

Investment
Cost Effectiveness Analysis
(for the 5 years ending December 31, 2013)

Norwegian Government Pension Fund
Global



Key takeaways

Returns

- Your 5-year net total return was 11.9%. This was above the Global median of 11.6% and above the peer median of 11.8%.
- Your 5-year policy return was 10.9%. This was below the Global median of 11.4% and below the peer median of 11.5%. The largest driver of your lower policy returns was your higher relative weight in fixed income over this time period, which performed poorly relative to stock, real estate and private equity. All returns have been converted using the GPFG currency basket.

Value added

- Your 5-year net value added was 1.1%. This was above the Global median of 0.3% and above the peer median of -0.3%.

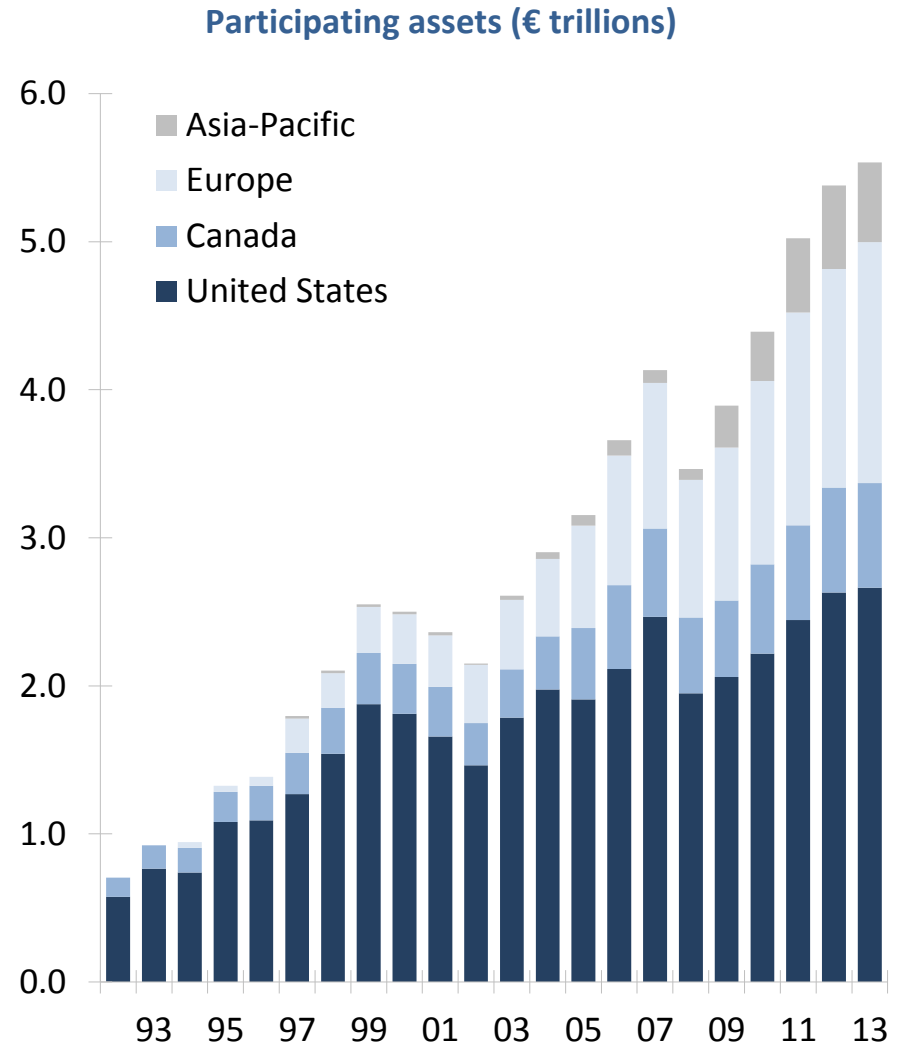
Cost and cost effectiveness

- Your investment cost of 6.6 bps was below your benchmark cost of 20.8 bps. This suggests that your fund was low cost compared to your peers. Your fund was low cost because you had a lower cost implementation style and you paid less than peers for similar services.
- Your 5-year performance placed in the positive value added, low cost quadrant of the cost effectiveness chart.

This benchmarking report compares your cost and return performance to the 358 funds in CEM's extensive pension database.

- 186 U.S. funds participate with assets totaling €2.7 trillion.
- 87 Canadian funds participate with assets totaling €707 billion.
- 79 European funds participate with aggregate assets of €1.6 trillion. Included are funds from the Netherlands, Norway, Sweden, Finland, Ireland, Denmark and the U.K.
- 6 Asia-Pacific funds participate with aggregate assets of €539 billion. Included are funds from Australia, New Zealand, China and South Korea.

In the global database the types of funds can be split as follows 52% corporate, 33% public and 15% other.



The most valuable comparisons for cost performance are to your custom peer group because size impacts costs.

