



NORWEGIAN MINISTRY OF FINANCE

The Government Pension Fund Global (GPFGL) Legal framework and checks & balances

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23 September 2015

Outline

Petroleum revenues and fund mechanism

Governance

Investments

Fund performance

Responsible management

Petroleum Revenue Management - Executive Summary

1. Exploration/
Extraction
(high tech,
capital intensive,
incentives)



2. Oil price
(volatility)



3. Total cash flow



multinationals

national oil
company

taxes/
royalties

4. Government
take
(percentage,
policy mix,
risk profile)

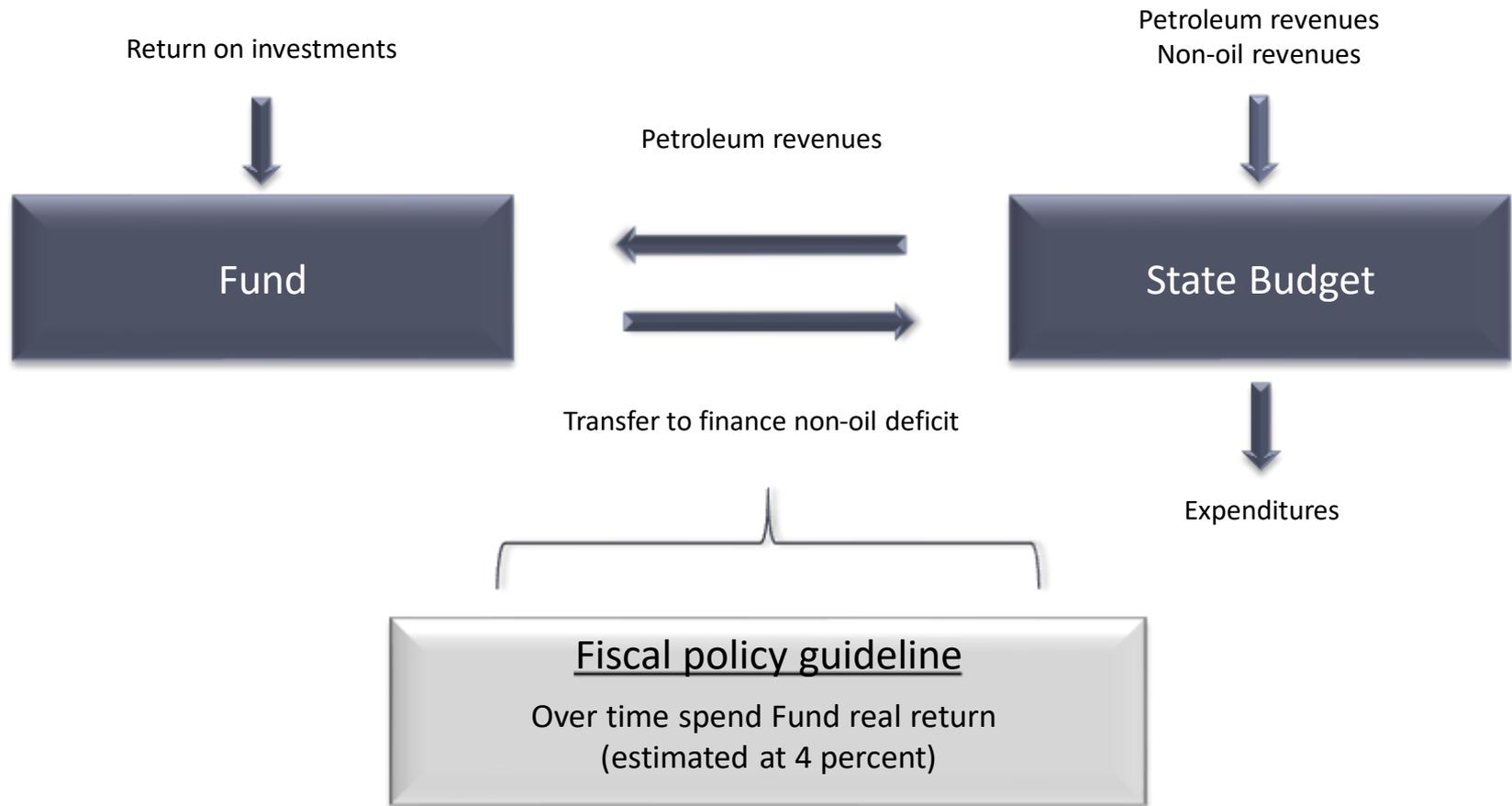
5. State budget
(fiscal and monetary
policy
=> spending rule to
keep non-oil economy
fit?)

6. Petroleum fund?
(revenues or
asset swap?,
time structure
and volatility,
investments abroad?)

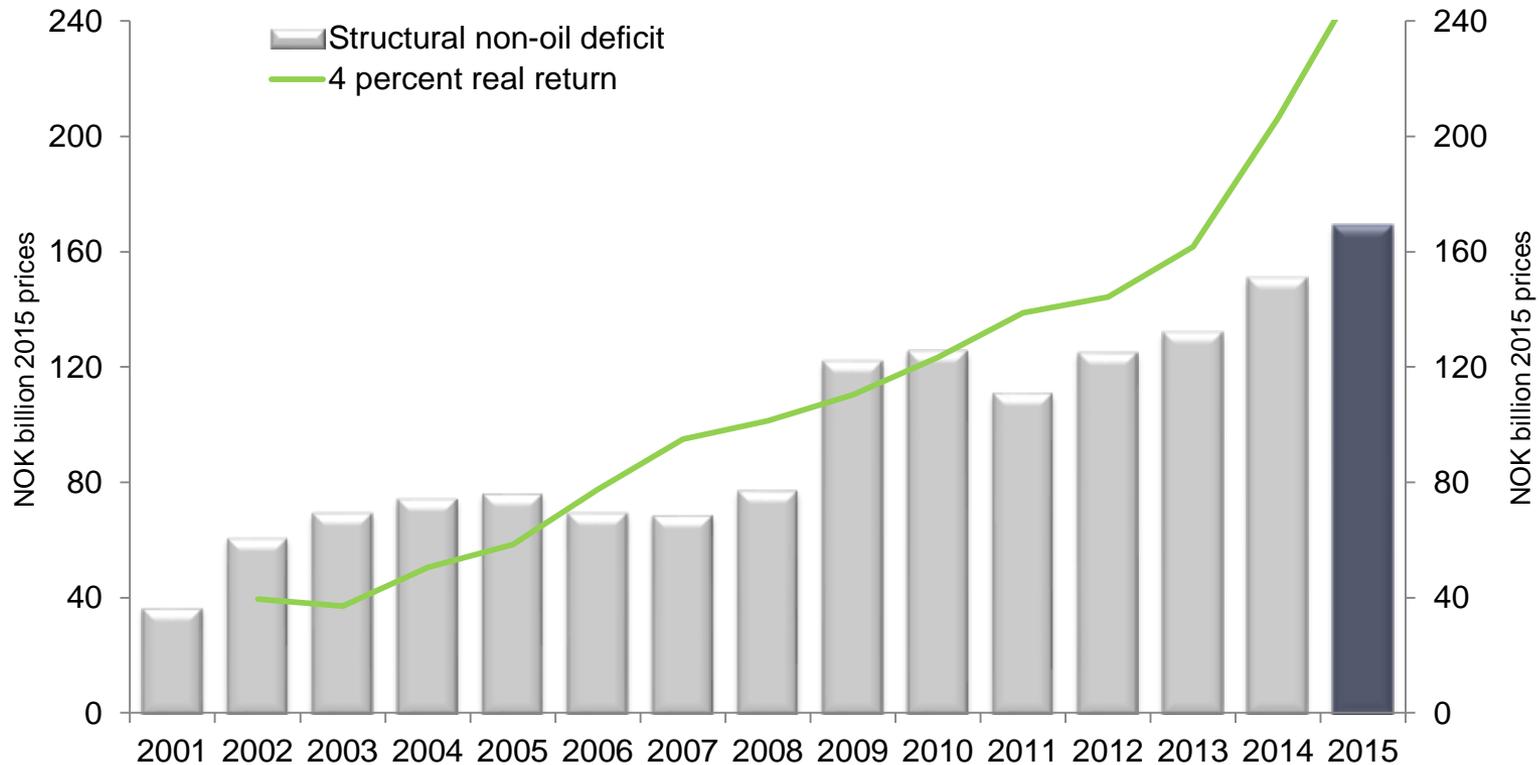
The framework for petroleum revenue management has developed over time

