Investment Management**

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Allison Nathan: Investors are facing one of the most challenging backdrops in recent years amid slowing economic growth, rising inflation, and geopolitical conflicts. I'm Allison Nathan, and this is *Exchanges at Goldman Sachs: Great Investors*.

In this special series, Alison Mass, Chairman of our Investment Banking Division, and Katie Koch, Chief Investment Officer of Public Equities in our Asset Management Division, speak with the world's most respected investors about their investing strategies, career trajectories, and their outlook for markets and economies.

I recently sat down with Katie Koch, who spoke with Nicolai Tangen, who is responsible for running the world's largest

sovereign wealth fund. Katie, such a fascinating conversation with Nicolai. What would you say were some of your key takeaways?

Katie Koch: So, Allison, this was a very fascinating conversation with the leader of the world's largest sovereign fund. He and his team own about 1.5% of the entire public equity market. And one thing that really struck me from this conversation is this incredible mission that they are on to secure the financial well being of current and future Norwegians and just what an amazing task that is to come and work on every day.

He did warn us that the investing environment is going to be a lot more challenging over the next decade. Returns are going to be harder to come by. And at the margin, that makes him more positive on active management. I was also really struck by the fact that he is a perpetual student who's returned to school several time to master everything from social psychology to art history and even cooking. So he clearly believes that learning is the key to happiness.

Allison Nathan: All sounds very fascinating. Can't wait to hear more. Let's get to it now.

Katie Koch: I'm Katie Koch, chief Investment Officer of Public Equity at Goldman Sachs Asset Management and your host today. Welcome back to another special edition of *Exchanges at Goldman Sachs: Great Investors*. Today, I'm thrilled to be speaking with Nicolai Tangen, who runs the world's largest sovereign wealth fund, Norges Bank Investment Management. We're going to talk about Nicolai's career, the unique history of the fund, his views on investments, markets, and economies. We're going to cover all of this today and more. Nicolai, it's awesome to have you here. Welcome to the program.

Nicolai Tangen: Thank you for inviting me.

Katie Koch: I want to start with the history of Norges Bank Investment Management. So some of our listeners may not know a lot about the history of Norway's sovereign wealth fund. Could you start by telling us a little bit about the fund and its mission?

Nicolai Tangen: Yeah. It's one of these incredible stories. So Norway hit oil in '69 on the very last attempt. And some clever politicians realized that, you know what, to find oil

and get a lot of money can actually be a curse. And so what they decided was to set up a fund to really protect it and to safeguard it for future generations.

And so 26 years ago, they made the first deposit into the fund of roughly \$250 million. And that has since grown to \$1.3 trillion, making it the biggest single investor in the world. And now we own some 1.4% of all the listed companies in the world, 9,000 companies. In Europe, we own roughly 2.6% of all the listed companies. So it's quite an amazing story.

Katie Koch: And that's an incredible responsibility, too, to be owners of all those companies, which we're going to come back to. I did want to highlight that, since its inception in 1996, the fund's only been led by three individuals, including you. And you had a very successful investing career before taking the helm of the fund. You founded and led one of Europe's most successful hedge funds, AKO Capital. So that was I'm sure a very rewarding role. And then you put up your hand to take this job at a much more complex organization with arguably many more stakeholders. And just curious, what inspired you to put up your hand to make that transition?

Nicolai Tangen: Well, when I heard about the job, I just thought, wow, this is just in the middle of everything I love. First of all, asset management and then organizational development, and I had just finished a master's in social psychology where I worked on that, and then lastly, doing something good for the country, it kind of all came together in this incredible job.

Katie Koch: And when you think about the legacy that you want to leave at this storied institution, what mark do you hope to leave on the way that these assets are managed for the people of Norway?

Nicolai Tangen: Well, the focus here in the beginning has been three things. One is communication. So we communicate a lot more and we are much more transparent than we have been in the past. Then it's the focus on people and how we develop our people. And then of course performance, which is kind of key at what we do.

And on the performance side, I would say there are a few things. So one is to further develop what we call negative selection. Now we own a bit of 9,000 companies. I don't

think we need to do that. We can exclude some of the kind of rotten apples which we don't want to own. And so it is really to develop that negative selection.

And the second thing is that I think we can be more contrarian in the way we invest. And lastly, I think we can also be long term in the way we invest. Really, really use the advantages we have with this long-term fantastic capital base.

Katie Koch: I want to pick up on one comment you made there, Nicolai, which was around transparency. And one thing that you've also done in the leading of this fund is to start your own podcast. So we've turned the tables on you here to interview you, but you are also the leader of your own podcast *In Good Company*, in which you interview CEOs of the companies in which the fund is invested. And in fact, you recently interviewed my CEO, David Solomon, CEO of Goldman Sachs. Why did you start to do that podcast? And what are hoping to achieve with it?

