

The Government Pension Fund Global

History

- 1969: Petroleum discovered in the North Sea (Ekofisk), production started in 1971.
- 1990: Parliament passed the Government Petroleum Fund law.
- 1996: First net transfer to the Fund. Invested like Central Bank currency reserves.
- 1998: Investment in equities introduced in the benchmark (40% allocation).
- 2000: Five emerging market countries added to the equity benchmark.
- 2002: Non-government bonds added to the fixed income benchmark.
- 2004: New ethical guidelines.
- 2006: The Government Petroleum Fund renamed the Government Pension Fund Global.
- 2007: Decided to increase strategic equity allocation gradually to 60%. Small-cap included in equity benchmark.
- 2008: Plan to invest over time up to 5% in real estate (at the expense of bond allocation), all emerging countries included in equity benchmark.
- 2010: Evaluation of active management.

Purpose

The Petroleum Fund was established in 1990 as a fiscal policy tool to support a long-term management of the petroleum revenues. Renaming the Fund to the Pension Fund Global in 2006 was part of a broader pension reform, highlighting also the Fund's role in facilitating government savings necessary to meet the rapid rise in public pension expenditures in the coming years. The Fund is not earmarked for pension expenditures.

The Norwegian fund model – Key Design Features

- The Fund functions as a tool to strengthen the budget process and builds on existing institutions.
- The Fund's inflow consists of all state petroleum revenues, net financial transactions related to petroleum activities, as well as the return on the Fund's investments.
- The outflow from the Fund is the sum needed to cover the non-oil budget deficit.
- This means that the Fund is fully integrated with the state budget and that net allocations to the Fund reflect total budget surplus (including petroleum revenues). Fiscal policy, which regulates the outflow from the Fund, is anchored in the guideline that over time the structural, non-oil budget deficit shall correspond to the real return on the Fund, estimated at 4%. The Fund is only invested abroad. This ensures risk diversification and good financial returns, and helps to protect the non-oil economy.

Governance

- There is a clear division of roles and responsibilities between the political authorities and the operational management.
- The Ministry sets guidelines, including benchmark and risk limits, and exercises oversight.
- The operational management is carried out by Norges Bank (the Central Bank).
- Key changes to investment guidelines are presented to Parliament before implemented.
- The Ministry receives advice on the investment guidelines from Norges Bank and external advisors.
- The Ministry uses external consultants for controlling performance measurement and peer group benchmarking.

Investment Guidelines

- The investment strategy is to achieve high financial returns subject to moderate risk.
- The Fund is only invested abroad in financial instruments and in real estate. The fund is a financial investor with a well-diversified portfolio of small holdings in a range of companies. The average ownership share in listed companies is about 1%, whereas the upper limit is set at 10%.
- The Fund's financial results are primarily assessed in international currency terms, in order to gauge the development in the Fund's international purchasing power.
- Equities account for 60% of the Fund's strategic benchmark portfolio. All emerging markets are included as defined by index provider FTSE.
- Fixed income instruments currently account for 40% of the strategic benchmark portfolio. Over time, this will be reduced to 35%, while real estate investments will take up the remaining 5%. The Fund's first property investment was completed in the first quarter 2011.

Responsible investment practices

Ethical guidelines for the management of the Fund have been in place since 2004. The Ministry completed an evaluation of the ethical guidelines in 2009. As a result of the evaluation, new guidelines for responsible investment practices were introduced in March 2010.

In the ongoing work as a responsible investor, it is important to provide for sound financial return over time as well as safeguarding the values held by the owners of the Fund, the population of Norway. Sound financial return over time is considered to be contingent on sustainable development in economic, environmental and social terms, and well-functioning financial markets.

The Fund shall be managed in a responsible manner that takes factors relating to corporate governance, environmental and social matters into due consideration. The strategy for responsible investment encompasses a wide range of tools and activities, including exercise of ownership rights, observation and exclusion of companies.

Transparency

The management of petroleum revenues in general and the Fund in particular is characterised by a high degree of transparency and disclosure of information. This helps build public support for a wise management of petroleum revenues, and reduces the risk of bad governance

- The Ministry reports to Parliament on all important matters relating to the Fund, such as the size of petroleum revenues and the Fund; the outlook for fiscal sustainability; changes to the investment strategy; the Fund's performance, risk and costs.
- The Ministry publishes advice and reports received from Norges Bank and external consultants.
- Norges Bank publishes quarterly reports on the management of the Fund, as well as an annual report and an annual listing of all investments.

More information is available at the websites of the Ministry of Finance at www.government.no/gpf and Norges Bank at www.nbim.no.

Key numbers

	Since 1998	Past 10 years	Past 5 years	Past 3 years	3Q 2011
Size in NOK bn					3 055
Size in USD bn					523
Total return in % (in FX basket)	4.23	4.20	1.18	4.86	-8.80
...of which manager excess return	0.28	0.24	-0.04	0.79	-0.33
Net real return in %	2.19	1.99	-1.07	3.22	-