

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

Government Pension Fund Norway



Key takeaways

Value added

- Your 5-year net value added was -0.2%. This was below the Global median of 0.4% and slightly below the peer median of 0.1%.

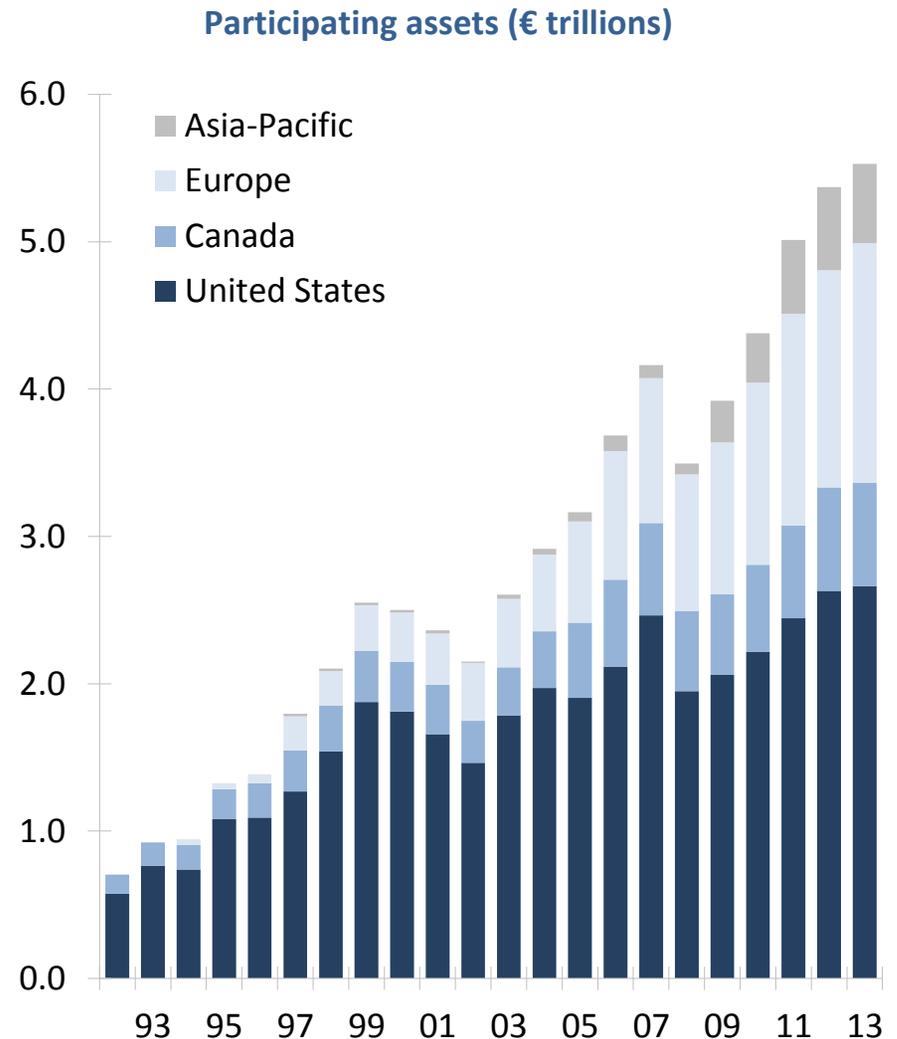
Cost and cost effectiveness

- Your investment cost of 8.2 bps was below your benchmark cost of 18.3 bps. This suggests that your fund was low cost compared to your peers. The lower cost status was achieved through cost savings due to having less external management than the peers and paying less for internal management relative to the peers.
- Your fund achieved 5-year net value added of -0.2% and cost savings of 8.0 bps on 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 €700 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 Government Pension Fund Norway

- 16 global sponsors from €12 billion to €65 billion
 - Median size of €34 billion versus your €20 billion
 - Median size of internal equity program €11 billion versus your €13 billion
- 3 Canadian funds, 5 European funds and 8 U.S. funds make up the Global peer group.
 - The size of the internal equity program was chosen as one of the key characteristics of the peer group because it is a major factor in the cost profile of the GPF Norway.
 - Due to the fact that the GPF Norway is primarily invested in Norway, return comparisons versus the other funds who invest more on a Global scale are not very meaningful.