- 1971 Production started. First petroleum income added to public finances
- 1973 Division between total and non-oil economy introduced in macroeconomic forecasts
- 1977 Petroleum taxes specified in budget documents
- 1990 Establishment of the Government Petroleum Fund
- 1996 First net transfer to the Fund
- 2001 New fiscal policy guidelines adopted by Parliament
- 2004 Ethical guidelines for investments
- 2006 Fund renamed the Government Pension Fund Global
- 2010 More integrated responsible investment strategy

GPFG is fully integrated with fiscal policy

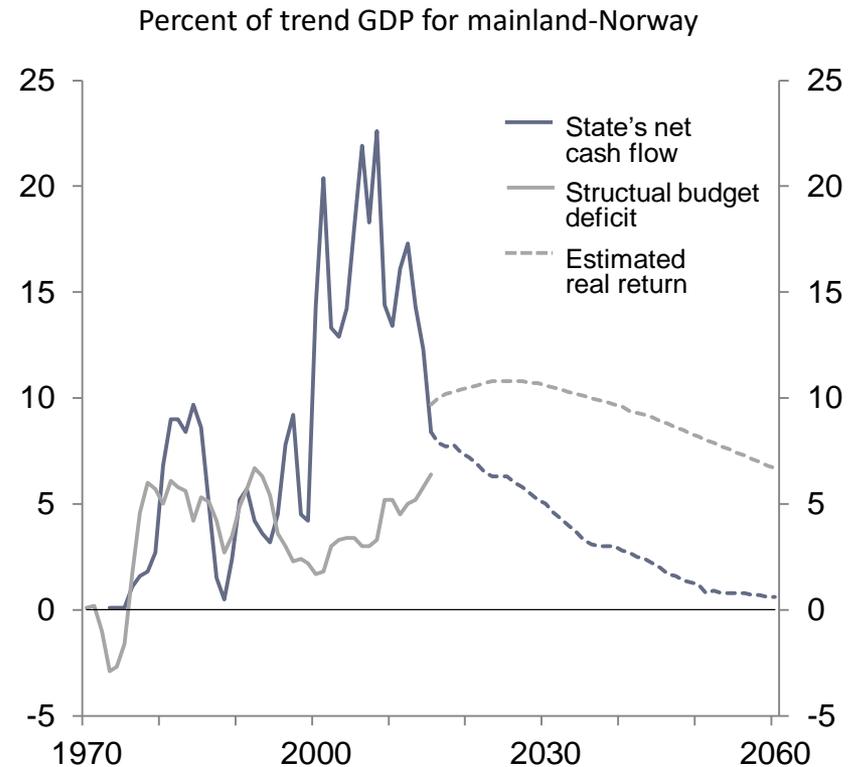
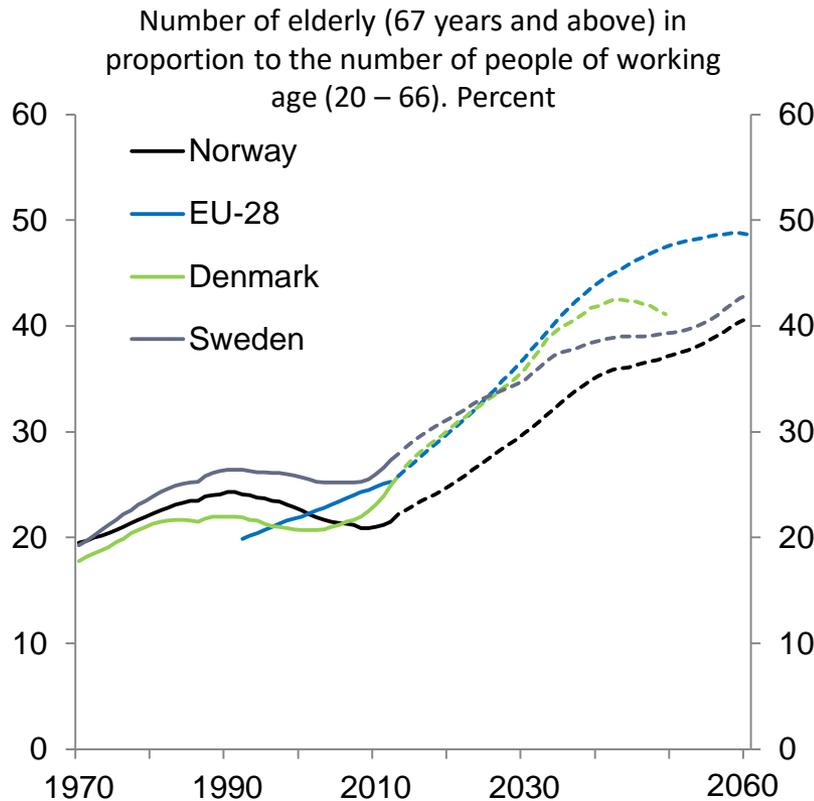


Spending of oil revenues contingent upon prevailing economic conditions



Source: Ministry of Finance (Revised National Budget 2015)

Sharp increase in public pension expenditures coincides with declining funding contribution from the GPFG – a long term challenge to government finances



Source: Ministry of Finance (Revised National Budget 2015)