Nicolai Tangen: Well, to me, this was taking transparency, you know, to the extreme, right? To show the Norwegian people, and everybody else who's interested,

exactly what they own so that they can hear from these company CEOs directly. And there are very few people who have access to these worldwide leading CEOs, but because of the capital base we actually do. And so to me, it just made a lot of sense. It's potentially interesting for students to hear from these people, from business people, and just from the general public.

So we have interviewed now the head of BP, L'Oreal, KONE, GM. And we have some really exciting guests coming up. So, you know, tune into that one.

Katie Koch: I think this is such an incredible concept when you tell this story because Norway had the foresight, the governance, the responsibility that, when they found this valuable asset in the ground, they were able to create this fund for the benefit of the Norwegian people. And now you are connecting that concept that the Norwegian people are actually owners. They own a piece of the global GDP through this fund, and I really admire this idea of bringing transparency to that and what exactly it is they're owning. So I'm excited to continue to listen to that podcast.

Nicolai Tangen: Recently, I interviewed the CFO of

LVMH, the leading luxury goods company in the world. You know, the fund owns 40-billion-kroner worth of stock. It's \$1,000 per Norwegian. No, this is really, really quite a lot. 4,000 kroner each invested in L'Oreal. You know, these are meaningful positions for Norwegians.

Katie Koch: I was really interested to learn that, like us, you are a proponent of active management, even though you're managing this incredibly large pool of assets, \$1.3 trillion, which some people might think, well, actually it's quite tough to get very active with that large of an asset base. So how do you think about that? You brought up some of these issues around negative selection, excluding the rotten apples, being contrarian, being long term. Tell us how that really comes together in the running of this very large asset base.

Nicolai Tangen: Yeah, in my mind, active ownership and active management goes together. And we are very active with our companies in terms of voting, in terms of our expectation documents, how we expect our companies to behave. Now, we therefore also run a part of the portfolio in a really active way. We have a lot of portfolio managers situated in London, Singapore, and New York and Oslo.

And these have generated really, really great returns over the years. So it's an important and integrated part of what we do.

Katie Koch: Nicolai, I think we would agree that the last ten years has been largely a period of uninterrupted buoyancy in financial markets. But as we sit here today, the list of challenges is actually quite long. So we have multiples compressing in many parts of the market, large parts of China are closed due to zero-COVID policy, we have a protracted war on Europe's doorstep, inflation continuing to rise and parts of it actually are very difficult to control through monetary policy, for example, commodities. And so I want to ask you, is this all well known and is yesterday's headlines and we should just move forward? Or do we actually think, in your view, that we're going to have a difficult setup for the next decade?

Nicolai Tangen: Well, we've had 25 good years now, and I think the next 10 will look very different. We are at a starting point where rates are still low, where stock prices are still quite high, and where inflation is rampant. And so I think it is going to be much, much more difficult to generate returns over the next 10 years. You also have a

period of globalization, which is just to an extent reversing and increasing geopolitical frictions. So, I don't think the next 10 years are going to be very easy.

Katie Koch: You referenced deglobalization, which in and of itself, can be inflationary, right, if we duplicate out all these supply chains, rising geopolitical risks, rates that you believe can continue to go up. So, does that lead you to believe that we might have a stagflationary backdrop of rising inflation and lower growth? Is that your base case?

Nicolai Tangen: Well, the risk for that has certainly gone up with the war and some of the problems we've seen on supply chains. Now, I'm not going to predict stagflation because other people know this better than I do, but clearly the risk has gone up. And we are seeing higher inflation. And we are seeing it impacting share prices and of course bond prices, too.

Katie Koch: So, knowing that the environment, as you just pointed out, incredibly difficult to call it precisely, but we have consensus that it may look very different than, to your point, the last 25 years. So, how are you thinking about shifting the assets, if at all, in advance of the

changing environment?

Nicolai Tangen: Well, we have a pretty clear mandate from the ministry of finance, which is politically anchored in the parliament here. And I think the split we have with 70% shares and 30% equities and long-term bonds and real estate, it's a really good one for the long term. But clearly in the shorter term, it may be a bit more challenging. So what we can do, more tactically, is to shorten the duration somewhat on the bond portfolio. We can adjust some of the equity exposure, but clearly there are limits for what we can do when we are such a big shareholder.

Katie Koch: And one follow-up question for you is there's a lot of people listening to this conversation that are younger. And basically, if you're age 34 or younger, you've never invested in an environment effectively where capital costs something and inflation is on the rise. You've had a very successful investing career. What advice would you give for those emerging investors?

Nicolai Tangen: Well, I would say patience, patience, patience, you know? You are just not going to make as

much money as you have recently. And it's going to be more difficult to tweak profits out of your investments. I think there needs to be more focus on being contrarian. You need to be even more focused on market share gainers. So, it's going to be a different ballgame, you know?

