Management mandate for the Government Pension Fund Global

As of 30 November 2019.

For information purposes only. Legal authenticity remains with the official Norwegian version as published in Norsk Lovtidend.

Chapter 1. General provisions

Section 1-1. Norges Bank's management assignment

(1) The Ministry deposits the Government Pension Fund Global (GPFG) in the form of a Norwegian krone deposit with Norges Bank (the Bank) pursuant to Section 2, Sub-section 2, of Act of 21 December 2005 No. 123 relating to the Government Pension Fund.

(2) The Bank shall manage the deposit in accordance with the provisions laid down in, or pursuant to, this mandate.

(3) The Ministry's Norwegian krone deposit shall be deposited in a designated account with the Bank. The Bank shall in its own name invest the Norwegian krone deposit in a portfolio of financial instruments, real estate, renewable energy infrastructure, cash deposits and other assets and financial liabilities managed by the Bank in accordance with this mandate (the investment portfolio), cf. Chapter 2.

(4) The value of the Norwegian krone account shall be equivalent to the net book value of the investment portfolio. The accounting return on the investment portfolio, less the Bank's management costs, shall be added to the Norwegian krone account after adjustment in accordance with the financial reporting provisions applicable to the Bank at any given time.

Section 1-2. Management objective

The Bank shall seek to generate the highest possible return, net of costs, measured in the currency basket of the investment portfolio, cf. Section 3-2, Sub-section 1, within the applicable investment management framework.

Section 1-3. General management principles

(1) There shall, to the extent compatible with sound execution of the management assignment, be maximum possible transparency about the investment management.

(2) The Bank shall make investment decisions and exercise ownership rights independently of the Ministry.

(3) Responsible management shall form an integral part of the management of the investment portfolio, cf. Chapter 4. A good long-term return is considered to depend on sustainable economic, environmental and social development, as well as on well-functioning, legitimate and efficient markets.

(4) The Fund shall not be invested in companies that are excluded under the provisions in the guidelines for observation and exclusion from the GPFG.

(5) The investment management of the Fund shall be cost-effective.

(6) The Executive Board shall ensure that the Bank's management of the GPFG, including any joint function with other organisational areas of the Bank, is organised in a responsible, efficient and effective manner. The establishment, and the general scope of the activities, of any offices abroad that the Bank may choose to make use of in its execution of the management assignment shall be decided and laid down by the Executive Board. Correspondingly, the closure of any offices abroad shall be decided by the Executive Board.

Section 1-4. Duty to advise and right to be consulted, etc.

(1) The Executive Board shall advise the Ministry on the investment strategy for the investment portfolio. Advice shall be provided upon request from the Ministry, but may also be given on the initiative of the Executive Board.

(2) The Executive Board shall advise the Ministry on any need for amendments to the mandate. Advice shall be provided upon request from the Ministry, but may also be given on the initiative of the Executive Board.

(3) The individuals at the Bank responsible for preparing the basis for any advice referred to in Sub-sections 1 and 2 shall be independent of the individuals or investment units whose performance may be affected by such advice.

(4) The Bank shall be consulted prior to the adoption of any material amendments to the mandate and be given reasonable notice in advance of the implementation of such amendments.

(5) The Bank shall contribute to research aimed at increasing the knowledge of matters relevant to the long-term return on, and risk in, the investment portfolio, including responsible management research. The Executive Board shall establish guidelines for such work. The Ministry shall be informed of any plans for such research and shall be invited to provide input.

Section 1-5. Strategic benchmark index

(1) The strategic benchmark index for the investment portfolio comprises:

a. the benchmark index for the equity portfolio, cf. Section 2-3; and
b. the benchmark index for the fixed-income portfolio, cf. Section 2-2.

(2) The benchmark index for the equity portfolio constitutes 70 percent of the strategic benchmark index. The benchmark index for the fixed-income portfolio constitutes 30 percent of the strategic benchmark index.

(3) The Ministry shall adopt a plan for the phaseout from the strategic benchmark index of equities issued by companies with ICB classification 60101010 Oil: Crude Producers, cf. Section 2-3, Sub-section 6.

(4) The Ministry shall adopt a plan for the phaseout from the strategic benchmark index of debt instruments issued by governments of, and companies domiciled in, countries classified as an emerging market. The country affiliation and market classification shall be in accordance with Section 2-2, Sub-section 11.

Section 1-6. Actual benchmark index

(1) The share of equities and fixed-income instruments in the actual benchmark index shall be calculated daily, and shall reflect the return on the benchmark indices for the equity portfolio and the fixed-income portfolio.

(2) The value of the actual benchmark index shall be equivalent to the total market value of the investment portfolio at each month end.

(3) Transfers to and from the Norwegian krone account, cf. Section 1-1, Sub-section 3, shall normally take place on the last trading day of each month. The Ministry shall specify the Norwegian kroner transfer amount by the fourth-to-last trading day of the month. Transfers shall not affect the ratio between equities and fixed-income instruments in the actual benchmark index. The Bank shall inform the Ministry on the second trading day of the subsequent month as to the composition of the new actual benchmark index.

