

## Profile: Government Pension Fund Global (Norway) (1 of 3)

July 2012

### Snapshot:

<b>Name:</b>	Government Pension Fund Global	<b>Fund type:</b>	Future generation / stabilization fund
<b>Country:</b>	Norway	<b>Source of funds:</b>	Petroleum revenues
<b>Established:</b>	1990	<b>Avg. annual inflow:</b>	Approx. US\$35 billion
<b>Total Assets:</b>	US\$605.1 billion <sup>1</sup> (est. April 2012)	<b>Investment returns:</b>	-2.54% in 2011 / +7.1% in Q1 2012
<b>Ownership:</b>	100% Ministry of Finance, on behalf of the people of Norway	<b>Office locations:</b>	Oslo, London, Singapore, New York, Shanghai

### History and Purpose:

Norway's Government Pension Fund was set up in 1990 as a fiscal policy tool to support the long-term management of Norway's petroleum revenue. The fund is managed by Norges Bank Investment Management (NBIM) on behalf of the Ministry of Finance, which owns the fund on behalf of the Norwegian people. The fund's investment strategy is determined by the Ministry in consultation with NBIM management and discussions in parliament. Petroleum revenues are regularly transferred into the fund, and is primarily invested abroad to avoid over-heating the Norwegian economy. Despite the fund's name, it has no formal pension liabilities. Rather, it is designed to give the government flexibility in terms of fiscal policy to manage economic contractions and/or reductions in oil prices. No formal decision has been made regarding when the fund will be used for pensions, but parliament adopted a "spending rule" that limits the amount spent in any budgetary year to 4% of the fund's value in an effort to preserve the fund for future generations. The fund is known as one of the most responsible stewards and investors amongst all SWFs and pension funds.

### Largest Holdings (Q1 2012)

#### Equity:

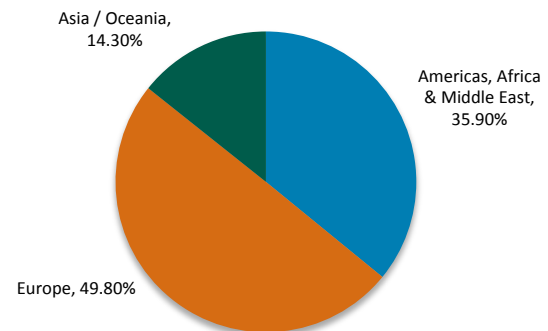
1. Royal Dutch Shell Plc (\$4.9B)
2. Nestle SA (\$4.7B)
3. HSBC Holdings Plc (\$4.1B)
4. Apple Inc. (\$4.0B)
5. BG Group Plc (\$3.3B)
6. Novartis AG (\$3.1B)
7. Vodafone Group Plc (\$3.1B)
8. BP Plc (\$3.0B)
9. Exxon Mobil Corp. (\$2.9B)
10. Roche Holding AG (\$2.7B)

#### Fixed Income:

1. United States Gov't (\$47.8B)
2. UK Government (\$15.4B)
3. French Republic (\$13.9B)
4. Japanese Gov. (\$11.4B)
5. Rep. of Germany (\$6.7B)
6. Italian Republic (\$4.6B)
7. Gov. of Canada (\$4.2B)
8. European Union (\$3.9B)
9. KFW<sup>2</sup> (\$3.6B)
10. Gov. of Australia (\$3.5B)

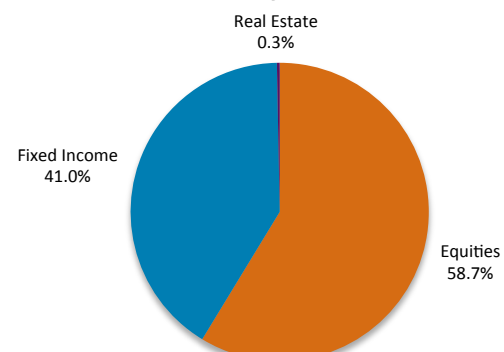
### Breakdown of Investments:

#### Investments by Geography



The fund is expected to reduce its European exposure in favor of investments in Africa, Latin America and the Asia-Pacific rim.