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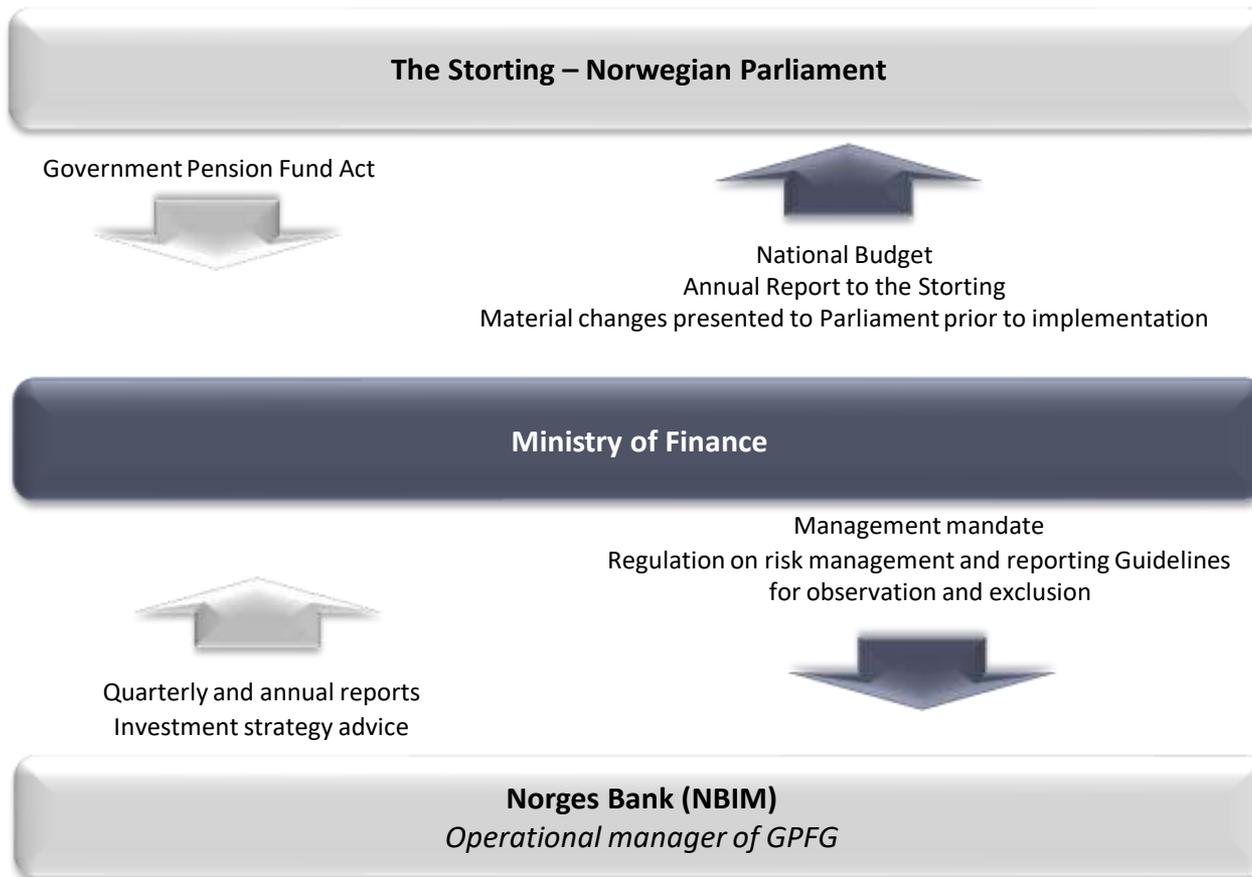
Governance

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Responsible management

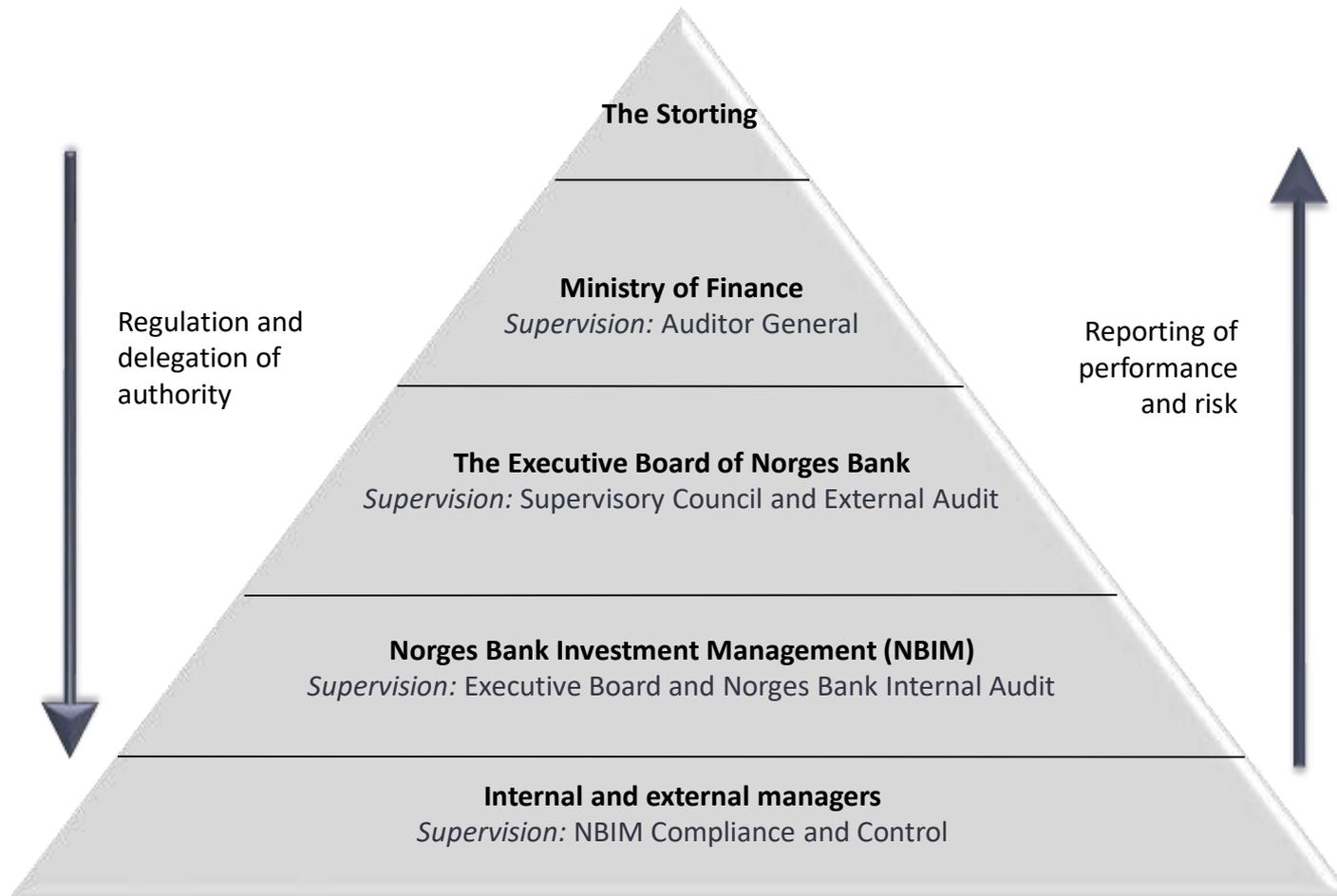
Governance structure marked by clear lines of responsibilities