Peer group for Norwegian Government Pension Fund Global

- 16 global sponsors from €34 billion to €568 billion
 - Median size of €126 billion versus your €568 billion
-
- 3 Canadian funds, 5 European funds, 3 Asia-Pacific funds and 5 U.S. funds make up the Global peer group.
 - In the report there are also comparisons to our Global database of participants.

Your 5-year net total return of 11.9% compares to the peer median of 11.8%.

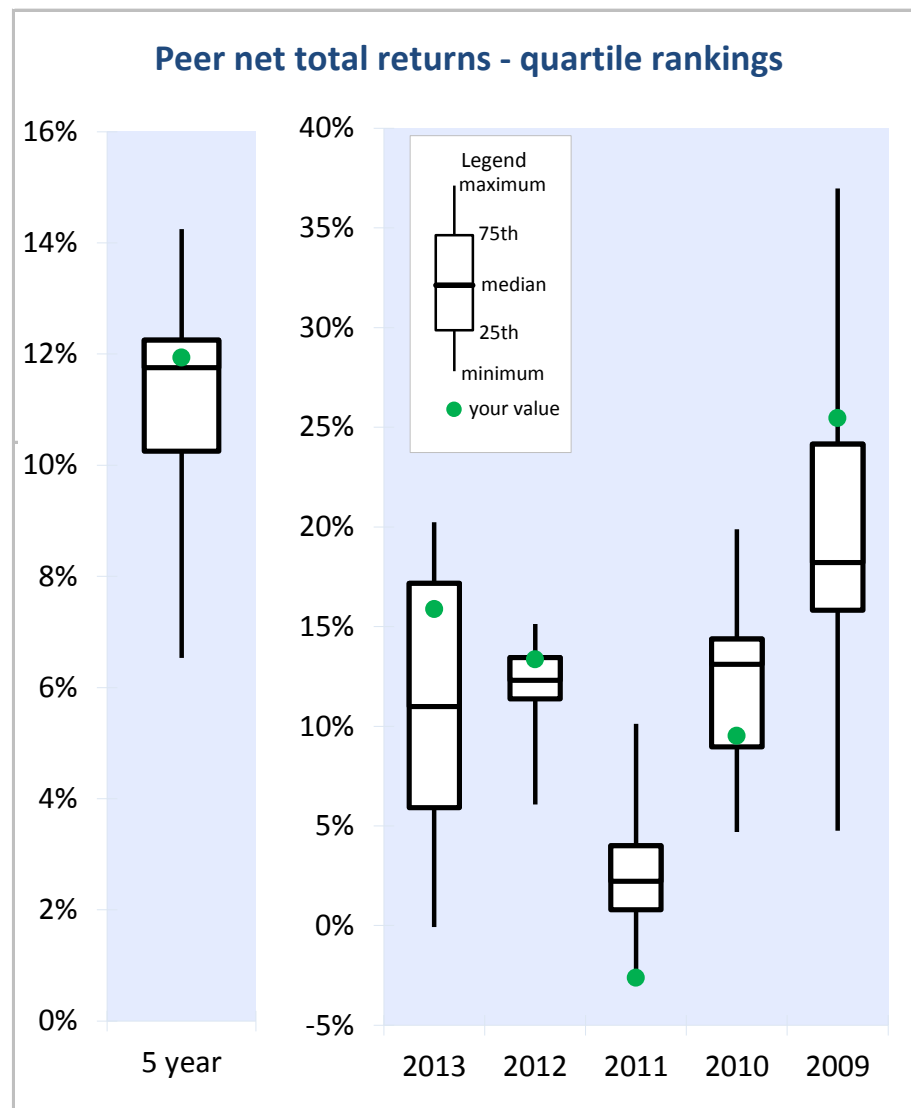
Total returns, by themselves, provide little insight into the reasons behind relative performance. Therefore, we separate total return into its more meaningful components: policy return and value added. Total returns are equally weighted.

	Your 5-year
Net total fund return	11.9%
- Policy return	10.9%
= Net value added	1.1%

This approach enables you to understand the contribution from both policy mix decisions (which tend to be the board's responsibility) and implementation decisions (which tend to be management's responsibility).

Actual and policy returns have been converted to your 'Currency Basket' using unhedged currency returns.

The fund return consists of Equity, Fixed Income and Real Estate. The fund benchmark is the weighted benchmark of Equity and Fixed Income, the benchmark for Real Estate used in the report is the actual portfolio return.



Your 5-year policy return of 10.9% compares to the peer median of 11.5%.