Katie Koch: And do you think that this is an environment, just going back to this topic of active, if in fact it's a more difficult macro setup and generally a more challenging operating environment, might this be a decade in which there's more differentiation at the company level because great operators are able to deliver better returns for shareholders?

Nicolai Tangen: I think so. What we see over the time is that the good, great companies with good business models and good managements, they typically out perform. They use difficult periods to gain market share. And we see that these market share gains typically are sustained in subsequent periods. Now, bad companies with weak balance sheets, they're going to have a tough time. So, I think the focus on quality will be even more important.

It's also important, of course, to focus in on the companies

that actually make money. I mean, it's just not going to be a great period to be a loss-making entity. And some of these loss-making companies are still pretty highly valued.

Katie Koch: You are invested in emerging markets, and maybe we could focus in on China just because it's a very big part of that broad opportunity set. There are two schools of thought on this as it relates to investing in China. On the one hand, people say Sino-Western relations have never been more strained, and some capital allocators are avoiding this part of the world.

On the other hand, you might look at it and say, hey, this is still the world's second largest economy. There are some great companies here. And you can access it at a discount of somewhere between 30-50% of the US. Just curious if you had thoughts or fell into either of those camps.

Nicolai Tangen: So we don't invest in China as such. We invest in the Chinese companies. And so we assess them individually. And we see some good investments there. It's an important market for us along the line on the other markets we invest with.

Katie Koch: And talking about just asset classes more broadly, you invest in four major areas I think, equity, bonds, real estate, and I believe renewable infrastructure. Any other asset classes that you would be doing research on? Or do you feel like it's just about being selective within those four key opportunities sets, and that will allow you to achieve the returns that you want to for the Norwegian people?

Nicolai Tangen: Well, we are very happy with the asset classes we have. And if we want to add asset classes, that's a longer political process. And we have no immediate plans to suggest any of that. I mean, there are huge opportunities both within equities and bonds, and clearly also real estate and renewables.

Katie Koch: Nicolai, in addition to having an undergraduate degree, I am really interested in the amount of times that you've gone back to school to master new subject areas, including art history, social psychology, which you mentioned earlier, and also I believe you're a chef. So just help us understand where does that passion for learning and that intellectual curiosity come from?

Nicolai Tangen: Well, I think that came from my mother actually, and she was a very passionate learner and continued to study until late in her life. And so that's what I've been continuing to do. I think life is about learning. And I think in a way that's what it's all about. Learn, learn, learn. And the more you know, the more fun life you have, the more interesting person you become, the better decisions you make, the more interesting people you meet, the more interesting conversations you have. I just think that's really the key to happiness.

Katie Koch: And just following up on the chef point, do you cook at home for your family?

Nicolai Tangen: Yeah, all the time. I think that's probably the best -- according to my wife, it's probably the best education I have. And I cook the whole day on the weekends and dinner parties and things like that. Yeah.

Katie Koch: So what's your favorite dish? And what did you learn to make at this school that you can keep bringing out for entertaining?

Nicolai Tangen: Oh, my, there's just, like, an endless

amount of great things to cook, you know? You do wholly barbecued turbot. Fantastic. You do crab linguine. Don't get me started.

Katie Koch: It's incredible. I hope I get the chance to try this sometime, but that sounds very good. And probably also relaxing, right? I think it's important to find something you're passionate about that can help you disconnect. Does cooking enable you to do that?

Nicolai Tangen: Absolutely. And, you know, it's great to do with friends, so that's good.

Katie Koch: Now, you also attended, I believe, the Norwegian Defense College where you trained as an interrogator, which is I'm sure a very useful skill in your podcasts. And so it's been fun to turn the tables on you here and interrogate you. But how did those skills help you in your career? And do you think, for example, it's helped you assess other individuals, whether it's CEOs that you might want to invest in, potential employees, et cetera?

Nicolai Tangen: Yeah, no, I think it's been very, very important. And if you think about the time you have with

other people and how much you can get out of it if you ask good questions, open-ended questions, whether you probe at the right time and so on, and how much time we just lose either because we talk too much ourselves or because we don't ask the right questions, I think there is a huge scope professionally and personally.

And you can get some training in this field. There are some good books. There is a new book coming out, *A Guide to the Professional Interview*, which is written by some of the people who trained me. Just came out in English. It is a must-buy, a must-read. But it also improves your decisions. It improves your ability to interact with people in the organization, you know, on the client side, whoever you meet.

Katie Koch: And so what I've taken from that comment is that part of what you learned is to ask the right questions. And obviously that's really important for getting to the heart of the matter. But it sounds like equally important is the active listening, to really reflect on how people are answering and what they're saying and be active in that act.