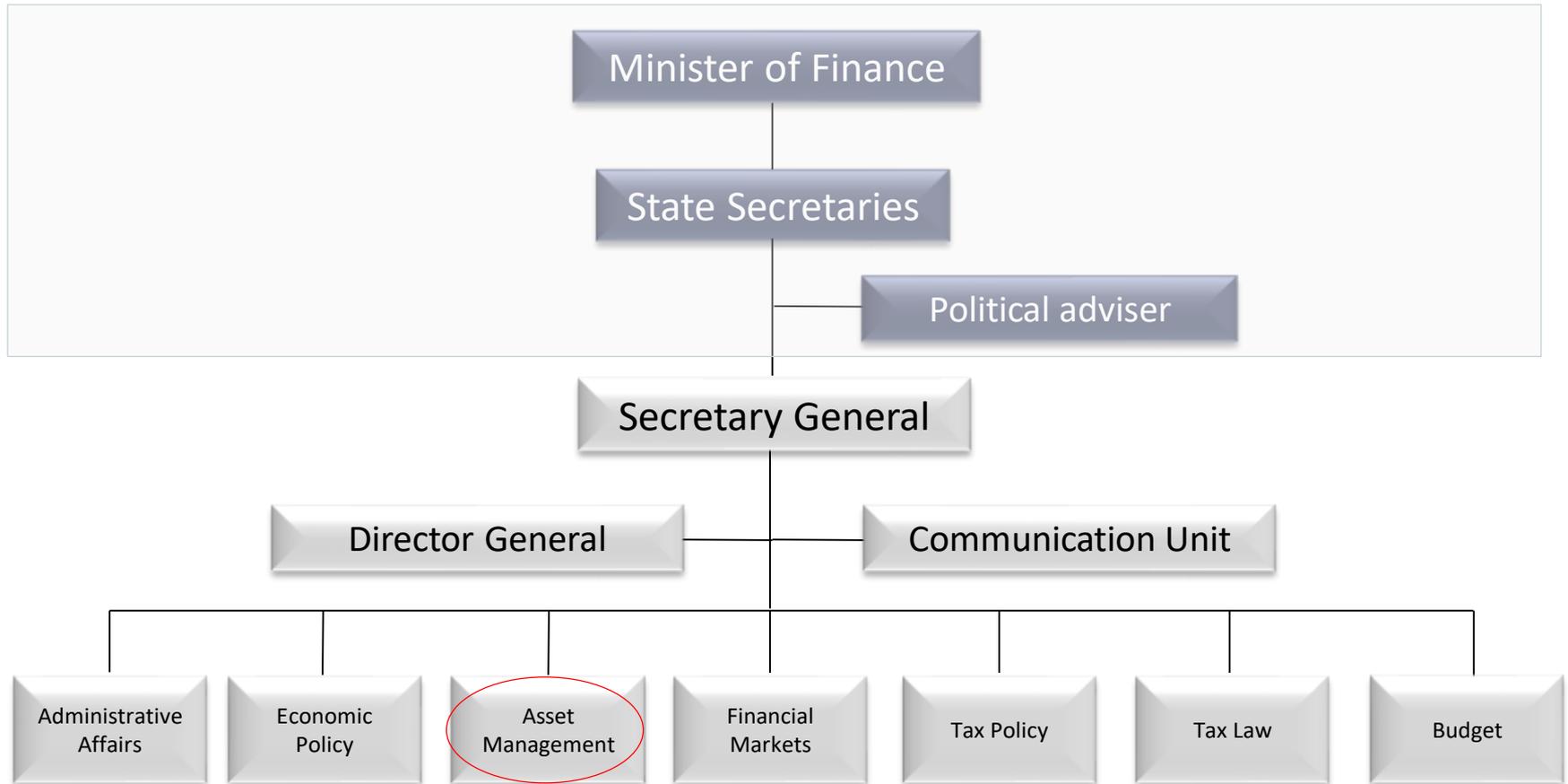
Hierarchy of management documents governing the management of the GPFG



Hierarchy of regulation, supervision and reporting

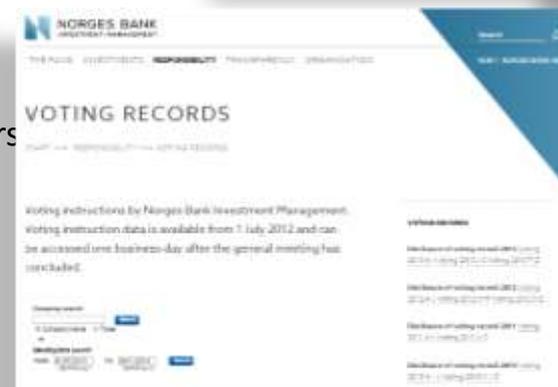


Organizational chart Norwegian Ministry of Finance



High degree of transparency in Fund management

- Prerequisite to ensuring broad support for and trust in the management of Fund
- Management mandate states; *...greatest possible degree of transparency within the limits defined by a sound execution of the management assignment*
 - Reporting
 - Holding lists
 - Voting records
- Contributes to a robust investment strategy
 - Anchoring of risk profile with stakeholders



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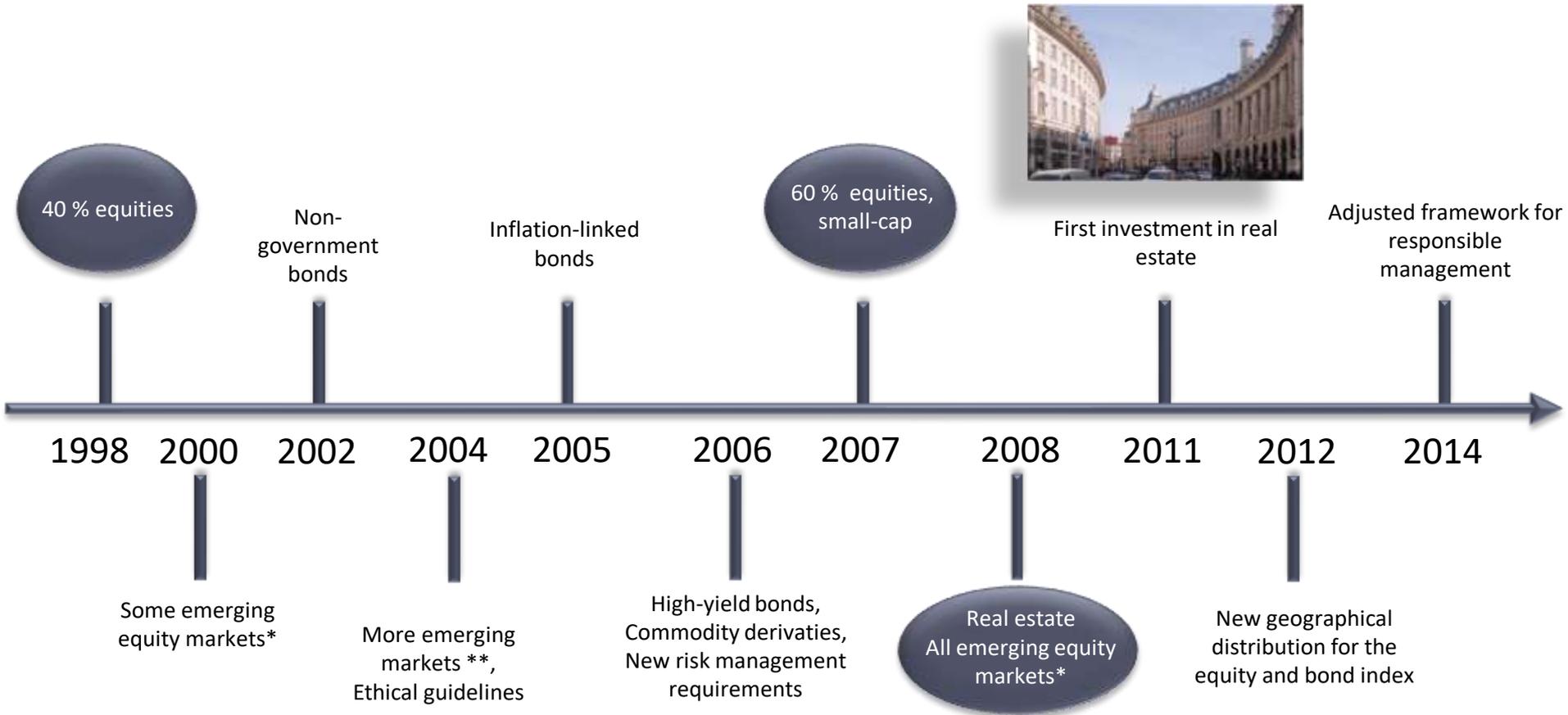
Investment strategy premised on Fund objective, investment beliefs and Fund characteristics

Highest possible long-term financial return within a moderate level of risk.