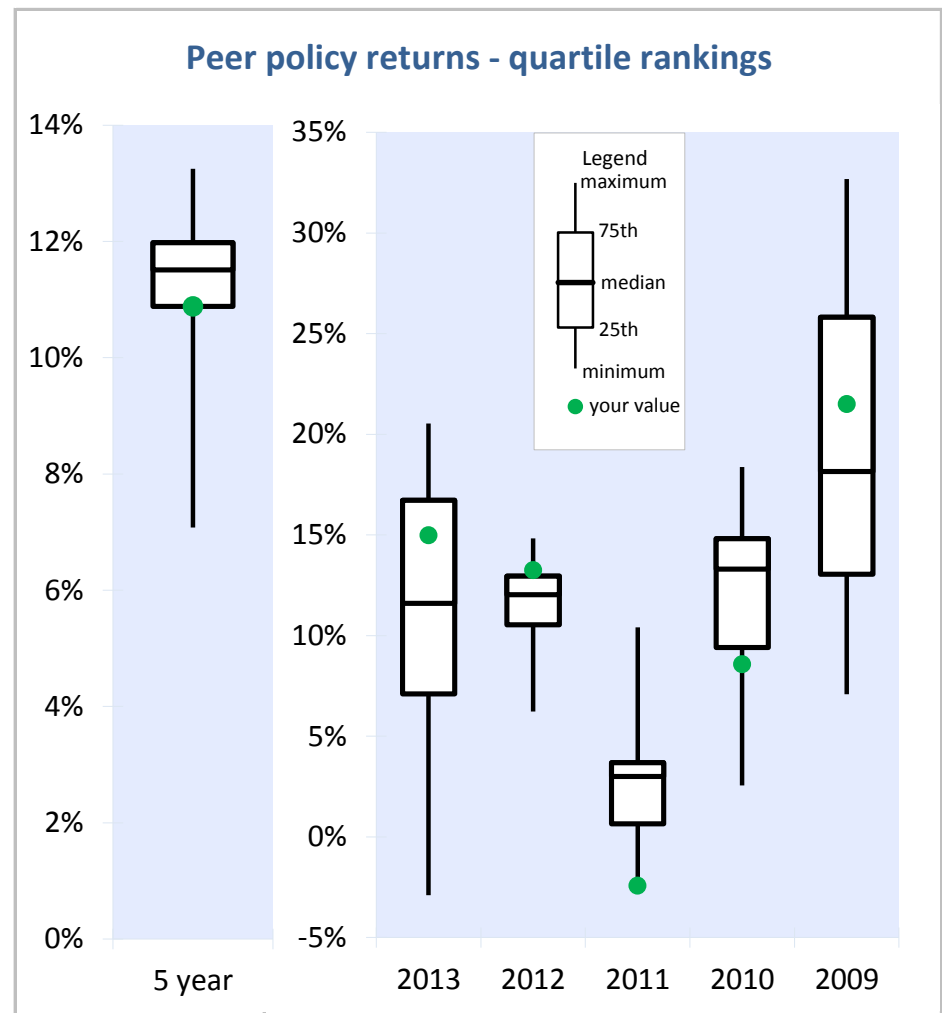
Your policy return is the return you could have earned passively by indexing your investments according to your policy mix.

Having a higher or lower relative policy return is not necessarily good or bad. Your policy return reflects your investment policy, which should reflect your:

- Long term capital market expectations
- Liabilities
- Appetite for risk

Each of these three factors is different across funds. Therefore, it is not surprising that policy returns often vary widely between funds.

Investment policy is based on considerations like risk tolerance and long-term capital markets prospects. In this context a five year period is short. If the comparisons had been made for other periods, the results could be different.



To enable fairer comparisons, the policy returns of all participants with policy weight in private equity were adjusted to reflect private equity benchmarks based on lagged, investable, public-market indices. Refer to the Research section pages 6-7 for details.

Your policy asset mix compares to the peer and Global averages as follows:

- Your fund had more stock than the average Peer or Global fund (your 61% versus a peer average of 47% and global average of 48%).
- Your policy asset mix is more globally diversified than the average Peer or Global fund.
- Your fund is in the early stages of the allocation to real assets (with a 1% allocation in 2013), and has no hedge funds or private equity whereas the peer funds had allocations of 12%, 2% and 6% respectively. The Global funds' allocations were 7%, 3% and 4%.

5-Year average policy mix

	Your Fund	Peer Avg.	Global Avg.
Stock	61%	47%	48%
Fixed Income	39%	32%	38%
Hedge Funds	0%	2%	3%
Real Assets ¹	0%	12%	7%
Private Equity	0%	6%	4%
Total	100%	100%	100%

1. Real assets includes commodities, natural resources, infrastructure, REITS and real estate.

Regional allocations can significantly influence the policy return. GPF's overweight in European securities and the peer group's overweight in North American securities would cause a difference in the policy returns. Variations in the fixed income portfolios, such as duration, credit quality and country allocation within regions would have an impact as well. Not being invested in asset classes like real estate and private equity had a minor impact on GPF's policy return.

Net value added is the component of total return from active management. Your 5-year net value added was 1.1%.