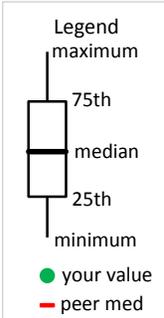
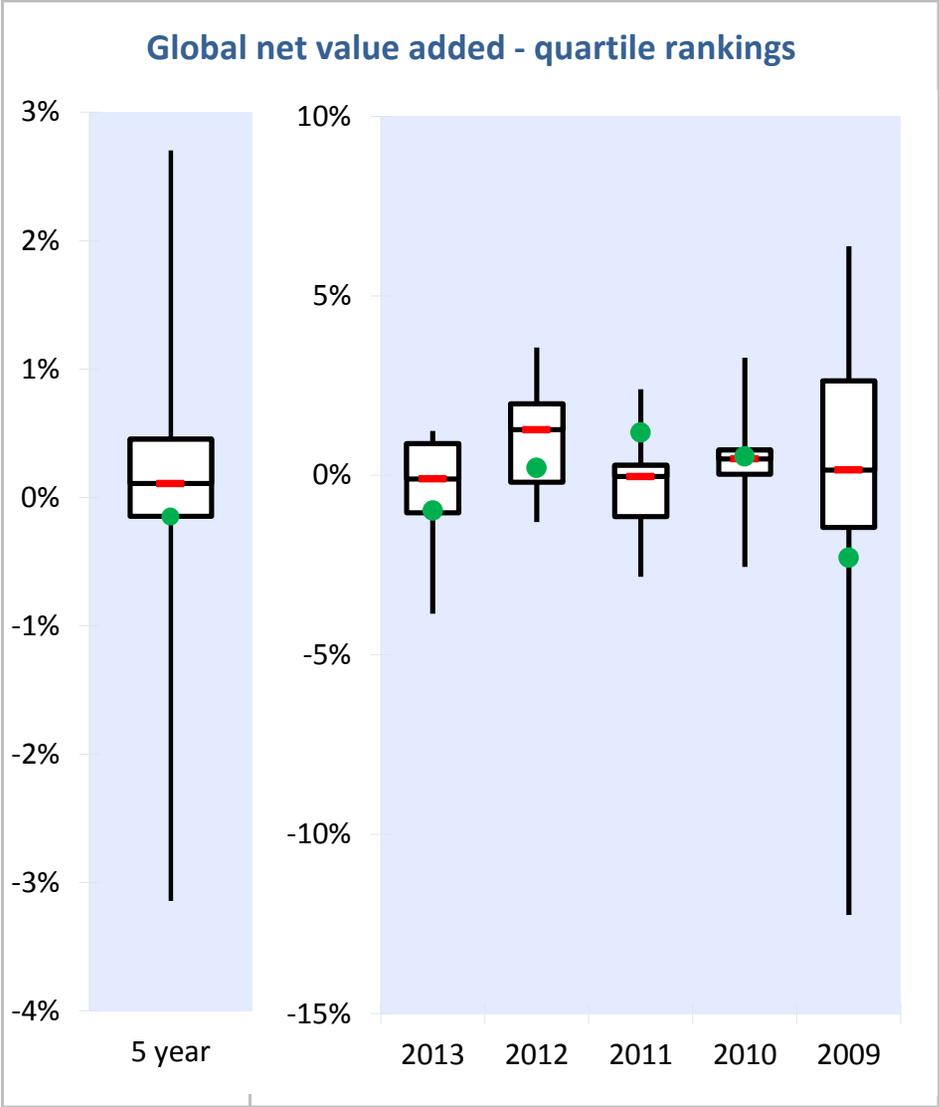
Net value added is the component of total return from active management. Your 5-year net value added was -0.2%.

Net value added equals total net return minus policy return.

