Norway

Government Pension Fund Global
Synopsis

Market Value

Government Pension Fund Global
$670 billion

Fund Highlights

- Norway’s Government Pension Fund Global was established in 1990 to stabilize the flow of oil revenue into the budget and save for future generations.

- Despite its name, the fund currently has no formal pension obligations.

- The Ministry of Finance owns the fund on behalf of all Norwegians, however the Norges Bank Investment Management, a branch of the Central Bank, manages it.

- Withdrawals from the fund reflect a fiscal rule, agreed in 2001, that limits the non-oil structural deficit to 4 percent.

- The fund is fully integrated into the government’s annual budget; parliament must approve all withdrawals.

- Control and supervisory bodies exist at all levels of fund management.

Good Governance Fundamentals

<table>
<thead>
<tr>
<th>Clear Deposit Rules</th>
<th>yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clear Withdrawal Rules</td>
<td>yes</td>
</tr>
<tr>
<td>Clear Investment Rules</td>
<td>yes</td>
</tr>
<tr>
<td>Transparent</td>
<td>yes</td>
</tr>
<tr>
<td>Publicly Available Audits</td>
<td>yes</td>
</tr>
<tr>
<td>Effective Oversight</td>
<td>yes</td>
</tr>
</tbody>
</table>

Resource Governance Index
Natural Resource Fund Score
100 / 100

Truman Sovereign Wealth Fund Scoreboard
98 / 100
**Fund Inception**

- A fund was originally established in 1990 as the Government Petroleum Fund through the **Government Petroleum Fund Act**.¹
- The Government Pension Fund Global in its current form was reconstituted and renamed in 2005 through the Government Pension Fund Act (Act 123), which clarifies objectives and management responsibilities.³

**Fund Objectives**

- To operate as a **stabilization and savings fund**.⁴
- To act as a fiscal policy tool that manages the gradual and sustainable long-term integration of oil revenue into the Norwegian economy.⁵
- To enable government to adapt fiscal policy in response to:
  - Volatile petroleum revenue;
  - Federal budget deficits;
  - Domestic economic uncertainty; and
  - Financial challenges of an aging population.⁶
- To make petroleum funds available on a long-term basis.⁷
Each box represents a regulatory standard essential for promoting consistent use of and safeguarding resource revenues. White boxes highlight regulatory gaps in fund governance.

**16/16**

Good Governance Standards Met
Operational Laws, Rules and Policies

**Fund Deposit Rules**

- Income deposited into the Government Pension Fund Global consists of:

  1. Gross petroleum revenues including tax revenues, royalties, operating income from the state’s direct financial interest, dividends, and transfers from the Petroleum Insurance Fund, minus expenses including the government’s direct investments in commercial activities, operating costs related to the state’s direct interest and expenses in the Petroleum Insurance Fund.

  2. Net revenues from government sale of shares in Statoil, the national oil company, and other government equity in the sector.

  3. Return on fund investments.\(^8\)

**Fund Withdrawal Rules**

- Since 2001, Norway’s major political parties have agreed that the non-oil structural deficit cannot exceed 4 percent, which is the expected long-run real return on the fund’s investments. Although it has no legal standing, the balanced budget rule limits withdrawals in practice. The fiscal guidelines allow temporary deviations from the rule under specific circumstances.\(^9\)

  - Fund capital may only be transferred to the central government budget pursuant to a resolution by Stortinget (Norwegian Parliament).\(^10\)

  - The Ministry of Finance can issue supplementary provisions to implement the Government Pension Fund Act 123.\(^11\)
Operational Laws, Rules and Policies

Flow of Funds

Oil Revenue → Central Government Budget

Central Government Budget → Government pension Fund Global

Government pension Fund Global → Foreign Assets

Statoil

Net revenues from government sale of Statoil shares and other government equity in the sector

Non-oil deficit financing plus any exceptional transfers pursuant to a parliament resolution

International equity, fixed income and real estate investments

Investment returns

Revenue streams listed on previous page minus expenditures related to oil activities
Investment Laws, Rules and Policies

Investment Authority
The Ministry of Finance is responsible for establishing the fund’s investment rules.

Investment Objectives
"Management of the Fund’s capital shall be based on the goal of achieving the highest possible return . . . dependent upon sustainable development in economic, environmental and social terms as well as well-functioning, legitimate and effective markets."12

Investment Allocation
• Investments are allocated and diversified by asset class and geography.
• Allocation by asset class:
  • 40% fixed income, 60% equities, less real estate.13
    • Fixed income: 70% government bonds, 30% corporate bonds.14
    • Equities: Benchmark based on the FTSE Global All Cap Index.15
    • Real Estate: Up to 5% of the fund’s capital.16

Investment Strategy
• External investment managers may be used. Selection procedures are regulated by the Norges Bank and the list of external managers is made public.17
• The main characteristics of the fund’s investment strategy are:
  • Long-term investment horizon
  • Wide diversification of investments across asset classes and geography
  • Ethical investment guidelines
  • Limit 10 percent ownership in any single company
  • Strict risk-taking guidelines and strong oversight of investment managers18

Ethical Investment Guidelines
• Exercise ownership rights to promote long-term financial returns based on UN Global Compact and OECD Guidelines for Corporate Governance.
• Negative screening of companies that produce weapons, which “through normal use may violate humanitarian principles.”
• Exclusion of investments that risk systematic human rights violations, individuals’ rights, severe environmental damages and gross corruption.19