(4) Rebalancing is triggered when the equity share of the actual benchmark index deviates by more than two percentage points from the equity share of the strategic benchmark index on the last trading day of the month. The Ministry sets further provisions on rebalancing of the actual benchmark index.

(5) The Bank shall inform the Ministry forthwith if the rebalancing conditions in Sub-section 4 are met. The Bank shall report on rebalancing execution, including estimated rebalancing costs.

Section 1-7. Strategic plan for the Bank’s management of the investment portfolio

(1) The Executive Board shall adopt a strategic plan for the execution of the management assignment. The plan shall be updated on a regular basis and upon any material changes in management. The plan shall be presented to the Ministry no less than three weeks prior to its adoption.

(2) The Executive Board shall on a regular basis evaluate the extent to which objectives in the strategic plan have been achieved. The Executive Board’s evaluation shall be submitted to the Ministry.

Section 1-8. External managers and service providers (outsourcing)

(1) The Bank may use external managers and outsource operational functions, cf. Section 5 of Regulations of 17 December 2009 No. 1630 relating to Risk Management and Internal Control at Norges Bank.

(2) The Bank shall have guidelines for when outsourcing may be used.

(3) The remuneration structure in agreements with external managers shall be designed to serve the financial interests of the Fund, and thus take into account the time horizon of the investment strategies used by the Bank in its execution of the management assignment. Agreements on performance-related fees shall

ensure that the predominant part of any positive excess return is retained, and shall include provisions capping the fees of external managers.

Section 1-9. General manager of the Bank's management of the GPFG

The Executive Board shall lay down instructions for the general manager of the Bank's management of the GPFG. Such instructions shall be presented to the Ministry for its information no less than three weeks prior to adoption.

Chapter 2. The management of the investment portfolio

Section 2-1. Investment universe

(1) The Bank may invest the investment portfolio in financial instruments, real estate, renewable energy infrastructure and cash deposits approved pursuant to Section 3-10, subject to the following limitations:

a. The equity portfolio may be invested in equities listed on a regulated and recognised marketplace, listed securities that may be considered equivalent to listed equities, depositary receipts for such equities and unlisted companies whose board of directors has expressed an intention to seek a listing on a regulated and recognised marketplace.
b. The fixed-income portfolio may be invested in tradable debt instruments, as well as depositary receipts for such debt instruments.
c. The unlisted real estate portfolio may be invested in real estate, equity and interest-bearing instruments issued by unlisted companies, fund structures and other legal entities whose principal business is the procurement, development and management or financing of real estate. The investments may be made via Norwegian or non-Norwegian legal entities. Real estate means rights to land and any buildings located thereon.
d. The unlisted renewable energy infrastructure portfolio may be invested in physical renewable energy infrastructure facilities, equity and interest-bearing instruments issued by unlisted companies, fund structures and other legal entities whose principal business is the procurement, development and management or financing of renewable energy infrastructure. The investments may be made via Norwegian or non-Norwegian legal entities. Renewable energy infrastructure means land, real estate and onshore or offshore facilities that are principally used or intended for use in the production, transmission, distribution and storage of energy based on renewable energy sources.
e. Financial derivatives and fund units, but only if inherently linked to the investments in the equity portfolio, the fixed-income portfolio or one of the unlisted portfolios.

f. Other financial instruments, but only if becoming part of the investment portfolio as the result of corporate events.

(2) The Bank may not invest the investment portfolio in:

a. Securities issued by Norwegian enterprises, securities denominated in Norwegian kroner, real estate or infrastructure located in Norway or real estate companies, infrastructure companies, real estate funds, infrastructure funds or similar structures whose primary purpose is to invest in Norway. This shall apply correspondingly to covered bonds secured on assets in Norway. By Norwegian enterprises is meant enterprises headquartered in Norway.
b. Securities that are excluded from the investment portfolio, cf. Section 1-3, Sub-section 4, and the guidelines for observation and exclusion from the GPFG.
c. Interest-bearing instruments issued by governments or government-related issuers in the exceptional cases in which the Ministry has barred such investments based on the adoption of particularly large-scale UN sanctions or other international initiatives of a particularly large scale that target a specific country and where Norway has supported the initiatives.
d. Unlisted companies and fund structures in countries with which Norway does not have any tax treaty or other countries than those from which Norway is entitled to demand tax information under other international law treaties.
e. Unlisted infrastructure such as roads, railways, seaports, airports and other basic infrastructure which does not constitute renewable energy infrastructure, cf. Sub-section 1 d).
f. Equities issued by companies with ICB classification 60101010 Oil: Crude Producers, as well as securities that may be considered equivalent to such equities or depositary receipts for such equities.

(3) The Bank shall have guidelines on the exclusion and reinclusion of companies in the investment universe and benchmark index of the Fund pursuant to the guidelines for observation and exclusion from the GPFG, cf. Section 4-5. The Ministry shall specify dates for the exclusion and reinclusion of securities in the benchmark index of the Fund.

