

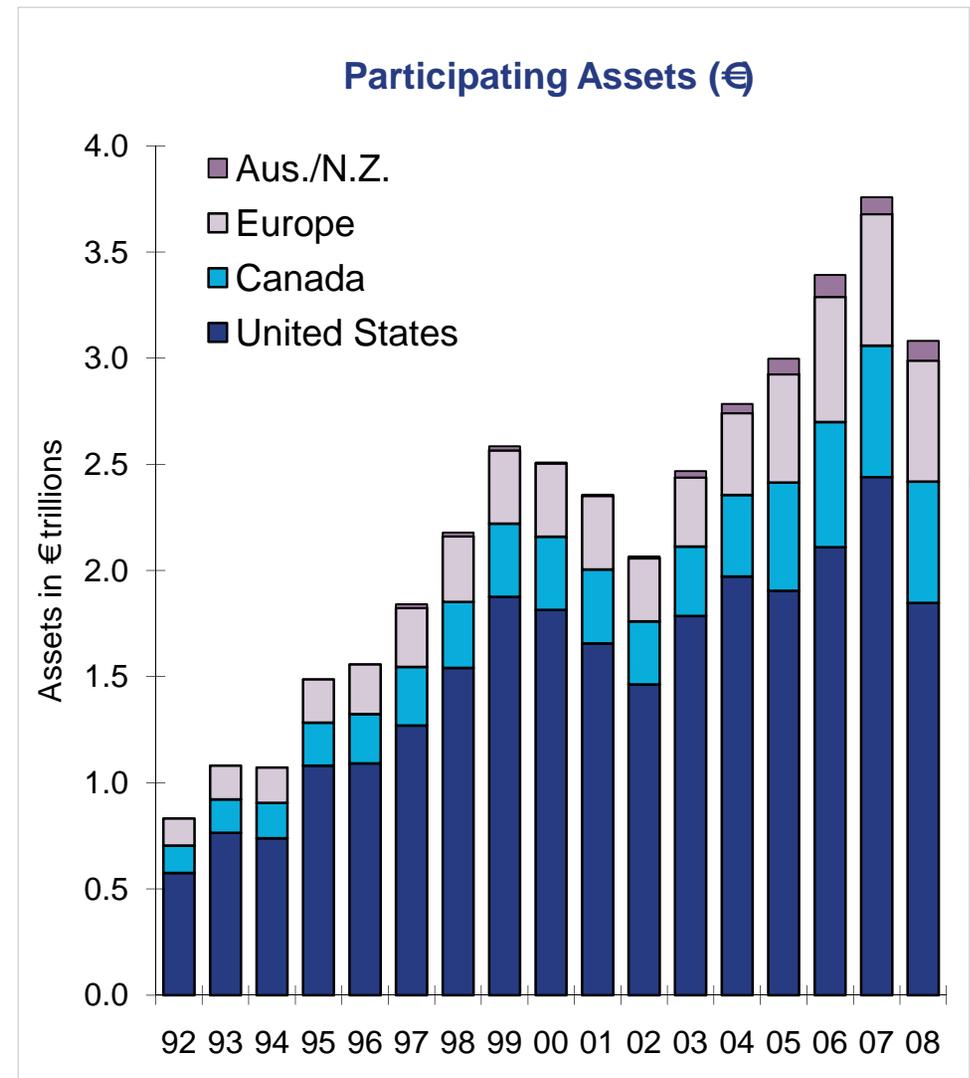
# Norwegian Government Pension Fund - Global Investment Benchmarking Results

For the 5 year period ending December 2008



## This benchmarking report compares your cost and return performance to CEM's extensive pension database.

- 49 European funds participate with aggregate assets of €669 billion. Included are funds from the Netherlands, Norway, Sweden, Finland, France, Denmark and Ireland.
- 201 U.S. funds participate with assets totaling €1,847 billion.
- 85 Canadian funds participate with assets totaling €571 billion.
- 10 Australian/New Zealand funds participate with aggregate assets of €92 billion.



## The most valuable comparisons for cost performance are to your custom peer group.

### Custom Peer Group for Norwegian Government Pension Fund - Global

- 16 largest global sponsors from €43.2 billion to €250.5 billion
  - Median size €73.3 billion versus your €250.5 billion
- 3 Canadian Funds, 3 European Funds and 10 US Funds make up the Global Peer Group.
- In the report there are also comparisons to all of the European participants. There are 49 participants; 1 Danish, 1 French, 2 Finnish, 1 Irish, 2 Norwegian, 40 Dutch and 2 Swedish. The median size of the European participants is €4 billion.

## What gets measured gets managed, so it is critical that you measure and compare the right things:

### 1. Policy Return

How did the impact of your policy asset mix decision compare to other funds?

### 2. Value Added

Are your implementation decisions (i.e., the amount of active versus passive management) adding value?

### 3. Implementation Risk

How much risk was taken to obtain your value added?

### 4. Costs

Are your costs reasonable? Costs matter and can be managed.

### 5. Cost Effectiveness

Net implementation value added versus excess cost. Does paying more get you more?

## Your 5-year total return of 0.9% compares to the Peer median of 3.2%.

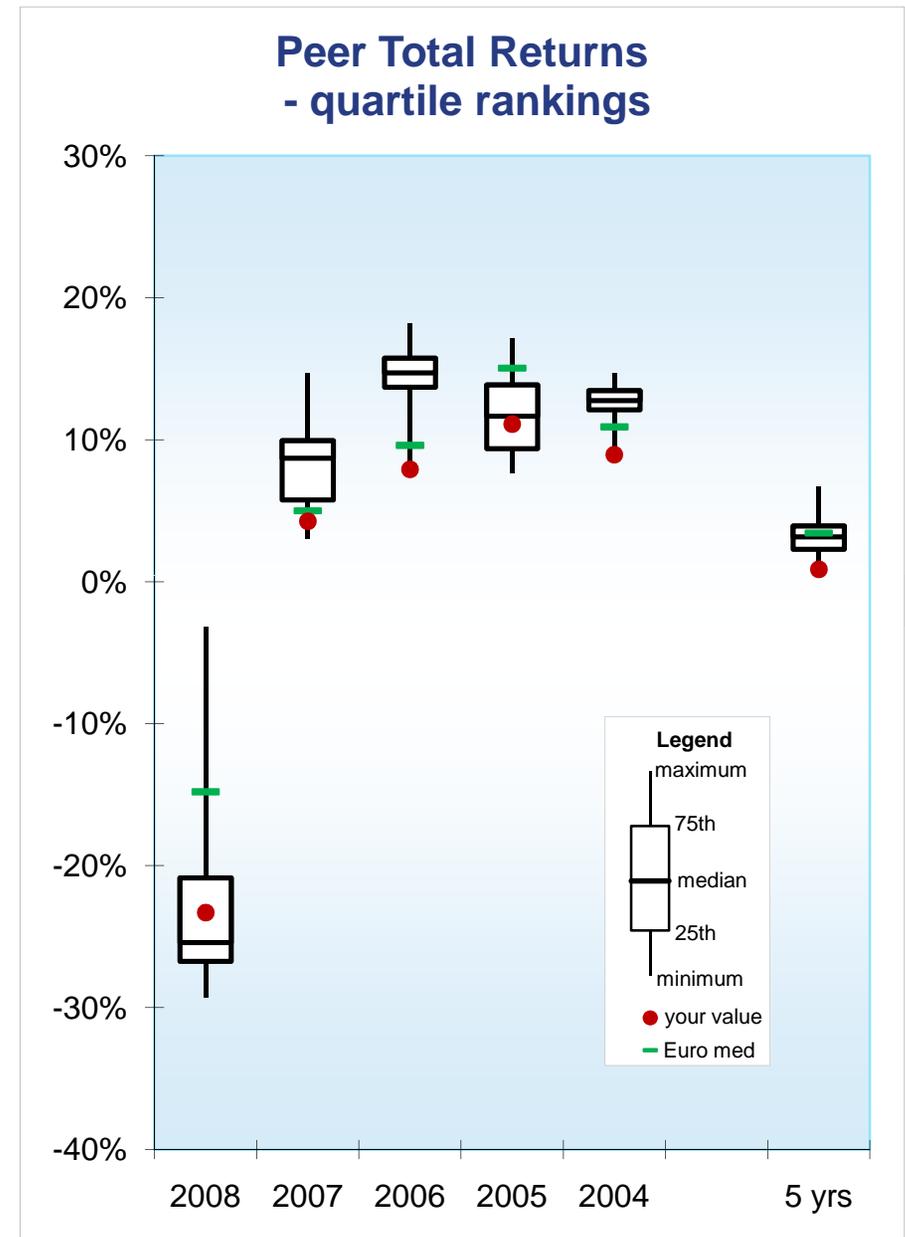
Total Returns do not tell you the reasons behind good or bad relative performance. Therefore, we separate Total Return into its more meaningful components - Policy Return (policy asset mix decisions which tend to be the Board's responsibility) and Implementation Value Added (implementation decision which tend to be management's responsibility).