Policy on In-State Investments
Fund assets may not be invested in Norway.20
Investment Laws, Rules and Policies

Allocation by Asset Class

- Equities: 60%
- Fixed Income: 35%
- Real Estate: 5%

Allocation by Geographic Region

- America / Africa: 30%
- Europe: 45%
- Asia / Oceania: 25%

Investment Returns¹)

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>Since 1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Gross</td>
<td>-2.54%</td>
<td>4.48</td>
</tr>
<tr>
<td>Annual Net/Real Return</td>
<td>-5.25%</td>
<td>2.42</td>
</tr>
</tbody>
</table>

¹) Returns are annualized and include the performance of the underlying investments, currency movements and management fees.
Management and Accountability

Management and internal accountability

The Storting passes legislation governing the fund, approves the annual budget, appoints the Supervisory Council members and reviews reports (see next page for details).

The Minister of Finance acts as fund “owner.” It delegates operational management to the Norges Bank within a mandate that includes investment guidelines, ethical management, risk management and internal control. It monitors and evaluates fund performance.

The Central Bank Executive Board is the fund’s operational manager. It generates the investment mandate for the fund and outlines principles of risk management, asset allocations and internal management for the NBIM. It is subject to an internal audit.

NBIM is a department within the Norges Bank and is the day-to-day fund manager. It implements investment strategy and exercises active management. NBIM’s strategic plan submitted directly to the Minister of Finance. NBIM Risk Management and Compliance is the internal oversight body that monitors activities and ensures compliance with rules.

External accountability

The Auditor General performs an audit and reports to the Storting and the government.

The Supervisory Council supervises the bank’s activities and ensures that the rules governing operations are observed. It has the right of access to information and investigative powers. It reports to the Storting.

The external auditor is selected and reports to the Supervisory Council.
Oversight and Safeguards

Oversight Mechanisms

- The Central Bank Supervisory Council, elected by Norway's parliament, is mandated to monitor Norges Bank activities and ensure that the rules governing operations are observed, including the management of the Government Pension Global Fund.\textsuperscript{22}

- Finances are subject to regular and comprehensive internal audits.

- Parliament must approve all withdrawals.

- Funds are managed separately from the country’s international reserves.

- Fund finances are subject to a regular and independent external audit that meets international standards.

- The IMF routinely monitors fund performance through their Article IV consultations which are annual reports that evaluate macroeconomic policy.

Norway’s Fund is subject to some of the world’s strongest safeguards.
## Transparency Laws, Rules and Policies

There is public disclosure of the following:

<table>
<thead>
<tr>
<th>Category</th>
<th>Disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td>When or how often Fund reports are published and made publicly available</td>
<td>yes</td>
</tr>
<tr>
<td>Which individuals or organizations are responsible for publishing Fund reports</td>
<td>yes</td>
</tr>
<tr>
<td>Size of the Fund(s)</td>
<td>yes</td>
</tr>
<tr>
<td>Deposit and withdrawal amounts</td>
<td>yes</td>
</tr>
<tr>
<td>Returns on investments</td>
<td>yes</td>
</tr>
<tr>
<td>Detailed asset allocation – geographic location</td>
<td>yes</td>
</tr>
<tr>
<td>Detailed asset allocation – asset class</td>
<td>yes</td>
</tr>
<tr>
<td>Detailed asset allocation – specific assets</td>
<td>yes</td>
</tr>
<tr>
<td>Natural resource prices and other fiscal assumptions used to calculate deposit and withdrawal amounts allowed under fiscal rules</td>
<td>no</td>
</tr>
</tbody>
</table>
Implementation of Laws, Rules and Policies
(as of March 2013)

Supervisory Council’s Overall Conclusion
• The Council received all information it requested.
• Executive Board exercised satisfactory management and control of Norges Bank in accordance with the mandate and guidelines for the management of the Government Pension fund Global.

Specific Remarks
• Executive Board complied with changes in the mandate from the Ministry of Finance regarding weighting of developed and emerging markets in the equity portfolio benchmark index.
• There is a high level of transparency in the management of the Fund compared to other funds, both nationally and internationally.
• Established guidelines have been carried out in line with requirements for responsible and ethical investment.

Supervisory Council’s Stated Priorities Going Forward
• The Council will continue to monitor the Board’s oversight of the governance system focusing on risk reduction and management, internal control and compliance with laws and regulations.
• Supervision of investment management is a high priority, particularly in the system for risk management, responsible investment, tax issues and real estate investments through subsidies.

Supervisory Council (2013)
Online at: http://www.norges-bank.no/
Annex
List of Applicable Laws

Government Pension Fund
Act No. 123 of December 21, 2005
www.regjeringen.no/en/dep/fin/Selected-topics/
the-government-pension-fund/the-guidelines-for-the-
management-of-the.html?id=434605

Management mandate for the
Government Pension Fund Global
www.regjeringen.no/en/dep/fin/Selected-topics/
the-government-pension-fund/the-guidelines-for-the-
management-of-the.html?id=434605#_Toc329682554

Central Bank Law
Act of 24 May 1985 relating
to Norges Bank and the Monetary System
http://www.regjeringen.no/pages/1719656/
NorgesBankAct.pdf/
Endnotes

1. www.regjeringen.no/pages/37984857/FactSheetGPFG3Q2012.pdf
2. www.regjeringen.no/pages/37984857/FactSheetGPFG3Q2012.pdf
5. www.regjeringen.no/pages/37984857/FactSheetGPFG3Q2012.pdf