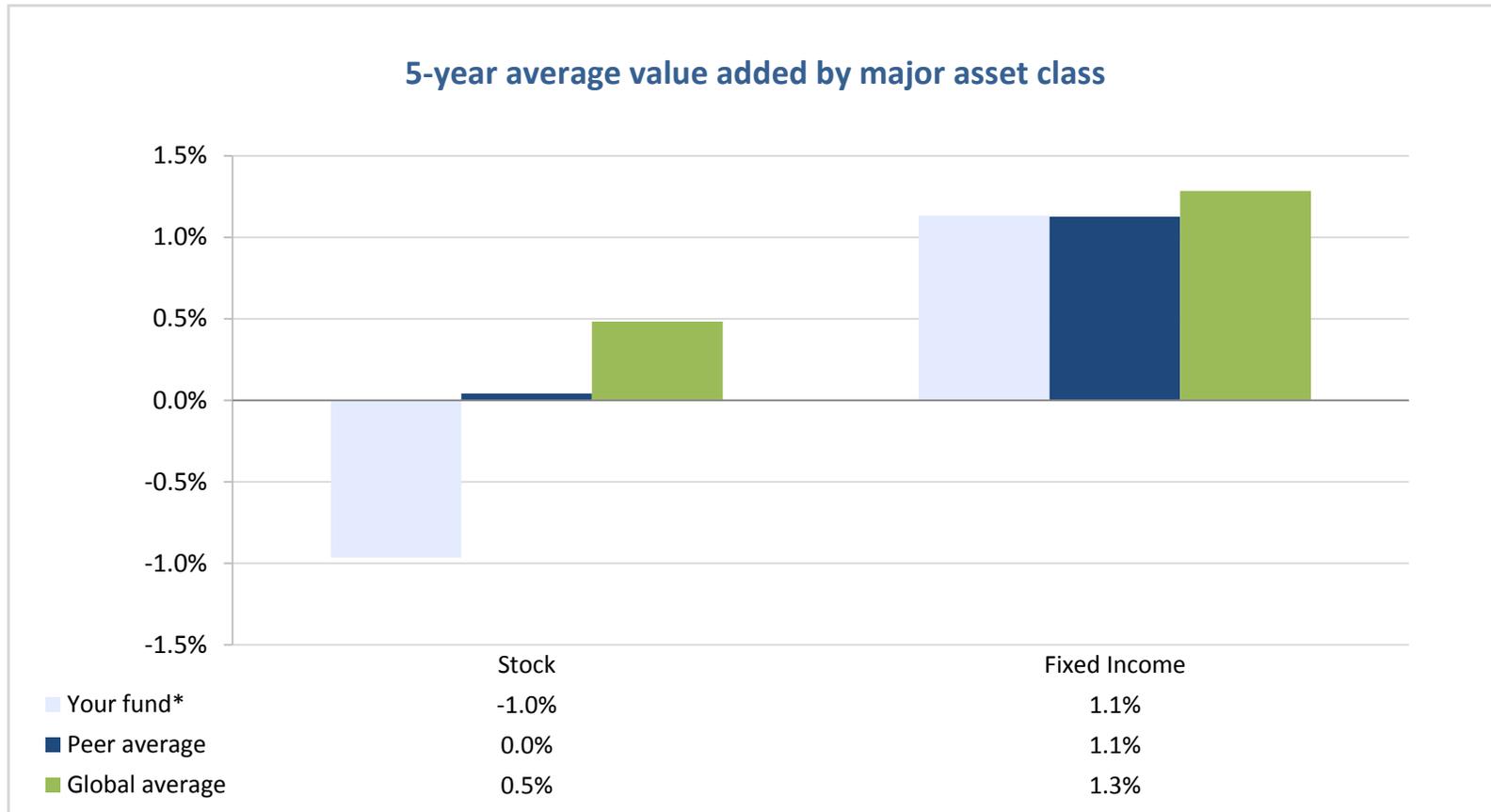
Value added for Government Pension Fund Norway

Year	Net Return	Policy Return	Net value Added
2013	15.6%	16.6%	(1.0%)
2012	12.1%	11.9%	0.2%
2011	(4.0%)	(5.2%)	1.2%
2010	15.2%	14.7%	0.5%
2009	33.4%	35.7%	(2.3%)
5-year	13.8%	14.0%	(0.2%)

Your 5-year net value added of -0.2% compares to a median of 0.1% for your peers and 0.4% for the Global universe.



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



Your investment costs were €16.4 million or 8.2 basis points in 2013.