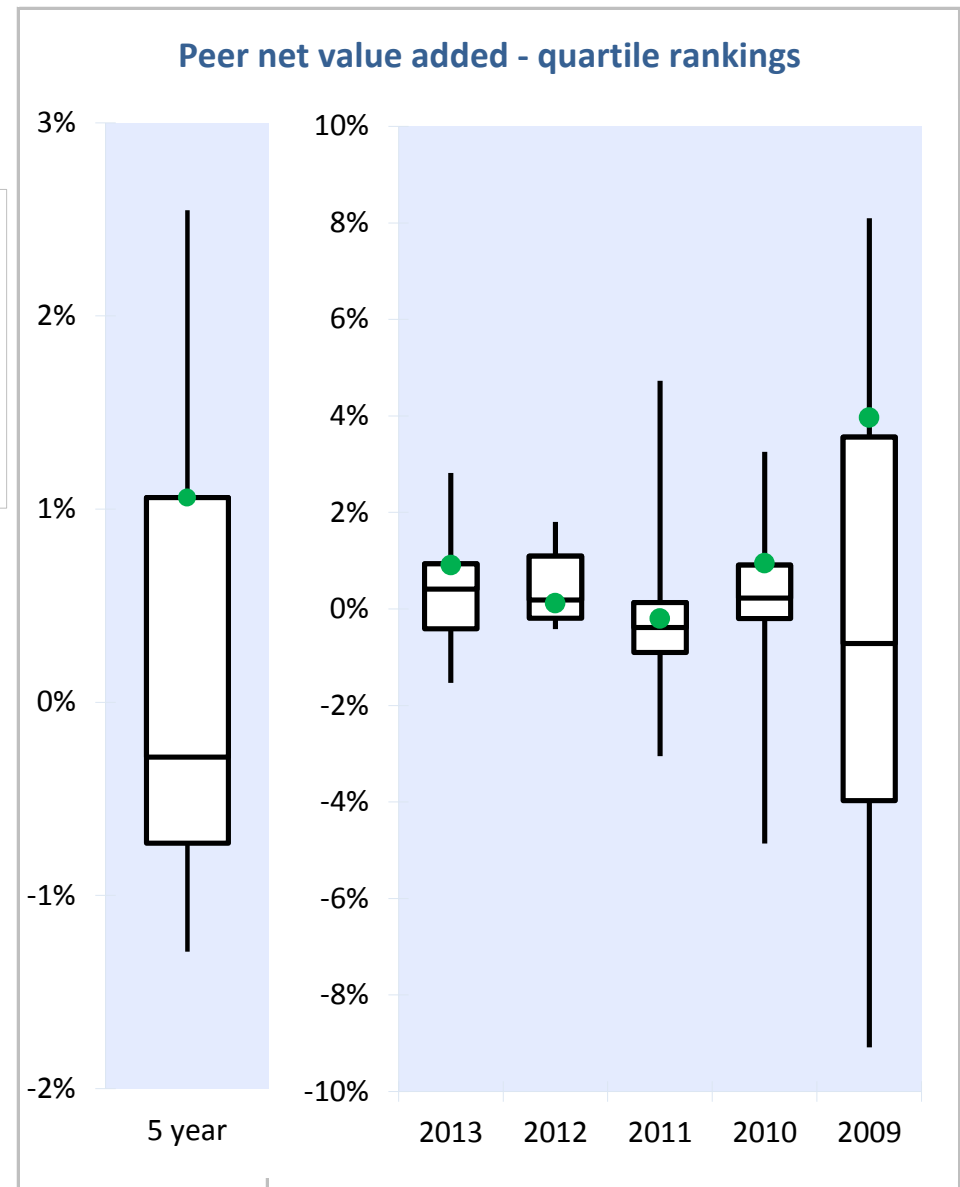
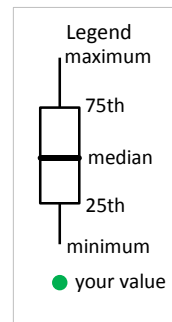
Net value added equals total net return minus policy return.