(4) Equities, etc., of companies that are included in the investment portfolio and that are reclassified to ICB classification 60101010 Oil: Crude Producers, cf. Section 2-1, Sub-section 2 f), shall remain part of the investment universe for twelve months after such reclassification.

Section 2-2. Benchmark index for the fixed-income portfolio

(1) The benchmark index for the fixed-income portfolio has fixed weights with monthly rebalancing to the following sub-indices:

a. Government bond portion: 70 percent
b. Corporate bond portion: 30 percent

(2) The government bond portion of the benchmark index for the fixed-income portfolio comprises:

a. all securities issued by governments of countries classified as a developed market and included in Bloomberg Barclays Global Inflation-Linked (Series-L) Bond Index
b. all securities issued by governments of countries classified as a developed market and included in the Treasury segment of Bloomberg Barclays Global Aggregate Bond Index
c. all securities issued in currencies of countries classified as a developed market and included in the Supranational sub-group of the Government Related segment of Bloomberg Barclays Global Aggregate Bond Index.

(3) Bonds issued by supranational organisations shall be attributed to countries in the government bond portion based on the currency denomination of the securities. Bonds issued by supranational organisations that are denominated in euros shall be attributed to a separate country weight category, Supranationals (EUR), with associated GDP weights as described in Sub-section 6.

(4) Bonds in the government bond portion of the benchmark index are assigned an adjustment factor, F_i, on the basis of country affiliation and in accordance with the following formula:

$$F_i = Min\left(\frac{GDP_i}{MW_i}, 2\right),$$

with GDP_i and MW_i denoting GDP weight and market capitalisation weight, respectively, for country *i*.

The adjustment factors are set for a period of 12 months with effect from the index provider Bloomberg L.P’s annual reset of GDP weights (effective date 1 December).

GDP weights, GDP_i, shall be calculated in accordance with Bloomberg Barclays Global Treasury GDP Weighted by Country Bond Index. Special provisions apply to the calculation of GDP weights for countries in the eurozone, as described in Sub-section 6. All GDP weights are normalised to sum to 1.

Market capitalisation weights, MW_i, are calculalted as the market capitalisation of all securities in the government bond portion of the benchmark index for country *i* as a share of the total market capitalisation of all securities included in the government bond portion of the benchmark index. The market capitalisation weights used in calculating the adjustment factors, F_i, shall be determined on the basis of index data published by Bloomberg L.P. one month prior to the index provider's annual reset of the GDP weights.

(5) The adjustment factors, F_i, described in Sub-section 4 shall be updated upon changes in the market composition of the government bond portion. The market capitalisation weights used in calculating the adjustment factors shall for purposes of such updates be determined on the basis of index data published by Bloomberg L.P. one month prior to the effective date of updated GDP weights. If new currencies are included in the government bond portion of the benchmark index as the result of a country being reclassified from an emerging to a developed market, the Ministry may adopt a phase-in plan for relevant currencies.

(6) Bonds issued by supranational organisations that are denominated in euros are assigned a special GDP weight, $GDP_{supra(EUR)}$, in accordance with the following formula:

$$GDP_{\ supra(EUR)} = \left(\frac{MV_{supra(EUR)}}{MV_{EUR}}\right) \times \ GDP_{eurozone} \ ,$$

with $MV_{supra(EUR)}$ and MV_{EUR} denoting the market capitalisation of supranational organisation securities denominated in euros and all euro-denominated securities included in the government bond portion, respectively, and $GDP_{eurozone}$ denoting the total GDP weight of countries in the eurozone. The market capitalisation shall be determined on the basis of index data published by Bloomberg L.P. one month prior to the index provider's annual reset of the GDP weights.

Other GDP weights for countries in the eurozone shall be adjusted for the allocation to bonds issued by supranational organisations that are denominated in euros, in accordance with the following formula:

$$Adjusted\ GDP_i^{EUR} = \left(1 - \frac{MV_{supra(EUR)}}{MV_{EUR}}\right) \times \ GDP\ _i^{EUR} \ ,$$

with $GDP\ _i^{EUR}$ denoting the initial GDP weight for country *i* in the eurozone.

(7) The weight for country *i* in the government bond portion of the benchmark index is determined according to the following formula:

$$Index\ weight_i = \frac{MV_i \times F_i}{\sum_i MV_i \times F_i} \ ,$$

with MV_i and F_i denoting the market capitalisation of country *i* and the associated adjustment factor.

(8) Within the government bond portion, the market capitalisation shall be determined in accordance with the methodology for Bloomberg Barclays Global Aggregate Bond Index and Bloomberg Barclays Global Inflation Linked (Series-L) Bond Index.

(9) The corporate bond portion of the benchmark index for the fixed-income portfolio comprises all securities issued by companies domiciled in countries classified as a developed market and included in the Corporate segment or in the Covered sub-group of the Securitised segment of Bloomberg Barclays Global Aggregate Bond Index. The corporate bond sub-index is limited to the following permitted currencies: USD, CAD, EUR, GBP, SEK, DKK, CHF.