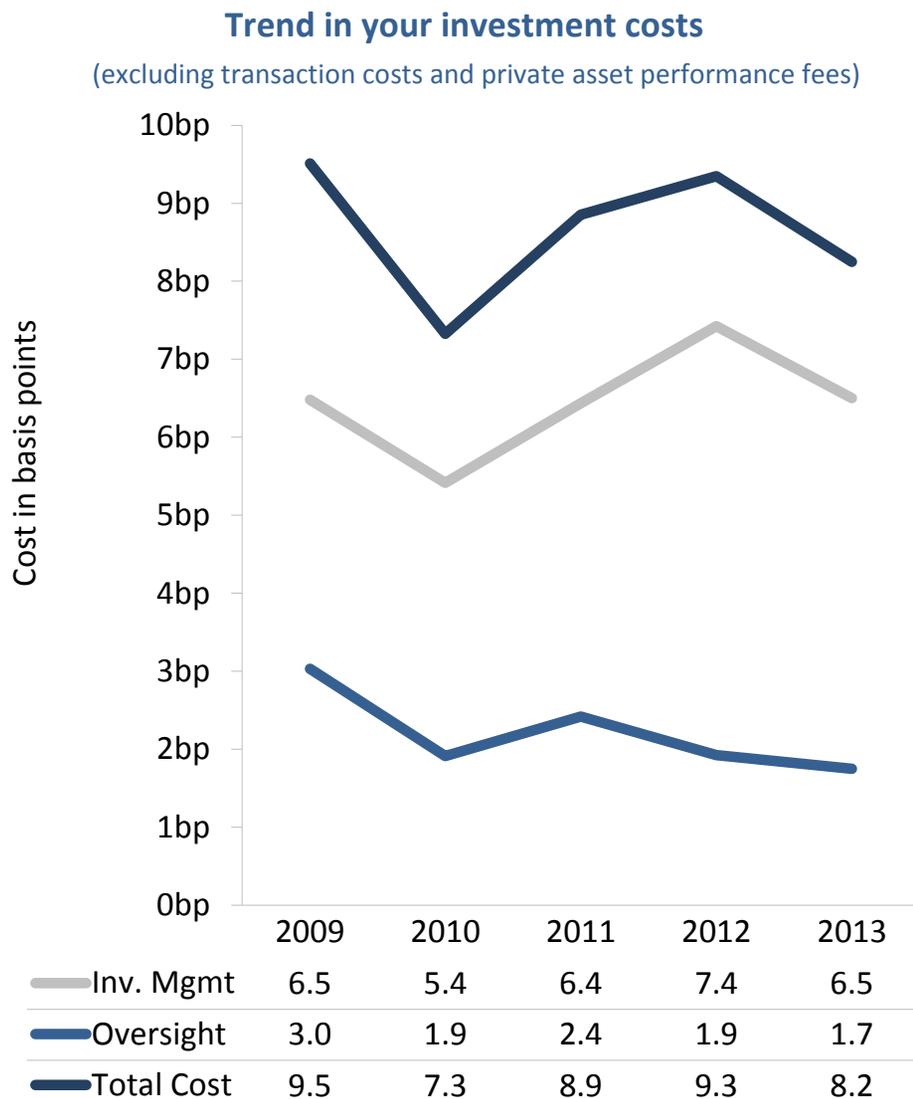
Asset management costs by asset class and style (€000s)	Internal Mgmt		Total	
	Passive	Active		
Stock - Europe		1,589	1,589	
Stock - Other		5,412	5,412	
Fixed Income - Euro		1,617	1,617	
Fixed Income - Other		4,331	4,331	
Total asset management costs excluding private asset performance fees			12,949	6.5bp
Oversight, custodial and other costs ¹				
Oversight of the fund			1,868	
Trustee & custodial			731	
Consulting and performance measurement			86	
Audit			311	
Other			489	
Total oversight, custodial & other costs			3,485	1.7bp
Total investment cost ²			16,434	8.2bp

Footnotes

¹ Excludes non-investment costs, such as benefit insurance premiums and preparing cheques for retirees.

² The basis point cost showing here differs slightly from the annual report due to the way the average holdings are calculated.

Your costs have remained in a fairly tight range over the past 5 years.