#### Investments by Asset Class



In March, 2010 the fund was given a mandate to invest 5% of its capital in real estate, outside of Norway. The funds will be taken from the fixed income allocation and will occur over the coming years.

### Investment Objectives & Strategy:

The fund seeks to achieve a 4% real return each year. It invests 100% of its holdings outside of Norway and typically does not take controlling stakes in any of the companies it invests in.

#### Primary Objectives:

1. Invest new capital at the lowest cost possible
2. Maintain the market portfolio cost-effectively
3. Increase returns through active management
4. Safeguard assets by promoting good corporate governance and high social and environmental standards
5. Advise the Ministry on the fund's long-term strategy

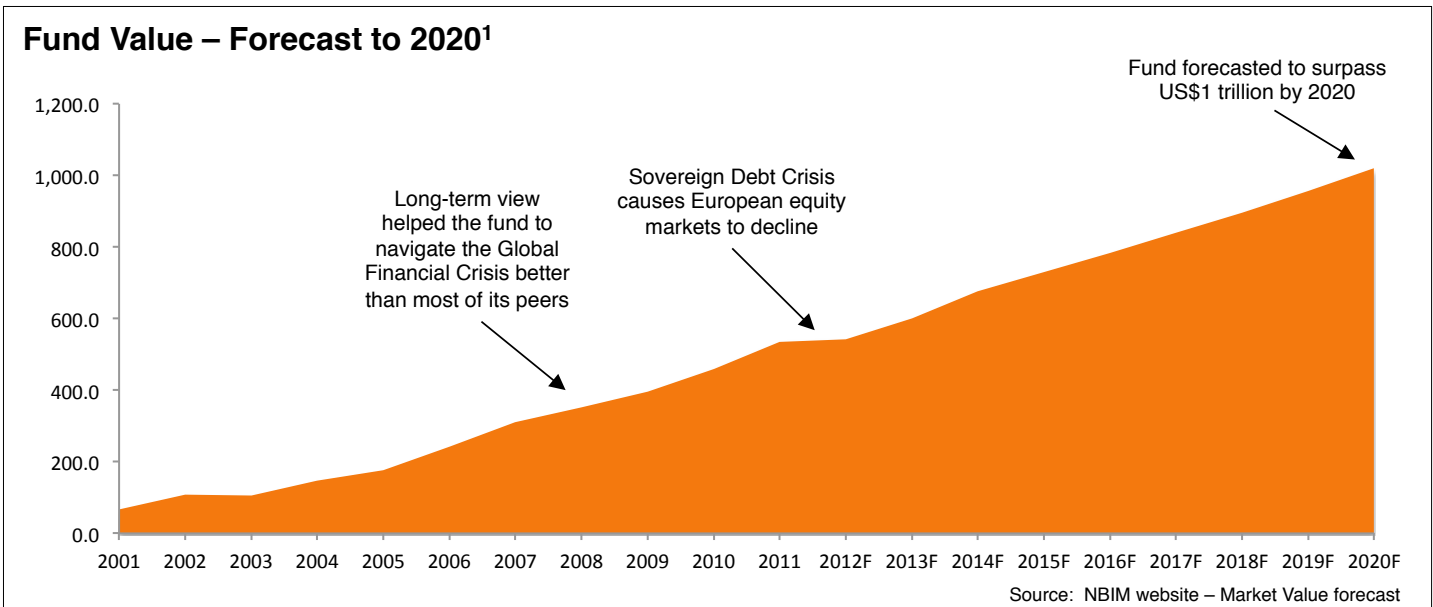
#### Target Asset Allocation:

- Equities – 60%
- Fixed Income – 35-40%
- Real Estate – Up to 5%

#### Benchmark Indices:

The GPF-Global utilizes a set of benchmark indices as an indication of its desired risk tolerance and to measure its performance. The indexes used are as follows:

- Equities – FTSE Index
- Fixed Income – A series of Barclays bond indexes
- Real Estate – Investment Property Databank (IPD)



### Responsible Ownership Strategies:

The Government Pension Fund seeks to protect its investments in over 8,000 companies globally through a uniquely long-term set of ownership activities:

#### 1 Equal treatment of shareholders

As a minority shareholder, the principle of one share, one vote is of critical importance. The fund seeks to ensure that its shareholder voting and dividends accurately reflect its ownership stake.