(10) Within the corporate bond portion, the weighting of securities shall be determined in accordance with the methodology for Bloomberg Barclays Global Aggregate Bond Index.

(11) Country affiliation and market classification shall be in accordance with the Bloomberg Barclays index methodology. Developed markets shall be defined as all countries that are not classified as an emerging market in accordance with Bloomberg Barclays' Indices Emerging Market Country List. For bonds issued by companies domiciled in offshore entities, the classification of government-related issues from the same offshore entity shall apply.

(12) Securities denominated in Norwegian kroner or classified by Bloomberg L.P. as being issued in Norway shall be excluded from the benchmark index for the fixed-income portfolio. The same shall apply to securities issued by companies that are excluded under provisions in the guidelines for observation and exclusion from the GPFG. When bonds are excluded from the benchmark index, the weights of other bonds in the same sub-index shall be increased correspondingly. Upon reinclusion in accordance with the abovementioned guidelines, the securities shall be reincluded in the benchmark index, cf. Section 2-1, Sub-section 3.

Section 2-3. Benchmark index for the equity portfolio

(1) The benchmark index for the equity portfolio is composed on the basis of the FTSE Global All Cap Index.

(2) The following adjustment factors are attributed to the equities in the benchmark index, based on country affiliation:

a. European developed markets, excl. Norway: 2.5
b. USA and Canada: 1
c. Other developed markets: 1.5
d. Emerging markets: 1.5

Country affiliation and regional affiliation, as well as the distinction between developed and emerging markets, shall be in accordance with the FTSE Global All Cap Index. A weight of 0 shall be attributed to markets included in the FTSE Global All Cap Index as from 1 January 2019.

(3) Each country shall be included in the benchmark index with a weight calculated by the following formula:

$$\frac{Market\ capitalisation_i \times Factor_i}{\sum_i Market\ capitalisation_i \times Factor_i}$$

with *i* representing the countries associated with the adjustment factor in question, cf. Section 2-3, Sub-section 2. The market capitalisation shall be determined in accordance with the methodology for FTSE Global All Cap Index and adjusted for free float.

(4) The benchmark index shall be adjusted for the Bank's tax position.

(5) Securities issued by companies that are excluded under provisions in the guidelines for observation and exclusion from the GPFG shall not be included in the benchmark index for the equity portfolio. Upon reinclusion in accordance with the abovementioned guidelines, the securities shall be reincluded in the benchmark index, cf. Section 2-1, Sub-section 3.

(6) Securities issued by companies with ICB classification 60101010 Oil: Crude Producers shall not be included in the benchmark index for the equity portfolio.

Section 2-4. Risk limits

(1) The equity portfolio, cf. Section 2-1, Sub-section 1 a), shall constitute between 60 and 80 percent of the investment portfolio.

(2) The fixed-income portfolio, cf. Section 2-1, Sub-section 1 b), shall constitute between 20 and 40 percent of the investment portfolio.

(3) The unlisted real estate portfolio, cf. Section 2-1, Sub-section 1 c), may constitute up to 7 percent of the investment portfolio.

(4) The unlisted renewable energy infrastructure portfolio, cf. Section 2-1, Sub-section 1 d), may constitute up to 2 percent of the investment portfolio. Unlisted renewable energy infrastructure investments shall be made within the scope of the environment-related investment mandates, cf. Section 4-4.

(5) Net market value shall be used for purposes of calculating the shares under Sub-sections 1 to 4. In making such calculation, derivatives shall be depicted with the underlying financial exposure.

(6) The Bank shall organise management with a view to ensuring that the expected annualised standard deviation of the excess return between the investment portfolio and the actual benchmark index (expected tracking error) does not exceed 1.25 percentage points, cf. Section 3-3, Sub-section 2.

(7) The equity portfolio and the fixed-income portfolio shall be sought composed in such a way that the expected excess return is exposed to several systematic risk factors.

(8) The Bank shall seek to take differences in fiscal strength between countries into account in the composition of the government bond investments.

(9) The Bank shall organise management with a view to ensuring that high-yield debt instruments (credit rating below investment grade) do not account for more than 5 percent of the market value of the fixed-income portfolio.

(10) A credit rating is required for investments in debt instruments. All internal credit ratings shall be documented.

(11) Debt instruments issued by governments of, and companies domiciled in, countries classified as an emerging market may constitute up to 5 percent of the market value of the fixed-income portfolio. The country affiliation and market classification shall be in accordance with Section 2-2, Sub-section 11.

(12) The Bank shall not hold more than 10 percent of the voting shares of any one company. Holdings in listed and unlisted real estate companies and unlisted renewable energy infrastructure companies are exempted from this.

(13) Leveraging may be used with a view to ensuring an effective execution of the management assignment, but not with a view to increasing the investment portfolio's exposure to risky assets in the equity and the fixed-income portfolio. Leveraging may also be used in fund structures and by other legal entities with a view to ensuring an effective execution of the management assignment, but leveraging cannot otherwise be used with a view to increasing the investment portfolio's exposure to risky assets.