Norwegian Gov't Pension Fund - Global 5-year Returns	Currency		
	Euro	Basket*	USD
Total Fund Return	-0.6%	0.9%	1.4%
Policy Return	0.0%	1.5%	2.0%
Implementation Value Added	-0.6%	-0.6%	-0.6%

\* Benchmark portfolio's currency basket

The currency basket measure is the relevant measure when assessing the Pension Fund's performance against the stated objective of maximising the Pension Fund's international purchasing power.

*Note: The Pension Fund – Global's total return and policy return are reported in the fund's "Currency Basket". Other funds' Total and Policy Returns are reported in domestic currency. Comparing these returns is difficult because of currency fluctuations. Value Added comparisons are much more meaningful.*



## 1. Policy Return

# Your 5-year policy return of 1.5% compares to the Peer median of 2.7%.

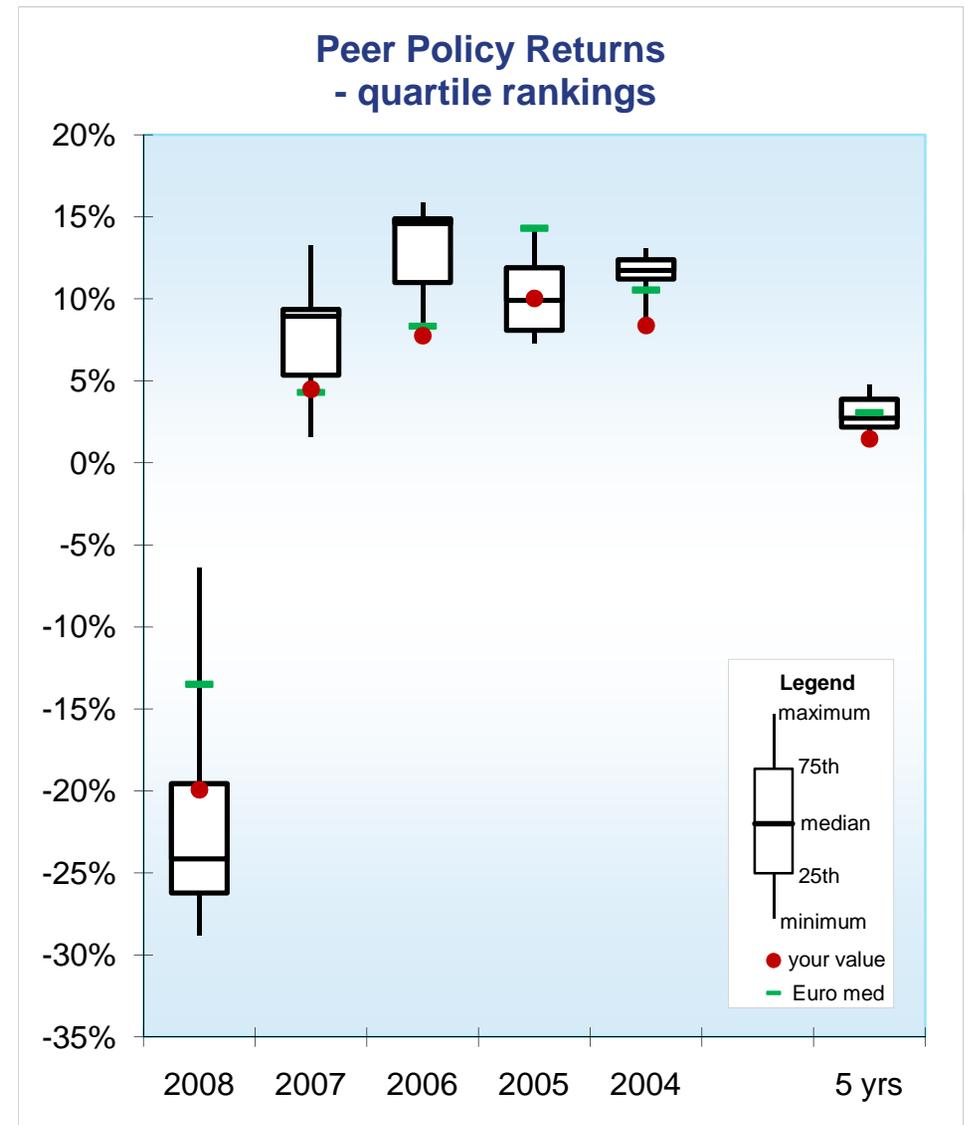
Your policy return is the return you could have earned passively by indexing your investments according to your investment policy asset mix.

Having a higher or lower relative policy return is not necessarily good or bad. This is because 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.



## Your policy mix compares to the peer and European averages as follows:

- Your policy asset mix is more Globally diversified than the Peer and the European average. When comparing the policy return with other funds, this had large impact due to both market return differences between regions and currency fluctuations. The dollar has for instance depreciated against the Euro, so your return would have been much higher if it had been reported in dollars.

- Your fund did not have any allocation to real estate, hedge funds or private equity whereas the peer funds had allocations of 11%, 1% and 7% respectively. The European funds allocations were 13%, 2% and 2%.

2008 Policy Mix			
Asset Class	Your Fund	Peer Avg	Euro Avg
Stocks	49%	49%	34%
Fixed Income	51%	32%	49%
Real Assets*	0%	11%	13%
Hedge Funds	0%	1%	2%
Private Equity	0%	7%	2%
Total	100%	100%	100%

\* Includes real estate, REITs, commodities and infrastructure

To get a sense of the impact of asset allocation differences we calculated the policy returns of the Peer group and the European funds assuming they had used the Pension Fund – Global’s asset class allocation over the past 5 years (43% equities and 57% fixed income). In this 5-year period, their average policy return would have respectively been on average between 0.5 and 1.7 percentage points lower than their actual policy return. The difference in this five year period is mostly a result of a different allocation to real estate and private equity.