The investment strategy is in particular characterized by:

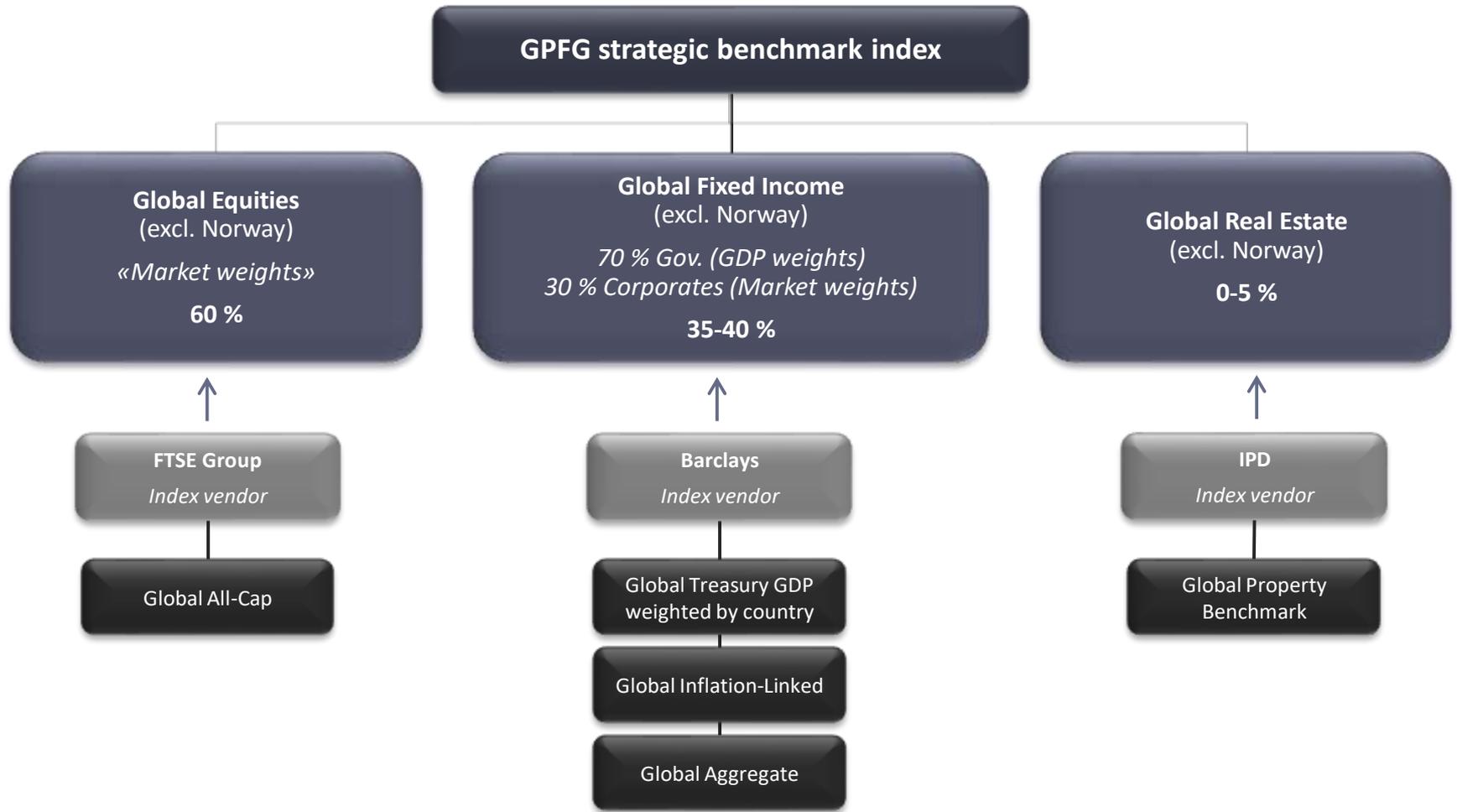
- Diversification
- Harvesting risk premiums
- Exploitation of the Fund's long-term horizon
- A moderate degree of active management
- Responsible management
- Cost efficiency
- A clear governance structure