(14) Reinvestment of cash collateral shall not be done with a view to increasing the investment portfolio's financial exposure to risky assets.

(15) Sales of securities not held by the Bank (short selling) may only take place if the Bank has access to the securities through an established borrowing arrangement.

Section 2-5. Risk limits to be established by the Executive Board

(1) The Executive Board shall establish supplementary risk limits to capture risks which experience suggests will not be captured well by expected tracking error, including:

a. Limits on minimum overlap between the equity portfolio and the fixed-income portfolio and corresponding actual benchmark indices.
b. Credit risk limits, both at the individual issuer level and for the investment portfolio as a whole.
c. Liquidity risk limits.
d. Counterparty exposure limits.
e. Leveraging limits.
f. Limits on the reinvestment of cash collateral received.
g. Limits on securities borrowing.
h. A limit on large expected negative deviations between the return on the investment portfolio and the actual benchmark index (expected extreme deviation risk).

(2) The Executive Board shall establish an operational risk limit.

(3) The Executive Board shall limit risk in the unlisted real estate portfolio through, inter alia, limits on:

a. investments in countries;
b. investments in sectors;
c. investments in emerging markets;
d. investments in real estate under development; and
e. total debt ratio and maximum debt ratio for individual investments.

(4) The Executive Board shall limit risk in the unlisted renewable energy infrastructure portfolio through, inter alia, limits on:

a. investments in countries;
b. investments in emerging markets;
c. investments in projects under development; and
d. total debt ratio and maximum debt ratio for individual investments.

(5) The Executive Board shall limit the scope for including investments in the renewable energy infrastructure portfolio, cf. the principal business criterion in Section 2-1, Sub-section 1 d), by stipulating requirements as to:

a. the proportion of the business of the unlisted company or other legal entity which shall be represented by renewable energy infrastructure; and
b. the proportion of renewable energy infrastructure in fund structures.

(6) The Executive Board shall approve any individual investments in the unlisted real estate portfolio and the unlisted infrastructure portfolio in excess of maximum amounts stipulated by the Executive Board.

(7) The Executive Board shall establish a limit on what portion the Fund may hold of the voting shares of any one listed real estate company.

(8) The Executive Board shall establish a limit on what portion of the investment portfolio may be managed by any one external manager.

(9) The Executive Board shall establish a limit on how much of the unlisted real estate portfolio and the unlisted infrastructure portfolio may be co-invested with any one investment partner.

(10) The limits referred to in Sub-sections 1 to 9 and subsequent changes thereto shall be presented to the Ministry no less than three weeks prior to their adoption, unless special circumstances merit a shorter notice period.

Chapter 3. Valuation, return measurement and management, risk measurement and management

Section 3-1. Introductory provisions

(1) The Executive Board shall annually evaluate its execution of the management assignment and its associated expertise, cf. Section 1-1. The Executive Board's evaluations of own performance shall be submitted to the Ministry.

(2) The Bank shall have procedures for reporting risk and exposure along the dimensions addressed in this chapter. The measurement methods shall complement each other.

Section 3-2. Valuation and return measurement

(1) The return on the investment portfolio shall be measured in the currency composition of the actual benchmark index (the currency basket of the investment portfolio), cf. Section 1-6. As far as the unlisted portfolios are concerned, the return shall also be measured in the currency composition of such portfolios.

(2) The net return on the unlisted portfolios shall be calculated net of all costs, such as operating costs, transaction costs, management costs and tax costs.

(3) The return calculations shall be prepared in accordance with the Global Investment Performance Standards (GIPS) methodology.

(4) The Bank shall establish principles for valuation and measurement of the return on the financial instruments included in the investment portfolio.

(5) The method used to determine the value of financial instruments shall be verifiable and provide reasonable assurance that it expresses the fair value of the investment portfolio as at the measurement date.

(6) The Bank shall at least once a year commission an external, independent valuation of the unlisted real estate and infrastructure investments, preferably as at 31 December.

Section 3-3. Measurement and management of market risk

(1) The Bank shall establish principles for the measurement and management of market risk, including relevant sources of systematic risk, cf. Section 2-4 and Section 2-5. The measurements shall seek to capture all relevant market risk associated with the financial instruments used. The risk shall be estimated by several different methods. Stress tests shall be conducted on the basis of, inter

alia, historical events and future development scenarios for systematic risk factors.

(2) The Bank shall establish a method for the calculation of expected tracking error, to be approved by the Ministry.

(3) Extreme event risk analyses shall form an integral part of the risk management of the investment portfolio.

Section 3-4. Measurement and management of credit risk

The Bank shall establish principles for the measurement and management of credit risk, cf. Section 2-5. The credit risk measurements shall seek to capture all relevant credit risk associated with the financial instruments used.

Section 3-5. Measurement and management of counterparty exposure

(1) The Bank shall establish principles for the measurement and management of counterparty exposure, cf. Section 2-5.