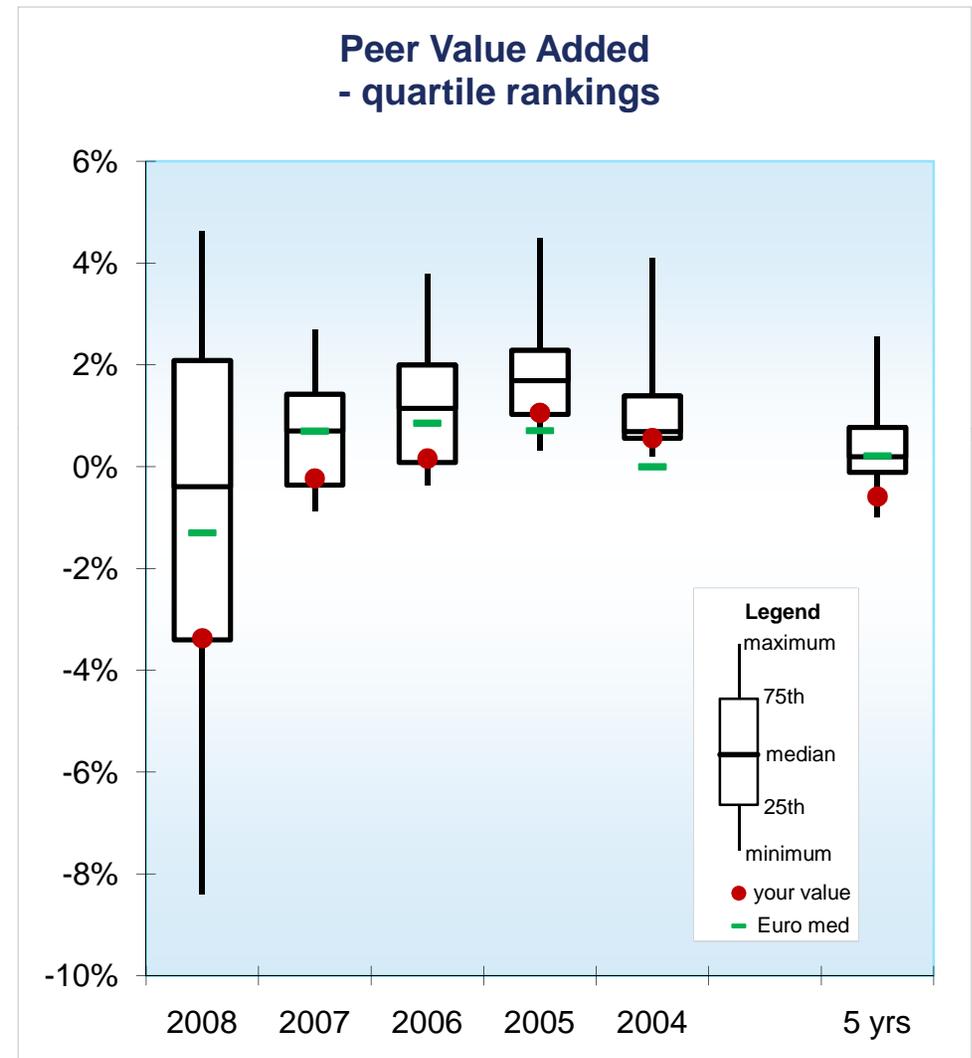
2. Value Added

**Value added is the component of your total return from active management. Your 5-year value added was -0.6%.**

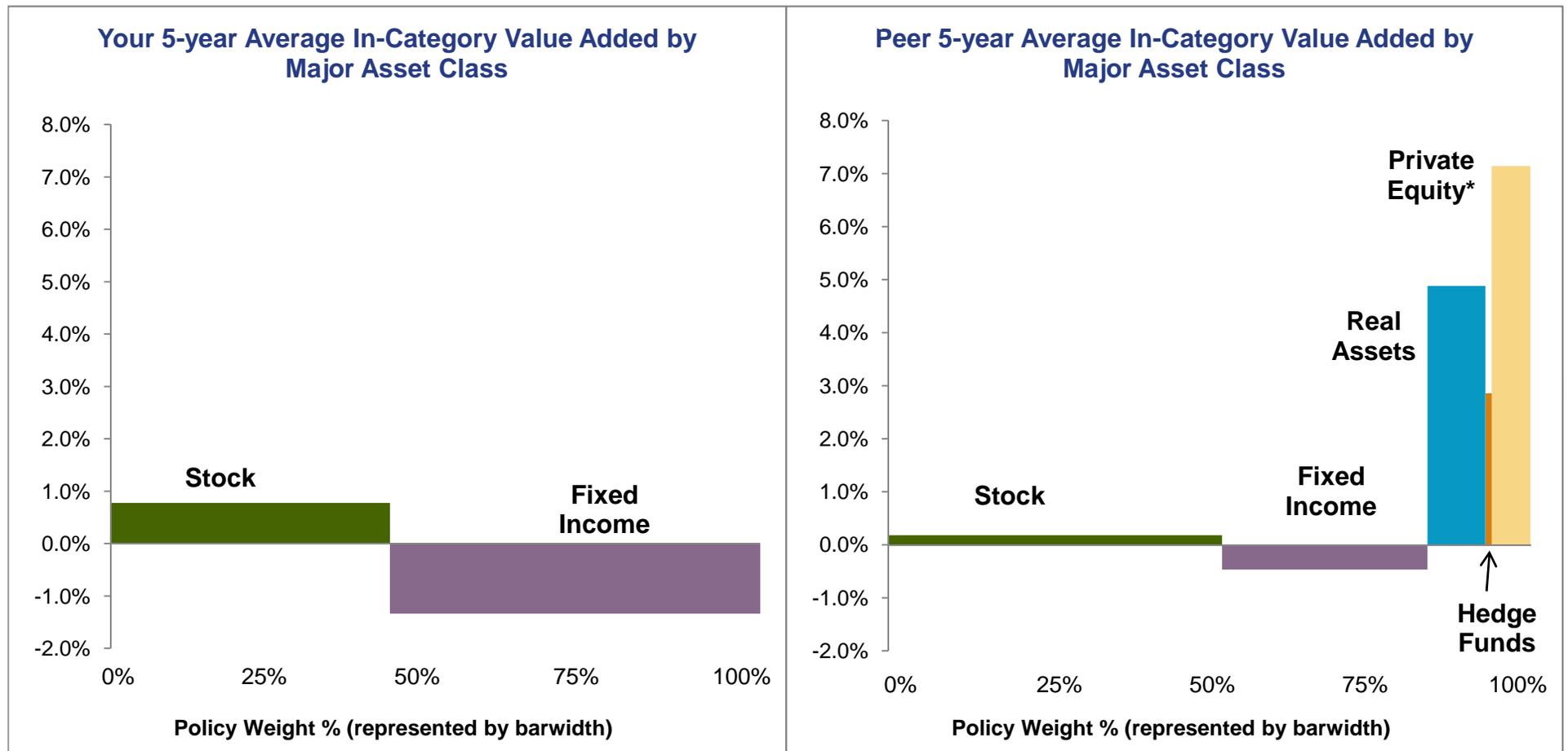
Your 5-year value added of -0.6% compares to a median of 0.2% for your peers and 0.2% for European funds.