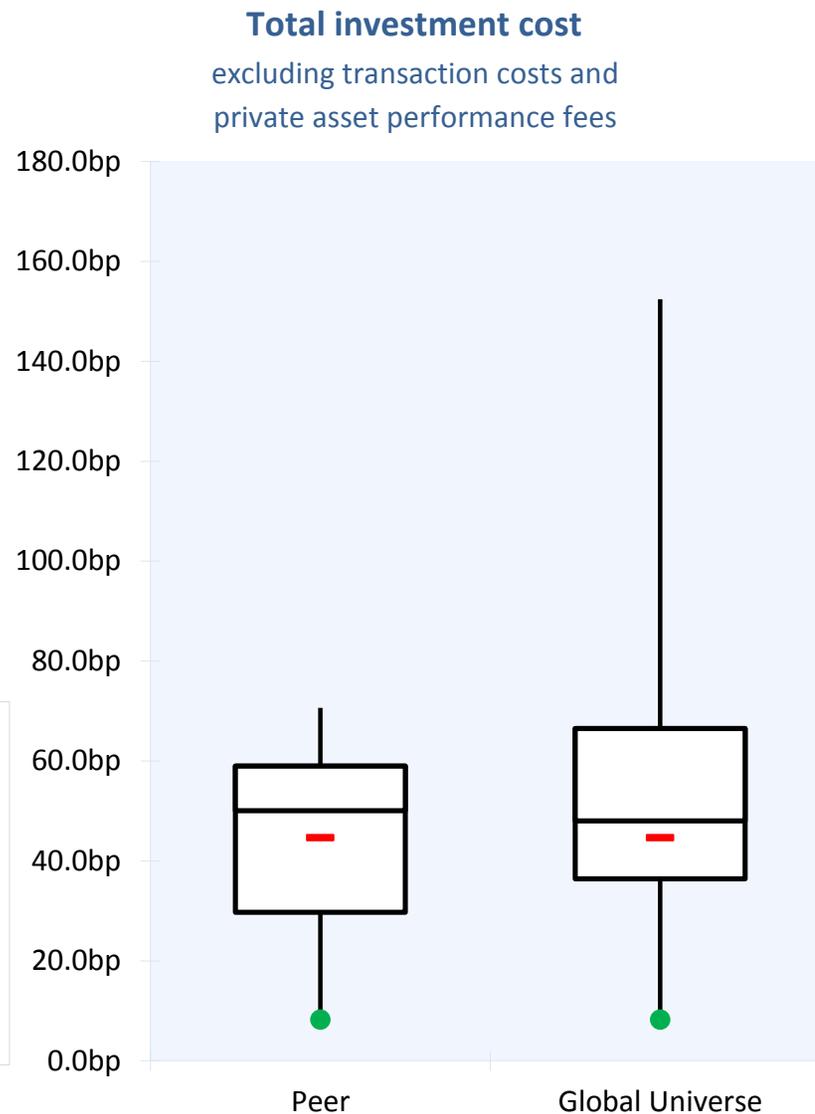
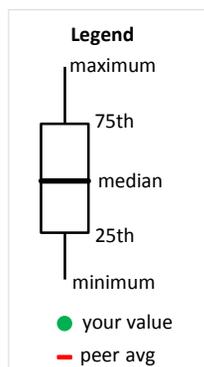


Your total investment cost of 8.2 bps was below the peer median of 50.1 bps.

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 0% of your funds assets at the end of 2013 versus a peer average of 21%.
- 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 10.1 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 8.2 bp was below your benchmark cost of 18.3 bp. Thus, your cost savings was 10.1 bp.

Your cost versus benchmark

	€000s	basis points
Your fund's total investment cost	16,434	8.2 bp
Your benchmark cost	36,489	18.3 bp
Your excess cost	(20,055)	-10.1 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 passive and internal)	(17,195)	(8.6)
• Less overlays	(1,848)	(0.9)
• Other style differences	2,837	1.4
	<u>(16,207)</u>	<u>(8.1)</u>
2. Paying less than peers for similar services		
• Internal investment management costs	(2,528)	(1.3)
• Oversight, custodial & other costs	(1,320)	(0.7)
	<u>(3,848)</u>	<u>(1.9)</u>
Total savings	(20,055)	(10.1)

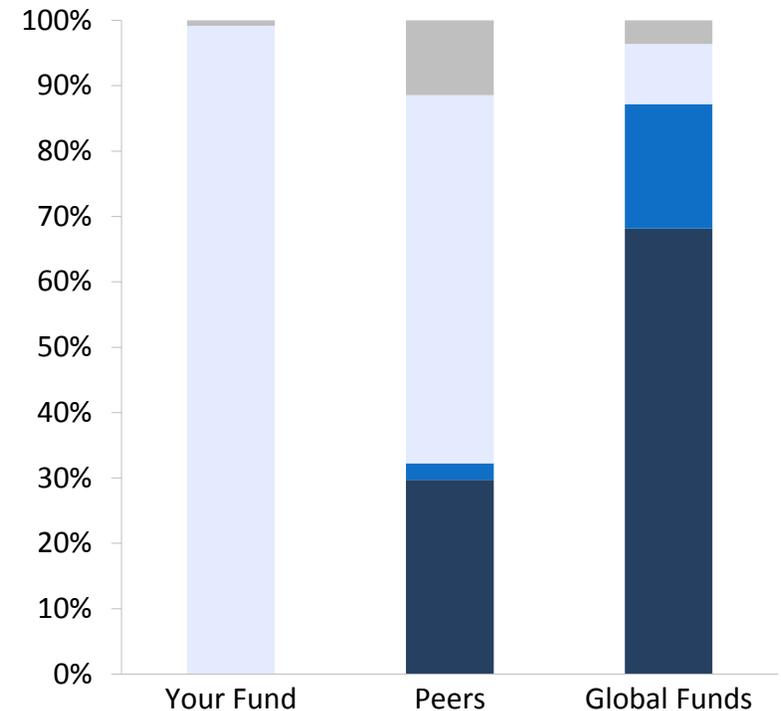
Differences in cost performance are often caused by differences in implementation style.

