



Singapore, 27 April 2018

Siv Jensen
Minister of Finance
The Norwegian Ministry of Finance
Akersgata 40, 0180 Oslo
Norway

OBJECT: Proposal to reconsider the exclusion of private infrastructure equity from GPFG's mandate

Your Excellency,
Dear Madam,

We are writing to bring to your attention important new developments with respect to your April 2018 proposal to restrict the mandate of the Government Pension Fund Global (GPFG) to invest in private equity. In particular, we would like to highlight the very recent creation of transparent unlisted infrastructure equity indices by EDHEC Infrastructure Institute. We believe that these developments justify revising your current position.

Considered in the light of past academic research and industry practices, your proposal not to allow the GPFG to invest in unlisted equity was, we believe, reasonable and justified.

The Ministry highlighted the limited advantages of such investments in terms of the overall risk-reward profile of the fund, as well as issues of transparency and costs, which were sufficient to call the overall benefits of private equity into question. Indeed, numerous research papers have highlighted significant issues of incentive alignment and poor performance measurement and reporting with such products.

In the case of unlisted infrastructure investments, beyond possible reputation effects due to the political nature of such investments, you expressed similar concerns about transparency and performance measurement. We noted that your proposal to consider unlisted infrastructure in the renewable energy sector is conditioned to having "the same transparency, return and risk requirements as apply to the other investments in the GPFG."

However, this concern is no longer justified. Indeed, the unlisted infrastructure sector is evolving rapidly to become more transparent and better benchmarked, so that large institutional investors such as GPFG will now be able to approach it on a completely different basis.

For the past three years the EDHEC Infrastructure Institute, part of EDHEC Business School, has created and developed the largest database of infrastructure investment data in the world, spanning hundreds of companies over the past two decades. This database will reach global coverage by 2019 and be used to compute full-fledged market benchmarks reflecting the risk-adjusted performance of private infrastructure investments, including in the renewable energy sector.

EDHEC Infra has already made such unlisted infrastructure indices available for various types of investments in infrastructure equity and debt in different segments of the European market. With this information, the private infrastructure asset class can cease to be opaque and expensive. Investment managers can justify performance on the basis of a well-documented track record and the benefits of infrastructure investment for the fund can be clearly established ex ante and ex post.

This effort has the support of numerous public and private entities, including the G20, OECD and the World Bank, and aims to create an independent, transparent and representative benchmarks of the risk-adjusted performance of private infrastructure investments.

Norway has played an important role in recent years to lead and drive the evolution of certain industry practices in the asset and risk management area, including the role of investing in remunerated risk factors to deliver performance at the best cost.

GPFPG can further improve its portfolio diversification and performance by investing in private infrastructure thanks to the transparency created by EDHEC *infra* indices.

These indices can help design new forms of private infrastructure investment products that would respond to your requirement to have the same transparency, return and risk requirements as apply to the other investments in the GPFPG.

By embracing the question of how access to a significant and important asset class like infrastructure can be improved, with the support of cutting-edge, independent research in finance, Norway can also continue to play a role of leadership in the global asset owner community, just as it did after the 2008 crisis.

I attach to this letter a document detailing how the data used to create the EDHEC *infra* indices is aggregated and the indices computed so that the most important issues¹ found in private investment can be addressed and the proper risk-adjusted measure of infrastructure investments measured. This document is also available online.²

GPFPG can solve the agency problem which characterises manager selection by demanding of the asset management industry that it demonstrates its ability to deliver equally transparent and well documented private infrastructure investment products. In this context, EDHEC *infra* indices can serve as a reference for asset allocation and tool for performance monitoring and attribution.

With better data and industry practices, unlisted infrastructure investment may offer significant benefits to the fund, as long as these benefits can be demonstrated.

We look forward to your response.

Professor Noël Amenc
Associate Dean EDHEC Business School

Dr Frédéric Blanc-Brude
Director EDHEC Infrastructure Institute



¹ These issues include stale pricing, volatility smoothing or the lack of measures of portfolio diversification.

² http://edhec.infrastructure.institute/wp-content/uploads/documents/EDHECinfra_Indices_Research_low_res.pdf