Norwegian Gov't PF - Global			
Year	Total return	Policy return	Value added
2008	(23.3)%	(19.9)%	(3.4)%
2007	4.3%	4.5%	(0.2)%
2006	7.9%	7.8%	0.2%
2005	11.1%	10.0%	1.1%
2004	8.9%	8.4%	0.6%
<b>5-year</b>	<b>0.9%</b>	<b>1.5%</b>	<b>(0.6)%</b>

- Implementation value added or excess return equals your actual return minus your policy return.



# You had positive 5-year in-category value added in Stocks



\* Comparisons of value added for private equity must be interpreted with caution because the types of investments and benchmarks can be extremely varied.

### 3. Implementation Risk

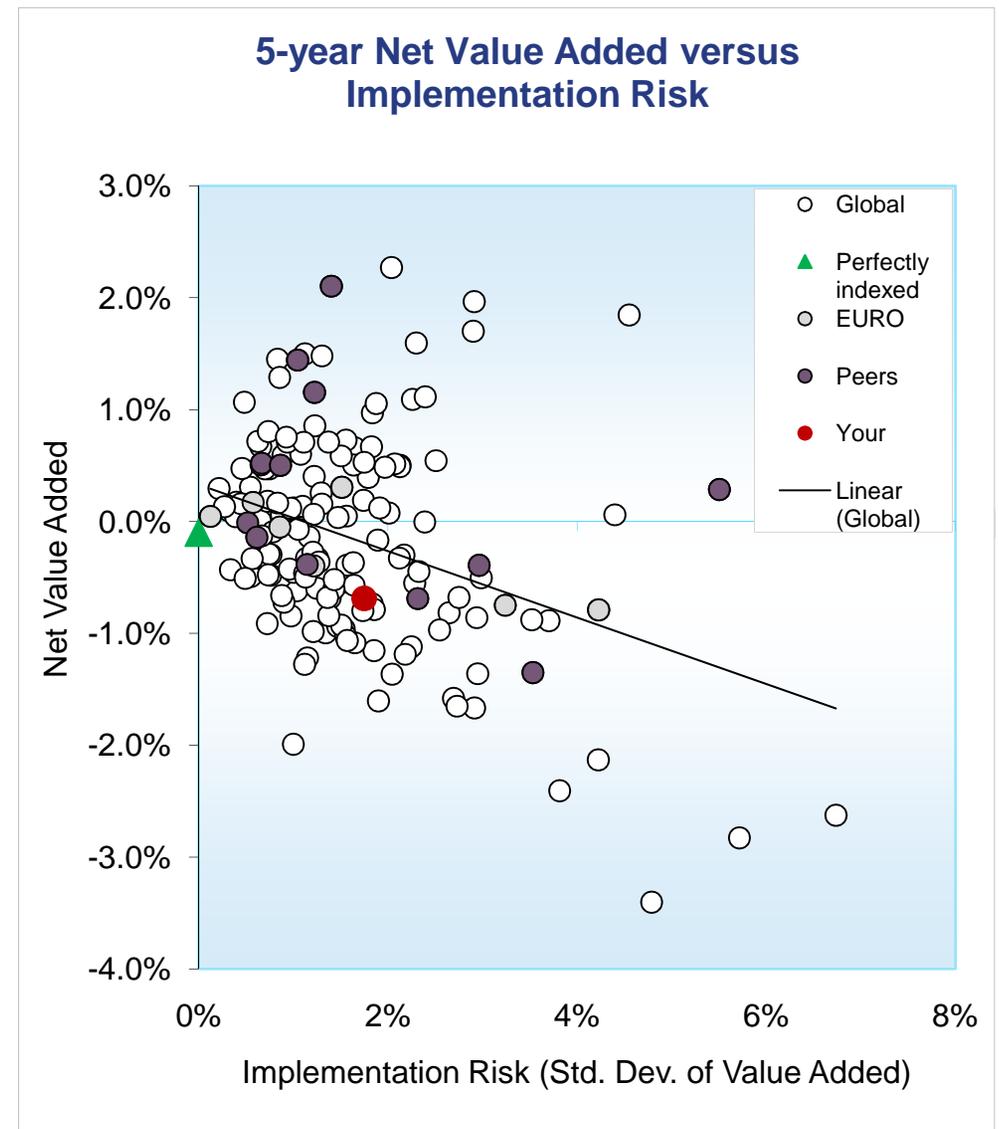
## Your 5-year implementation risk of 1.7% was above the Peer median of 1.2%.

Implementation risk (or tracking error) is the risk of active management. It equals the standard deviation of your net value added.

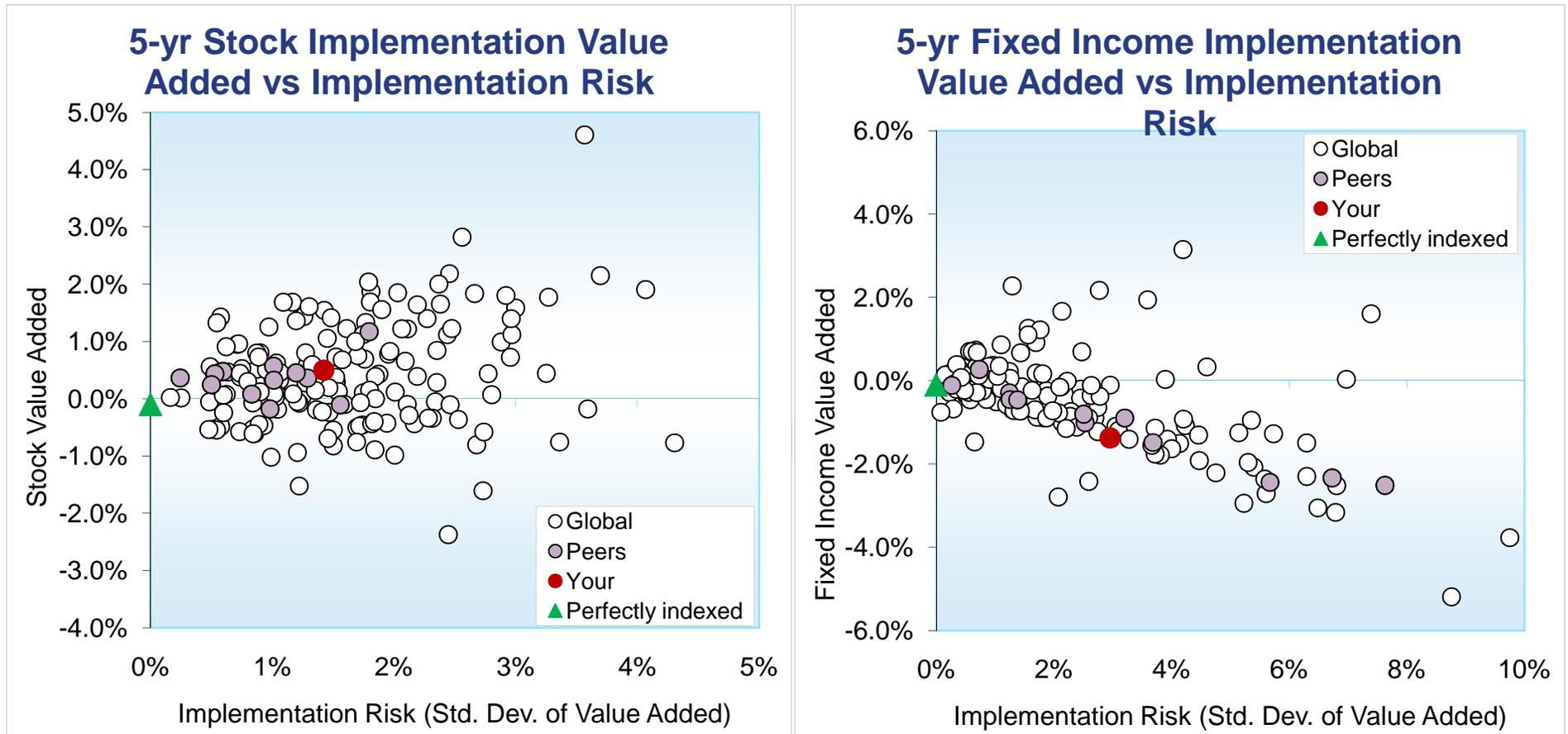
Net value added (NVA) equals gross value added minus asset management costs. Your 5-year NVA was -0.7% (-0.6% gross value added minus 0.1% cost). The peer median net value added was -0.01%.