The investment strategy of the Fund has been developed gradually



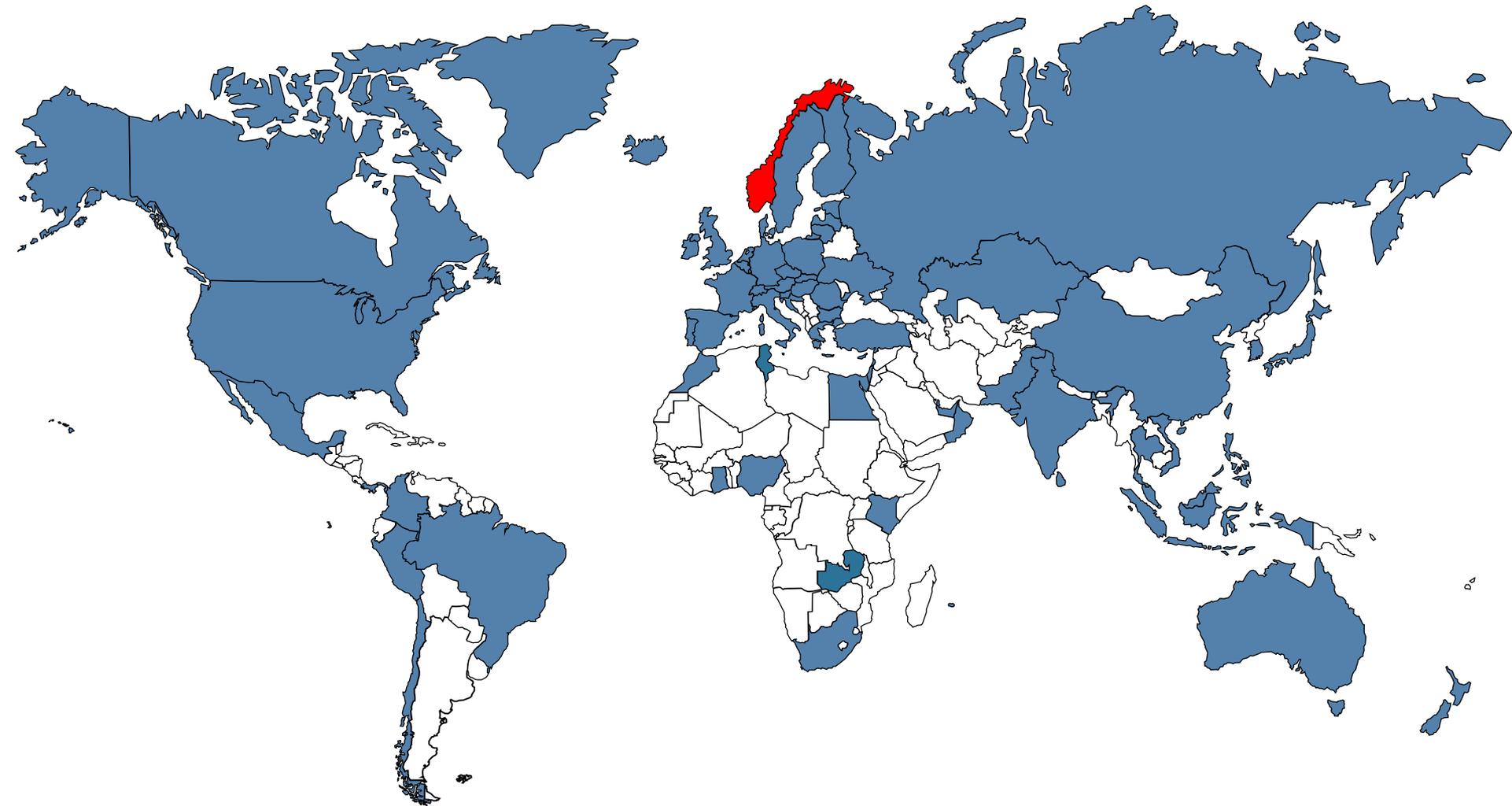
*Benchmark index
**Investment universe

The investment strategy



Broad geographical distribution of Fund investments

Actual investments at yearend 2014

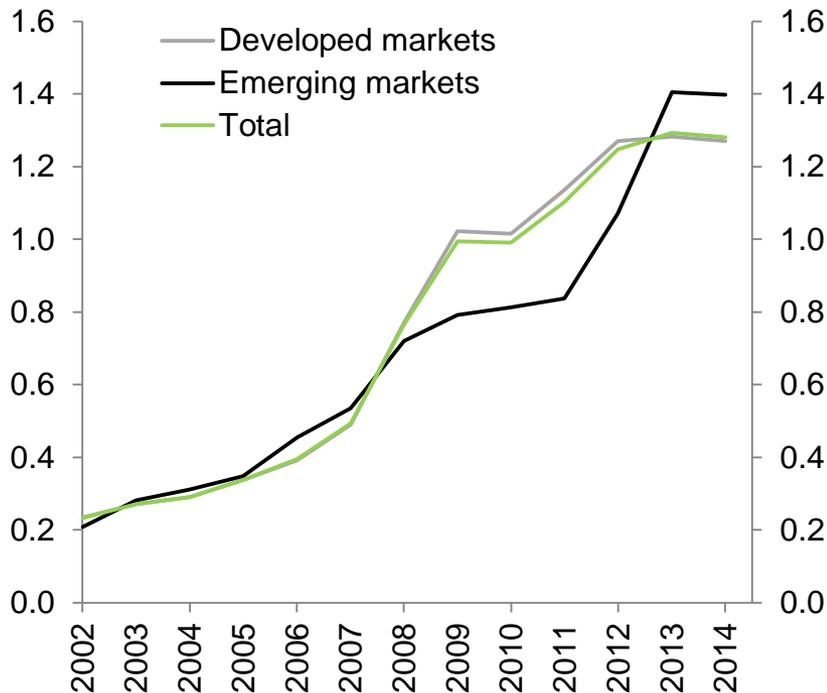


Source: Norges Bank

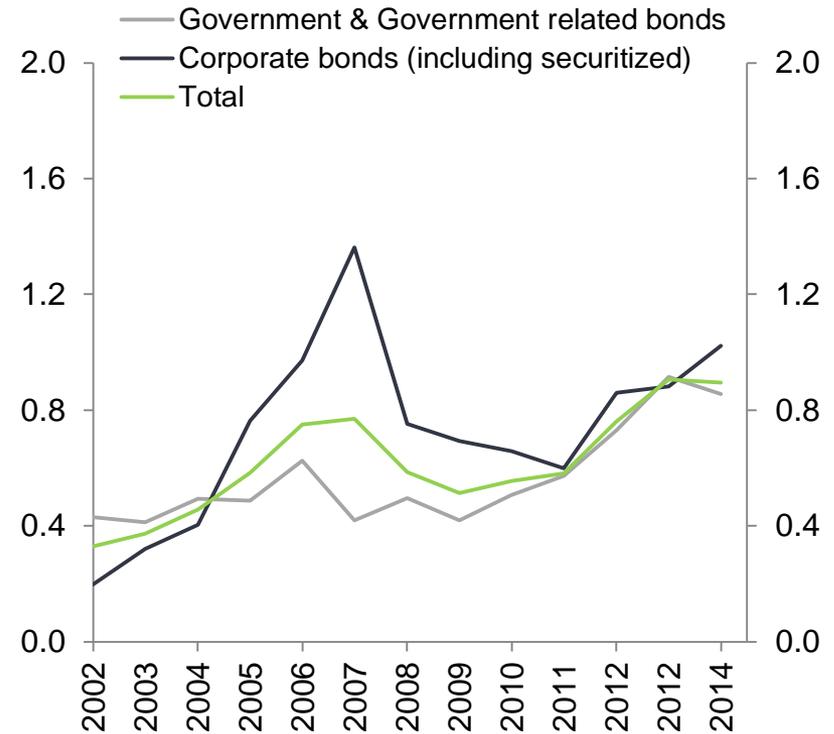
The Fund holds significant ownership shares in global markets

Yearend 2014

Average holdings in equity markets



Average holdings in fixed income markets

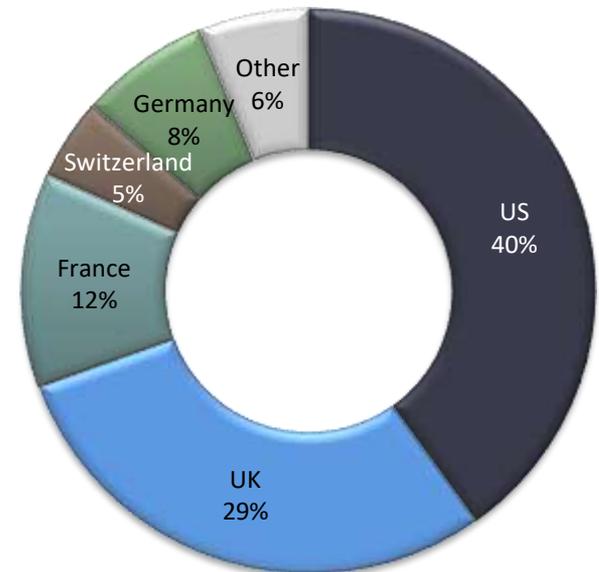


Sources: Norges Bank and Ministry of Finance

Real estate investments

Proportion, country and sector allocation at June 30th 2015

	Share of Fund Percent	Market value Million kroner
Total	2.7	186 169
Unlisted real estate		141 909
Listed real estate		42 256
Other assets		2 004