(2) The Bank shall have satisfactory procedures and systems for the selection and evaluation of counterparties. The Bank shall establish maximum exposure limits, minimum credit rating requirements and standards for the furnishing and management of collateral, as well as netting arrangements. Total counterparty exposure shall be calculated in accordance with internationally recognised methods.

Section 3-6. Measurement and management of leveraging

The Bank shall establish principles for the measurement and management of investment portfolio leveraging, cf. Section 2-5. The principles shall encompass implicit leveraging achieved through derivatives and the reinvestment of cash furnished as collateral in the context of securities lending or repurchase agreements.

Section 3-7. Securities borrowing, securities lending and the sale of securities not held by the Bank (short selling)

The Bank shall establish guidelines for securities borrowing, securities lending and the sale of securities not held by the Bank (short selling).

Section 3-8. Reinvestment of cash collateral received

The Bank shall establish guidelines for the reinvestment of cash collateral received, cf. Section 2-5.

Section 3-9. Measurement and management of operational risk

(1) The Bank shall define and delimit the meaning of the term operational risk.
(2) Operational risk factors shall be identified, assessed in terms of probability and impact, as well as monitored and managed.

Section 3-10. Instrument approval and investment due diligence review

(1) The Executive Board shall, prior to any investments, approve all financial instruments that are to be used and all markets in which investments are to be made. The Executive Board shall approve all issuing countries for government bond investments.

(2) The Executive Board's approval pursuant to Sub-section 1 shall be conditional upon the instrument contributing to efficient and effective execution of the management assignment, and upon the Bank being able to ensure comprehensive management, control and follow-up of all relevant investment risk and operational risk, including country risk.

(3) The approval shall be documented.

(4) The Executive Board shall establish guidelines ensuring a thorough due diligence review in advance of each investment in the unlisted real estate portfolio and the unlisted renewable energy infrastructure portfolio. The due diligence review shall include assessments of various aspects of the risk associated with the investment, including market risk, liquidity risk, credit risk, counterparty risk, operational risk, legal risk, tax risk and technical risk. In addition, the due diligence review shall include assessments of risk factors relating to health, safety, environment, corporate governance and social considerations, including risk associated with the handling of various stakeholders affected by the investment. The due diligence review shall be documented.

Chapter 4. Responsible management

Section 4-1. Responsible management activities

The Bank shall seek to establish a chain of measures as part of its responsible management efforts.

Section 4-2. Responsible management principles

(1) The Executive Board shall establish a set of principles for the responsible management of the investment portfolio. The principles shall be presented to the Ministry no less than three weeks prior to their adoption.

(2) In formulating the principles referred to in Sub-section 1, the Bank shall emphasise the long time horizon for the management of the investment portfolio, as well as its basis in broad diversification of the investments.

(3) The principles shall be based on environmental, social and corporate governance considerations in accordance with internationally recognised principles and standards, such as the UN Global Compact, the OECD Principles of Corporate Governance and the OECD Guidelines for Multinational Enterprises.

(4) The principles and the measures taken to further such principles shall be made public, cf. Section 4-1 and Section 6-1, Sub-section 4 h).

(5) As far as environmental considerations are concerned, the Bank shall in its management of the unlisted real estate portfolio attach weight to, inter alia, energy efficiency, water consumption and waste management.

Section 4-3. Contribution to the development of international standards

(1) The Bank shall contribute to the development of relevant international responsible management standards.

(2) The Executive Board shall establish guidelines for the Bank's efforts referred to in Sub-section 1, including any membership of, or corresponding affiliation with, organisations or groups, as well as for contact with government bodies in other countries. The guidelines shall be presented to the Ministry no less than three weeks prior to their adoption.

Section 4-4. Environment-related investments

(1) The Bank shall establish environment-related investment mandates. The market value of the environment-related investments shall normally be in the NOK 30–120 billion range.

(2) The environment-related investment mandates shall be focused on eco-friendly assets or eco-friendly technology, including climate-friendly energy, improving energy efficiency, carbon capture and storage, water technology and environment-related services such as management of waste and pollution, etc.

Section 4-5. Exclusion and observation decisions

The Executive Board shall make decisions on the observation or exclusion of companies, as well as the reversal of such decisions, pursuant to the guidelines for observation and exclusion from the GPFG. The Bank shall inform the Ministry of any decision on the exclusion of companies, as well as the reversal of such decisions, cf. Section 2-1, Sub-section 3.

Chapter 5. Investment management cost limits and remuneration scheme limits

Section 5-1. Investment management cost limits

(1) The Bank shall by 1 December each year send the Ministry a reasoned proposal for a limit on the investment portfolio management costs, based on an investment management cost estimate for the following year.

(2) The Ministry shall stipulate the investment management cost limit. The Bank will only be reimbursed for actual costs within the stipulated limit. Any costs in excess of the stipulated limit shall not be reimbursed. Any part of external manager fees which reflects the attainment of excess return shall be reimbursed outside the stipulated investment management cost limit.