For the 5-year period ending 2008, there was a negative relationship between NVA and risk. For every extra unit of implementation risk taken, there was a 40 basis point reduction in NVA on average among global participants.

Note: In this report the Pension Fund – Global's implementation risk or tracking error is calculated based on annual return data. In other public reports like the quarterly reports from Norges Bank, the tracking error is calculated based on monthly return data. This methodology difference may lead to discrepancies.



## Your 5-yr Risk for both Stock and Fixed Income compared to the Peer and Global Funds.



- Your 5-yr Value Added for Stocks was 0.5% vs the Peer median of 0.4%. Your 5-year Value Added for Fixed Income was -1.4% vs a Peer median of -0.9%.
- Your 5-yr Risk of 1.4% for Stocks compares to the Peer median of 1.0% and for Fixed Income your Risk of 3.0% compares to the Peer median of 2.5%. Your information ratio for Stocks of 0.4 compares to the Peer median of 0.4, and for Fixed Income your -0.5 compares to the Peer median of -0.4.

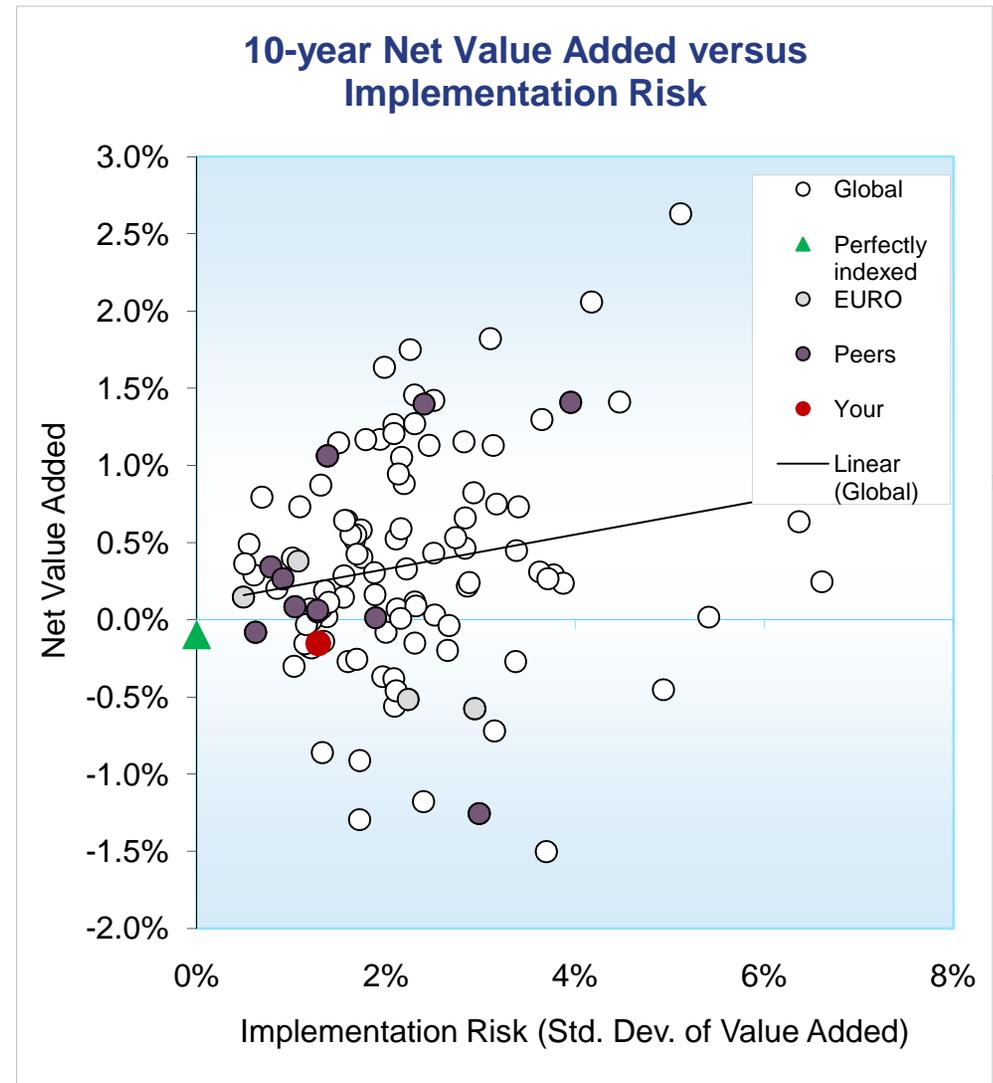
### 3. Implementation Risk

## Your 10-year implementation risk of 1.3% was equal to the Peer median of 1.3%.

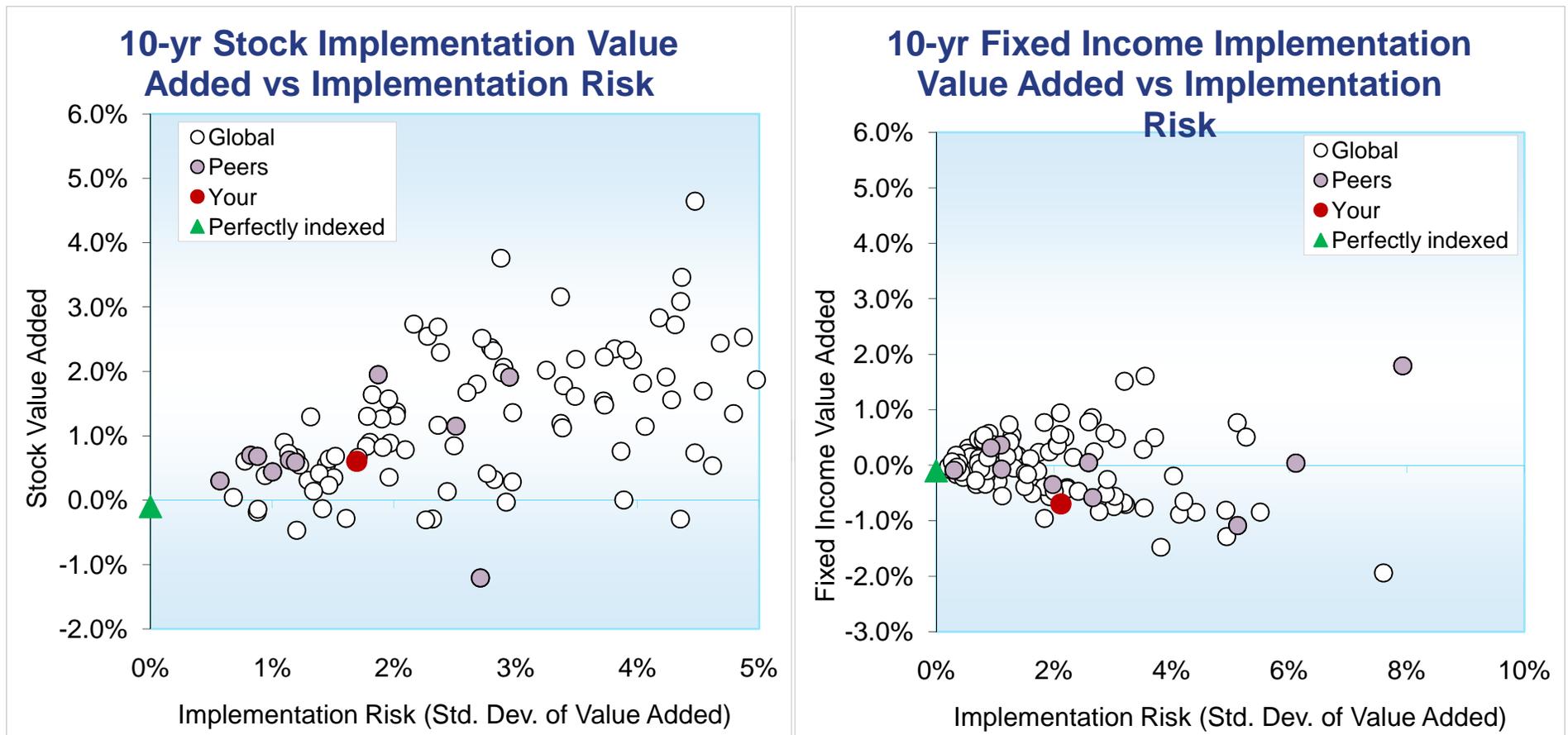
Implementation risk (or tracking error) is the risk of active management. It equals the standard deviation of your net value added.

Net value added (NVA) equals gross value added minus asset management costs. Your 10-year NVA was -0.2% (-0.1% gross value added minus 0.1% cost). The peer median net value added was 0.08%.