Sources: Norges Bank and Ministry of Finance

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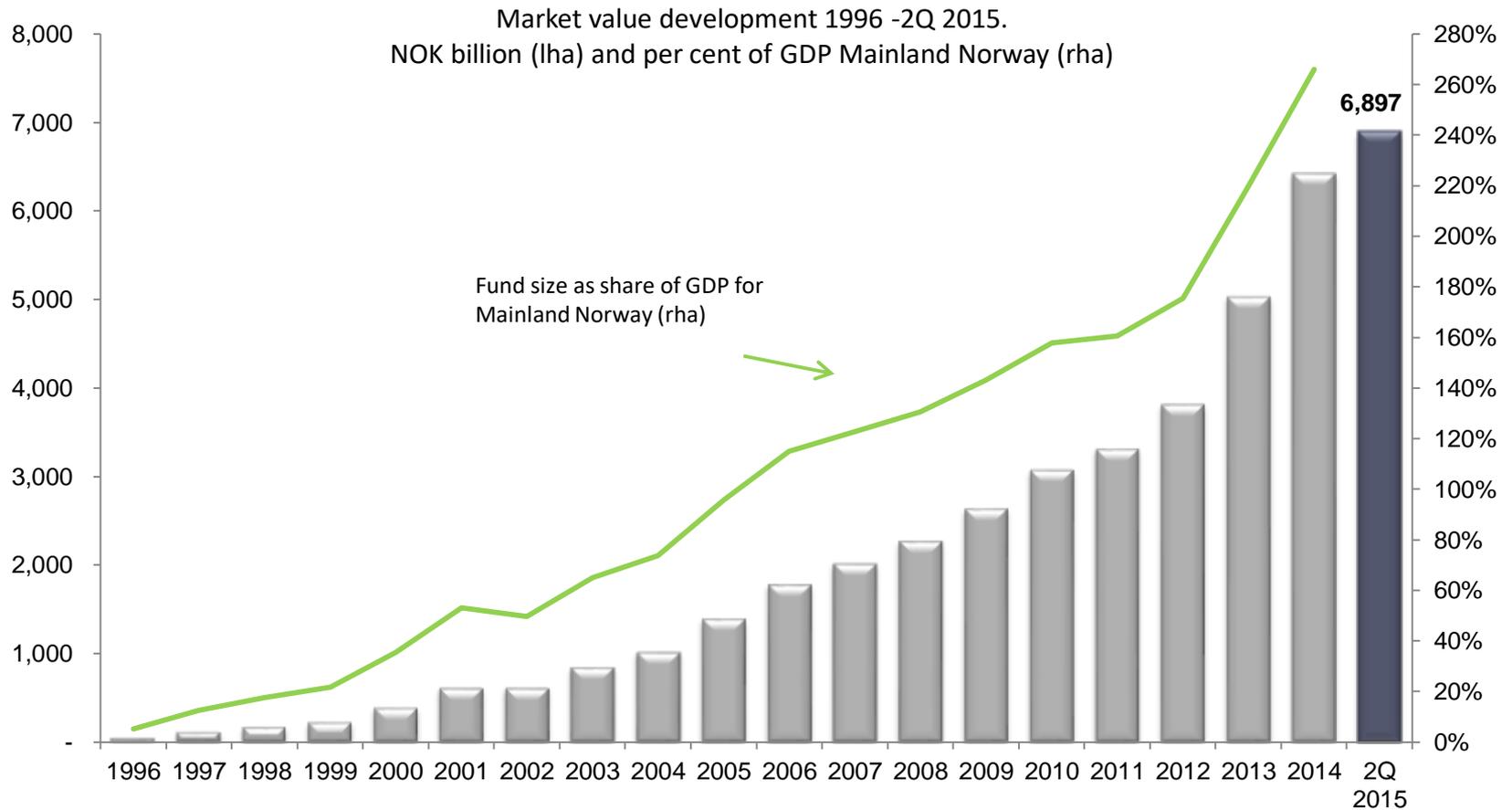
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Responsible management

GPFG is among the largest funds in the world



Sources: Norges Bank and Ministry of Finance

Fund performance continued

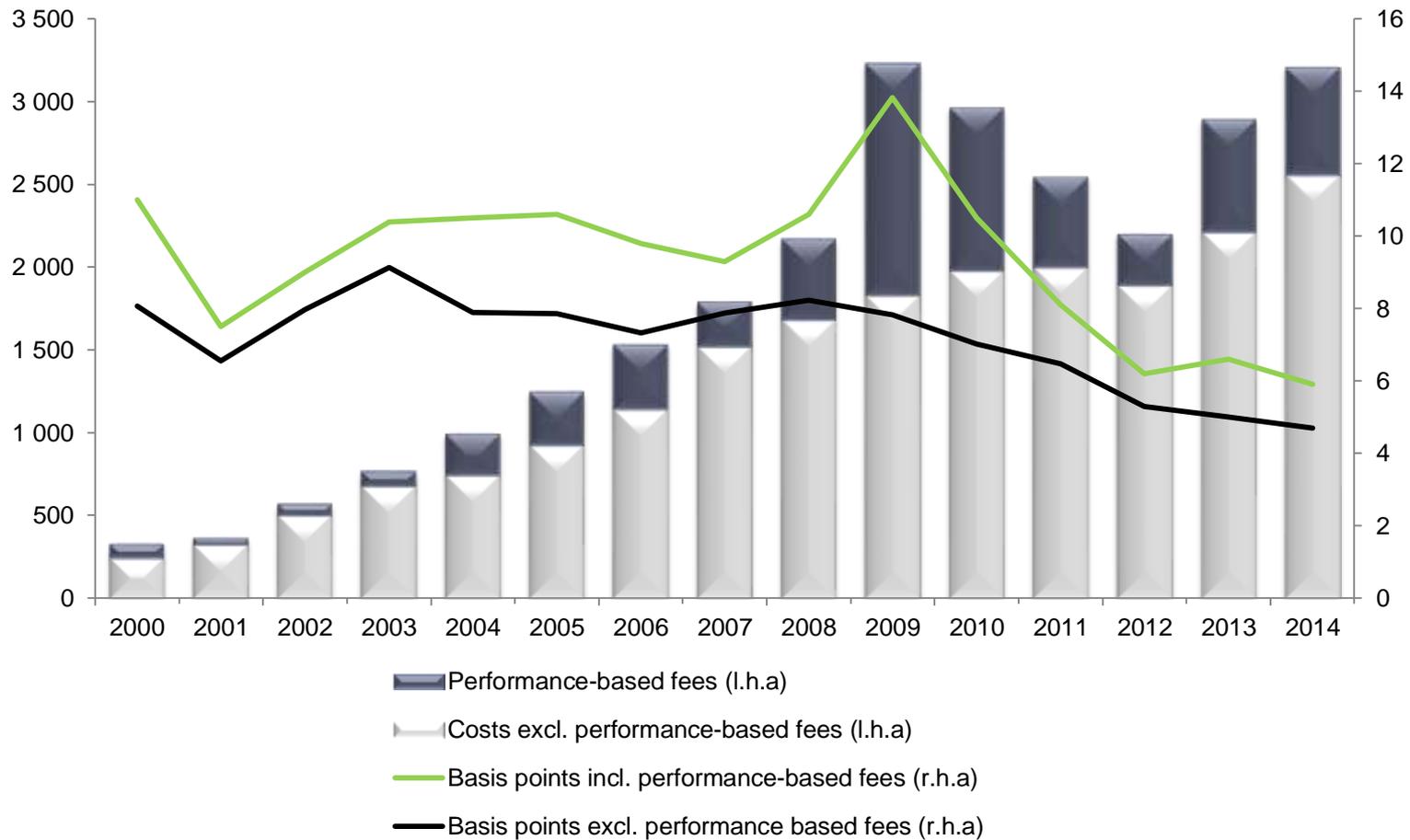
Key figures at June 30 th , 2015 (annualised data in currency basket)	Last 12 months	Last 3 years	Last 5 years	Last 10 years	Since 1.1.1998
Gross annual return (percent)	6.91	12.10	9.92	6.12	5.90
...of which relative return on equity- and fixed income investments (percentage points)	-0.04	0.31	0.30	0.14	0.28
Annual price inflation (percent)	0.35	1.32	1.82	1.97	1.83
Annual management costs (percent)	0.06	0.06	0.07	0.09	0.09
Annual net real return on fund (percent)	6.48	10.59	7.89	3.98	3.90

Annual net real return since January 1997 is calculated at 4.08 percent (month-end June 2015).