Value added for Norwegian Government Pension Fund Global

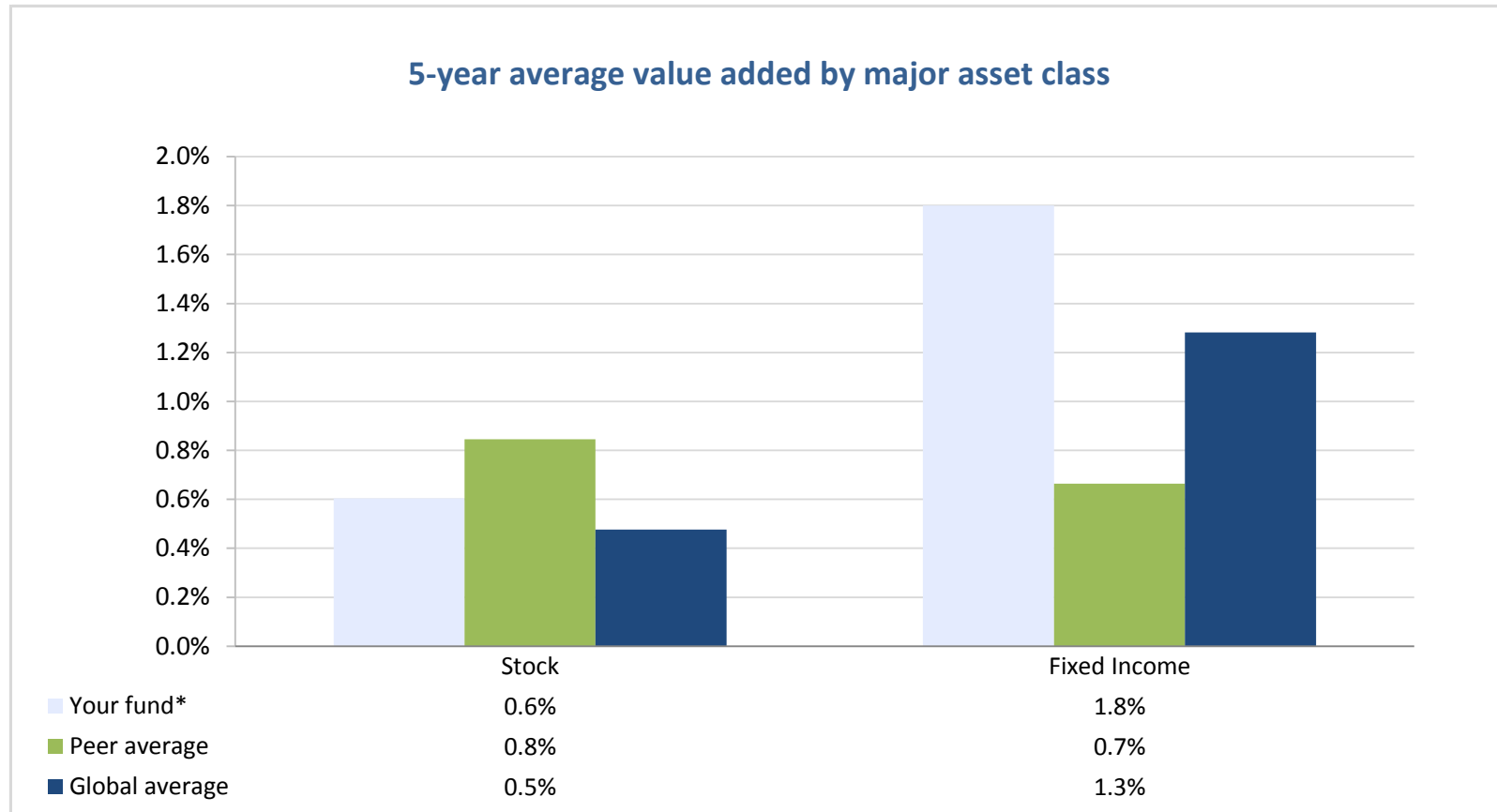
Year	Net Return	Policy Return	Net value Added
2013	15.9%	15.0%	0.9%
2012	13.4%	13.2%	0.1%
2011	(2.6%)	(2.4%)	(0.2%)
2010	9.5%	8.6%	0.9%
2009	25.5%	21.5%	4.0%
5-year	11.9%	10.9%	1.1%

Your 5-year net value added of 1.1% compares to a median of -0.3% for your peers and 0.3% for the Global universe.

The fund return consists of Equity, Fixed Income and Real Estate. The fund benchmark is the weighted benchmark of Equity and Fixed Income, the benchmark for Real Estate used in the report is the actual portfolio return.



You had positive 5-year value added in Stock and Fixed Income.



* The value added figures shown above differ from those of NBIM due to the fact CEM collects data on an annual basis. The NBIM figures would be more accurate.

Your investment costs were €377.5 million or 6.6 basis points in 2013.

Asset management costs by asset class and style (€000s)	Internal Management		External Mgmt		Total	
	Passive	Active	Active base fees	Perform. fees ¹		
Stock - Global		80,221	39,697	87,535	210,993	
Fixed Income - Global		26,670	407		27,155	
Real Estate Operating Sub.		21,479			21,479	
Total asset management costs excluding private asset performance fees					259,627	4.6bp
Oversight, custodial and other costs ²						
Oversight of the fund					67,148	
Trustee & custodial					43,763	
Consulting and performance measurement					2,292	
Audit					4,667	
Total oversight, custodial & other costs					117,870	2.1bp
Total investment cost					377,497	6.6bp

Footnotes

¹ Total cost excludes carry/performance fees for real estate, infrastructure, hedge funds and private equity. Performance fees are included for the public market asset classes.