For the 10-year period ending 2008, there was a positive relationship between NVA and risk. For every extra unit of implementation risk taken, there was a 22 basis point increase in NVA on average among global participants.



## Your 10-yr Risk for both Stock and Fixed Income compared to the Peer and Global Funds.



- Your 10-yr Value Added for Stocks was 0.6% vs the Peer median of 0.6%. Your 10-year Value Added for Fixed Income was -0.7% vs a Peer median of -0.1%.
- Your 10-yr Risk of 1.7% for Stocks compares to the Peer median of 1.2% and for Fixed Income your Risk of 2.1% compares to the Peer median of 2.1%. Your information ratio for Stocks of 0.4 compares to the Peer median of 0.5, and for Fixed Income your -0.3 compares to the Peer median of -0.1.

## 4. Costs

**Your asset management costs in 2008 were €266.7 million or 10.6 basis points.**

Your Investment Management Costs (€000s)					
	Internal		External		Total
	Passive	Active	Passive	Active	
Stock - All		37,250	114,881		152,131
Fixed Income - All		28,417	11,540		39,957
<b>Total Investment Management Costs</b>				<b>7.7bp</b>	<b>192,088</b>

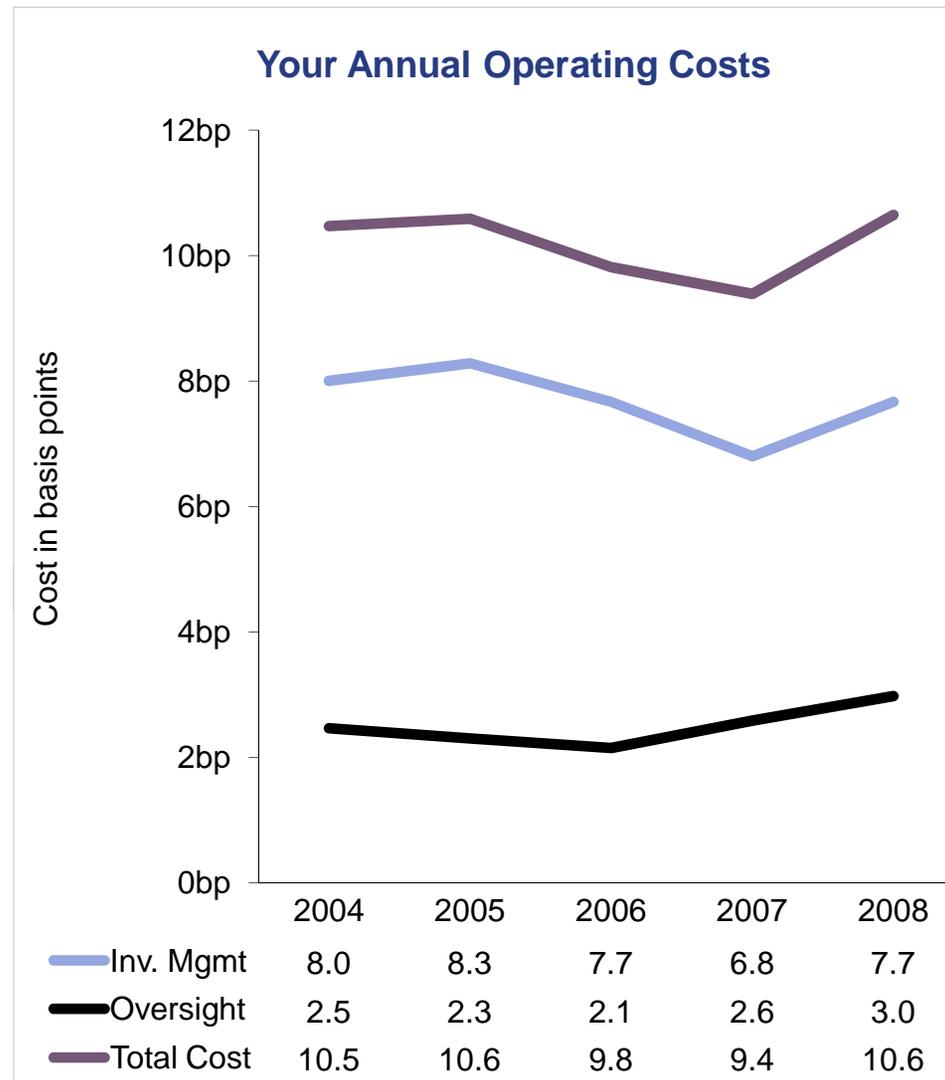
Your Oversight, Custodial and Other Asset Related Costs <sup>1</sup> (€000s)	
Oversight of the fund	49,098
Trustee & custodial	25,468
Consulting and performance measurement	
Audit	
Other	
<b>Total oversight, custodial &amp; other costs</b>	<b>3.0bp</b> <b>74,566</b>

<b>Total Asset Management Costs</b>	<b>10.6bp</b>	<b>266,654</b>
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## Notes

<sup>1</sup> Excludes non-investment costs, such as preparing checks for retirees.