(3) The sum total of actual costs within the limit referred to in Sub-section 2 shall be debited the Ministry's designated account directly, before crediting the Norwegian krone account with the net return, cf. Section 1-1, Sub-section 4. The Bank shall submit its total investment management cost calculation as early as possible and no later than one week prior to the final statement of account.

Section 5-2. Remuneration guidelines and limits

(1) The Executive Board shall establish guidelines and limits for a remuneration scheme. The remuneration scheme shall include special provisions for executives, for other employees and employee representatives with duties of material importance to the Bank's risk exposure and for other employees and employee representatives with corresponding remuneration, as well as for other employees and employee representatives with control duties.

(2) The remuneration scheme shall contribute to the promotion of, and provide incentives for, responsible risk management, including the discouragement of excessive risk taking, and shall serve to prevent conflicts of interest.

(3) Regulations of 21 December 2011 No. 1467 under the Securities Funds Act shall apply, subject to necessary modifications.

Chapter 6. Public reporting

Section 6-1. Reporting requirements

(1) The public reporting shall provide a true, fair and comprehensive overview of the Bank's execution of the management assignment, including the choices and priorities of the Bank, the performance achieved and the utilisation of the limits provided in this mandate. All reporting required under this mandate shall be published in Norwegian.

(2) The Bank shall on a regular basis, and at least every third year, report on its choice of investment strategies, as adopted by the Executive Board, for the management of the equity portfolio, fixed-income portfolio, unlisted real estate portfolio and unlisted renewable energy infrastructure portfolio, respectively (strategy reporting), cf. Section 1-7. The following shall be specifically addressed:

a. Overarching principles for its choice of strategies, the risk and return properties of the strategies, and how the strategies aim to make the most of the distinctive characteristics of the Fund and the investment management strengths of the Bank. As far as fixed-income management is concerned, investment strategies for utilising Section 2-4, Sub-section 11, shall be addressed.
b. Different investment strategies in equity management and fixed-income management, respectively, which may affect market risk and extreme deviation risk in the investment portfolio as a whole, and for the equity portfolio and the fixed-income portfolio separately.
c. The risk management framework.
d. The investment management organisation, including the use of subsidiaries and external managers.
e. The manner in which responsible management efforts are integrated in the management of the investment portfolio, cf. Section 1-3, Sub-section 3, and Chapter 4.

(3) The Bank shall semi-annually report on and specifically address the following (semi-annual reporting):

a. Developments in value, performance and risk in the investment portfolio as a whole, in the equity portfolio and the fixed-income portfolio separately and in the associated benchmark indices defined in this mandate.
b. Developments in value, performance and risk in the unlisted real estate portfolio, the unlisted renewable energy infrastructure portfolio and in relevant benchmark indices.
c. The composition of the excess return on the investment portfolio.

d. The composition of the excess return on the equity portfolio and the fixed-income portfolio, respectively, compared to the associated benchmark indices defined in this mandate.
e. The utilisation of the limits defined in this mandate.

In addition, the semi-annual reporting shall include extracts from those parts of the Bank's financial statements which pertain to the management of the investment portfolio, as adopted in accordance with the financial reporting provisions applicable to the Bank at any given time.

(4) In addition to the requirements under Section 6-1, Sub-section 3, the Bank shall annually report on and specifically address the following (annual reporting):

a. Performance in the management of unlisted real estate and unlisted renewable energy infrastructure and of different investment strategies in equity management and fixed-income management, respectively, including the proportion of the excess return and the utilisation of the limits on expected tracking error, extreme deviation risk and investment management costs. By different investment strategies is meant investment strategies emphasised in the utilisation of individual limits, including, inter alia, the limits on expected tracking error, extreme deviation risk and investment management costs. As far as fixed-income management is concerned, performance in the utilisation of Section 2-4, Sub-section 11, shall be addressed.
b. The Executive Board's assessments of the performance.
c. The relationship between risk and return in the investment portfolio as a whole, in the equity portfolio and the fixed-income portfolio separately and in the associated benchmark indices. The Bank shall use several methods and measures to report risk-adjusted return.
d. Securities lending income, internal and external investment management costs, tax costs and estimated transaction costs for the investment portfolio and for the equity portfolio, the fixed-income portfolio, the unlisted real estate portfolio and the unlisted renewable energy infrastructure portfolio, respectively, specified as a proportion of assets under management.
e. The management of the unlisted real estate portfolio and the unlisted renewable energy infrastructure portfolio, including assessments of the performance relative to a broad set of return measures.
f. Environment-related investments, cf. Section 4-4. The account of the environment-related investment mandates shall include, *inter alia*, scope, strategy, asset type and a description of the criteria applied by the Bank in defining the investment universe for the mandates. The account shall include risk and return in aggregate, and also broken down by the respective sub-portfolios, cf. Section 2-1, Sub-section 1. The account shall

also include measurement of performance against several alternatives, including relevant environmental indices and the Bank's internal financing.

g. Investments in emerging, frontier and unclassified markets.
h. The responsible management efforts, cf. Chapter 4, including the measures used and the effect of the exercise of ownership rights, as well as how the principles for responsible management are integrated in investment management.
i. Procedures and systems for the approval of markets and issuers of government bonds, cf. Section 3-10, Sub-section 1, second sentence.
j. Framework for, and results of, stress tests for the investment portfolio as a whole, as well as for the portfolios defined in Section 2-1, Sub-section 1, separately, cf. Section 3-3, Sub-section 1, final sentence.