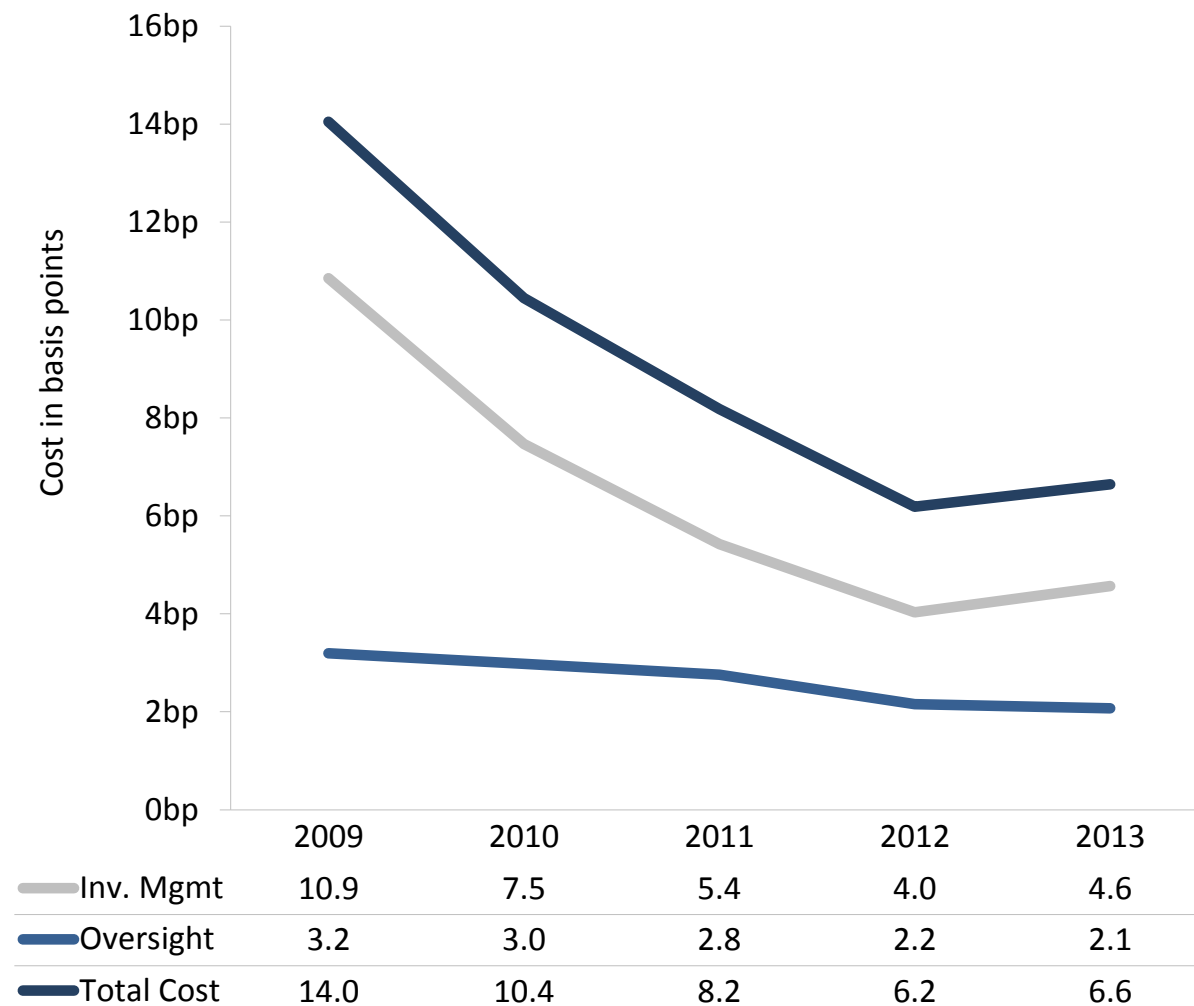
² Excludes non-investment costs, such as benefit insurance premiums and preparing cheques for retirees.

Your costs decreased between 2009 and 2013.

One of the key reasons was you increased your use of lower cost internal management from 86% of assets in 2009 to 96% in 2013.

Trend in your investment costs

(excluding transaction costs and private asset performance fees)

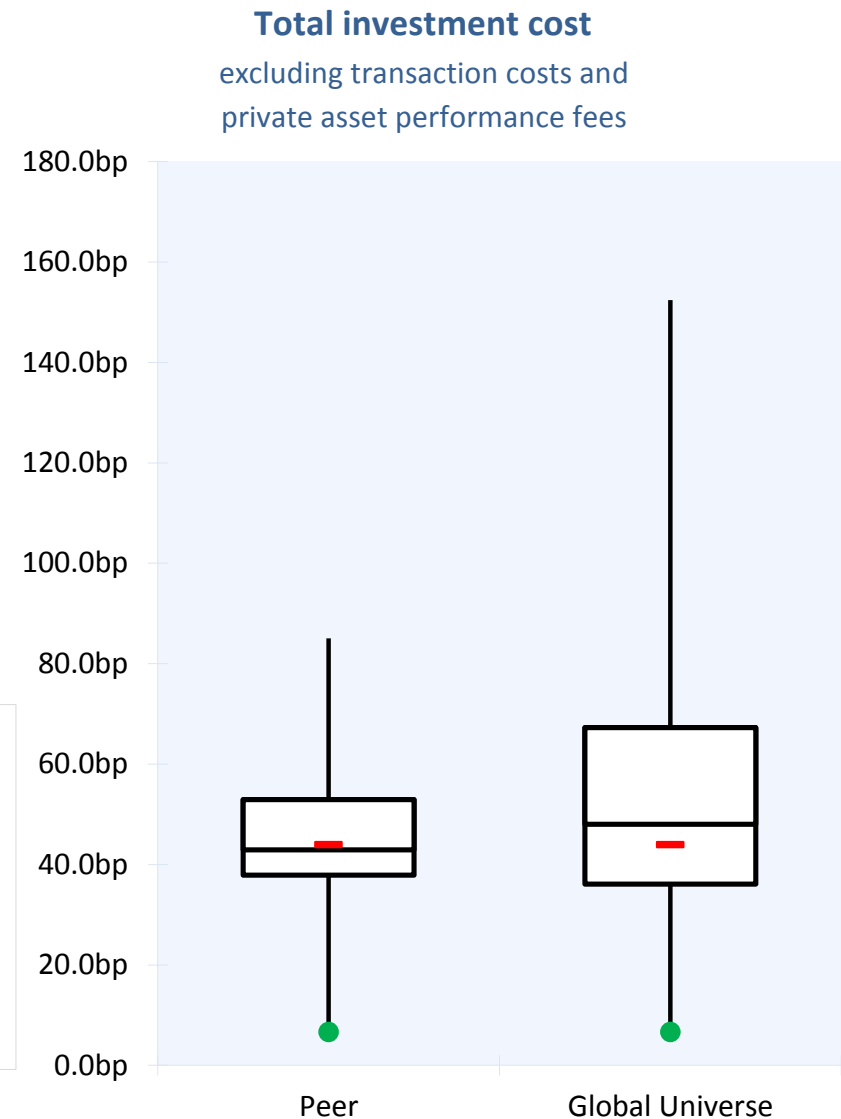
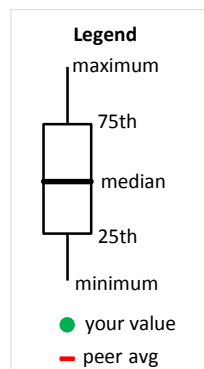