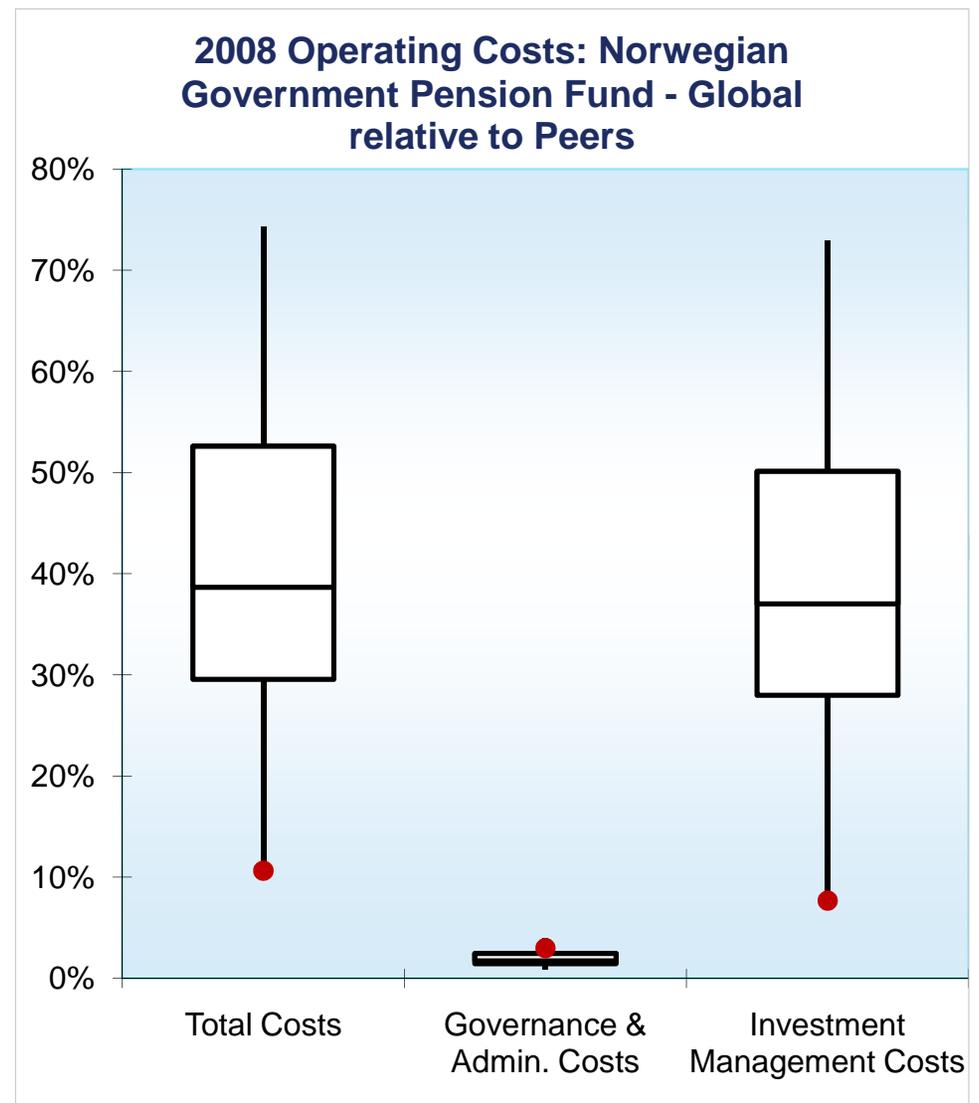
## Your costs have remained quite stable between 2004 and 2008.



## Your total costs compare to your peers as follows:

Total cost comparisons are interesting but do not provide any insight into why costs are different between funds.

These figures are not adjusted for size, asset mix or implementation style. On the next few pages we use a benchmark cost to adjust for differences between funds and provide more insightful comparisons and conclusions about your relative cost performance.



## Benchmark cost analysis suggests that your fund was low cost by 3.0 basis points.

To assess your cost performance, we start by calculating your benchmark cost. 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 10.6 bp was lower than your benchmark cost of 13.6 bp. Thus, your fund's cost savings was 3.0 bp.

	In €000's	Basis Points
Your actual cost	266,654	10.6 bp
<u>Your benchmark cost</u>	<u>341,616</u>	<u>13.6 bp</u>
Your excess cost	(74,962)	(3.0) bp

## You were low cost primarily because you had a lower cost implementation style.

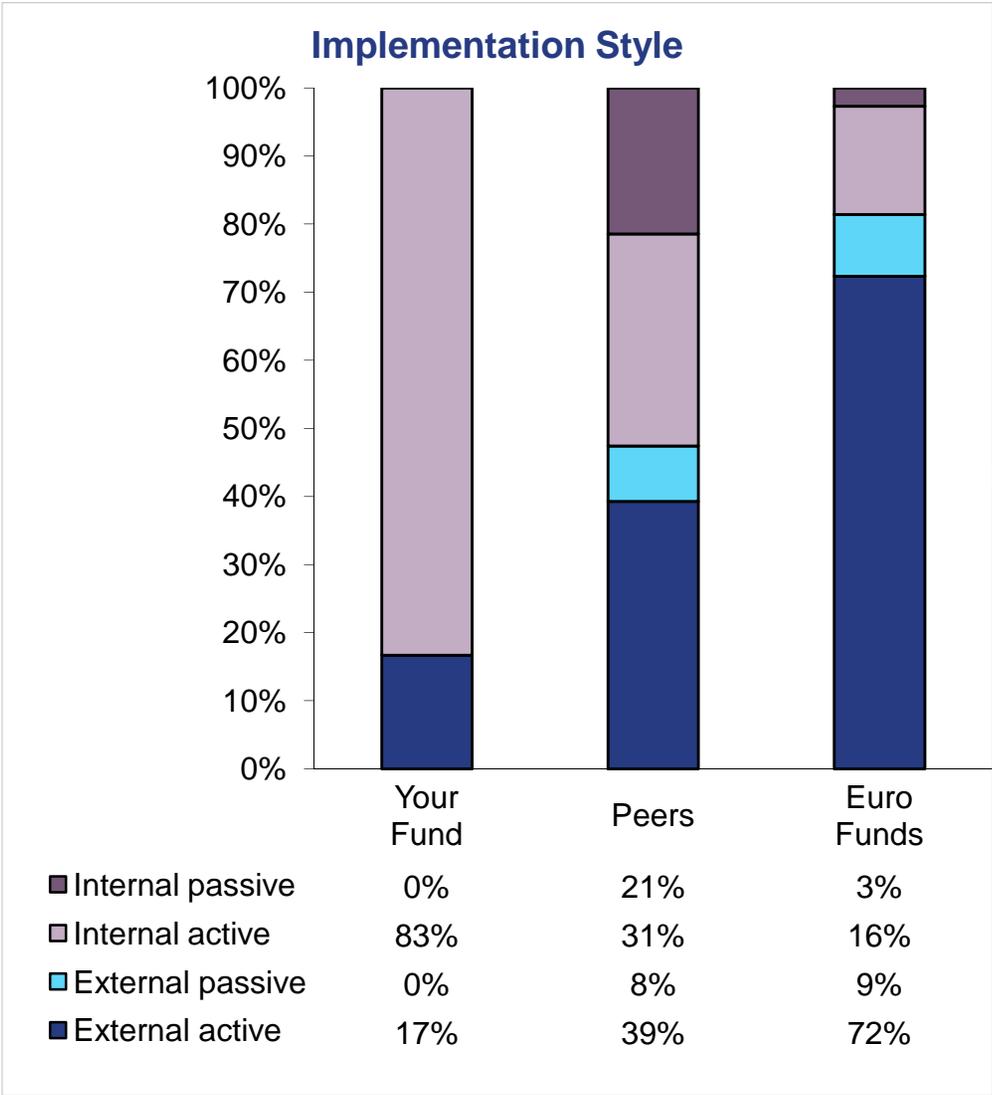
Reasons for Your Low Cost Status		
	Excess Cost/ (Savings)	
	€000s	bps
1. Lower cost implementation style		
• Less external active management and more lower cost internal management	(107,931)	(4.3)
• Lower use of overlays	(26,340)	(1.1)
• Other style differences	<u>46,628</u>	<u>1.9</u>
	(87,643)	(3.5)
2. Paying more or (less) than your peers		
• External investment management costs	20,127	0.8
• Internal investment management costs	(40,856)	(1.6)
• Oversight, custodial & other costs	<u>33,409</u>	<u>1.3</u>
	12,681	0.5
<b>Total Savings</b>	<b>(74,962)</b>	<b>(3.0)</b>