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 0% versus 30% for your peers).
- Within external active holdings, fund of funds usage because it is more expensive than direct fund investment.

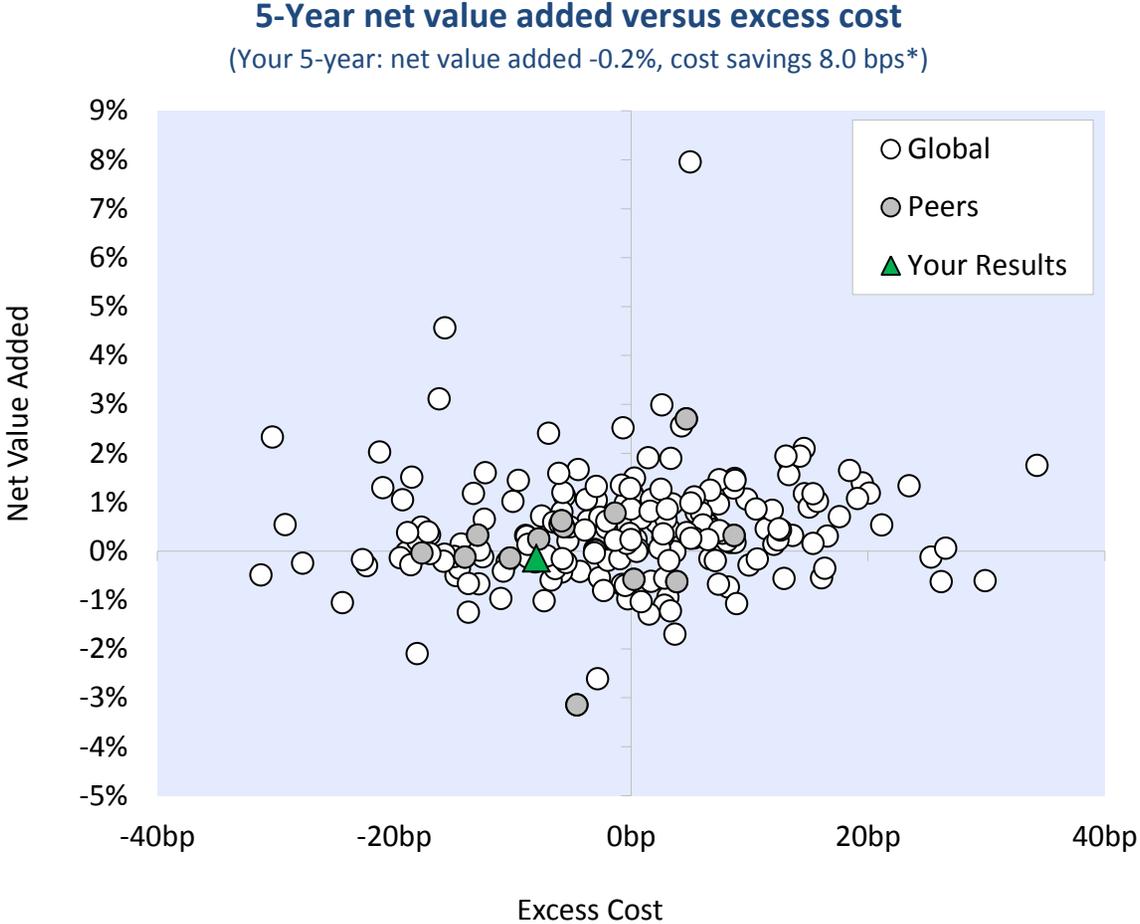
Implementation style¹



	Your Fund	Peers	Global Funds
Internal passive	1%	11%	4%
Internal active	99%	56%	9%
External passive	0%	3%	19%
External active	0%	30%	68%

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

Your fund achieved 5-year net value added of -0.2% and cost savings of 8.0 bps on the cost effectiveness chart.



Your 5-year cost savings of 8.0 basis points is the average of your cost savings for the past 5 years.

Your fund had 5-year net value added of -0.2% and your excess cost as a % of benchmark cost was -45.4%.

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