#### 2 Shareholder influence and board accountability

Shareholders should be able to propose, elect and dismiss, and challenge board members. The fund firmly opposes structures that work against a shareholder's interests or ability to vote.

#### 3 Well-functioning, legitimate and efficient markets

The fund often cooperates with investors, authorities, and other market participants to promote fair business practices. This is critical to the fund's long-term performance.

#### 4 Children's rights

The use of child labor prevents children from obtaining an education, and hinders sustainable development and investment performance. The fund has outlined its expectations of companies it invests in and regularly publishes reports.

#### 5 Climate change risk management

The fund expects companies it invests in to monitor how climate change may effect their performance and to take steps to mitigate risks and adapt to a changing climate.

#### 6 Water management

The fund has identified 7 industries exposed to scarce water and has outlined expectations for how water should be managed

### Recent News:

#### 7/12 – Fund buys \$341M of Paris Property

- The fund acquired a 50% interest in 5 high-end Paris properties from Italy's Generali Group.

#### 6/12 – Norway largest state investor in FTSE-100

- After recent share purchases, the fund has amassed over \$30.7 billion in shares of FTSE-100 companies, making it the largest state investor in the UK index.

#### 5/12 – Fund to shift from Europe to emerging markets

- The Minister of Finance announced that the fund will gradually reduce its exposure to European bonds from 51% to 41%, while emerging market bonds will rise to 10% from 6%. Exposure to Africa and Latin America will rise to 40% from 35%. The changes are expected to take place over the next 2 years.