Your total investment cost of 6.6 bps was below the peer median of 42.9 bps.

Differences in total investment cost are often caused by two factors that are often outside of management's control:

- Asset mix, particularly holdings of the highest cost asset classes: real estate (excl REITS), infrastructure, hedge funds and private equity. These high cost assets equalled 1% of your funds assets at the end of 2013 versus a peer average of 22%.
- Fund size. Bigger funds have advantages of scale.

Therefore, to assess whether your costs are high or low given your unique asset mix and size, CEM calculates a benchmark cost for your fund. This analysis is shown on the following page.



Benchmark cost analysis suggests that, after adjusting for fund size and asset mix, your fund was low cost by 14.2 basis points in 2013.

Your benchmark cost is an estimate of what your cost would be given your actual asset mix and the median costs that your peers pay for similar services. It represents the cost your peers would incur if they had your actual asset mix.

Your total cost of 6.6 bp was below your benchmark cost of 20.8 bp. Thus, your cost savings was 14.2 bp.

Your cost versus benchmark

	€000s	basis points
Your fund's total investment cost	377,497	6.6 bp
Your benchmark cost	1,181,607	20.8 bp
Your excess cost	(804,110)	-14.2 bp

Your fund was low cost because you had a lower cost implementation style and you paid less than peers for similar services.

Reasons for your low cost status

	Excess Cost/ (Savings)	
	€000s	bps
1. Lower cost implementation style		
• Less external active management (more lower cost internal)	(619,249)	(10.9)
• Less overlays	(98,650)	(1.7)
• Other style differences	190,612	3.4
	<u>(527,287)</u>	<u>(9.3)</u>
2. Paying less than peers for similar services		
• External investment management costs	36,422	0.6
• Internal investment management costs	(319,315)	(5.6)
• Oversight, custodial & other costs	6,070	0.1
	<u>(276,823)</u>	<u>(4.9)</u>
Total savings	(804,110)	(14.2)

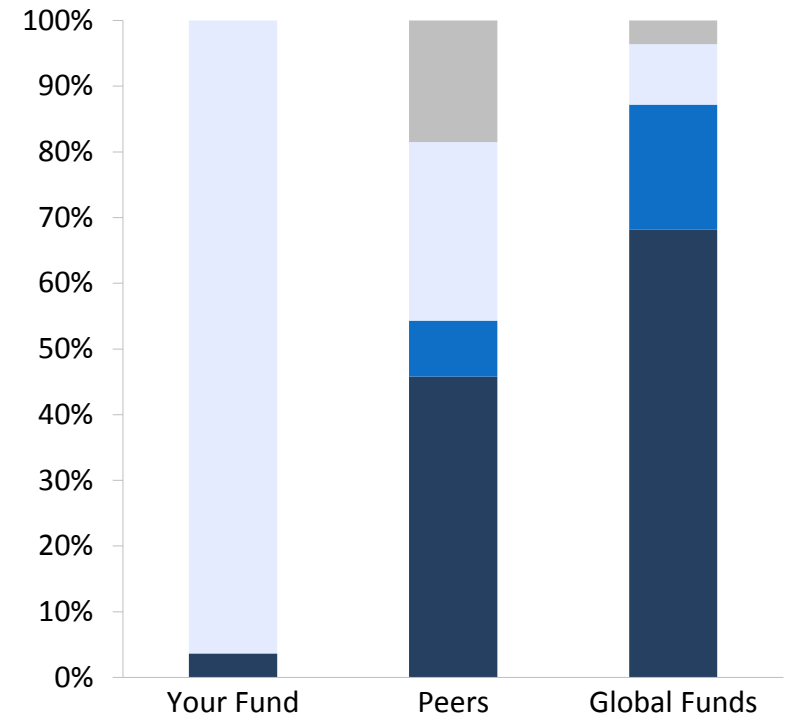
Differences in cost performance are often caused by differences in implementation style.