# One key cause of differences in cost performance is often differences in implementation style.

Implementation style is defined as the way in which you implement your asset allocation. It includes internal, external, active and passive styles.

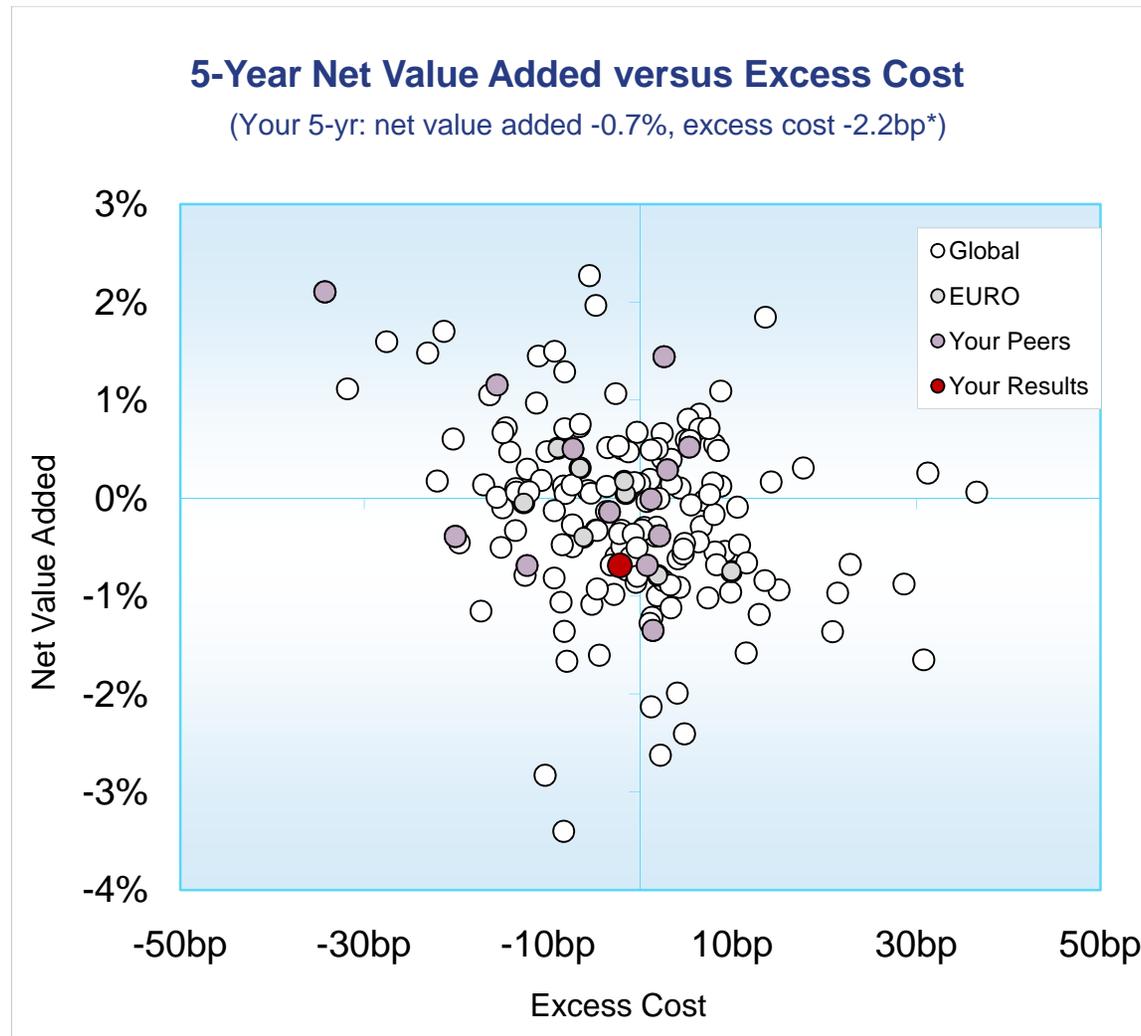
The greatest cost impact is usually caused by differences in:

- 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 17% versus 39% for your peers).



5. Cost Effectiveness

Your 5-year performance placed in the negative value added, low cost quadrant.



\* Your 5-year net value added of -0.7% equals your 5-year -0.6% gross value added minus your 0.1% 5-year average cost.

## In summary:

### 1. Policy Return

Your 5-year policy return was 1.5%. This compares to the European median of 3.1% and the peer median of 2.7%. This was a result of several factors including currency and different regional and asset class allocations.

### 2. Value Added

Your 5-year value added was -0.6%. This compares to the European median of 0.2% and the peer median of 0.2%.

- Other funds have made some of the Implementation Value Added in markets you do not invest in, like Private Equity and Real Estate. Your 5-yr Value Added for Stocks was 0.5% vs. the Peer median of 0.4% and your 5-year Value Added for Fixed Income was -1.4% vs. a Peer median of -0.9%

### 3. Implementation Risk

Your 5-year implementation risk was 1.7%. This compares to the European median of 1.1% and the peer median of 1.2%.

### 4. Costs

Your actual cost of 10.6 bps was below your Benchmark Cost of 13.6 bps. This suggests that your fund was low cost. You were low cost primarily because you had a lower cost implementation style.

### 5. Cost Effectiveness

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