Sources: Norges Bank and Ministry of Finance

Development in management costs

NOK million and basis points



Sources: Norges Bank and Ministry of Finance

Fund performance – some checks & balances

- External verification of performance figures by Spaulding Group Inc.
- Benchmarking of total return, policy return, excess return and management cost figures by CEM Benchmarking Inc.
- Benchmarking of real estate performance by IPD.
- Every 4 years external review of Norges Bank's fund management
 - 2014 by Andrew Ang, Michael Brandt and David Denison
 - 2010 by Andrew Ang, William Goetzmann and Stephen Schaefer

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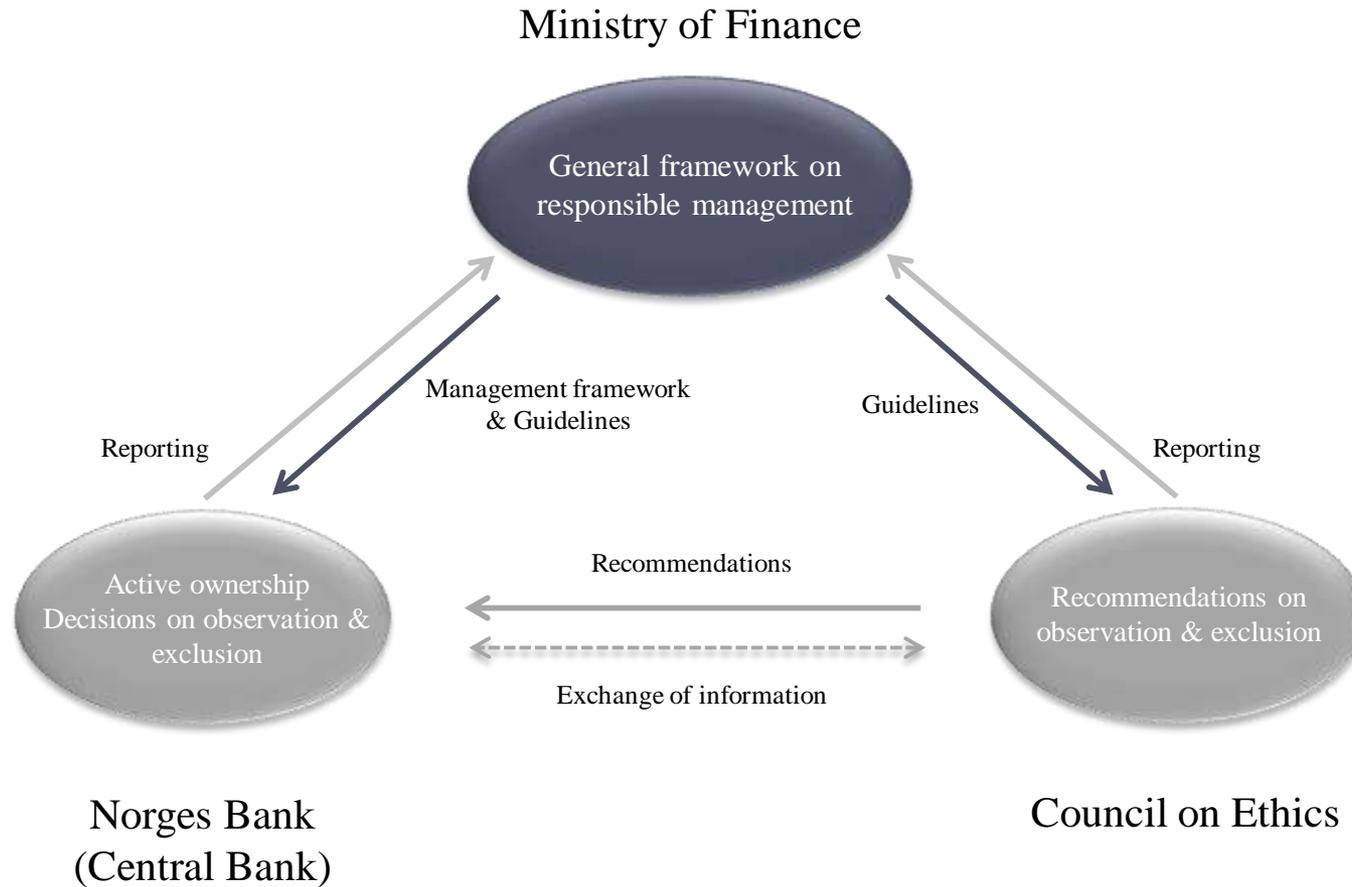
Responsible management

Strategy for responsible investment practices developed gradually over time

2001	Exclusion on the basis of conflict with Norway's commitments under international law The Petroleum Fund's Council on Ethics and International Law is established.
2003	NOU 2003: 22 "the Graver-report".
2004	Ethical Guidelines for the GPF. Includes the instruments exclusion and exercise of ownership. The Ethical Council is established.
2009	Evaluation of the Ethical Guidelines. Investment programme for environmental investments.
2010	Exclusion on the basis of tobacco production. New Mandate for Responsible Investments in the GPF. New Guidelines for Observation (new instrument) and Exclusion. Criteria for the exclusion of government bonds included in the mandate to Norges Bank.
2013	The Strategy Council drafts a report proposing 10 measures to further strengthen the strategy for responsible investments.
2014	Decision-making authority on exclusion and observation of companies transferred from the Ministry of Finance to Norges Bank* Council on Ethics provides recommendations on exclusion and observation to Norges Bank*

*Entered into force January 1st 2015

Framework for responsible management



Norges Bank – separate report on responsible investment



- International standards
- Expectations and principles
- Responsible investment research

Standard setting



- Voting
- Interaction with companies
- Engaging with boards

Ownership



- Risk monitoring
- Industry initiatives
- Focus areas
- Environment-related mandates
- Risk-based divestment

Risk management

Source: Norges Bank

Exercise of ownership rights

- Exercise of ownership rights is based on international recognised principles
- Overall purpose of active ownership is to safeguard the Fund's financial values
- Strategic focus areas
 - well-functioning, legitimate and efficient markets
 - equal treatment of shareholders
 - shareholder influence and board accountability
 - children's rights
 - climate change risk management
 - water management



Exclusion and observation of companies

➤ **Product-based exclusion**

- produce weapons that violate fundamental humanitarian principles in their normal use
- produce tobacco

➤ **Conduct-based exclusion** – serious or systematic violations of fundamental ethical norms

- human rights including child labour
- individuals' rights in situations of war or conflict
- gross corruption
- severe environmental damage
- other particularly severe violations of fundamental ethical norms

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Links

Ministry of Finance
www.regjeringen.no/en/dep/fin

Government Pension Fund
www.government.no/gpf

Norges Bank Investment Management
www.nbim.no/en

Council on Ethics
www.etikkradet.no/en