(5) The Bank shall in connection with its semi-annual and annual reporting provide an account of decisions made pursuant to the guidelines for observation and exclusion from the GPFG. Publication of the decisions and updating of the public list of companies that are excluded or placed under observation pursuant to the guidelines referred to in the previous sentence shall take place on an ongoing basis and independently of such reporting.

(6) The semi-annual reporting shall be made public no later than two months after the end of the relevant six-month period. The annual reporting shall be made public no later than three months after the end of the relevant year. The main content of the annual reporting shall be made available in print. Other reporting may be done electronically.

Section 6-2. Publication of calculation methods and data

(1) Data and methods used in the public reporting, including for risk measurement and reporting, shall, to the extent compatible with sound execution of the management assignment and statutory duties of confidentiality, be described and made public in a computer-readable format.

(2) If the calculation methods underpinning the reporting of risk and return have changed since the previous reporting, an account shall be given as to why the methods have been changed and any effects of such changes shall be disclosed. Moreover, pro-forma figures based on the former calculation methods shall be provided for the next two years.

Section 6-3. Publication of the Executive Board's guidelines

The principles, guidelines and limits adopted by the Executive Board as the result of this mandate shall be made public.

Chapter 7. Relationship between the Ministry and the Bank

Section 7-1. Duty to inform, etc.

(1) The Bank shall submit its strategic plan for the management of the investment portfolio to the Ministry once it has been adopted, cf. Section 1-7, Sub-section 1.

(2) The Bank shall inform the Ministry if the value of the investment portfolio changes materially, and shall also inform the Ministry of any other material investment management developments. The information shall be provided without undue delay after the occurrence of any developments triggering the duty to inform.

(3) The Executive Board shall ensure that the Bank provides the Ministry, as well as any companies or individuals assisting the Ministry, with any information and data requested by the Ministry. Data shall be systemised and available for delivery in the format specified.

(4) The Bank shall upon a request from the Ministry for access to data and analysis systems ensure that agreements with data providers, systems providers and index providers offer direct access for the Ministry.

(5) The Ministry shall be informed of, and be invited to attend, meetings, etc., with the index providers referred to in Section 2-2 and Section 2-3 which are attended by the Bank. Any views the Bank would like to convey to the index providers in meetings or otherwise which may have an impact on the composition of index products referred to in Section 2-2 and Section 2-3, shall be cleared with the Ministry.

(6) If the Bank deems it appropriate to bring legal action against other states in order to safeguard the financial interests of the Fund, the matter shall be presented to the Ministry well ahead of the bringing of any legal action.

Section 7-2. Obligations if investment management limits are exceeded

(1) If situations arise in which the limits in Section 2-1, Section 2-4 or Section 2-5 are exceeded, the Bank shall without undue delay perform an assessment of how its investment management may be brought back into compliance with the limits in an appropriate and cost-effective manner.

(2) The Ministry shall be informed of any material breach of the limits in Section 2-1, Section 2-4 or Section 2-5.

Section 7-3. Meetings

Meetings shall be held between the Ministry and the Bank at least quarterly. The meetings shall be convened by the Ministry. The Ministry shall prepare the agenda and specify which data and what information shall be submitted as a basis for the Ministry's preparations for the meetings, as well as the format and timing of such submission. The meetings shall be attended by the chair of the Executive Board's Audit Committee. The same shall apply to any other external members summoned by the Ministry.

Chapter 8. Scope for derogation from the provisions, transitional provisions and effective date

Section 8-1. Scope for derogation from the provisions

The Ministry may lay down transitional provisions in the event of amendments to the mandate, and may in other special circumstances permit the Bank to derogate from the provisions in this mandate.

Section 8-2. Effective date

(1) Chapter 6 shall enter into effect immediately. The other provisions shall enter into effect on 1 January 2011.

(2) Regulations of 22 December 2005 No. 1725 relating to the Management of the Government Pension Fund Global, the guidelines for the management of the Government Pension Fund Global (provisions supplementing the Act relating to the Government Pension Fund and the Regulations relating to the Management of the Government Pension Fund Global), Regulations of 24 February 2010 No. 242 relating to the Management of the Real Estate Portfolio of the Government Pension Fund Global and the guidelines of 1 March 2010 for Norges Bank's responsible management efforts and exercise of ownership rights in the Government Pension Fund Global shall be repealed on 1 January 2011. The management agreement of 12 February 2001 between the Ministry and the Bank, as subsequently amended, shall be discontinued on the same date.

(3) The Ministry may lay down specific transitional provisions.