Implementation style is defined as the way in which your fund implements asset allocation. It includes internal, external, active, passive and fund of funds styles.

The greatest cost impact is usually caused by differences in the use of:

- External active management because it tends to be much more expensive than internal or passive management. You used less external active management than your peers (your 4% versus 46% for your peers).
- Within external active holdings, fund of funds usage because it is more expensive than direct fund investment.

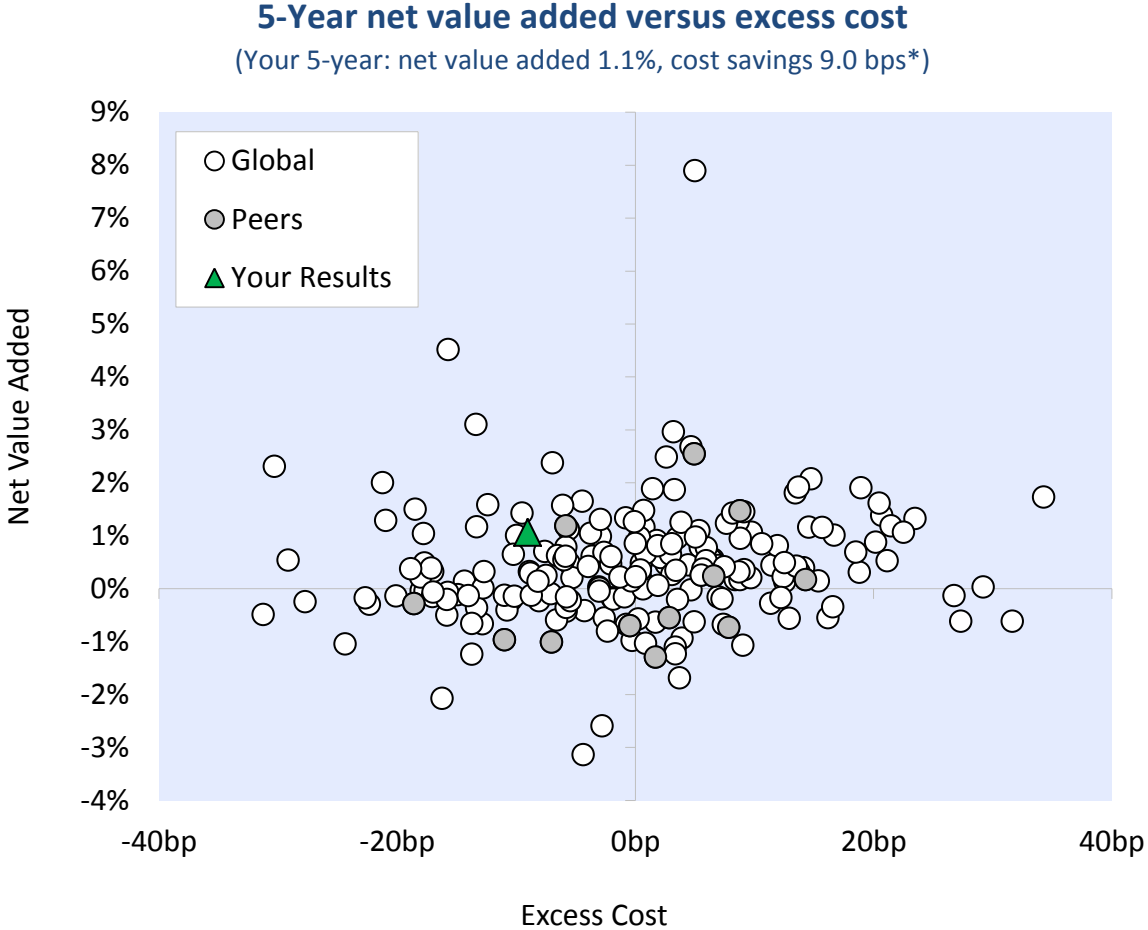
Implementation style¹



	Your Fund	Peers	Global Funds
Internal passive	0%	19%	4%
Internal active	96%	27%	9%
External passive	0%	9%	19%
External active	4%	46%	68%

1. The graph above does not take into consideration the impact of derivatives.

Your 5-year performance placed in the positive value added, low cost quadrant of the cost effectiveness chart.



Your 5-year cost savings of 9.0 basis points is the average of your cost savings for the past 5 years.

Your fund had 5-year net value added of 0.1% and your excess cost as a % of benchmark cost was -48.0%.

5-Year Net Value Added versus Excess Cost as a % of Benchmark Cost