Nicolai Tangen: Absolutely. There is a whole range of things you do. It has to do with the preparation work. It's how you approach the person you meet. It's how you start with open-ended questions, how you probe, how you listen, how you finish off, and how you depart. It's all part of this behavior.

Katie Koch: So when you think about your responsibilities at NBIM, one of the major ones is the recruitment, the retention, and the development of people. We think a lot about how to develop successful teams here at Goldman Sachs. What advice would you have for how to do that, especially at an organization of your scale?

Nicolai Tangen: Well, I think, first of all, you do it very well. You recruit a lot of great people, including yourself clearly. I think it starts with you have to put the person in the center, right? It needs to be right for the person you talk about and consider. If that person is not in the right place, it's not going to be a success. So I spend a lot of time trying to assess how are people going to thrive with us or are they not? And then that must be the start of it.

And then you set a goal. You motivate. And then you leave

them alone. You leave them alone. You know, micromanagement just destroys creativity. It destroys happiness. It's just not good. So there are ways I think you can get a lot more out of teams, but I think the key to it is just trust the people. They can do great things.

Katie Koch: Nicolai, something that I say to my team a lot at Goldman Sachs is to get out of the building and that the answers are outside 200 West, which is our headquarters, and go meet people and live in the world and bring in those variant perspectives to the way that we invest. And you've talked a lot about intellectual curiosity, trying to learn from many different people in your life. And in addition, you've brought in a lot of outside perspective and not just chief executives, but I think you've also brought people in, for example, from sport to speak to your teams. Why do you do that? And what do you think they're learning from those experiences? And how does it make them better at investing for the future of Norway?

Nicolai Tangen: When you look at creativity and how do you create the most creativity and the best solutions, it's always by getting the most different types of input into the process. And ideally early on. And ideally pretty extreme

opinions. And so we try to tap into whoever we can who have different opinions, different mindsets. We are more aware of getting better diversity in the recruitments, more educational type of backgrounds. And I just think it just improves the process, decisions, and it makes life so much more interesting.

Katie Koch: I wanted to just ask a follow-up question around resiliency, which we have found to be a really important characteristic of employees that have long-term success at Goldman Sachs and our portfolio companies. Do you agree in that? And how do you test for that in the people that you hire, whether they'll have the grit and resiliency to work through what can be, like this one, a pretty challenging environment?

Nicolai Tangen: Well, you test for it by looking at people's CV and looking at what they've been up to. I mean, if you change jobs every year, you just don't have grit. If you have been playing violin or you've done pottery since you were two years old and you're still doing it when you're 18, well, you have a lot of grit. So I think you just see it on what people have been doing with their lives. That's the best way of doing it, I think. But it's absolutely key to

performance. And that's why many employers look at, you know, people with sport backgrounds because you get a lot of setbacks as an athlete, and that kind of mental training that they go through really helps you also in working life.

Katie Koch: I'm very grateful that you've made the time to have this conversation. And you in your life have demonstrated so much gratitude for the good fortune that you've had through giving back. You and your wife are part of the Giving Pledge, so you've committed to donating the majority of your wealth to charitable causes. And I'm curious what motivated you to do that, and what causes are your most passionate about?

Nicolai Tangen: Well, the most important cause for me is education for less fortunate children. And I just see that injustice starts the day you're born. It actually starts before you're born. It has to do with the attention you get at home from your parents. It has to do with, you know, it's linked to childhood obesity and what you eat, the attention at school, the ambitions, you know, getting help to get summer jobs and paid jobs, you know, aspire to university, and all these kinds of things. And it's just, like, the unfairness starts day one, and it just accelerates

throughout your life.

And so the earlier we can intervene and help children who are less fortunate, the better it is. So that's really at the top of my mind.

Katie Koch: Nicolai, I'm really inspired by how often you've gone back to school to educate yourself. And curious just what might be the next degree?

Nicolai Tangen: Well, I'm definitely going to do another degree, but I haven't decided what it's going to be. For now, I'll just focus in 100% on this very, very important job, running the money for the Norwegian people, and that's all I'm doing.

Katie Koch: Nicolai, I think that's a great place for us to end. I want to end with gratitude to you for sharing your investment wisdom that you've accumulated over this very long and successful career. And I just want to say that, while the next 10 years may be very challenging, which we talked about, the NBIM is in great hands in your leadership and the incredible team that you've built around you. It's been a privilege to spend time with you. And we wish you

guys the best of luck.

Nicolai Tangen: Thank you so much. All the best.

Katie Koch: Thanks for joining us this Tuesday, May 10th, 2022.

Allison Nathan: We really hope you enjoyed listening to that special episode of Exchanges at Goldman Sachs Great Investors. If you enjoyed the show, we hope you follow us on Apple Podcasts, Spotify, Google Podcasts, or wherever you listen to your podcasts, and leave us a rating and comment.

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