### Strategic Issues:

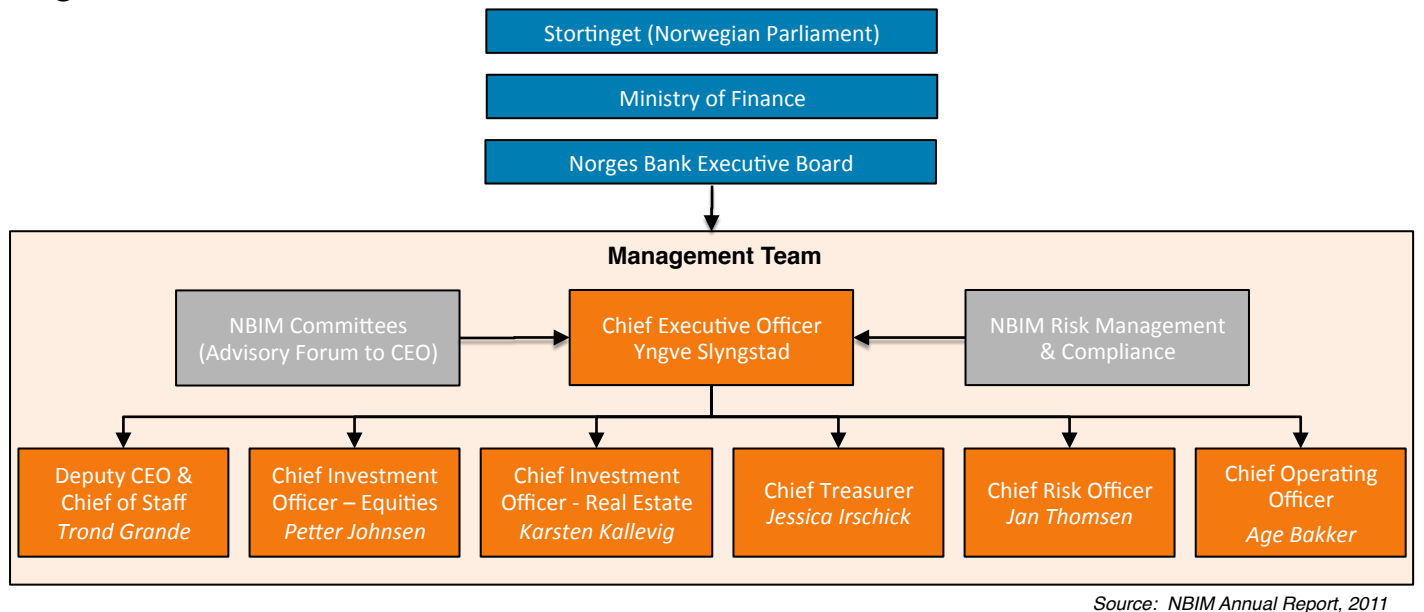
#### Direct vs. passive investing

- Until now, the fund has invested nearly all of its capital in passive stock and bond investments. Only recently did it allocate 5% for real estate. The fund must decide if it will follow many of its peers and begin making significant private investments, and building the necessary capability to do so, or continue with a more passive strategy.

#### Emerging markets capability vs. lowest-cost objective

- Norway's sovereign fund has traditionally allocated 50% of its capital to European markets. As European markets grow increasingly fragile, pressure will continue to mount to diversify the fund's assets into emerging markets. In doing so, the fund must balance the need to enhance its capability in such markets, and manage its risk, with its stated objective of investing at the lowest cost possible.

### Organizational Structure



Source: NBIM Annual Report, 2011

### Key People:

#### Yngve Slyngstad – Chief Executive Officer

- Named CEO on 1 January 2008
- Also Chief Investment Officer, Allocation
- Formerly Chief Investment Officer, Asian Equities, Storebrand Asset Management

#### Trond Grande – Deputy CEO & Chief of Staff

- Named Deputy CEO in February, 2011
- Former Global Head of Risk for NBIM
- Spent 11 years with Storebrand Kapitalforvaltning

#### Petter Johnsen – Chief Investment Officer, Equities

- Named CIO, Equities on 1 April 2011
- Joined NBIM in September, 2003 as a portfolio manager
- Former AVP at Merrill Lynch, based in London

#### Karsten Kallevig – Chief Investment Officer, Real Estate

- Appointed CIO – Real Estate on 1 April 2011
- Previously with Grove Intl. Partners & Soros RE Partners

#### Jessica Irschick – Chief Treasurer

- Joined in Oct. 2009 as Chief Treasurer, based in London
- Former Chief of Staff to CEO of UBS Investment Bank

#### Age Bakker – Chief Operating Officer

- Named COO in Oct. 2009; former head of IT for NBIM
- Previously the COO of Storebrand Kapitalforvaltning

#### Jan Thomsen – Chief Risk Officer

- Appointed Chief Risk Officer in April 2011
- Former Chief Risk Officer of industrial group, Orkla ASA

### Transparency

Linaburg-Maduell Rating <sup>a</sup>	Truman Scoreboard <sup>1,b</sup>	Santiago Principles Rating <sup>2,b</sup>
10 / 10	97 / 100	96 / 100

- The fund is known as one of the most transparent in the world and received the highest Truman Scoreboard rating of any SWF. It publishes a complete list of its holdings as well as its voting records in its annual report. It addresses the issue of tax minimization head on, and provides clear accounts to auditors and authorities. The fund also publishes the benchmark portfolios used to measure its performance against.

### Governance:

#### Structure

- The fund's mandate is set out by the government in the Government Pension Fund Act. The Ministry of Finance is the supervisor of the fund and has set out general guidelines for managing the fund. The Executive Board sets the fund's strategy and manages NBIM's activities. The Executive Board receives periodic reports and sets executive pay at NBIM.

#### Audit Process and Review

- The Central Bank's audit unit oversees NBIM on behalf of the bank's executive. The executive board also has a audit committee which handles risk management and control, as well as financial statement preparation. The council appoints the fund's external auditor, which is currently Deloitte AS. The fund received an unqualified audit opinion for the year ended Dec. 31, 2011.

Note: (1) Assesses both transparency and accountability, (2) Made up of 30 generally accepted principles for SWFs, developed in October, 2008

Source: (a) Sovereign Wealth Fund Institute; (b) Truman Scoreboard – June 2011 rankings

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The Sovereign Wealth Fund Initiative is a research program within the Center for Emerging Market Enterprises at the Fletcher School. Its objective is to provide dedicated research on issues facing SWFs and a forum where insight, approaches, and policies can be developed and implemented into the operations of these funds.